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Research Article

Effect of Financial Capabilities on SME Well-Being in Indonesia: The Moderating Role of Financial Stress

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ABSTRACT

Introduction: Small and Medium Enterprises (SMEs) contribute significantly to Indonesia's economy but face challenges in managing their financial resources effectively. Financial capability, defined as the ability to manage finances through budgeting, planning, and informed decision-making, is considered vital for SMEs sustainability. However, financial stress arising from economic uncertainties may weaken this positive effect on SMEs well-being.

Objectives: This study aims to investigate the impact of financial capability on the financial well-being of SMEs in Indonesia and to examine how financial stress moderates this relationship.

Methods: A quantitative research method was employed using a cross-sectional survey of 220 SMEs in Indonesia. Financial capability, financial stress, and SMEs well-being were measured through validated scales and analyzed using multiple regression with Hayes' PROCESS macro to test moderation effects.

Results: The findings show that financial capability has a significant positive effect on SME well-being, explaining 73.2% of its variance. However, financial stress significantly moderates this relationship by weakening the positive impact of financial capability. High levels of financial stress reduce SME owners' ability to leverage financial capabilities effectively, leading to poorer well-being outcomes.

Conclusions: While financial capability enhances SME well-being, high financial stress diminishes these benefits. Thus, interventions for SMEs should not only focus on improving financial literacy but also integrate strategies to manage and reduce financial stress.

Keywords: financial capability; financial stress; SMEs well-being; Indonesia; financial management

INTRODUCTION

Small and Medium Enterprises (SMEs) serve as the backbone of Indonesia's economy, contributing nearly 60% to the national Gross Domestic Product (GDP) and employing approximately 97% of the workforce (Gunawan et al., 2021). In emerging economies like Indonesia, SMEs play a pivotal role in driving economic inclusivity, innovation, and job creation (Fatoki, 2014; Grohmann et al., 2018). However, despite this crucial role, many SMEs struggle with poor financial management capabilities, making them vulnerable to stagnation and business failure. Financial challenges such as inadequate budgeting, weak financial planning, and poor cash flow management remain critical barriers to SMEs sustainability (Tuffour et al., 2022; Zighan et al., 2022). Furthermore, these issues are exacerbated by low financial literacy among SMEs owners, particularly in developing countries where access to financial education is still limited (Agyei, 2018; Grohmann et al., 2018).

Financial capability, defined as the ability to make informed decisions, manage finances effectively, and plan for financial uncertainty, is central to ensuring business resilience and long-term sustainability (Lusardi et al., 2021a; Xiao et al., 2009). Prior research consistently supports the positive effect of financial capability on SMEs performance and financial well-being through enhanced resource allocation, better decision-making, and greater adaptability to market fluctuations (Adomako et al., 2016; Goyal & Kumar, 2021). However, financial capability alone is not a guarantee of business success. Financial stress—the psychological strain arising from economic hardship—has been shown to impair cognitive functioning and undermine rational decision-making, particularly in small business owners (Friedline et al., 2021). Financial stress reduces attention, weakens executive functioning, and can lead SME owners to make reactive, short-term decisions (Alsemgeest, 2019; Karakara et al., 2022).

Although many studies emphasize the role of financial capability in enhancing business performance (Fatoki, 2021; Goyal & Kumar, 2021). Limited empirical attention has been given to how financial stress moderates this relationship within the context of SMEs in emerging markets. Most existing studies treat financial capability and stress as independent predictors rather than examining their interaction (Lusardi et al., 2021b; Zhang & Xiong, 2019). Moreover, studies focusing specifically on Indonesia's SMEs ecosystem, with its unique cultural, financial, and regulatory challenges, remain scarce. In short, there is a theoretical and empirical gap in understanding the interplay between financial capability and financial stress in determining SMEs well-being.

This study offers novel insight by explicitly examining the moderating role of financial stress in the relationship between financial capability and SME well-being within the Indonesian context. Unlike prior research, this study positions financial stress not merely as a direct influence but as a conditional factor that weakens the effectiveness of financial capability on business outcomes. Such an approach aligns with the growing call in behavioral economics and financial psychology to integrate psychological variables into models of financial behavior (Friedline et al., 2021; Lusardi et al., 2021a).

The purpose of this study is to examine the direct effect of financial capability on the well-being of Small and Medium Enterprises (SMEs) in Indonesia. Financial capability, which encompasses financial literacy, budgeting skills, and the ability to manage financial resources effectively, is expected to play a significant role in enhancing SME well-being by supporting better financial decision-making and resource management. In addition, this study aims to investigate the moderating effect of financial stress on the relationship between financial capability and SME well-being. Specifically, it explores whether higher levels of financial stress weaken the positive influence of financial capability on SME well-being.

Based on these objectives, this study seeks to answer two key research questions. First, does financial capability positively influence the financial well-being of SMEs in Indonesia? Second, does financial stress moderate the relationship between financial capability and SME well-being in such a way that higher levels of stress diminish the positive effects of financial capability? These questions aim to provide a deeper understanding of how financial capability and financial stress interact to shape the financial well-being of SMEs, particularly within the context of an emerging economy like Indonesia.

OBJECTIVES

This study attempts to investigate extensively the influence of financial capability—encompassing key financial management competencies such as financial literacy, budgeting skills, financial planning, and resource management—on the financial well-being of Small and Medium Enterprises (SMEs) in Indonesia. Specifically, this research focuses on SME owners operating in the city of Palu, Indonesia, where financial management challenges are often heightened by the uncertainties of emerging market environments. Through this focus, the study seeks to explore how the mastery of financial capabilities contributes to enhancing SME well-being, particularly in sustaining business operations amidst economic volatility, resource stresss, and competitive pressures.

Furthermore, this study aims to examine the moderating role of financial stress in this relationship, highlighting how psychological pressures stemming from financial difficulties—such as debt burdens, limited cash flow, and restricted access to capital—can weaken the positive impact of financial capability on SME well-being. Unlike studies that merely test the direct effect of financial capability on business performance, this research provides a more nuanced investigation by analyzing the conditional nature of this relationship, where financial stress may act as a critical factor that hampers the effectiveness of financial skills.

In addition, this study seeks to uncover the internal mechanisms through which financial capability can promote SME well-being, particularly by demonstrating how high financial stress may undermine otherwise strong financial competencies. This approach is intended to clarify the dual challenge faced by SMEs in developing countries: not only strengthening financial management skills but also addressing the psychological dimensions of financial strain. The findings are expected to offer meaningful insights for policymakers, financial institutions, and SME support programs in formulating more effective interventions—those which integrate financial education with mental well-being strategies to foster more resilient and sustainable SMEs.

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Research Article

Consequently, this research contributes not only to theoretical development by offering a deeper understanding of the interaction between financial capability and financial stress but also to practical solutions aimed at improving SME sustainability and well-being in Indonesia's dynamic and often unpredictable business environment.

METHODS

This study adopts a quantitative research design, focusing on the relationship between financial capability, financial stress, and the well-being of SMEs in Indonesia. The research is cross-sectional, collecting data from a sample of 220 SMEs in Palu City, Indonesia. A purposive sampling method was employed to select SMEs that have been operational for at least three years and employ fewer than 20 employees. The study aims to examine how financial capability impacts SME well-being and how financial stress moderates this relationship. The primary data for this research were gathered through a combination of self-administered questionnaires, structured interviews, and direct observations.

The data collection took place over three months from March to May 2024. The questionnaire consisted of three main sections: financial capability, financial stress, and SME well-being. Financial Capability: This variable was measured using a standardized scale adapted from prior studies (Grohmann et al., 2018; Lusardi et al., 2021). The scale assesses financial literacy, financial planning, budgeting skills, and resource management. Respondents rated their financial capability on a Likert scale ranging from 1 (very low) to 5 (very high). Financial Stress: Financial stress was measured using the Perceived Stress Scale (PSS), which evaluates the level of stress respondents feel due to their financial situation. The scale captures stress related to debt levels, cash flow issues, and overall financial anxiety (Yakob et al., 2021). Scores were collected on a Likert scale from 1 (no stress) to 5 (extreme stress). SME Well-being: SME well-being was assessed through indicators such as sales growth, market share, and customer satisfaction, adapted from previous studies (Rahman et al., 2021).

Respondents provided data on their company's financial performance, operational outcomes, and overall business health on a scale from 1 (poor) to 5 (excellent). The variables in this study are operationalized as follows: Independent Variable (IV): Financial Capability, Financial Literacy+Financial Planning+Budgeting Skills+Resource Management, where each component is measured on a Likert scale and averaged to produce a composite score for financial capability. Dependent Variable (DV): SME Well-being (WB) WB = Sales Growth Share+Customer Satisfaction. Each component is assessed through self-reported data and combined into an overall well-being score. Moderating Variable (MV): Perceived Stress Score, where higher scores indicate greater financial stress. The moderating role of financial stress is tested using an interaction term between financial capability and financial stress:

$$WB = \beta_0 + \beta_1 FC + \beta_2 FS + \beta_3 (FC \times FS) + \varepsilon$$

Where β_0 represents the intercept, β_1, β_2, and β_3 are coefficients for financial capability, financial stress, and the interaction term, respectively, and ε is the error term. The data were analyzed using IBM SPSS Statistics 26. To test the hypotheses, multiple regression analysis was employed. Specifically, the PROCESS macro for SPSS (Hayes, 2022) was used to conduct moderated mediation analysis, which allows for the exploration of how financial stress moderates the relationship between financial capability and SME well-being. The following steps were performed during the data analysis process: Descriptive analyses were conducted to summarize the demographic characteristics of the SMEs and provide an overview of financial capability, stress levels, and well-being outcomes. PCA was used to ensure there were no issues with common method bias (Podsakoff et al., 2012).

The results confirmed that no single factor explained a significant portion of the variance, indicating that the common method bias was not a concern. Multiple Regression Analysis: Regression models were built to test the direct effects of financial capability on SME well-being and the moderating effect of financial stress. Interaction terms were introduced into the model to assess the moderating role of financial stress on the financial capability-SME well-being relationship. The significance of the regression coefficients was tested using p-values, with a significance level set at $\alpha=0.05$ (Hair et al., 2012). The model's explanatory power was evaluated using R-squared values to determine how much variance in SME well-being could be explained by financial capability, financial stress, and their interaction. To ensure the validity of the data, the survey instruments were pre-tested with a small group of SME owners before full deployment. Reliability was assessed using Cronbach's alpha, with all scales achieving acceptable reliability levels (Cronbach's alpha > 0.7) (Hair et al., 2012). Construct validity was confirmed through factor analysis, ensuring that the survey items accurately captured the intended constructs of financial capability, financial stress, and SME well-being.

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RESULTS

A. Respondent Demographics

The presentation of respondent demographics in this study serves as a foundational description to illustrate the characteristics of the sme owners or managers who participated in the research. This demographic information is not intended merely to describe the sample but to ensure the contextual relevance and appropriateness of the respondents about the research objectives, particularly those concerning financial capability, financial stress, and sme well-being. Understanding the gender composition and educational background of the respondents helps establish the socio-economic and cognitive profile of the sme population under study. These characteristics potentially influence financial behaviors, decision-making patterns, and susceptibility to financial stress — all of which are central variables in this research. Therefore, this demographic data provides an important contextual framework for interpreting the subsequent analysis of financial capability and financial stress among SMEs in Indonesia.

Descriptions	Categories	Frequencies	Percentages (%)
Gender	Male	88	40
	Female	132	60
Education	Elementary school	9	4
	Junior high school	31	14
	Senior high school	95	43
	Undergraduate	79	36
	Graduated	6	3
	Postgraduated	0	0
Age	<20 years old	15	7
	21 – 30 years old	68	31
	31 – 40 years old	55	25
	41 – 50 years old	68	31
	51 – 60 years old	7	3
	>60 years old	7	3
Position	Owner	117	53
	Manager	40	18
	Owner and Manager	63	29
Business Status	Own Business	99	45
	Continuing the Family Business	121	55
Total Employees	3-10 Employees	202	92
	11-20 Employees	13	6
	>20 Employees	5	2
Total Revenue in a Month	1 – 15 Million	130	59
	16 – 30 Million	48	22
	31 – 45 Million	15	7
	>46 Million	27	12
Total Customers in a Day	<10	54	25
	10 – 30	114	52
	30 – 50	16	7
	>50	16	7

The demographic profile of respondents in the SME sector in Indonesia reveals a predominance of female entrepreneurs (60%), indicating significant female participation in small and medium enterprises. The educational background of these respondents ranges primarily from secondary education to undergraduate degrees, with 43% being high school graduates and 36% holding undergraduate degrees. This suggests that while higher formal education is beneficial, it is not necessarily a prerequisite for running an SME. The age distribution shows that a large

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Research Article

portion of the respondents are in their productive years, with the highest concentrations in the 21-30 and 41-50 age brackets, each accounting for 31% of the total. Most of these entrepreneurs are business owners (53%), with a substantial number also serving dual roles as both owners and managers (29%). Interestingly, a majority are continuing family businesses (55%), reflecting the traditional and generational nature of SMEs in Indonesia.

The businesses are generally small in scale, with 92% employing between 3-10 employees. Monthly revenue for most SMEs falls between 1-15 million rupiah (59%), highlighting the modest financial scale at which many operate. Daily customer interactions are also relatively low, with 51.8% serving between 10-30 customers per day. This demographic overview illustrates that SMEs in Indonesia are typically small, family-owned operations led predominantly by women in their productive years. They operate on a modest scale in terms of both workforce and revenue. However, these businesses hold significant potential for growth, provided they receive adequate support in areas such as managerial training, access to capital, and effective marketing strategies.

B. Measurement Model Assessment

Before testing the structural relationships between variables, it is essential to ensure that all constructs used in this study meet the criteria of validity and reliability. The measurement model assessment aims to evaluate whether the instruments used to measure financial capability, financial stress, and SME well-being are statistically reliable and valid. This step ensures that the constructs accurately capture the intended concepts and can produce consistent results across different measurements. Table 1 presents the results of the validity and reliability tests, including outer loading values, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE), which are commonly employed to assess the adequacy of measurement models in quantitative research.

Table 1. Test of Validity and Reliability

Variable	Outer Loading	Cronbach Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Average Variance Extracted (AVE)
FC1	0,764	0.838	0.842	0.893	0.676
FC2	0,829				
FC3	0,791				
FC4	0,783				
FC5	0,742				
FC6	0,704				
FC7	0,729				
FC8	0,738				
FS1	0,747	0.745	0.783	0.839	0.669
FS2	0,758				
FS3	0,736				
FS5	0,840				
FS6	0,806				
FWB1	0,701	0.801	0.817	0.863	0.559
FWB2	0,738				
FWB3	0,723				
FWB4	0,769				
FWB5	0,865				
FWB6	0,838				
FWB7	0,741				
FWB8	0,804				
FWB9	0,771				

The analysis results indicate that all outer loadings are greater than 0.7, suggesting that the indicators adequately measure the intended constructs, as recommended by Hayes (2022). Cronbach's Alpha values exceeding

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Research Article

0.7 indicate good internal reliability of the constructs, in line with the recommendations of (Hair et al., 2012). Additionally, Composite Reliability values greater than 0.7 demonstrate good composite reliability, following the standards set by Hair et al. (2014). Finally, Average Variance Extracted (AVE) values exceeding 0.5 indicate good convergent validity, consistent with the criteria proposed by Fornell and Larcker (1981).

Table 2. Fornell Lacrker Criterion

	Moderation effect	FC	FS	FWB
Moderation effect	1.000			
FC	0,769	0,761		
FS	0,720	0,741	0,658	
FWB	0,801	0,504	0,561	1,000

Using the Fornell-Larcker criterion, the correlation values between constructs should not be greater than the square root of the AVE of the respective construct. In this case, discriminant validity is adequately established as the correlation values are lower than the square root of the AVE for each construct (Fornell and Larcker, 1981).

Table 3. Goodness of Fit

	Saturated model	Estimated model
SRMR	0,0798	0,0798
NFI	0,912	0,912

The Standardized Root Mean Square Residual (SRMR) value of 0.0798 for both the saturated and estimated models indicates a good fit, as values below 0.08 are generally considered acceptable for model fit (Hu & Bentler, 1999). Additionally, the Normed Fit Index (NFI) value of 0.912 indicates a good fit, as values above 0.90 are indicative of a well-fitting model (Hu & Bentler, 1999).

Table 4. R-Square

	R-square	R-square adjusted
FWB	0,732	0,729

The R-squared value of 0.732 and the adjusted R-squared value of 0.729 indicate that 73.2% of the variance in financial well-being (FWB) can be explained by the model, specifically by the variables financial capabilities (FC) and financial stress (FS). This high explanatory power suggests that these variables are significant predictors of fwb for small and medium-sized enterprises (SMEs) in Indonesia. In the context of Indonesian SMEs, improving financial capabilities—such as better financial planning, budgeting, and financial literacy—can substantially enhance the financial well-being of business owners and managers. However, this relationship is influenced by the level of financial stress they experience. High financial stress, which may arise from market volatility, economic downturns, or financial mismanagement, can dampen the positive effects of strong financial capabilities on financial well-being. Therefore, policymakers, financial educators, and support organizations must focus not only on enhancing the financial capabilities of sme owners but also on providing resources and strategies to manage and reduce financial stress. This dual approach will better support the financial well-being of SMEs in Indonesia, contributing to their sustainability and growth in the competitive market environment.

C. Hypotheses Testing

After confirming the validity and reliability of the measurement model, the next step is to test the proposed hypotheses to examine the relationships between variables. This process aims to verify whether the conceptual framework developed in this study is supported by empirical data. Specifically, this study tests the direct effect of financial capability on SME well-being and the moderating effect of financial stress on this relationship. Table 5 presents the results of the hypothesis testing, including the effect size, standard error, t-values, p-values, and confidence intervals for each relationship examined. These statistical outputs provide evidence to support or reject the proposed hypotheses based on established significance criteria.

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Research Article

Table 5. Hypothesis Testing

Relationship	Effect	SE	T	P	LLCI	ULCI	Decision
FC → FWB	0,6512	0,1454	4,4784	0,000	0,3646	0,9378	Supported
FS → FWB	1,4268	0,2520	5,6630	0,000	0,9302	1,9234	Supported
Interaction (moderation)	0,103	0,0070	1,4802	0,0103	0,0241	0,0034	Supported

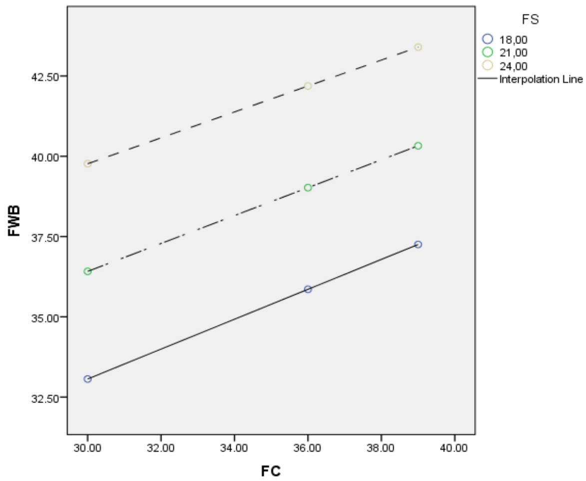

Figure 1. Moderation Effect
FWB = financial wellbeing, FS = financial stress, FC = financial capability

DISCUSSIONS

The findings of this study provide substantial evidence that financial capabilities play a crucial role in the financial well-being of SMEs in Indonesia. Financial capabilities—encompassing budgeting, financial planning, and literacy—equip SMEs with the tools they need to make informed decisions, manage their resources effectively, and navigate the complexities of volatile market environments. The results from this study are in line with previous research by Lusardi and Yakoboski (2021a), which emphasizes that enhanced financial literacy fosters improved financial decision-making, ultimately resulting in greater business stability and growth. Similarly, Grohmann et al. (2018) demonstrated that financial literacy improves financial inclusion, particularly in developing economies, leading to stronger business performance and resilience.

In Indonesia, SMEs often operate in environments marked by uncertainty, limited access to formal financial services, and fluctuating economic conditions. Financial capability becomes even more critical under these circumstances, as SMEs must optimize their limited resources to ensure long-term viability. Fatoki (2021) highlighted the challenges that SMEs in emerging markets face, noting that strong financial management skills are a key determinant of business success, particularly in economies with an underdeveloped financial infrastructure. The findings from this study align with those of Goyal and Kumar (2021), who found that financially literate SMEs are better positioned to access credit, manage financial risks, and thrive in uncertain economic conditions.

Despite the clear advantages of financial capabilities, this study reveals that financial stress can significantly undermine the positive effects of financial literacy and management on SME well-being. Financial stress—defined as the psychological burden caused by financial difficulties—has been shown to impair decision-making, reduce cognitive functioning, and lead to suboptimal business outcomes (Falahati et al., 2012). This study confirms that high levels of financial stress weaken the relationship between financial capability and SMEs well-being, a finding that is consistent with the conclusions drawn by Karakara et al. (2022). Their research in Ghana demonstrated that financial stress diminishes the ability of SME owners to effectively manage their businesses, leading to poorer financial outcomes despite high levels of financial literacy.

The interaction between financial capability and financial stress adds a complex layer to understanding how these factors influence SME well-being. Even SMEs with strong financial capabilities may struggle to achieve optimal outcomes if they are subject to high levels of financial stress. This dynamic was similarly observed by Zhang and

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Research Article

Xiong (2019), who found that financial stress mitigates the positive effects of financial literacy by impeding strategic decision-making. The findings of this study suggest that interventions aimed at improving SME performance should not only focus on enhancing financial capability but should also address the psychological aspects of financial stress management.

Financial capabilities have long been recognized as a vital component of business success, particularly for SMEs that often lack the formal structures and access to resources enjoyed by larger enterprises. This study supports previous findings by Lusardi and Mitchell (2014), which demonstrates that financial literacy is closely linked to improved financial decision-making and business success. SMEs with better financial literacy are more capable of effectively managing their finances, making sound investment decisions, and planning for future uncertainties. The impact of financial capability on business outcomes is particularly pronounced in emerging markets like Indonesia, where access to formal financial services is limited, and SMEs must rely heavily on their internal financial management skills (Fatoki, 2021).

The importance of financial capabilities in promoting SME well-being is further supported by Goyal & Kumar, (2021) and Molina-García et al. (2023), who found that financial literacy enhances SMEs' ability to access credit and manage economic volatility. In this study, financial capability was shown to have a significant positive effect on SME well-being, with financially capable SMEs reporting higher levels of financial stability, profitability, and growth. These findings are consistent with those of Aren and Zengin (2016), who highlighted the role of financial literacy in promoting financial inclusion and improving the overall performance of businesses in developing economies.

However, the effectiveness of financial capability is not uniform across all SMEs. This study reveals that the benefits of financial literacy and management skills can be significantly undermined by the presence of financial stress. Financial stress, which arises from a range of factors including debt, cash flow issues, and economic instability, has been shown to impair cognitive functioning and decision-making (Rahman et al., 2021). The negative impact of financial stress on SMEs performance has been widely documented, with studies such as Karakara et al. (2022) demonstrating that high levels of financial stress can reduce the effectiveness of financial management and lead to poorer business outcomes.

Financial stress is a critical factor that affects the performance of SMEs, particularly in emerging markets where economic instability and limited access to financial resources are common. This study confirms that financial stress has a significant negative impact on SMEs well-being, reducing the positive effects of financial capability and leading to poorer business outcomes. These findings align with those of O'Neill et al. (2005), who demonstrated that financial stress impairs cognitive functioning, leading to suboptimal decision-making and reduced business performance. The relationship between financial stress and business performance has been extensively studied, with researchers consistently finding that high levels of financial stress are associated with negative business outcomes. For instance, Zhang and Xiong (2019) found that financial stress weakens the ability of SMEs owners to make strategic decisions, thereby limiting the benefits of financial literacy and management skills. Similarly, Karakara et al. (2022) demonstrated that financial stress impedes the ability of SMEs owners to manage their businesses effectively, leading to poorer financial outcomes despite high levels of financial literacy.

In the context of Indonesia, where SMEs often operate under volatile market conditions and face significant financial stresss, financial stress presents a considerable challenge. This study reveals that financial stress not only reduces the positive effects of financial capability but also has a direct negative impact on SMEs well-being. The findings suggest that interventions aimed at supporting SMEs should focus not only on enhancing financial literacy and management skills but also on addressing the psychological aspects of financial stress. This is consistent with the conclusions of Kulathunga et al. (2020) and Ye and Kulathunga (2019), who argued that financial stress undermines the effectiveness of financial literacy efforts, leading to reduced business growth and poorer financial outcomes.

One of the key findings of this study is the moderating effect of financial stress on the relationship between financial capability and SME well-being. The results indicate that while financial capability has a positive impact on SME performance, this relationship is significantly weakened in the presence of high levels of financial stress. This finding is consistent with previous research by Choi et al. (2020) and Friedline et al. (2021) who demonstrated that financial stress reduces the effectiveness of financial literacy by impairing cognitive functioning and decision-making. The moderating effect of financial stress suggests that even SMEs with strong financial capabilities may struggle to achieve optimal business outcomes if they are subject to high levels of financial stress. This dynamic highlights the

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Research Article

importance of addressing both financial capability and financial stress in efforts to improve SMEs performance. Interventions aimed at supporting SMEs should focus not only on enhancing financial literacy but also on providing tools and strategies for managing financial stress. Therefore, financial stress significantly reduces financial well-being, even in the presence of strong financial capabilities (Fan & Henager, 2022; Mansor et al., 2022).

The findings of this study open several avenues for future research. One promising area is the exploration of targeted interventions that integrate financial literacy with stress management strategies. As suggested by Kaiser and Menkhoff (2017). Financial education programs must be tailored to the specific needs of SMEs, combining practical skills with stress-relief strategies. Future research should explore the effectiveness of such interventions in different sectors and regions, with a particular focus on understanding how financial literacy and stress management interact to influence business outcomes. Additionally, longitudinal studies could provide valuable insights into how financial capability and stress evolve and how they jointly affect SMEs well-being in the long term.

Investigating the role of external factors, such as government policies, economic conditions, and industry-specific challenges, could further enrich the understanding of these dynamics. For instance, Minniti (2008) found that supportive government policies can reduce the financial stress experienced by entrepreneurs, thereby improving business outcomes. Such findings are directly applicable to the Indonesian context, where policy interventions could help SMEs better manage their financial stress and enhance their financial capabilities. Another potential area for future research is the exploration of how digital financial services can alleviate financial stress and improve financial capability among SMEs. With the increasing adoption of digital technologies in the financial sector, there is growing evidence that digital financial services can improve access to credit, reduce financial stress, and enhance financial management skills (Phan et al., 2024). Further research is needed to explore the impact of digital financial services on SME performance in emerging markets, with a focus on understanding how these services can be integrated into broader financial literacy and stress management programs.

CONCLUSIONS

This study highlights the pivotal role that financial capability plays in promoting the well-being of Small and Medium Enterprises (SMEs) in Indonesia. Financial capability, encompassing financial literacy, planning, budgeting, and resource management, enables SMEs to make informed decisions, optimize resource allocation, and enhance their financial resilience. The data collected from 220 SMEs across Indonesia underscores the significant contribution of financial capability to business success. Specifically, financial capability explains 73.2% of the variance in SME well-being, a figure that demonstrates the critical importance of sound financial management in ensuring business sustainability and growth.

However, the positive effects of financial capability are not immune to external pressures. One of the most significant moderating factors in this relationship is financial stress, which can significantly diminish the benefits of financial capability. Financial stress, as defined in this study, refers to the psychological strain and anxiety experienced by SMEs owners due to financial difficulties. It can arise from various sources, including debt burdens, cash flow shortages, and external market fluctuations. The data indicate that high levels of financial stress weaken the positive relationship between financial capability and SMEs well-being. This interaction suggests that while financial literacy and management skills are essential, they are not sufficient on their own to guarantee business success if financial stress remains unaddressed.

The findings of this research reveal a dual challenge for SMEs in Indonesia: improving financial capability while simultaneously managing financial stress. SMEs with strong financial capability may still struggle to achieve optimal performance if they operate under high levels of financial stress. Stress can impair cognitive functioning, making it difficult for business owners to apply their financial skills effectively. Decision-making becomes more reactive, with a focus on immediate concerns rather than long-term strategic planning. In this context, even SMEs with excellent financial literacy and resource management skills may find themselves unable to thrive. This underscores the importance of addressing financial stress as part of a broader effort to support SMEs well-being. Policymakers, financial institutions, and SMEs support programs must consider financial stress as a critical factor in determining business outcomes. Interventions aimed solely at improving financial literacy, while beneficial, will have limited success if they do not also include mechanisms to alleviate financial stress. The integration of financial education with stress management strategies is essential to creating a more holistic support system for SMEs in Indonesia.

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A holistic approach to SME support involves several key components. First, there is a need for comprehensive financial education programs that go beyond basic financial literacy. While improving knowledge of budgeting, financial planning, and resource allocation is essential, these programs should also teach SME owners how to manage financial stress. This can include techniques for dealing with financial anxiety, developing coping strategies for financial challenges, and learning how to navigate periods of economic uncertainty without compromising long-term business goals. Second, it is important to foster access to financial resources that can help mitigate the effects of financial stress. Many SMEs in Indonesia struggle with limited access to affordable credit and financial services. This scarcity of financial resources often exacerbates financial stress, as business owners find themselves without sufficient buffers to deal with financial downturns or unexpected expenses. Expanding access to credit at reasonable interest rates, creating government-backed loan programs, or offering financial assistance through grants and subsidies can help reduce the financial burden on SMEs, allowing them to focus on improving their financial management capabilities without being overwhelmed by immediate financial pressures.

Another critical component of a holistic approach to SMEs well-being is creating a supportive policy environment. Policymakers play a vital role in shaping the financial landscape in which SMEs operate. This study suggests that government policies should aim to reduce the financial stress experienced by SMEs through measures such as tax incentives, debt relief programs, and regulatory reforms that simplify business operations and reduce bureaucratic hurdles. Additionally, policies that encourage financial institutions to provide tailored financial products and services for SMEs can help bridge the gap between financial capability and access to resources. By creating a more SME-friendly environment, policymakers can contribute to the resilience and growth of this critical sector.

IMPLICATIONS

Policymakers should focus on creating supportive environments that reduce financial stress for SMEs. This includes providing better access to financial resources, training programs for financial management, and stress management interventions. Entrepreneurship development programs should incorporate financial management and stress reduction strategies to enhance the financial well-being of SME owners. This can be achieved through workshops, mentorship programs, and continuous support systems. SME owners should adopt strategic management practices that focus on enhancing financial capabilities and mitigating financial stress. This includes regular financial planning, effective budget management, and seeking professional advice when necessary.

LIMITATIONS

While this study provides valuable insights into the relationship between financial capability, financial stress, and SME well-being in Indonesia, it is not without limitations. One of the primary limitations is the sample size and diversity of the SMEs included in the research. The study was conducted with data from 220 SMEs located in a specific region of Indonesia, which may not fully represent the broader spectrum of SMEs operating across the country. Indonesia is a diverse nation, with significant economic, cultural, and regional variations. As such, SMEs from different parts of the country may face unique financial challenges or have access to distinct resources that were not captured in this study. A larger and more diverse sample, including SMEs from various industries, regions, and cultural backgrounds, would provide a more comprehensive understanding of how financial capability and financial stress interact across different contexts. Another limitation of the study is its cross-sectional design, which captures data at a single point in time. While this approach allows for the analysis of the relationships between financial capability, financial stress, and well-being, it does not account for how these factors may evolve. SMEs often experience fluctuating levels of financial stress depending on market conditions, access to credit, and broader economic trends.

Moreover, financial capability is a skill that can be developed and improved with experience and education. A longitudinal study, which tracks the same SMEs over an extended period, would provide a more detailed understanding of how financial capabilities and stress impact business well-being in the long term. It could also help to identify causal relationships more accurately, as the current study's cross-sectional nature limits the ability to establish definitive cause-and-effect conclusions. Additionally, the findings of this study are specific to the Indonesian context, which may limit their generalizability to SMEs in other regions. Indonesia has its own unique economic, social, and cultural conditions that influence the way SMEs operate. For example, access to financial services, the regulatory environment, and social norms around entrepreneurship may differ significantly from those in other developing or developed countries. As such, the results may not apply to SMEs in regions with different financial infrastructures or cultural attitudes toward business and financial management. Future research should aim to replicate this study in other countries or regions to determine whether the findings hold in different economic and cultural contexts. In conclusion, while this study provides important insights, addressing these limitations through expanded sampling, longitudinal approaches, and cross-cultural studies would deepen our understanding of the complex dynamics between financial capability, financial stress, and SME well-being.

RECOMMENDATIONS

Implement financial education programs targeting SMEs owners and employees to improve their financial management skills and reduce financial stress. Encourage the development of support networks and community-based initiatives that provide emotional and practical support to SMEs owners, helping them manage financial stress more effectively. Advocate for government policies that provide financial assistance, subsidies, and incentives to SMEs, reducing their financial burdens and stress. Conduct further research with larger and more diverse samples, employing longitudinal designs to explore the long-term effects of financial capabilities and financial stress on financial well-being. These recommendations aim to enhance the financial well-being of SMEs in Indonesia, contributing to their growth and sustainability in the competitive market.

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