MIX: Jurnal Ilmiah Manajemen

Management Scientific Journal
ISSN (Online): 2460-5328, ISSN (Print): 2088-1231
https://publikasi.mercubuana.ac.id/index.php/jurnal_Mix

Smart Financial Management Strategies for Enhancing the Profitability of Micro, Small, and Medium Enterprises in the Era of Global Competition

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ABSTRACT

Objective: *Digital transformation in the financial sector provides strategic opportunities for Micro, Small, and Medium Enterprises (MSMEs) to improve efficiency, access to finance, and competitiveness. However, many MSMEs have not fully optimized these opportunities due to limited financial management capability and uneven adoption of financial technology. This study aims to analyze the effect of smart financial management strategies on MSME profitability, both directly and indirectly through financial technology adoption.*
Methodology: *This study employed a quantitative explanatory research design. The population consisted of active MSMEs in West Java Province that had used at least one form of financial technology service. The sample was selected using purposive sampling, involving 200 MSME owners or managers as respondents. Data were collected through structured questionnaires and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.*
Findings: *The results show that smart financial management strategies have a positive and significant effect on MSME profitability and financial technology adoption. Financial technology adoption also has a positive and significant effect on MSME profitability. Furthermore, financial technology adoption partially mediates the relationship between smart financial management strategies and MSME profitability. These findings indicate that financial management capability improves profitability not only through direct financial efficiency, but also by encouraging the effective adoption and utilization of digital financial services.*
Conclusion: *This study highlights the importance of integrating internal financial management capability with financial technology adoption as a strategic approach to improving MSME profitability. Theoretically, this study contributes to the fintech and strategic financial management literature by integrating the Resource-Based View and the Technology Acceptance Model in explaining MSME performance. Practically, the findings suggest that MSME development programs should combine financial management training, digital financial literacy, and fintech adoption assistance to strengthen business sustainability and competitiveness.*

Keywords*: Smart Financial Management Strategies; Financial Technology Adoption; MSME Profitability; MSMEs; PLS-SEM.*

Submitted: 12-07-2025 Revised: 25-06-2026 Accepted: 25-06-2026

Article Doi:
http://dx.doi.org/10.22441/jurnal_mix.2026.v16i2.006

p-ISSN: 2088-1231
e-ISSN: 2460-5328

INTRODUCTION

Micro; Small; and Medium Enterprises (MSMEs) are a central pillar of the Indonesian economy; contributing around 61% to the national Gross Domestic Product (GDP) and absorbing approximately 97% of the workforce (Ministry of Cooperatives and SMEs; 2022). In West Java Province; MSMEs also play a strategic role in regional economic development; with more than seven million business units recorded in 2023 (Open Data Jabar; 2023). However; the acceleration of digitalization and global competition has created new managerial and financial pressures for MSMEs. In this context; MSMEs are required not only to maintain operational continuity; but also to strengthen financial management capabilities; improve access to financing; and adopt digital financial services to support profitability and competitiveness (Abbasi et al.; 2021; Kraus et al.; 2022).

West Java was selected as the research context because it represents a dynamic MSME ecosystem with diverse business sectors and different levels of digital readiness. The province includes urban economic centers such as Bandung; Bekasi; and Depok; as well as semi-urban and rural areas with different levels of access to finance; technology; and business development support. This diversity creates an important context for examining MSME financial management and fintech adoption. Although West Java has strong economic potential; many MSMEs still face structural constraints; including limited financial literacy; weak financial planning; restricted access to formal financing; and uneven adoption of digital financial services (Disperindag Jabar; 2022; Open Data Jabar; 2023; Tan & Syahwildan; 2022).

This study focuses on three main variables: smart financial management strategies; financial technology adoption; and MSME profitability. Smart financial management strategies refer to MSMEs' ability to plan budgets; manage cash flow; control costs; prepare financial reports; and make adaptive financial decisions. These capabilities are important because weak financial management may reduce business efficiency; increase liquidity risk; and limit the ability of MSMEs to respond to market uncertainty. From the Resource-Based View perspective; financial management capability can be understood as an internal strategic resource that helps firms improve performance and sustain competitive advantage (Barney; 1991; Matarazzo et al.; 2021).

Financial technology adoption refers to the use of digital financial services such as e-wallets; digital banking; financial recording applications; peer-to-peer lending; and crowdfunding platforms. For MSMEs; fintech can improve transaction efficiency; expand access to alternative financing; increase financial transparency; and support faster business decision-making. The Technology Acceptance Model explains that technology adoption is shaped by perceived usefulness and perceived ease of use; which are relevant in explaining why MSME owners decide to accept or reject fintech services (Davis; 1989; Nugraha et al.; 2022). In the MSME context; fintech adoption becomes more effective when business actors have sufficient financial capability to integrate digital financial tools into their operational and managerial practices (Siddik et al.; 2023).

Previous studies have examined financial management; financial literacy; fintech adoption; and MSME performance from different perspectives. Some studies emphasize the role of financial literacy and access to finance in improving SME performance; while other studies highlight the contribution of fintech adoption to efficiency; innovation; and financial inclusion (Abbasi et al.; 2021; Kulathunga et al.; 2020; Nugraha et al.; 2022; Siddik et al.; 2023). However; the relationship among smart financial management strategies; fintech adoption; and MSME profitability has not been sufficiently explained in an integrated model.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

In particular; previous research has not fully clarified how internal financial management capability encourages fintech adoption and how fintech adoption transforms such capability into improved profitability.

Therefore; the research gap addressed in this study is not only contextual; but also theoretical. Contextually; limited studies have examined MSMEs in West Java as a regional economic ecosystem with diverse business sectors and unequal digital readiness. Theoretically; there is still limited integration between the Resource-Based View and the Technology Acceptance Model in explaining MSME profitability through fintech adoption. RBV explains smart financial management as an internal strategic resource; while TAM explains the behavioral mechanism of fintech adoption. By integrating these two perspectives; this study provides a more comprehensive explanation of how financial capability and digital financial technology jointly contribute to MSME profitability.

This study offers novelty by positioning financial technology adoption as a mediating mechanism between smart financial management strategies and MSME profitability. Unlike prior studies that examine fintech adoption or financial management separately; this study explains how financial management capability can increase MSME readiness to adopt fintech and how fintech adoption subsequently supports profitability. The findings are expected to contribute to the fintech and strategic financial management literature; especially in the context of MSMEs in emerging economies. Practically; this study may provide insights for MSME actors; local governments; and financial institutions in designing integrated programs that combine financial management training; digital financial literacy; and access to fintech-based financing.

Based on this background; this study aims to: (1) analyze the effect of smart financial management strategies on MSME profitability; (2) examine the effect of smart financial management strategies on financial technology adoption; (3) analyze the effect of financial technology adoption on MSME profitability; and (4) examine the mediating role of financial technology adoption in the relationship between smart financial management strategies and MSME profitability.

LITERATURE REVIEW

Smart Financial Management Strategy

Smart financial management strategy refers to the systematic ability of MSMEs to plan; organize; control; and evaluate financial resources in order to improve efficiency; reduce financial risk; and support sustainable business performance. In the context of MSMEs; financial management strategy is not limited to recording income and expenses; but also includes budget planning; cash flow management; cost control; debt management; investment decisions; and financial reporting. These practices are important because MSMEs generally operate with limited capital; informal financial systems; and high vulnerability to market uncertainty.

From the Resource-Based View (RBV) perspective; smart financial management strategy can be understood as an internal strategic capability that enables firms to achieve better performance. Barney (1991) argues that firms can achieve competitive advantage when they possess valuable; rare; difficult-to-imitate; and well-organized resources. In MSMEs; the ability to manage cash flow; control costs; and make efficient financing decisions can become a valuable managerial resource because it helps business owners allocate limited resources more

p-ISSN: 2088-1231
e-ISSN: 2460-5328

effectively. Therefore; financial management capability is not only an administrative function; but also a strategic capability that supports business resilience and profitability.

Recent studies also emphasize that financial capability and financial literacy are closely related to SME performance. Kulathunga et al. (2020) explain that technological and financial literacy can strengthen SME performance through better enterprise risk management practices. This indicates that MSMEs with better financial understanding are more capable of identifying financial risks; managing resources; and making more rational business decisions. Similarly; Luckieta (2025) states that disciplined financial management strategies can improve MSME resilience and profitability; particularly in uncertain business environments.

In the context of West Java; smart financial management strategy is especially relevant because MSMEs operate in diverse business sectors and face unequal access to capital; technology; and financial knowledge. MSMEs in urban areas may have better access to digital financial services; while MSMEs in semi-urban and rural areas may still rely on conventional and informal financial practices. This condition strengthens the need for financial management strategies that are adaptive; efficient; and compatible with digital financial transformation.

Financial Technology Adoption

Financial technology adoption refers to the use of digital financial services in business activities; including digital payments; mobile banking; e-wallets; digital accounting applications; peer-to-peer lending; crowdfunding; and other technology-based financial platforms. For MSMEs; fintech adoption provides opportunities to improve transaction efficiency; simplify financial recording; expand access to alternative financing; and support faster financial decision-making.

The Technology Acceptance Model (TAM) provides a relevant theoretical basis for explaining fintech adoption. Davis (1989) argues that technology acceptance is influenced by perceived usefulness and perceived ease of use. In MSMEs; fintech is more likely to be adopted when business owners believe that digital financial services can simplify transactions; reduce administrative burdens; improve financial transparency; and provide easier access to capital. Therefore; fintech adoption is not merely a technological issue; but also a behavioral and managerial decision influenced by the perceived value of technology for business operations.

Nugraha et al. (2022) show that fintech adoption among Indonesian SMEs is influenced by factors related to innovation; perceived benefits; and digital readiness. Their study suggests that MSMEs are more willing to adopt fintech when they perceive that fintech can support business efficiency and competitiveness. Abbasi et al. (2021) also find that fintech contributes to SME efficiency; indicating that digital financial services can help small businesses reduce operational constraints and improve financial processes.

However; the impact of fintech adoption is not always automatic. Several studies indicate that fintech adoption depends on supporting factors such as financial literacy; access to finance; digital capability; and managerial readiness. Siddik et al. (2023) emphasize that fintech adoption and financial literacy can improve business sustainability performance through access to finance. This implies that fintech will be more effective when MSMEs have sufficient financial knowledge and the ability to integrate digital financial tools into their business processes. Thus; fintech adoption should be understood as a mechanism that connects internal capability with improved business performance.

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MSME Profitability

MSME profitability refers to the ability of a business to generate financial returns from its operational activities. In MSMEs; profitability can be reflected through increasing net income; profit margin; cost efficiency; capital utilization; and cash flow stability. Profitability is a crucial indicator because it reflects not only short-term financial success; but also the capacity of MSMEs to survive; grow; and compete in dynamic markets.

Profitability among MSMEs is influenced by several internal and external factors. Internal factors include financial management capability; cost control; pricing strategy; product innovation; and managerial competence. External factors include market competition; access to finance; digital infrastructure; customer demand; and government support. In the context of digital transformation; fintech adoption has become an important factor because it can reduce transaction costs; improve payment systems; accelerate access to capital; and enhance financial transparency.

Empirical studies have shown that digital technology can contribute to SME performance. Matarazzo et al. (2021) explain that digital transformation can create customer value and strengthen SME competitiveness when supported by dynamic capabilities. Priyono et al. (2020) also show that digital transformation changes SME business models and enables firms to respond more adaptively to environmental changes. In the financial context; fintech adoption can help MSMEs improve profitability by increasing efficiency in transactions; financial recording; and financing access.

Nevertheless; previous findings are not entirely consistent. Some studies show that fintech and digital capability have a strong positive effect on SME performance; while others suggest that the effect depends on financial literacy; business readiness; and the ability to use digital tools effectively. Therefore; fintech adoption should not be viewed as a stand-alone solution. Its impact on profitability is likely to be stronger when MSMEs also have smart financial management strategies that allow them to use fintech strategically.

HYPOTHESIS AND RESEARCH FRAMEWORK

The Relationship between Smart Financial Management Strategies and MSME Profitability

Smart financial management strategies are expected to improve MSME profitability because they help business owners allocate resources efficiently; control operational costs; maintain cash flow stability; and reduce financial risk. MSMEs that prepare budgets; monitor expenses; manage debt; and evaluate financial reports are more likely to make rational business decisions and avoid inefficient spending. These practices directly support profitability because they improve the relationship between revenue; cost; and financial stability.

From the RBV perspective; financial management capability is a strategic internal resource that can create superior business performance. A well-organized financial management system enables MSMEs to identify profitable opportunities; allocate capital effectively; and respond to market uncertainty. Previous studies also support the argument that financial capability and financial literacy contribute to SME performance and sustainability (Kulathunga et al.; 2020; Luckieta; 2025). Therefore; the first hypothesis is formulated as follows:

H1: Smart financial management strategies have a positive and significant effect on MSME profitability.

p-ISSN: 2088-1231
e-ISSN: 2460-5328

The Relationship between Smart Financial Management Strategies and Financial Technology Adoption

Smart financial management strategies are also expected to influence financial technology adoption. MSMEs with better financial planning; cash flow management; and financial reporting tend to have stronger awareness of the need for digital financial tools. When business owners understand the importance of financial efficiency; transaction accuracy; and financing access; they are more likely to perceive fintech as useful for business operations.

The integration of RBV and TAM explains this relationship. RBV positions financial management capability as an internal resource; while TAM explains how this capability shapes the perceived usefulness of fintech. In other words; MSMEs with stronger financial management capability are more prepared to adopt fintech because they can clearly identify how fintech supports budgeting; recording; payment; financing; and decision-making processes. Nugraha et al. (2022) show that perceived benefits and innovation-related factors are important drivers of fintech adoption among SMEs. Thus; the second hypothesis is formulated as follows:

H2: Smart financial management strategies have a positive and significant effect on financial technology adoption.

The Relationship between Financial Technology Adoption and MSME Profitability

Financial technology adoption can improve MSME profitability through several mechanisms. First; fintech reduces transaction costs by simplifying payment and financial recording processes. Second; fintech improves cash flow monitoring because digital transactions are easier to trace and evaluate. Third; fintech expands access to alternative financing; especially for MSMEs that have difficulty obtaining conventional bank loans. Fourth; fintech supports faster and more accurate financial decision-making because business owners can access financial information more efficiently.

Previous studies indicate that fintech adoption can improve SME efficiency and performance. Abbasi et al. (2021) show that fintech contributes to SME efficiency; while Siddik et al. (2023) explain that fintech adoption can improve sustainability performance through access to finance. In addition; digital transformation studies suggest that technology adoption can strengthen SME competitiveness when firms have the ability to integrate digital tools into their business models (Matarazzo et al.; 2021; Priyono et al.; 2020). Based on this reasoning; the third hypothesis is formulated as follows:

H3: Financial technology adoption has a positive and significant effect on MSME profitability.

The Mediating Role of Financial Technology Adoption

Financial technology adoption is expected to mediate the relationship between smart financial management strategies and MSME profitability. Smart financial management strategies may directly improve profitability by increasing cost efficiency and cash flow stability. However; their effect may become stronger when MSMEs adopt fintech because digital financial tools help transform financial capability into more efficient business processes.

The mediation mechanism can be explained through the integration of RBV and TAM. Smart financial management strategy represents an internal capability that strengthens MSMEs' readiness to adopt fintech. Fintech adoption then becomes a technological mechanism that converts this internal capability into improved profitability. MSMEs with better financial management are more capable of using fintech for recording transactions; managing payments;

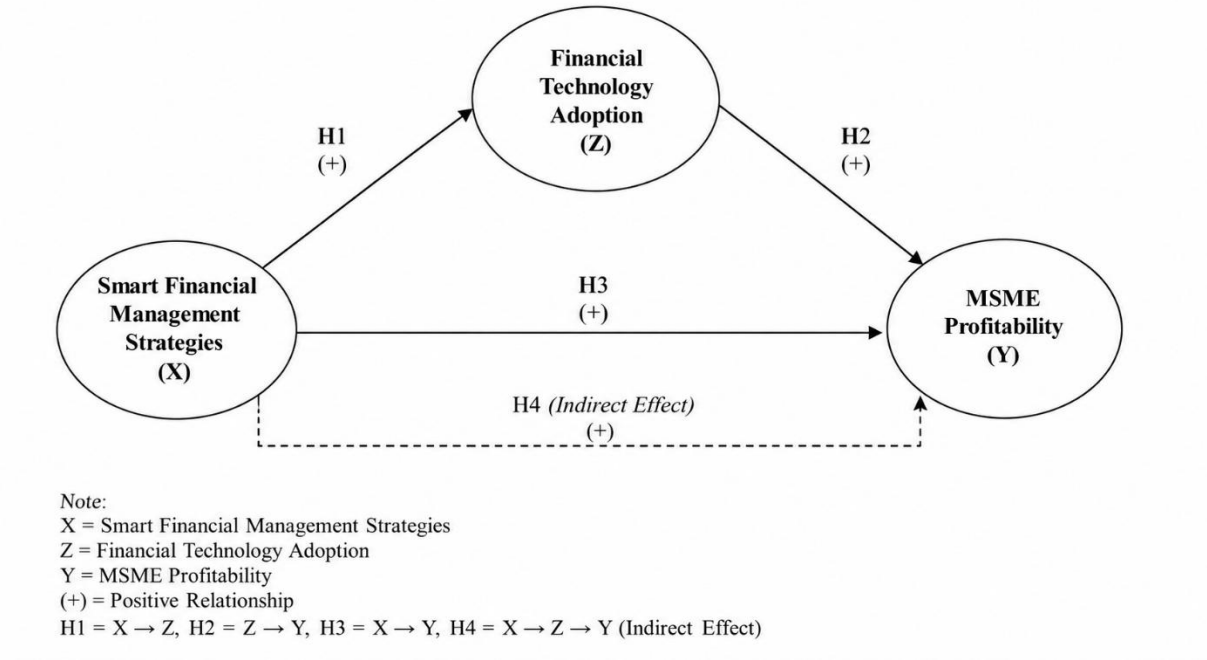
p-ISSN: 2088-1231
e-ISSN: 2460-5328

accessing financing; and monitoring financial performance. As a result; fintech adoption strengthens the effect of financial management strategies on profitability.

This argument is consistent with studies showing that technology and financial capability jointly contribute to SME performance. Kulathunga et al. (2020) highlight the role of financial and technological literacy in strengthening SME performance; while Siddik et al. (2023) show that fintech adoption and financial literacy can improve business performance through access to finance. Therefore; the fourth hypothesis is formulated as follows:

H4: Financial technology adoption mediates the relationship between smart financial management strategies and MSME profitability.

Figure 1. Conceptual Framework



METHODS

This study employed a quantitative explanatory research design. A quantitative approach was used because the study aimed to measure the relationships among variables using numerical data and statistical procedures. Explanatory research was considered appropriate because this study did not merely describe the condition of MSMEs; but examined the causal relationships among smart financial management strategies; financial technology adoption; and MSME profitability (Creswell & Creswell; 2018; Sekaran & Bougie; 2016).

In this study; smart financial management strategies were positioned as the independent variable; financial technology adoption as the mediating variable; and MSME profitability as the dependent variable. The explanatory design enabled the researcher to test both direct and indirect effects among latent variables through a structural model. This design is consistent with the use of Partial Least Squares Structural Equation Modeling (PLS-SEM); which is commonly applied to examine complex relationships among constructs and prediction-oriented research models (Hair et al.; 2022; Sarstedt et al.; 2022).

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e-ISSN: 2460-5328

Location and Time of Research

This research was conducted in West Java Province; Indonesia. West Java was selected because it has a large and diverse MSME ecosystem; consisting of various business sectors such as culinary; fashion; crafts; trade; and services. The study focused on several areas representing different levels of urban and semi-urban economic development; including Bandung; Bekasi; Depok; Tasikmalaya; and Garut. These locations were selected to capture variations in MSME characteristics; access to digital financial services; and levels of financial technology adoption.

The research was conducted from January to May 2025. This period included research instrument preparation; preliminary instrument review; questionnaire distribution; data collection; data screening; and statistical analysis.

Research Population and Sample

The population of this study consisted of active Micro; Small; and Medium Enterprises (MSMEs) operating in West Java Province that had used at least one form of financial technology in their business activities. The unit of analysis was MSME owners or managers because they are directly involved in financial decision-making; business financing; financial management practices; and the adoption of digital financial services.

The sampling technique used in this study was purposive sampling. Purposive sampling was considered appropriate because the respondents had to meet specific criteria related to the research objectives (Sekaran & Bougie; 2016). The inclusion criteria were: (1) MSMEs that had been operating for at least two years; (2) MSMEs that had business legality; such as a Business Identification Number or other official business license; and (3) MSMEs that had used at least one form of financial technology; such as e-wallets; mobile banking; digital financial recording applications; peer-to-peer lending; crowdfunding; or other digital financial platforms.

A total of 200 respondents were included in this study. This sample size was considered adequate for PLS-SEM analysis because it exceeded the minimum requirement based on the ten-times rule and was sufficient for estimating the structural model involving three latent variables. However; because the ten-times rule is only a preliminary guideline; the sample adequacy was also supported by the argument that PLS-SEM is suitable for prediction-oriented models with medium sample sizes (Hair et al.; 2022; Kock & Hadaya; 2018). The respondents represented various business sectors and geographical characteristics in West Java; including urban areas such as Bandung; Bekasi; and Depok; as well as semi-urban areas such as Garut and Tasikmalaya.

Instruments and Data Sources

The primary data in this study were collected using a structured questionnaire. A questionnaire was selected because it allows researchers to obtain standardized responses from a relatively large number of respondents and is suitable for quantitative survey research (Sekaran & Bougie; 2016). The questionnaire consisted of closed-ended statements measured using a five-point Likert scale; ranging from 1 = strongly disagree to 5 = strongly agree. The Likert scale was used because it is appropriate for measuring respondents' perceptions; attitudes; and evaluations toward latent constructs.

The questionnaire consisted of four main sections. The first section collected demographic and business profile information; including gender; age; education level; business location; business sector; and length of business operation. The second section measured smart financial management strategies through indicators of budget planning; cash flow management;

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e-ISSN: 2460-5328

cost control; and financial reporting. The third section measured financial technology adoption through indicators of fintech type; intensity of use; and perceived benefits of fintech in business operations. The fourth section measured MSME profitability through perception-based indicators; including perceived improvement in net profit; profit margin; and cash flow stability.

Perception-based profitability was used because many MSMEs do not consistently prepare audited financial statements or standardized accounting reports. In MSME research; subjective or perception-based performance measures can be used when objective financial data are unavailable; difficult to access; or inconsistently recorded. Previous methodological studies also explain that subjective performance measures can be acceptable when respondents are knowledgeable about firm performance and the indicators are clearly related to business outcomes (Dess & Robinson; 1984; Wall et al.; 2004). Therefore; this study used owner-manager perceptions to capture profitability conditions; particularly perceived improvement in profit; profit margin; cost efficiency; and cash flow stability.

Before distributing the questionnaire to the main respondents; preliminary interviews were conducted with ten MSME actors and two experts in financial management and financial technology. These interviews were used only to refine the questionnaire items; improve item clarity; and ensure contextual relevance to MSMEs in West Java. The interviews were not treated as the main source of empirical data because this study used a quantitative explanatory design. Therefore; the hypothesis testing was based entirely on quantitative questionnaire data.

Data Collection Technique

Data were collected through online and offline questionnaire distribution. Online questionnaires were distributed using Google Forms to reach respondents with adequate digital access; while offline questionnaires were distributed directly to MSME actors in areas with limited internet access or lower digital participation. This combination was used to improve respondent coverage and reduce the possibility of excluding MSMEs with limited digital access.

Before completing the questionnaire; respondents were informed about the purpose of the study and the confidentiality of their responses. Participation in this study was voluntary; and the data were used only for academic research purposes. The completed questionnaires were then screened to ensure that the respondents met the inclusion criteria and that the responses were complete; consistent; and suitable for statistical analysis.

Data Analysis Technique

The collected data were analyzed using descriptive statistics and inferential statistics. Descriptive statistics were used to describe respondent characteristics and the general tendency of responses for each variable. Inferential analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4 software.

PLS-SEM was selected because it is suitable for analyzing complex models involving latent variables; direct effects; indirect effects; and mediation relationships. PLS-SEM is also appropriate for prediction-oriented studies and for research that aims to explain the variance of endogenous constructs (Hair et al.; 2022; Sarstedt et al.; 2022). In this study; PLS-SEM was used to examine the direct effect of smart financial management strategies on MSME profitability; the direct effect of smart financial management strategies on financial technology adoption; the direct effect of financial technology adoption on MSME profitability; and the

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e-ISSN: 2460-5328

indirect effect of smart financial management strategies on MSME profitability through financial technology adoption.

The analysis was conducted in two stages: measurement model assessment and structural model assessment. The measurement model was evaluated using outer loading; Cronbach's alpha; composite reliability; Average Variance Extracted (AVE); the Fornell-Larcker criterion; and the Heterotrait-Monotrait Ratio (HTMT). Outer loading was used to assess indicator reliability; Cronbach's alpha and composite reliability were used to assess internal consistency reliability; and AVE was used to evaluate convergent validity. The Fornell-Larcker criterion and HTMT were used to assess discriminant validity. HTMT was included because it is considered a more sensitive criterion for detecting discriminant validity problems in variance-based structural equation modeling (Henseler et al.; 2015; Hair et al.; 2022).

The structural model was evaluated using R-square; adjusted R-square; effect size; path coefficients; t-statistics; and p-values. Hypothesis testing was conducted using the bootstrapping procedure. The significance of direct and indirect effects was determined based on t-statistics and p-values. The mediation effect was assessed by examining the indirect effect of smart financial management strategies on MSME profitability through financial technology adoption.

Common method bias was also assessed because the data were collected from the same respondents using a single questionnaire. Common method bias may occur when the measurement method inflates or distorts the relationships among variables in survey-based research (Podsakoff et al.; 2003). Therefore; this study used the full collinearity VIF approach to assess whether common method bias was a serious concern. If the full collinearity VIF values are below the recommended threshold; the model can be considered free from serious common method bias problems (Kock; 2015).

Operational Definition of Variables

This study consisted of three main variables: smart financial management strategies; financial technology adoption; and MSME profitability.Smart financial management strategies refer to the ability of MSMEs to plan; manage; control; and evaluate financial resources in order to support business efficiency and sustainability. This variable was measured through four indicators: budget planning; cash flow management; cost control; and financial reporting.

Financial technology adoption refers to the extent to which MSMEs use digital financial services or platforms in their business activities. This variable was measured through indicators of fintech type; intensity of use; and perceived benefits of fintech. Examples of fintech use in this study include e-wallets; mobile banking; digital financial recording applications; peer-to-peer lending; crowdfunding; and other digital financial services.

MSME profitability refers to the ability of MSMEs to generate financial benefits from their business operations. This variable was measured using perception-based indicators; including perceived improvement in net profit; profit margin; cost efficiency; and cash flow stability. The perception-based measurement was used because many MSMEs do not have standardized financial reports; making owner-manager assessment a practical and relevant approach for measuring financial performance in the MSME context. All variables were measured using a five-point Likert scale to facilitate quantitative analysis and hypothesis testing using PLS-SEM.

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e-ISSN: 2460-5328

RESULTS AND DISCUSSION

Results

Respondent Characteristics

This study involved 200 MSME owners or managers operating in several regions of West Java Province; including urban areas such as Bandung; Bekasi; and Depok; as well as semi-urban areas such as Garut and Tasikmalaya. The respondents represented MSMEs from various business sectors and different levels of financial technology adoption. The characteristics of respondents were classified based on gender; age group; and education level; as presented in Table 1.

Table 1. Characteristics of Respondents

Characteristic	Category	Frequency	Percentage
Gender	Male	78	39.0%
	Female	122	61.0%
Age Group	26–30 years	65	32.5%
	31–35 years	57	28.5%
	36–40 years	35	17.5%
	41–45 years	20	10.0%
	46–50 years	23	11.5%
Education	Senior high school or equivalent	85	42.5%
	Bachelor's degree	89	44.5%
	Master's degree	26	13.0%
	Doctoral degree	0	0.0%

Source: Primary data processed; 2025.

Table 1 shows that most respondents were female; with 122 respondents or 61.0% of the total sample; while male respondents accounted for 78 respondents or 39.0%. This indicates that female MSME actors represented a larger proportion of the respondents in this study. This condition is relevant to the MSME context in West Java; where many women are actively involved in culinary; trade; craft; and household-based business activities.

Based on age; the respondents were dominated by the productive age group of 26–30 years; with 65 respondents or 32.5%; followed by the age group of 31–35 years; with 57 respondents or 28.5%. This means that 61.0% of respondents were between 26 and 35 years old. This age profile indicates that most respondents were relatively young MSME actors who may have greater exposure to digital financial services and higher adaptability to financial technology.

In terms of education; most respondents had a bachelor's degree; with 89 respondents or 44.5%; followed by senior high school or equivalent education; with 85 respondents or 42.5%. Meanwhile; 26 respondents or 13.0% had a master's degree; and no respondents had a doctoral degree. This educational profile suggests that most respondents had sufficient educational background to understand financial management practices and adopt financial technology in their business activities.

Measurement Model Assessment

The measurement model was assessed to examine the validity and reliability of the research constructs. The assessment included convergent validity; discriminant validity; and construct reliability. Convergent validity was evaluated using outer loading and Average Variance Extracted (AVE). Discriminant validity was evaluated using the Fornell-Larcker

p-ISSN: 2088-1231
e-ISSN: 2460-5328

criterion and the Heterotrait-Monotrait Ratio (HTMT). Construct reliability was assessed using Cronbach's alpha; composite reliability rho_a; and composite reliability rho_c.

Convergent Validity

Convergent validity was evaluated based on the outer loading value of each indicator. An indicator is considered valid when its outer loading value is higher than 0.70. The outer loading results are presented in Table 2.

Table 2. Outer Loading Values

Indicator	Adoption of Financial Technology (Z)	MSME Profitability (Y)	Smart Financial Management Strategies (X)
AFT1	0.954		
AFT2	0.968		
AFT3	0.954		
MSMEF1		0.914	
MSMEF2		0.922	
MSMEF3		0.918	
SFMS1			0.912
SFMS2			0.943
SFMS3			0.953
SFMS4			0.966

Source: SmartPLS 4 output; 2025.

Table 2 shows that all indicators have outer loading values above 0.70. The indicators of financial technology adoption range from 0.954 to 0.968; the indicators of MSME profitability range from 0.914 to 0.922; and the indicators of smart financial management strategies range from 0.912 to 0.966. These results indicate that all indicators have strong correlations with their respective constructs. Therefore; the measurement model fulfills the criteria for convergent validity.

Discriminant Validity

Discriminant validity was first assessed using the Fornell-Larcker criterion. This criterion requires the square root of AVE for each construct to be higher than its correlations with other constructs. The results are presented in Table 3.

Table 3. Fornell-Larcker Criterion

Construct	Adoption of Financial Technology (Z)	MSME Profitability (Y)	Smart Financial Management Strategies (X)
Adoption of Financial Technology (Z)	0.958		
MSME Profitability (Y)	0.506	0.918	
Smart Financial Management Strategies (X)	0.785	0.517	0.944

Source: SmartPLS 4 output; 2025.

Table 3 shows that the square root of AVE for each construct is higher than its correlations with other constructs. The square root of AVE for financial technology adoption is 0.958; which is higher than its correlation with MSME profitability of 0.506 and smart financial management strategies of 0.785. The square root of AVE for MSME profitability is 0.918; which is higher than its correlation with financial technology adoption of 0.506 and smart financial

p-ISSN: 2088-1231
e-ISSN: 2460-5328

management strategies of 0.517. Similarly; the square root of AVE for smart financial management strategies is 0.944; which is higher than its correlation with financial technology adoption of 0.785 and MSME profitability of 0.517. These results indicate that each construct is empirically distinct from the other constructs in the model.

In addition to the Fornell-Larcker criterion; discriminant validity was also assessed using the Heterotrait-Monotrait Ratio (HTMT). The HTMT value is recommended to be below 0.90 to indicate adequate discriminant validity. The HTMT results are presented in Table 4.

Table 4. HTMT Values

Relationship Between Constructs	HTMT Value	Decision
Smart Financial Management Strategies – Financial Technology Adoption	0.846	Accepted
Smart Financial Management Strategies – MSME Profitability	0.563	Accepted
Financial Technology Adoption – MSME Profitability	0.552	Accepted

Source: SmartPLS 4 output; 2025.

Table 4 shows that all HTMT values are below the recommended threshold of 0.90. The highest HTMT value is found in the relationship between smart financial management strategies and financial technology adoption; with a value of 0.846. Meanwhile; the HTMT values for smart financial management strategies and MSME profitability; as well as financial technology adoption and MSME profitability; are 0.563 and 0.552; respectively. These results indicate that all constructs in this study have adequate discriminant validity.

Construct Reliability and Average Variance Extracted

Construct reliability was assessed using Cronbach's alpha; composite reliability rho_a; and composite reliability rho_c. Meanwhile; convergent validity was also supported by the Average Variance Extracted (AVE). A construct is considered reliable when Cronbach's alpha and composite reliability values are above 0.70; while AVE should be above 0.50. The results are presented in Table 5.

Table 5. Construct Reliability and AVE

Construct	Cronbach's Alpha	Composite Reliability rho_a	Composite Reliability rho_c	AVE
Adoption of Financial Technology (Z)	0.956	0.964	0.971	0.919
MSME Profitability (Y)	0.907	0.908	0.941	0.843
Smart Financial Management Strategies (X)	0.959	0.962	0.970	0.890

Source: SmartPLS 4 output; 2025.

Table 5 shows that all constructs meet the reliability and convergent validity criteria. The Cronbach's alpha values range from 0.907 to 0.959; while the composite reliability rho_c values range from 0.941 to 0.971. These values exceed the minimum threshold of 0.70; indicating strong internal consistency. In addition; the AVE values range from 0.843 to 0.919; which are higher than the minimum threshold of 0.50. Therefore; the constructs in this study demonstrate adequate reliability and convergent validity.

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Common Method Bias

Common method bias was assessed because the data were collected from the same respondents using a single questionnaire. This assessment was conducted using the full collinearity VIF approach. The results are presented in Table 6.

Table 6. Full Collinearity VIF

Construct	Full Collinearity VIF	Decision
Smart Financial Management Strategies (X)	2.744	Accepted
Financial Technology Adoption (Z)	2.702	Accepted
MSME Profitability (Y)	1.415	Accepted

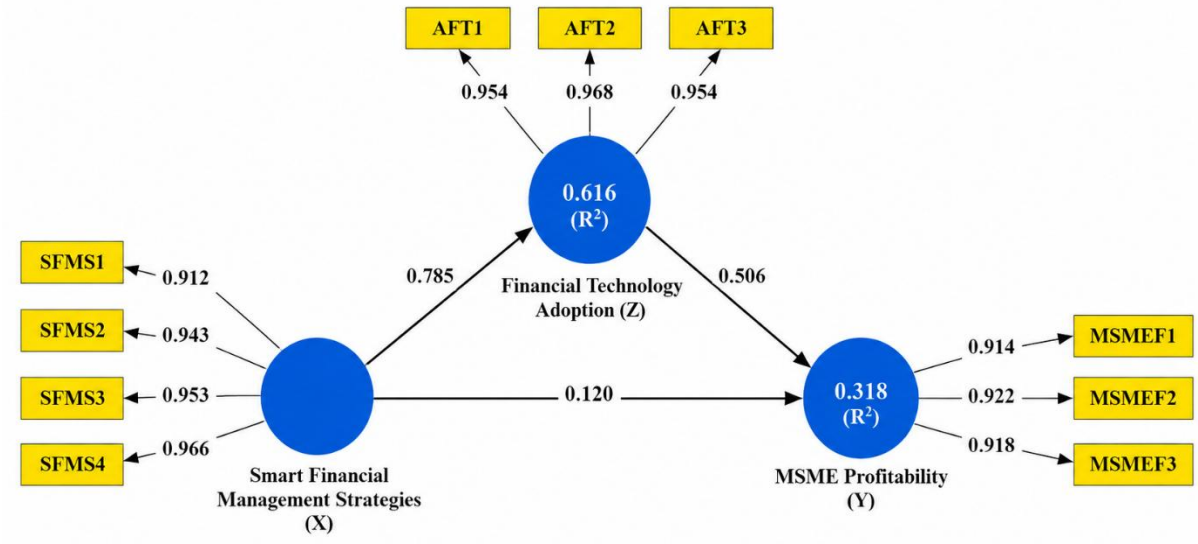
Source: SmartPLS 4 output; 2025.

Table 6 shows that all full collinearity VIF values are below the recommended threshold of 3.3. Smart financial management strategies have a VIF value of 2.744; financial technology adoption has a VIF value of 2.702; and MSME profitability has a VIF value of 1.415. Therefore; common method bias is not considered a serious problem in this study.

Structural Model Assessment

After the measurement model fulfilled the validity and reliability criteria; the next stage was structural model assessment. The structural model was evaluated using R-square; adjusted R-square; path coefficients; t-statistics; p-values; indirect effects; and effect size.

Figure 2. Tested Structural Model



Source: SmartPLS 4 output; 2025.

R-Square

The R-square value was used to determine the explanatory power of the endogenous variables in the model. The R-square results are presented in Table 7.

Table 7. R-Square Values

Endogenous Variable	R-square	Adjusted R-square
Financial Technology Adoption (Z)	0.616	0.614
MSME Profitability (Y)	0.318	0.311

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Source: SmartPLS 4 output; 2025.

Table 7 shows that the R-square value for financial technology adoption is 0.616; with an adjusted R-square value of 0.614. This indicates that 61.6% of the variance in financial technology adoption can be explained by smart financial management strategies. The remaining 38.4% is explained by other factors outside the model.

The R-square value for MSME profitability is 0.318; with an adjusted R-square value of 0.311. This indicates that 31.8% of the variance in MSME profitability can be explained by smart financial management strategies and financial technology adoption. The remaining 68.2% is explained by other factors not included in this study; such as business scale; market competition; product innovation; pricing strategy; access to capital; managerial competence; and macroeconomic conditions.

Hypothesis Testing

Hypothesis testing was conducted using the bootstrapping procedure. The direct effect results are presented in Table 8.

Table 8. Direct Effect Hypothesis Testing

Hypothesis	Relationship	Original Sample	Sample Mean	Standard Deviation	T-statistics	P-values	Decision
H1	Smart Financial Management Strategies (X) → MSME Profitability (Y)	0.120	0.126	0.045	2.667	0.008	Supported
H2	Smart Financial Management Strategies (X) → Financial Technology Adoption (Z)	0.785	0.796	0.034	22.864	0.000	Supported
H3	Financial Technology Adoption (Z) → MSME Profitability (Y)	0.506	0.506	0.040	12.553	0.000	Supported

Source: SmartPLS 4 bootstrapping output; 2025.

Table 8 shows that smart financial management strategies have a positive and significant effect on MSME profitability; with an original sample value of 0.120; a t-statistic of 2.667; and a p-value of 0.008. Since the p-value is lower than 0.05; H1 is supported. This result indicates that better financial management strategies can directly improve MSME profitability; although the strength of the direct effect is relatively small.

The results also show that smart financial management strategies have a positive and significant effect on financial technology adoption; with an original sample value of 0.785; a t-statistic of 22.864; and a p-value of 0.000. Since the p-value is lower than 0.05; H2 is supported. This result indicates that MSMEs with better budgeting; cash flow management; cost control; and financial reporting practices are more likely to adopt financial technology.

Furthermore; financial technology adoption has a positive and significant effect on MSME profitability; with an original sample value of 0.506; a t-statistic of 12.553; and a p-value of 0.000. Since the p-value is lower than 0.05; H3 is supported. This finding indicates that the use of financial technology contributes to improved MSME profitability.

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Mediation Effect

The mediation effect was tested by examining the indirect effect of smart financial management strategies on MSME profitability through financial technology adoption. The results are presented in Table 9.

Table 9. Indirect Effect Hypothesis Testing

Hypothesis	Relationship	Original Sample	Sample Mean	Standard Deviation	T-statistics	P-values	Decision
H4	Smart Financial Management Strategies (X) → Financial Technology Adoption (Z) → MSME Profitability (Y)	0.397	0.403	0.036	11.011	0.000	Supported

Source: SmartPLS 4 bootstrapping output; 2025.

Table 9 shows that the indirect effect of smart financial management strategies on MSME profitability through financial technology adoption is positive and significant; with an original sample value of 0.397; a t-statistic of 11.011; and a p-value of 0.000. Since the p-value is lower than 0.05; H4 is supported. This result indicates that financial technology adoption significantly mediates the relationship between smart financial management strategies and MSME profitability.

The mediation type was determined by comparing the significance of the direct and indirect effects. The direct effect of smart financial management strategies on MSME profitability is significant; and the indirect effect through financial technology adoption is also significant. Therefore; financial technology adoption acts as a partial mediator. This means that smart financial management strategies can improve MSME profitability both directly and indirectly through financial technology adoption.

Effect Size

Effect size was assessed using f-square to evaluate the contribution of each exogenous construct to the endogenous construct. The results are presented in Table 10.

Table 10. Effect Size f-square

Relationship	f-square	Effect Size
Smart Financial Management Strategies (X) → MSME Profitability (Y)	0.052	Small
Smart Financial Management Strategies (X) → Financial Technology Adoption (Z)	1.604	Large
Financial Technology Adoption (Z) → MSME Profitability (Y)	0.345	Medium

Source: SmartPLS 4 output; 2025.

Table 10 shows that the effect size of smart financial management strategies on MSME profitability is 0.052; indicating a small effect. This means that smart financial management strategies directly contribute to MSME profitability; although the magnitude of the direct contribution is relatively limited.

The effect size of smart financial management strategies on financial technology adoption is 1.604; indicating a large effect. This confirms that financial management capability is a strong predictor of fintech adoption among MSMEs. Meanwhile; the effect size of financial technology adoption on MSME profitability is 0.345; indicating a medium effect. This suggests that financial technology adoption has a meaningful role in improving MSME profitability.

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Discussion

The Effect of Smart Financial Management Strategies on MSME Profitability

The results show that smart financial management strategies have a positive and significant effect on MSME profitability. This finding indicates that MSMEs with better budgeting; cash flow management; cost control; and financial reporting practices tend to achieve better financial outcomes. The effect is significant because financial management strategies help MSME owners allocate limited resources more efficiently; reduce unnecessary costs; maintain liquidity; and make more rational financial decisions.

This result can be explained through the Resource-Based View (RBV). From the RBV perspective; financial management capability is an internal strategic resource that supports business performance. For MSMEs; financial capability is particularly important because they generally operate with limited capital; informal accounting systems; and high exposure to market uncertainty. When MSME owners are able to plan budgets; monitor cash flow; and control costs; they can reduce financial inefficiency and improve the relationship between revenue and profit. Therefore; financial management is not merely an administrative activity; but a managerial capability that directly contributes to profitability.

This finding is consistent with Kulathunga et al. (2020); who explain that financial literacy and financial capability can strengthen SME performance through better enterprise risk management practices. It also supports Luckieta (2025); who found that disciplined financial management strategies improve MSME resilience and profitability; particularly in uncertain business environments. Similarly; Tan and Syahwildan (2022) emphasize that financial capability is an important foundation for improving the sustainable performance of micro and small enterprises.

However; the relatively small direct effect suggests that financial management strategies alone may not be sufficient to produce substantial profitability improvement. In the MSME context; good financial planning needs to be supported by tools that can improve transaction efficiency; financial transparency; and access to financing. This explains why smart financial management strategies have a direct impact on profitability; but their impact becomes stronger when supported by financial technology adoption. Thus; this study extends previous findings by showing that financial management capability is important not only as a direct determinant of profitability; but also as a foundation for digital financial transformation.

The Effect of Smart Financial Management Strategies on Financial Technology Adoption

The results indicate that smart financial management strategies have a positive and significant effect on financial technology adoption among MSMEs in West Java Province. This finding confirms that internal financial management capability is a key determinant of MSMEs' readiness to adopt digital financial services. MSMEs that already apply budgeting; cash flow monitoring; cost control; and financial reporting are more likely to recognize the usefulness of fintech because they understand the need for faster; more accurate; and more efficient financial processes.

This relationship can be explained by integrating RBV and the Technology Acceptance Model (TAM). RBV explains that financial management capability is an internal resource that shapes the readiness of MSMEs to improve their business systems. Meanwhile; TAM explains that technology adoption is influenced by perceived usefulness and perceived ease of use. In this study; MSMEs with stronger financial management capability are more likely to perceive fintech as useful because fintech supports their existing financial needs; such as transaction recording; payment management; financing access; and financial monitoring.

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This finding is in line with Nugraha et al. (2022); who found that fintech adoption among Indonesian SMEs is influenced by innovation-related factors; perceived usefulness; and digital readiness. The result also supports Siddik et al. (2023); who state that fintech adoption becomes more effective when supported by financial literacy and access to finance. In addition; Abbasi et al. (2021) show that fintech contributes to SME efficiency; which indicates that digital financial services are more useful when firms have the capability to integrate them into business processes.

This study adds a more specific explanation to previous research by showing that fintech adoption does not occur merely because digital technology is available. MSMEs adopt fintech because they have managerial needs that make the technology relevant. Business owners who regularly monitor cash flow and prepare financial records are more likely to understand the benefits of digital financial applications. Conversely; MSMEs with weak financial management practices may not fully recognize how fintech can support their operations. Therefore; financial management capability functions as a foundation that increases the perceived value and practical use of fintech.

The Effect of Financial Technology Adoption on MSME Profitability

The results show that financial technology adoption has a positive and significant effect on MSME profitability. This finding indicates that the use of digital financial services such as e-wallets; mobile banking; digital financial recording applications; peer-to-peer lending; and crowdfunding platforms can support better financial performance among MSMEs. Fintech improves profitability not only by providing digital payment facilities; but also by increasing transaction efficiency; improving financial transparency; accelerating the cash cycle; and expanding access to alternative financing.

The positive effect of fintech adoption on profitability can be explained through several mechanisms. First; fintech reduces transaction costs because digital payment and recording systems make financial activities faster and less dependent on manual processes. Second; fintech improves financial accuracy because transactions can be recorded and monitored more systematically. Third; fintech expands access to financing; especially for MSMEs that have limited access to conventional banking services. Fourth; fintech supports better decision-making because business owners can obtain financial information more quickly and use it to evaluate business performance.

This finding is consistent with Abbasi et al. (2021); who show that fintech contributes to SME efficiency. It also supports Nugraha et al. (2022); who explain that fintech adoption supports innovation and competitiveness among SMEs. Furthermore; Siddik et al. (2023) argue that fintech adoption can improve business sustainability performance through access to finance. These studies support the argument that fintech can improve business outcomes when it is used to support operational efficiency; financing access; and financial decision-making.

However; this study also emphasizes that fintech does not automatically improve profitability. The impact of fintech depends on how MSMEs use it in daily business activities. This is consistent with Matarazzo et al. (2021); who explain that digital transformation can create value for SMEs when it is supported by dynamic capabilities. Priyono et al. (2020) also show that digital transformation changes SME business models and helps firms respond more adaptively to environmental changes. Therefore; the contribution of this study lies in showing that fintech adoption becomes more valuable when it is connected to financial management practices and business decision-making.

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The Mediating Role of Financial Technology Adoption

The mediation test shows that financial technology adoption significantly mediates the relationship between smart financial management strategies and MSME profitability. Because the direct effect of smart financial management strategies on profitability is significant and the indirect effect through fintech adoption is also significant; financial technology adoption acts as a partial mediator. This means that smart financial management strategies improve MSME profitability both directly and indirectly through fintech adoption.

The partial mediation finding provides an important theoretical explanation. Smart financial management strategies can directly improve profitability by reducing inefficiency; controlling costs; and maintaining cash flow stability. However; the indirect pathway through fintech adoption shows that the effect of financial management strategies becomes stronger when MSMEs use digital financial technology. In other words; fintech adoption functions as a transformation mechanism that converts internal financial capability into more efficient and profitable business processes.

This result supports Tan and Syahwildan (2022); who show that financial literacy and fintech are important in improving the sustainable performance of micro and small enterprises. It is also in line with Siddik et al. (2023); who explain that fintech adoption and financial literacy can improve business sustainability performance through access to finance. In addition; Kulathunga et al. (2020) highlight that financial and technological literacy jointly contribute to SME performance through better risk management practices. These findings support the argument that MSME performance is influenced not only by financial capability or technology adoption separately; but by the interaction between the two.

The mediation result also strengthens the integration of RBV and TAM in this study. RBV explains that smart financial management strategies represent internal resources that support business performance. TAM explains how these internal resources influence the acceptance and use of fintech through perceived usefulness and perceived ease of use. When MSMEs have better financial management capability; they are more likely to adopt fintech because they perceive digital financial tools as useful for improving business operations. Once fintech is adopted; MSMEs can improve profitability through better payment systems; financial recording; financing access; and cash flow monitoring.

Theoretically; this study contributes to the fintech and strategic financial management literature by showing that fintech adoption is not merely an independent determinant of profitability; but also a mediating mechanism that links financial management capability with business performance. This finding extends previous studies that examined financial management; fintech adoption; and MSME profitability separately. The result indicates that MSME profitability in the digital era depends on the interaction between internal managerial capability and technology adoption.

Practically; the findings imply that MSME development programs should not separate financial management training from fintech adoption training. Improving financial literacy without digital financial tools may limit the impact on profitability. Conversely; promoting fintech adoption without strengthening financial management capability may also reduce the effectiveness of digitalization programs. Therefore; local governments; financial institutions; and MSME development agencies should design integrated programs that combine budgeting skills; cash flow management; financial reporting; digital payment systems; and access to fintech-based financing.

Overall; the results confirm that smart financial management strategies and financial technology adoption are complementary mechanisms in improving MSME profitability.

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Financial management strategies provide the internal capability needed to manage business resources; while fintech adoption provides the digital infrastructure needed to improve efficiency and access to finance. The combination of these two factors allows MSMEs to strengthen financial performance and competitiveness in the era of global and digital competition.

CONCLUSIONS

This study examined the effect of smart financial management strategies on MSME profitability; both directly and indirectly through financial technology adoption; in the context of MSMEs in West Java Province. The findings show that smart financial management strategies have a positive and significant effect on MSME profitability. MSMEs that apply budgeting; cash flow management; cost control; and financial reporting more systematically tend to achieve better financial performance because they are better able to control costs; maintain liquidity; and make more efficient financial decisions.

The study also found that smart financial management strategies have a positive and significant effect on financial technology adoption. This indicates that MSMEs with stronger financial management capability are more prepared to adopt digital financial services such as e-wallets; mobile banking; digital financial recording applications; peer-to-peer lending; and crowdfunding platforms. In addition; financial technology adoption has a positive and significant effect on MSME profitability. The use of fintech supports business profitability by improving transaction efficiency; financial transparency; cash flow monitoring; and access to alternative financing.

Furthermore; financial technology adoption was found to mediate the relationship between smart financial management strategies and MSME profitability. This finding confirms that financial management capability contributes to profitability not only through direct financial efficiency; but also through the adoption of digital financial technology. Therefore; fintech adoption serves as a transformation mechanism that converts internal financial management capability into improved business performance.

Theoretically; this study contributes to the literature on strategic financial management; fintech adoption; and MSME performance by integrating the Resource-Based View and the Technology Acceptance Model. The Resource-Based View explains smart financial management strategies as internal resources that support competitive advantage; while the Technology Acceptance Model explains how MSMEs accept and use fintech based on its perceived usefulness and ease of use. The integration of these two perspectives provides a more comprehensive explanation of how internal financial capability and technology adoption jointly improve MSME profitability.

Practically; the findings suggest that MSME development programs should not separate financial management training from fintech adoption assistance. MSME actors need to strengthen budgeting skills; cash flow control; cost management; and financial reporting while also improving their ability to use digital financial platforms. For local governments; financial institutions; and MSME development agencies; the findings provide a basis for designing integrated empowerment programs that combine financial literacy; digital financial literacy; and access to fintech-based financing.

This study has several limitations. First; the research was limited to MSMEs in West Java Province; so the findings may not be fully generalizable to MSMEs in other regions with different economic conditions; digital infrastructure; and levels of financial inclusion. Second;

p-ISSN: 2088-1231
e-ISSN: 2460-5328

profitability was measured using perception-based indicators because many MSMEs do not have standardized or audited financial reports. Third; this study used a cross-sectional design; so it could not capture changes in financial management practices; fintech adoption; and profitability over time.

Future research is recommended to expand the geographical scope to other provinces or conduct comparative studies between regions. Future studies may also use a longitudinal design to examine how fintech adoption affects profitability over a longer period. In addition; future researchers are encouraged to combine perception-based measures with objective financial data where available; and to use a mixed-methods approach to explore the behavioral; psychological; and contextual factors that influence MSMEs' adoption of financial technology.

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