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Transforming Financial Literacy into Business Performance: The Dual Parallel Mediating Roles of Financial Management Capability and Digital Capability in Coffee Shop MSMEs

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Abstract: Amid growing competition in the culinary sector, how financial literacy translates into business performance remains a critical research gap. Grounded in the Resource-Based View (RBV) and Dynamic Capability Theory (DCT), this study investigates the parallel mediating roles of Financial Management Capability and Digital Capability between Financial Literacy and MSME Performance among coffee shop MSMEs in Bekasi City. A quantitative explanatory research design was applied to a sample of 120 owner-managers selected via purposive sampling based on operational longevity and digital payment adoption. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 4. The empirical results demonstrate that Financial Literacy has no direct significant effect on MSME Performance. However, Financial Literacy strongly enhances both Financial Management Capability and Digital Capability, which in turn significantly improve MSME Performance, confirming a full parallel mediation mechanism. The study's novelty lies in empirically proving within an integrated RBV-DCT framework that intangible financial knowledge yields a sustained competitive advantage only when converted into concrete operational managerial routines and digital capabilities.

Keyword: Financial Literacy, Financial Management Capability, Digital Capability, MSME Performance, Coffee Shop MSMEs, PLS-SEM, Resource-Based View, Dynamic Capability.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute the foundational engine of the Indonesian economy, playing an indispensable role in employment generation, income distribution, and macroeconomic stability. By 2024, Indonesia's MSME sector comprised approximately 65 million enterprise units—representing over 99% of national business entities, generating roughly 61% of national Gross Domestic Product (GDP), and absorbing nearly 97% of the total workforce (International Monetary Fund [IMF], 2024; Ministry of Cooperatives and SMEs RI, 2024; Coordinating Ministry for Economic Affairs RI, 2024;

OECD, 2024; World Bank, 2024). Within West Java Province, Bekasi City has emerged as a vibrant economic hub inside the Greater Jakarta (Jabodetabek) metropolitan area. Rapid population growth, residential expansion, industrial activity, and commercial development have spurred local entrepreneurship, resulting in over 203,000 business units, with the Food and Beverage (F&B) sector exhibiting the most accelerated expansion (Statistics Bekasi City, 2024; OECD, 2024; World Bank, 2024).

Despite the vital macroeconomic contribution of the F&B sector, structural productivity challenges persist. The OECD (2024) reports that Indonesian MSME productivity remains substantially lower than OECD benchmarks due to managerial constraints, inadequate financial controls, limited capital access, and sub-optimal operational capabilities. Corroborating this stance, the World Bank (2024) underscores that enhancing MSME competitiveness through private sector productivity gains is a critical prerequisite for long-term economic growth. Consequently, business success is no longer solely dictated by product quality or store aesthetics, but increasingly by managerial acumen in resource allocation, precise financial execution, and digital adaptation.

This operational reality is acutely evident in the urban coffee shop industry in Bekasi City. Driven by evolving urban lifestyles, youthful demographic shifts, and the expansion of the creative economy, coffee shop density surged dramatically. Hatammimi and Amelya (2024) documented an expansion from 79 units in 2020 to 199 units in 2021—a growth exceeding 151.9% within a single year. However, this numerical expansion has not been paralleled by sustained financial health. Firestu (2024) highlighted severe profit contractions among coffee shops in Bekasi during economic downturns; for instance, entities such as Coffee Shop and Kedai Umi suffered monthly profit declines from Rp10–20 million down to Rp3 million prior to operational cessation. Furthermore, preliminary baseline observations conducted by the researcher among 23 coffee shop MSMEs established in 2022 revealed that only 6 entities (26.1%) maintained active operations by 2024, whereas 17 entities (73.9%) ceased operations due to plummeting revenue, inflated operating costs, and acute working capital depletion.

Table 1. Empirical Phenomenon of MSME Financial Performance in Bekasi Coffee Shop Sector

Performance Indicator / Dimension	Empirical Findings & Observational Data
Coffee Shop Business Density	Expanded from 79 units (2020) to 199 units (2021), marking a +151.9% growth rate within 12 months (Hatammimi & Amelya, 2024).
Survival Rate (Researcher Baseline 2022–2024)	Out of 23 coffee shops established in 2022, only 6 units remained operational
Business Closure Rate	17 out of 23 coffee shops (73.9%) terminated operations within two years of initialization.
Profit Volatility & Decline (Firestu, 2024)	Monthly net earnings plunged from Rp10–20 million to Rp3 million/month before complete business liquidation (e.g., Kedai Umi).
Primary Operational Bottlenecks	Inadequate cash flow monitoring, failure to calculate F&B unit costs, co-mingling personal and business funds, lack of structured financial records, and absence of data-driven investment decisions.

Source: Compiled from Hatammimi & Amelya (2024), Firestu (2024), and primary preliminary survey (2024).

Preliminary field interviews indicated that most failed coffee shop operators lacked structured financial recording, co-mingled personal and business funds, failed to perform periodic financial evaluations, and based capital investments on intuition rather than financial analysis. Extant literature establishes that *Financial Literacy* improves rational decision-making, risk management, and overall firm growth (Lusardi & Mitchell, 2023; Xie et al., 2024; Morgan & Long, 2024). Concurrently, *Financial Management Capability* enables

resource allocation efficiency and liquidity preservation (Ismail et al., 2022; OECD, 2024), while *Digital Capability* expands market reach and operational agility through technology adoption (Warner & Wäger, 2019; Vial, 2021; UNCTAD, 2024).

Nevertheless, empirical studies integrating Financial Literacy, Financial Management Capability, and Digital Capability into a unified parallel mediation framework remain scarce within the MSME context, particularly regarding urban culinary enterprises in emerging markets. Most prior research has examined direct relationships or utilized single-mediator models, leaving the indirect converting mechanisms through which financial knowledge translates into operational performance underexplored. To address this literature gap, this study develops and tests an integrated model examining the direct and indirect impacts of Financial Literacy on MSME Performance through Financial Management Capability and Digital Capability as dual parallel mediators.

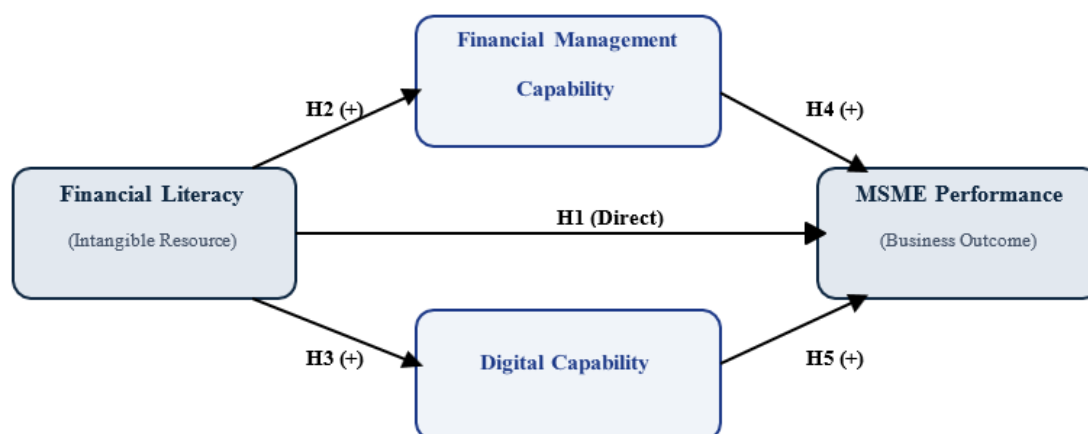


Figure 1. Conceptual Framework and Structural Hypotheses Mode

METHOD

Sampling Strategy and Data Collection

This study employed a quantitative explanatory research design to empirically evaluate the hypothesized causal relationships (Hair et al., 2022). The target population comprised owner-managers of coffee shop MSMEs operating within Bekasi City, West Java. Due to the absence of a comprehensive official sampling frame for unregistered culinary micro-enterprises in Bekasi City, a purposive sampling technique was employed (Hair et al., 2022). Purposive sampling was selected to ensure that data was gathered exclusively from key decision-makers who possess accurate internal business information.

To maintain sample homogeneity and data validity, three explicit inclusion criteria were applied:

1. The respondent must be the primary owner-manager actively involved in financial and operational decision-making.
2. The coffee shop enterprise must have maintained continuous operations for at least 12 consecutive months.
3. The business must have adopted at least one form of digital financial technology (e.g., QRIS digital payment gateway or POS bookkeeping software).

Data were gathered through self-administered structured questionnaires using a 5-point Likert scale ranging from 1 ("Strongly Disagree") to 5 ("Strongly Agree"). A total sample of $N = 120$ validated responses were obtained. This sample size fulfills structural equation modeling requirements, exceeding the conventional rule of thumb requiring 5 to 10 observations per measured indicator across the 20 model items (Hair et al., 2022; Kline, 2023).

Construct Measurement

The research model contains four latent constructs measured by 20 reflective indicators adapted from established empirical literature:

1. Financial Literacy (FL): Measured by 5 indicators adapted from OECD (2023), Lusardi and Mitchell (2014, 2023), and Morgan and Long (2024), covering financial knowledge (IN1), budgeting skills (IN2), cash flow management knowledge (IN3), financial decision capability (IN4), and risk management comprehension (IN5).
2. Financial Management Capability (FMC): Measured by 5 indicators adapted from Ismail et al. (2022), Day (1994), and OECD (2024), capturing operational financial planning (OL1), cash flow monitoring routines (OL2), financial recording/reporting discipline (OL3), cost control execution (OL4), and periodic profit evaluation (OL5).
3. Digital Capability (DC): Measured by 5 indicators adapted from Warner and Wäger (2019), Vial (2021), and OECD (2024), assessing operational digital tool adoption (OP1), digital payment utilization (OP2), social media and delivery platform marketing (OP3), digital bookkeeping application use (OP4), and technological adaptability (OP5).
4. MSME Performance (MP): Measured by 5 indicators adapted from Venkatraman and Ramanujam (1986), Kaplan and Norton (1996), and Rauch et al. (2009), assessing sales growth (K1), profit margin growth (K2), customer base expansion (K3), business productivity (K4), and business sustainability (K5).

Data Analysis Technique

Hypotheses were tested using Partial Least Squares Structural Equation Modeling (PLS-SEM) executed via SmartPLS 4. PLS-SEM was selected due to its suitability for exploration capability-building models, complex structural path evaluation, and non-normal distributional characteristics common in small business survey datasets (Hair et al., 2022, 2023). Statistical evaluation proceeded in two stages: (1) Measurement Model Assessment (evaluating indicator loadings, construct reliability, convergent validity, and HTMT discriminant validity), and (2) Structural Model Assessment (evaluating R^2 , effect sizes f^2 , SRMR model fit, and path significance via 5,000 bootstrapping subsamples at $\alpha = 0.05$)

RESULT AND DISCUSSION

Measurement Model Assessment

The reflective measurement model was evaluated for internal consistency, convergent validity, and discriminant validity. As illustrated in Figure 2 and detailed in Table 2, all outer loadings exceeded the recommended threshold of 0.70 (ranging from 0.725 to 0.859), confirming item reliability. Internal consistency was confirmed as Cronbach's Alpha values (0.826–0.879) and Composite Reliability coefficients (ρ_c ranging from 0.878 to 0.912) comfortably exceeded the 0.70 benchmark (Hair et al., 2022). Convergent validity was established because Average Variance Extracted (AVE) values for all four constructs ranged between 0.591 and 0.674, exceeding the 0.50 threshold

Table 2. Measurement Model Reliability and Convergent Validity Evaluation

Construct Name	Cronbach's Alpha	Composite Reliability (ρ_a)	Composite Reliability (ρ_c)	Average Variance Extracted (AVE)
Digital Capability	0.826	0.833	0.878	0.591
Financial Literacy	0.879	0.879	0.912	0.674
Financial Management Capability	0.867	0.868	0.904	0.653
MSME Performance	0.868	0.875	0.905	0.655

Note: Calculated via SmartPLS 4 PLS-SEM algorithm (N = 120).

Discriminant validity was assessed using the Heterotrait-Monotrait Ratio of Correlations (HTMT). All HTMT ratios across construct pairs ranged between 0.78 and 0.85, strictly below the conservative threshold of 0.85/0.90 (Hair et al., 2023), confirming distinct empirical boundaries between constructs.

Structural Model Assessment and Hypothesis Testing

The structural model goodness-of-fit was established with a Standardized Root Mean Square Residual (SRMR) value of 0.079, which falls within the acceptable fit cutoff of < 0.08 (Hair et al., 2022). Coefficient of determination (R^2) values demonstrated strong explanatory power: Financial Literacy explained 68.6% of the variance in Financial Management Capability ($R^2 = 0.686$, $R^2_{adj} = 0.682$) and 48.2% of the variance in Digital Capability ($R^2 = 0.482$, $R^2_{adj} = 0.476$). Together, Financial Literacy, Financial Management Capability, and Digital Capability accounted for 64.3% of the total variance in MSME Performance ($R^2 = 0.643$, $R^2_{adj} = 0.631$).

Effect size analysis (f^2) indicated that Financial Literacy exerts a large effect on Financial Management Capability ($f^2 = 2.180$) and Digital Capability ($f^2 = 0.929$). In predicting MSME Performance, Financial Management Capability exhibited a medium effect size ($f^2 = 0.146$), Digital Capability showed a small-to-medium effect ($f^2 = 0.073$), while Financial Literacy exhibited a small direct effect ($f^2 = 0.041$).

Table 3. Structural Model Direct Path Coefficients and Hypothesis Testing Results

Hypothesized Structural Path	Original Sample (β)	Sample Mean (M)	Std. Deviation (STDEV)	T Statistics ($ O/STDEV $)	P Values	Decision
H1: Financial Literacy → MSME Performance	0.228	0.224	0.154	1.484	0.138	Rejected
H2: Financial Literacy → Financial Mgmt Capability	0.828	0.830	0.039	21.367	0.000	Accepted
H3: Financial Literacy → Digital Capability	0.694	0.700	0.057	12.165	0.000	Accepted
H4: Financial Mgmt Capability → MSME Performance	0.419	0.426	0.140	2.991	0.003	Accepted
H5: Digital Capability → MSME Performance	0.231	0.231	0.103	2.250	0.025	Accepted

Note: Significance derived from 5,000 bootstrapping iterations at two-tailed $\alpha = 0.05$ level.

As presented in Table 3, direct path analysis reveals that Financial Literacy strongly predicts Financial Management Capability ($\beta = 0.828$, $t = 21.367$, $p < 0.001$) and Digital Capability ($\beta = 0.694$, $t = 12.165$, $p < 0.001$), supporting H2 and H3. In turn, MSME Performance is significantly enhanced by Financial Management Capability ($\beta = 0.419$, $t = 2.991$, $p = 0.003$) and Digital Capability ($\beta = 0.231$, $t = 2.250$, $p = 0.025$), supporting H4 and H5. Conversely, the direct path from Financial Literacy to MSME Performance is statistically non-significant ($\beta = 0.228$, $t = 1.484$, $p = 0.138$), leading to the rejection of H1.

Mediation Analysis

To examine the indirect effects postulated in H6 and H7, specific indirect effect bootstrapping was executed. As reported in Table 4, the indirect path transmitting Financial Literacy to MSME Performance via Financial Management Capability is positive and statistically significant ($\beta = 0.347$, $t = 2.904$, $p = 0.004$), confirming H6. Similarly, the indirect path via Digital Capability is positive and statistically significant ($\beta = 0.160$, $t = 2.188$, $p = 0.029$), supporting H7. Because the direct path (H1) is non-significant while both indirect paths are significant, Financial Management Capability and Digital Capability

operate as full parallel mediators in the relationship between Financial Literacy and MSME Performance.

Table 4. Bootstrapping Specific Indirect Path Analysis (Parallel Mediation Evaluation)

Indirect Path Relationship	Original Sample (β)	Sample Mean (M)	Std. Dev (STDEV)	T Statistics	P Values	Mediation Type
H6: FL $\rightarrow$ FMC $\rightarrow$ MSME Performance	0.347	0.354	0.120	2.904	0.004	Full Mediation
H7: FL $\rightarrow$ DC $\rightarrow$ MSME Performance	0.160	0.161	0.073	2.188	0.029	Full Mediation

Note: Indirect paths computed via 5,000 bootstrap resamples in SmartPLS 4.

Academic Discussion

1. The Effect of Financial Literacy on MSME Performance (Testing H_1)

The empirical results reveal that Financial Literacy has no direct significant effect on MSME Performance ($\beta = 0.228, t = 1.484, p = 0.138$), leading to the rejection of H_1 . In the highly competitive coffee shop sector in Bekasi City, mere cognitive awareness of financial concepts (such as understanding interest rates or accounting terms) does not automatically generate profit growth or operational sustainability. Many owner-managers possess basic financial knowledge but fail to execute it daily, continuing bad practices such as co-mingling personnel and business funds. This finding strongly aligns with the core premises of the Resource-Based View (Barney, 1991) and Dynamic Capability Theory (Teece et al., 1997), which posit that static intangible resources cannot produce economic value unless operationalized into active organizational capabilities. This result corroborates recent empirical studies by Barokah et al. (2024) and Novariani and Dialysa (2024), who observed that financial literacy lacks direct predictive power over enterprise performance.

2. The Effect of Financial Literacy on Financial Management Capability (Testing H_2)

The structural model demonstrates that Financial Literacy exerts a strong, positive, and statistically significant impact on Financial Management Capability ($\beta = 0.828, t = 21.367, p < 0.001$), supporting H_2 . Financial Literacy provides the cognitive foundation required to establish formal managerial routines. Coffee shop owners who understand financial concepts display a greater propensity to enforce structured financial management practices, such as routine cash flow monitoring, disciplined financial reporting, precise F&B unit cost calculation, and strategic budgeting. This finding reinforces the Resource-Based View (Barney et al., 2011), proving that knowledge resources serve as critical antecedents to operational capability building.

3. The Effect of Financial Literacy on Digital Capability (Testing H_3)

Financial Literacy significantly and positively influences Digital Capability ($\beta = 0.694, t = 12.165, p < 0.001$), confirming H_3 . Financially literate owner-managers possess higher cognitive readiness to evaluate and adopt digital technology tools. Rather than viewing digital tools merely as modern accessories, literate managers evaluate them as strategic investments that yield productivity gains. Consequently, financial literacy accelerates the integration of Point of Sales (POS) systems, QRIS digital payment gateways, digital bookkeeping software, and multi-channel online delivery platforms (Vial, 2021; OECD, 2024; UNCTAD, 2024).

4. The Effect of Financial Management Capability on MSME Performance (Testing H_4)

Financial Management Capability exhibits a positive and statistically significant impact on MSME Performance ($\beta = 0.419, t = 2.991, p = 0.003$), supporting H_4 . Executing

disciplined financial management practices—such as rigorous cash flow oversight and unit cost control—directly prevents liquidity bottlenecks and capital depletion in high-rent urban environments. By accurately calculating menu margins and controlling operational waste, coffee shop enterprises stabilize net profit margins and protect working capital, thereby driving enterprise growth and long-term business survival (Ismail et al., 2022; OECD, 2024).

5. The Effect of Digital Capability on MSME Performance (Testing H_5)

Digital Capability has a positive and statistically significant effect on MSME Performance ($\beta = 0.231, t = 2.250, p = 0.025$), supporting H_5 . Technology utilization enables coffee shop enterprises to reconfigure business processes and optimize operational efficiency. Implementing QRIS and POS platforms speeds transaction processing, eliminates manual cash-handling errors, and generates valuable sales analytics. Furthermore, leveraging social media and online food delivery platforms (e.g., GoFood, GrabFood) significantly expands customer acquisition and accelerates revenue growth (Warner & Wäger, 2019; Vial, 2021).

6. The Mediating Role of Financial Management Capability (Testing H_6)

The indirect path testing indicates that Financial Management Capability significantly mediates the relationship between Financial Literacy and MSME Performance ($\beta = 0.347, t = 2.904, p = 0.004$), supporting H_6 . Because the direct effect (H_1) is non-significant while the indirect path is significant, Financial Management Capability acts as a full mediator. This finding proves that financial literacy improves performance exclusively when owner-managers transform their knowledge into concrete, daily financial management routines.

7. The Mediating Role of Digital Capability (Testing H_7)

The indirect path analysis confirms that Digital Capability significantly mediates the relationship between Financial Literacy and MSME Performance ($\beta = 0.160, t = 2.188, p = 0.029$), supporting H_7 . Similar to H_6 , Digital Capability functions as a full parallel mediator. This confirms that financial literacy enhances enterprise performance by elevating the manager's ability to select, deploy, and leverage digital tools to capture market opportunities and streamline operational processes.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study concludes that Financial Literacy does not exert a direct impact on MSME Performance among coffee shop enterprises in Bekasi City. Instead, its effect is fully transmitted through the parallel mediating roles of Financial Management Capability and Digital Capability. Theoretically, these findings advance the integration of the Resource-Based View and Dynamic Capability Theory by demonstrating that cognitive financial knowledge acts as a foundational resource that requires conversion into dynamic managerial routines and digital capabilities before sustainable competitive advantage and performance growth can be realized.

Practical and Managerial Implications

The empirical results offer vital policy recommendations for municipal governments, MSME development agencies, financial institutions, and business incubators:

1. Shift from Basic Literacy to Integrated Capability Building: Public training programs must move beyond passive financial literacy workshops. Training modules should emphasize practical implementation, forcing business owners to execute cash flow controls, unit cost accounting, and digital bookkeeping.

2. Integrated Digital-Financial Ecosystems: Financial institutions and Fintech providers should offer integrated solutions combining QRIS payment settlement with automated POS analytics and cloud bookkeeping, enabling micro-entrepreneurs to seamlessly adopt digital financial routines.
3. Targeted Mentorship for Urban Culinary MSMEs: Business associations should implement structured coaching focused on menu cost control, inventory management, and multi-channel digital marketing to improve the two-year survival rate of urban coffee shops.

Limitations and Directions for Future Research

Several limitations should be acknowledged. First, the empirical sample was restricted to 120 coffee shop MSMEs in Bekasi City, which may limit generalizability to non-culinary sectors or rural regions. Second, the cross-sectional design captures organizational variables at a single time point, constraining longitudinal causal inferences regarding capability evolution.

Future studies are encouraged to: (1) adopt longitudinal research designs to observe long-term performance trajectories; (2) expand geographic sampling across multi-regional metropolitan areas; and (3) incorporate additional dynamic capability variables, such as *Entrepreneurial Orientation*, *Innovation Capability*, *Artificial Intelligence Capability*, *Business Resilience*, and *Organizational Learning Capability*, to provide a holistic framework for MSME growth in the digital economy.

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