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Strategic Approaches to Enhancing Financial Performance: Financial Literacy and Social Capital as Pillars of Business Resilience Amid Global Economic Challenges

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Abstract: This study aims to analyze the effect of financial literacy on the financial performance of Micro, Small, and Medium Enterprises (MSMEs), with social capital serving as a mediating variable in Jambi City, Indonesia. This research employs a mixed-methods approach, combining quantitative analysis using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with qualitative insights from in-depth field interviews. The study sample comprises 395 MSME owners selected using Slovin's formula. The results reveal that financial literacy has a positive and significant effect on both financial performance and social capital. Furthermore, social capital significantly influences financial performance and mediates the relationship between financial literacy and MSME financial performance. These findings highlight that financial literacy is not merely a technical capability in managing finance but also a strategic competence in building trust, networks, and social collaboration that enhance business competitiveness. The novelty of this research lies in integrating cognitive and social dimensions into a single empirical model to explain MSME financial resilience. Practically, the findings provide strategic insights for policymakers and practitioners to design empowerment programs that enhance financial literacy and strengthen social capital, thereby improving MSME performance and sustainability amid global economic dynamics.

Keyword: Financial Literacy, Social Capital, Financial Performance, Business Resilience.

INTRODUCTION

The role of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia's economy is highly significant. Data shows that MSMEs constitute the largest group of business actors and make substantial contributions to employment, gross domestic product (GDP) formation,

exports, and fixed capital formation. By the end of 2023, the number of MSMEs in Indonesia had reached approximately 63 million units, with the majority classified as micro-enterprises (98.73%). Over the past decade, MSMEs have accounted for 99.9% of all business units across sectors, including trade, agriculture, livestock, forestry, fisheries, mining, manufacturing, construction, communications, hospitality, restaurants, and services. The new challenges faced by MSMEs in Indonesia include adapting to digital technologies, enhancing digital literacy, improving product quality, expanding access to finance, and increasing competitiveness in a dynamic market environment (Gapembi, 2024).

Financial performance is a crucial indicator of MSME sustainability and business growth. It reflects the ability of enterprises to achieve their financial objectives and is commonly measured through financial ratios such as Return on Equity (ROE), Return on Assets (ROA), Return on Sales (ROS), operating margin, liquidity, profitability, activity, and solvency ratios (Mutende et al., 2017). However, many MSMEs experience weak financial performance due to limited managerial capacity, poor financial planning, inadequate business strategies, and ineffective internal financial management (Kılıç et al., 2022).

Financial performance is influenced by various factors, one of which is financial literacy, the ability to understand and apply financial concepts and manage financial risks. Many MSME owners face obstacles due to limited financial knowledge. Previous studies indicate that MSME financial understanding remains inadequate, leading to frequent business failures caused by weak planning, poor financial strategies, and ineffective internal management (Akdere, 2005; Gibson & Cassar, 2005).

Financial literacy has been shown to influence firms' financial performance, while social capital can mediate this relationship, strengthening or weakening it. Social capital reflects the capacity of individuals or communities to cooperate based on shared values, trust, and mutual understanding (Baron & Shane, 2007; Bhinekawati, 2016). Such cooperation constitutes a critical foundation for both economic and social development (Cohen et al., 2013). Strong social networks enhance group effectiveness and efficiency in achieving common goals, which, in turn, contribute positively to improved financial performance (Olimsar & Tialonawarmi, 2021; Yuliusman et al., 2020).

The mediating role of social capital in the relationship between financial literacy and financial performance represents a form of collective support toward progress and transformation grounded in norms such as trust (Olimsar et al., 2024; Yuliusman et al., 2023). In the MSME context, social capital encompasses relationships with customers and relevant stakeholders, both of which play essential roles in business success. Social networks reduce risks and transaction costs while facilitating access to business ideas, knowledge, and capital (Njoroge et al., 2015).

Previous studies related to this topic have confirmed that the level of an entrepreneur's financial literacy significantly influences a firm's financial performance (Eniola & Entebang, 2015). Financial literacy enables entrepreneurs to identify and access financial resources wisely and to make sound financial decisions. However, other studies have found contrasting results, reporting no significant correlation between MSME owners' financial literacy and business growth (Eresia-Eke & Raath, 2013). Another study examining the link between financial literacy and financial performance found that financial literacy strategies play a vital role in improving financial outcomes (Yuliusman et al., 2024).

Although prior research confirms the significant influence of financial literacy on financial performance, consensus remains lacking regarding its direct impact on MSME growth. Similarly, the mediating role of social capital in this relationship warrants further investigation. Therefore, this study aims to examine strategic approaches to improving financial performance by leveraging social capital as a mediating factor in the relationship

between financial literacy and financial performance among MSMEs in Jambi City, Indonesia.

By simultaneously analyzing the effect of financial literacy on financial performance and the mediating role of social capital, this study seeks to provide more comprehensive insights into strategies for enhancing MSME resilience and sustainability. The novelty of this research lies in its integrative exploration of cognitive (financial literacy) and social (social capital) aspects within the local MSME context—an approach rarely examined in a single empirical model using SEM-PLS. Accordingly, this study contributes not only theoretically to the development of MSME financial performance models but also, in practice, by offering relevant strategic approaches for business practitioners and policymakers amid global economic challenges.

METHOD

Type of Research

This study employs an exploratory approach to identify and understand variables or factors within a social phenomenon. Both qualitative and quantitative methods were utilized, encompassing categorization, abstraction, and comparison. The research process was designed to be creative, flexible, and open to multiple sources of information. This study is categorized as field research, involving direct interviews and observations of selected samples to obtain empirical data.

Population and Sample

The population is a group of individuals with specific characteristics that meet predefined criteria. The population of this study comprises MSME actors in Jambi City, totaling 51,319 business units. The sample size was determined using Slovin's formula, yielding a sample of 395 respondents. This study uses purposive sampling techniques to determine the sample to be studied. The sampling criteria are as follows:

1. MSME owners operating within Jambi City.
2. The business has been in operation for at least one year.
3. The business falls into the micro, small, or medium category.

Operational Definitions of Variables

1. Financial Performance reflects a firm's ability to generate profit, as well as its growth prospects and potential for resource utilization. Financial performance is typically measured through financial ratios such as ROE, ROA, ROS, Return on Capital, and Operating Margin. For management, these ratios serve as performance benchmarks, while for stakeholders, they function as a foundation for decision-making (Egbunike & Okerekeoti, 2018).
2. Financial Literacy refers to the ability to understand and apply financial concepts and manage financial risks. Low levels of financial literacy among MSME owners often lead to business failures due to limited financial knowledge, inadequate planning, and weak financial management.
3. Social Capital encompasses trust, relationships, and collective action that facilitate access to financial resources and strengthen collaboration among entrepreneurs (Grootaert & Van Bastelaer, 2002).

Types and Sources of Data

This study employs both qualitative and quantitative data.

1. Primary data were obtained directly from respondents (MSME actors) through surveys, interviews, and field observations. These data were primarily used to test the hypotheses.
2. Secondary data were gathered from literature reviews, books, institutional reports, and other official publications relevant to the research topic.

Data Collection Techniques

1. Document Review, collecting data through an in-depth review of documents related to the research problem.
2. Interviews conducted through face-to-face discussions with MSME actors in Jambi City to gain deeper qualitative insights.
3. Questionnaires, consisting of a series of structured written questions designed to obtain respondents' perceptions and personal information. The Likert scale with five categories was used to measure the responses.

Quantitative Data Analysis

Structural Equation Modeling (SEM) is a statistical technique widely used in behavioral and social sciences. SEM integrates elements of factor analysis, regression analysis, and path analysis to examine complex relationships among latent variables (Hair et al., 2014). There are two main approaches in SEM: the Covariance-Based SEM (CB-SEM) and the Variance-Based SEM, also known as Partial Least Squares SEM (SEM-PLS).

The selection of SEM-PLS as the primary analytical method in this study is based on several considerations:

1. In the past decade, SEM-PLS has gained increasing attention among academics and researchers, particularly for its effectiveness in explaining variations in key constructs such as strategic success and firm performance.
2. SEM-PLS can yield robust statistical results even with relatively small sample sizes.
3. It is capable of handling complex models involving multiple relationships and a large number of indicators (Reinartz et al., 2009).

The SEM-PLS approach follows three critical stages: model Specification, measurement Model Evaluation, and Structural Model Evaluation (Sarstedt et al., 2017).

RESULT AND DISCUSSION

Respondent Characteristics

Based on the descriptive analysis, most respondents were female (62%). while male respondents accounted for 38%, indicating women's dominant role in entrepreneurial activities. In terms of age, the largest group was 31–40 years old (39%), followed by the 41–50 years old group (29.1%), reflecting active participation among individuals of productive age. Most respondents had been running their businesses for 4–6 years (50.1%), indicating a mediates level of entrepreneurial experience. Regarding educational background, most respondents were senior high school/vocational school graduates (58.2%), followed by junior high school graduates (19.7%), and higher education graduates (12.2%). Overall, the respondents were predominantly female entrepreneurs of productive age, with mediates business experience and a secondary education background, representing the typical profile of MSME actors in this study.

Outer Model Analysis

1. Composite Reliability and Cronbach’s Alpha

Reliability testing was conducted to assess the consistency and accuracy of the constructs measured through specific indicators. The reliability of the research model was evaluated using Composite Reliability (CR) and Cronbach’s Alpha (CA) methods. A construct is considered reliable if the Composite Reliability value exceeds 0.70, indicating that the measurement model consistently represents the underlying construct and that the data are suitable for further analysis.

The results of the Composite Reliability assessment are presented in the following table.

Table 1. Assessment of Composite Reliability

Variable	Composite reliability (rho a)
Financial Performance (Y)	0.979
Financial Literacy (X)	0.967
Social Capital (Z)	0.974

Source: Processed Data, 2026

As shown in Table 1, all variables meet the reliability criteria based on the composite reliability assessment, with values exceeding the 0.70 threshold. Specifically, the variables financial literacy, social capital, and financial performance each demonstrate composite reliability values greater than 0.70, indicating that all constructs are both reliable and valid. Therefore, all measurements satisfy the estimation requirements for the outer model evaluation.

2. Convergent Validity

Outer loading (factor loading) values are used in PLS-SEM to assess convergent validity, which measures the extent to which indicators accurately represent their respective latent variables. An indicator is considered valid if its outer loading exceeds 0.70, indicating a strong correlation with its construct. Higher loading values signify a stronger contribution of the indicator to the latent variable, while values below 0.70 should be carefully reviewed. Indicators with loading values between 0.50 and 0.70 may still be retained if the model’s overall reliability is acceptable, whereas indicators below 0.50 should be eliminated. Evaluating outer loading is essential to ensure that the research instrument is valid, reliable, and scientifically robust.

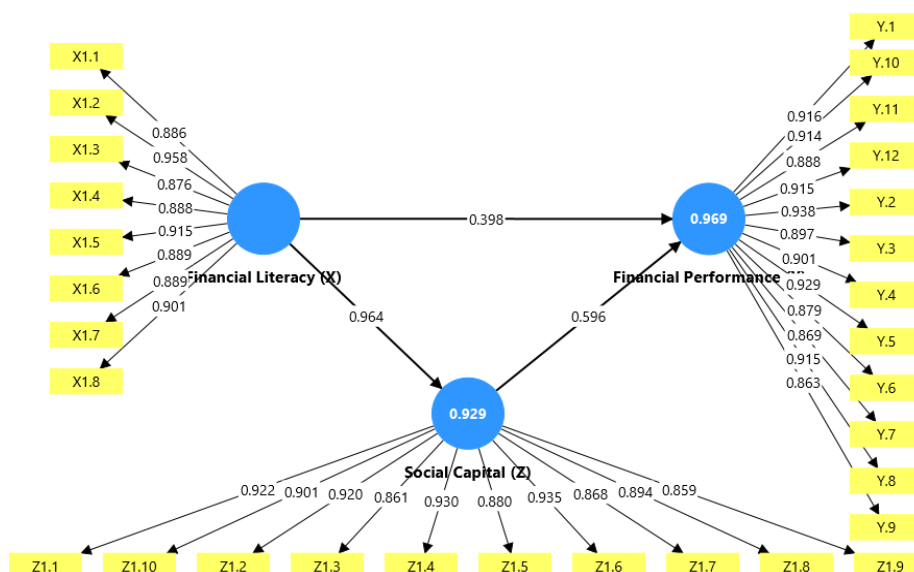


Figure 1. Results of PLS Algorithm Calculation

Based on the analysis results and Figure 1, all indicators for each research variable show outer loading values above 0.70, indicating that convergent validity is well established. This finding demonstrates that each indicator strongly correlates with its respective latent variable, confirming that the indicators are valid and suitable for use in this study. The results also reinforce the finding that the research instrument accurately and consistently represents the constructs. Moreover, the high outer loading values signify the significant contribution of each indicator in explaining its latent variable. Therefore, the research instrument exhibits strong measurement quality, ensures data reliability, and is appropriate for further analysis within the structural (inner) model.

3. Discriminant validity

Discriminant validity ensures that each indicator exclusively represents its intended latent variable rather than other constructs. The assessment is conducted through cross-loading analysis, which compares an indicator's correlations with its primary construct and with other constructs. If the correlation with the main construct is higher than the correlations with other constructs, the indicator satisfies the discriminant validity criterion. This confirms the uniqueness and precision of each indicator in representing its corresponding variable. Testing discriminant validity is essential to ensure that the research instrument is accurate, relevant, and reliable in measuring the intended concept, thereby enhancing the scientific credibility of the measurement model results.

The results indicate that all indicators meet the discriminant validity criteria. Each indicator exhibits a higher cross-loading on its associated variable than on other variables, demonstrating consistency and distinctiveness in explaining its construct. Thus, the research instrument is proven to be valid, non-redundant, and appropriate for further structural model analysis.

4. Average Variance Extracted (AVE)

In addition to cross-loading, discriminant validity is assessed using the Average Variance Extracted (AVE), which indicates the proportion of variance in the indicators explained by the latent construct. A model is considered valid if the AVE exceeds 0.50, indicating that each construct explains more than 50% of the variance in its indicators. A high AVE value reinforces both convergent and discriminant validity, confirming the overall robustness of the measurement model.

Table 2. Average Variant Extracted (AVE)

Variable	Average Variant Extracted (AVE)
Financial Performance (Y)	0.814
Financial Literacy (X)	0.811
Social Capital (Z)	0.805

Source: Processed Data, 2026

The results of the analysis indicate that the Average Variance Extracted (AVE) values for the variables Financial Performance (0.814), Financial Literacy (0.811), and Social Capital (0.805) all exceed the 0.50 threshold, demonstrating excellent convergent and discriminant validity. These values indicate that more than 80% of the variance in each indicator is explained by its respective construct, with very little measurement error. This confirms that the indicators used are relevant, consistent, and representative in reflecting each latent variable. In particular, the variables Financial Performance, Financial Literacy, and Social Capital exhibit highly robust and accurate measurement instruments. Therefore, the measurement model of this study is deemed valid and reliable, warranting advancement to the inner model evaluation stage and thereby strengthening the overall credibility and rigor of the PLS-SEM-based analysis.

Inner Model Analysis

1. R-square

The evaluation of the inner model in PLS-SEM is conducted using the R² value, which indicates the proportion of variance in the endogenous variable explained by the exogenous variables. The higher the R² value, the stronger the model’s explanatory power in capturing causal relationships. Generally, an R² value of 0.67 is categorized as strong, 0.33 as mediates, and 0.19 as weak. This metric serves as a key indicator of the model’s predictive strength in explaining relationships among the constructs under study.

Table 3. R-Square Values

	R-Square	R-Square Adjusted
Financial Performance (Y)	0.969	0.969
Social Capital (X)	0.929	0.929

Source: Processed Data, 2026

The analysis results indicate that the Financial Performance variable has an R-Square of 0.969, meaning that 96.9% of its variance is explained by Financial Literacy and Social Capital, with the remaining 3.1% attributable to external factors outside the model. The Social Capital variable has an R-Square value of 0.929, indicating that Financial Literacy explains 92.9% of its variance. The identical Adjusted R-Square values confirm the consistency between constructs and their indicators. Overall, these results demonstrate that the model possesses very strong predictive power, is stable, and can reliably explain causal relationships among the variables, making it suitable for further structural analysis.

2. F-Square

The F-Square (f^2) test is employed to assess the magnitude of the effect of a predictor latent variable on an endogenous variable. A value of $f^2 = 0.02$ indicates a small effect, $f^2 = 0.15$ a medium effect, and $f^2 = 0.35$ a large effect. Values below 0.02 are considered to have no significant influence within the structural model.

Table 4. F-Square Values

	F-Square
Financial Literacy → Financial Performance	0.362
Financial Literacy → Social Capital	13.139
Social Capital → Financial Performance	0.813

Source: Processed Data, 2026

The results of the f-square (f^2) analysis indicate that all relationships among variables exhibit a strong influence on the endogenous constructs. The path from Financial Literacy → Financial Performance shows an f^2 value of 0.362, while Financial Literacy → Social Capital reaches $f^2 = 13.139$, indicating a very large effect. Meanwhile, Social Capital → Financial Performance records an f^2 value of 0.813, which is also classified as high. These findings affirm that financial literacy and social capital play crucial and complementary roles in enhancing financial performance and business sustainability.

3. Hypothesis Testing for Direct Effects

Hypothesis testing was conducted using path coefficient analysis to assess the relationships among latent variables empirically. This test compares the p-value with the significance level ($\alpha = 0.05$); if $p < 0.05$, the relationship is considered statistically significant. The p-values were obtained using SmartPLS with the bootstrapping technique, which enhances the precision and reliability of parameter estimation. In this study, three main hypotheses were tested using theoretical frameworks and empirical data to determine the

direction, strength, and magnitude of relationships among latent variables, thereby informing the research conclusions.

Table 5. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Financial Literacy → Financial Performance	0.398	0.400	0.067	5.961	0.000
Financial Literacy → Social Capital	0.964	0.964	0.009	107.914	0.000
Social Capital → Financial Performance	0.596	0.593	0.067	8.879	0.000

Source: Processed Data, 2026

Based on Table 5, the hypothesis testing results were obtained through the bootstrapping procedure using SmartPLS, producing the following findings:

H1: Financial Literacy has a positive and significant effect on Financial Performance. The analysis shows a *p-value* of 0.000, which is below the 5% significance level ($0.000 < 0.05$). Therefore, H1 is accepted, indicating that financial literacy significantly influences financial performance.

H2: Financial Literacy has a positive and significant effect on Social Capital. The *p-value* for this relationship is 0.000, which is also below the 5% threshold ($0.000 < 0.05$). Hence, H2 is accepted, confirming that financial literacy significantly affects social capital.

H3: Social Capital has a positive and significant effect on Financial Performance. With a *p-value* of 0.000, which is below 0.05 ($0.000 < 0.05$), the results indicate that social capital exerts a significant positive influence on financial performance. Consequently, H3 is accepted, signifying that social capital plays a vital role in enhancing financial performance.

4. Testing of Indirect Effect Hypotheses (Mediation Analysis)

The results of the indirect effect hypothesis testing, in which social capital functions as an intervening (mediating) variable, were analyzed using the Sobel Test Calculator. The findings of this mediation analysis are presented in the following table:

Table 6. Result for the Sobel Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
Financial Literacy → Social Capital → Financial Performance	0.574	0.571	0.063	9.058	0.000

Source: Processed Data, 2026

H4: The Effect of Financial Literacy on Financial Performance through Social Capital as a Mediating Variable. The test results indicate a *p-value* of 0.000, which is below the 5% significance level ($0.000 < 0.05$). This finding implies that H4 is accepted. Therefore, it can be concluded that financial literacy significantly affects financial performance through social capital as a mediating variable. These findings further confirm that social capital (Z) plays a crucial mediating role in strengthening the relationship between financial literacy and financial performance.

Discussion

This study utilized data from Micro, Small, and Medium Enterprises (MSMEs) in Jambi City, which play a vital role in the regional economy. Data were collected using theoretically grounded research instruments and systematically analyzed through statistical methods. The study primarily examined the effects of financial literacy and social capital on

the financial performance of MSMEs. Financial literacy was tested as an independent variable influencing financial management capabilities and business performance. At the same time, social capital, encompassing networks, trust, and collaboration, was positioned as an intervening variable that mediates the impact of financial literacy on financial performance. The analysis aimed to understand both the direct and indirect effects among these variables. The findings are expected to provide empirical and theoretical contributions for strengthening financial capacity and developing social capital as strategies to enhance the competitiveness and sustainability of MSMEs in Jambi City.

1. The Effect of Financial Literacy (X) on Financial Performance (Y)

The results indicate that financial literacy has a positive and significant effect on the financial performance of MSMEs in Jambi City. Financial literacy encompasses not only technical knowledge but also the ability to manage cash flows, prepare financial reports, and make informed investment and financing decisions (Gusman et al., 2021). Higher levels of financial literacy among MSME actors enhance their ability to manage capital, plan finances, and anticipate risks, ultimately leading to improved financial performance and business sustainability (Devender et al., 2025; Parmitasari et al., 2023). Conversely, low financial literacy can impede effective business management, reduce profitability, and increase the likelihood of business failure (Buhari et al., 2024; Riyadi & Hadyarti, 2024).

These findings align with previous studies in Ternate, Bulakamba, and Greater Malang, which demonstrated that financial literacy significantly influences MSME performance and resilience (AlSuwaidi & Mertzanis, 2024). Financial literacy also strengthens financial inclusion and the utilization of financial technology (fintech), thereby enhancing operational efficiency and business competitiveness. With adequate financial literacy, MSME actors can develop sound financial strategies, control costs, and optimally leverage financing opportunities (Al-Shami et al., 2024). Therefore, improving financial literacy through training, mentoring, and education constitutes a critical strategy for reinforcing the financial resilience and performance of MSMEs, while simultaneously promoting sustainable regional economic growth (Adhikari et al., 2024; Is et al., 2025; Thottoli et al., 2024).

2. The Effect of Financial Literacy (X) on Social Capital (Z)

The study found that financial literacy has a positive and significant effect on the social capital of MSMEs in Jambi City. This indicates that higher levels of financial literacy enhance entrepreneurs' capacity to build and maintain productive social networks (Sumastuti et al., 2024). Financial literacy not only provides technical knowledge for managing finances but also promotes transparency, professionalism, and trust in business relationships with customers, suppliers, financial institutions, and fellow entrepreneurs (Setiadi et al., 2024). Conversely, low financial literacy may weaken the quality of social capital, limiting MSMEs' access to market opportunities, financing, and other external support (Meitriana et al., 2022; Thomas et al., 2024).

Conceptually, financial literacy strengthens social capital by enhancing credibility, effective communication, and the ability to build trust (Is et al., 2025). Strong social capital plays a critical role in expanding collaborative networks, reinforcing business solidarity, and improving competitiveness and sustainability (Al-Shami et al., 2024). These results are consistent with prior studies demonstrating that financial literacy contributes to the formation of social capital, which mediates between financial literacy and financial inclusion. MSMEs with strong financial literacy are better able to build trust-based relationships, expand business networks, and adapt to changing economic conditions (Frimpong et al., 2022).

Hence, financial literacy can be considered a foundational element in the sustainable development of social capital. Together, these factors significantly enhance MSME performance, resilience, and economic welfare in Jambi City (Cuéllar, 2024; Graña-Alvarez et al., 2024).

3. The Effect of Social Capital (Z) on Financial Performance (Y)

Hypothesis testing revealed empirical evidence that social capital positively and significantly affects the financial performance of MSMEs in Jambi City (N. G. Tran et al., 2024). This suggests that social capital is not merely an intangible asset but a strategic element that determines business financial success (Vu et al., 2023). Strong social capital, manifested through relational networks, trust, collaboration, and social norms, functions as a catalyst, facilitating business activities, reducing transaction costs, and expanding access to market information and opportunities (Shan & Tian, 2022). Solid trust and reciprocal relationships enable MSMEs to form strategic partnerships, strengthen customer loyalty, and garner community support, ultimately contributing to higher revenues and financial stability (Doan et al., 2023; Sarwar et al., 2021).

These findings are consistent with studies such as *Social Capital and Performance of SMEs: The Role of Entrepreneurial Orientation and Managerial Capability*, which highlighted that the positive impact of social capital on financial performance is further enhanced when entrepreneurs possess strong entrepreneurial orientation and managerial capability (Aidoo et al., 2020; Akintimehin et al., 2019). Similar studies in Nigeria found that relational, structural, and cognitive dimensions of social capital significantly contribute to MSMEs' financial performance through improved market access and operational efficiency (Doan et al., 2023; Shan & Tian, 2022; D. Van Tran et al., 2024).

Moreover, research in Indonesia during the COVID-19 pandemic confirmed that social capital played a crucial role in sustaining MSMEs amid crises (Ozanne et al., 2022; Pongtanalert & Assarut, 2022). Overall, the findings affirm that social capital is a fundamental pillar for enhancing financial performance while strengthening the resilience and sustainability of MSMEs in complex economic environments (Shan & Tian, 2022; Subriadi & Kusuma Wardhani, 2022; Yuhertiana et al., 2022).

4. The Effect of Financial Literacy (X) on Financial Performance (Y) through Social Capital (Z)

Hypothesis testing indicated that financial literacy significantly affects MSMEs' financial performance through social capital as a mediating variable (Lontchi et al., 2022). This suggests that financial literacy not only directly enhances financial performance but also indirectly contributes by strengthening social capital (Frimpong et al., 2022; Lontchi et al., 2022). Thus, social capital serves as a strategic bridge connecting entrepreneurs' financial capabilities with their economic success (Adhikari et al., 2024; Cuéllar, 2024).

Practically, MSME actors with high financial literacy, capable of managing cash flows, preparing budgets, understanding financing options, and planning investments, are better able to build solid social networks, increase trust, and establish productive collaborations (Al-Shami et al., 2024; Ozanne et al., 2022). Strong social capital expands access to market information, reduces business risks, and opens new economic opportunities, ultimately improving financial performance sustainably (Graña-Alvarez et al., 2024).

These findings align with *The Mediating Role of Social Capital in the Relationship Between Financial Literacy and Financial Inclusion*, which demonstrates that social capital mediates the relationship between financial literacy and financial outcomes (Huang et al., 2024; Sumastuti et al., 2024). Other research in Indonesia, such as *The Impact of Financial Literacy, Social Capital, and Managerial Innovation on the Financial Performance of MSMEs*, further supports these results, indicating that social capital amplifies the effect of financial literacy on MSMEs' financial performance (Hj Talip & Wasiuzzaman, 2024).

Overall, the study confirms that financial literacy functions both directly and indirectly through the enhancement of social capital in improving MSMEs' financial performance, while simultaneously strengthening competitiveness and resilience in the face of complex

economic dynamics (Graña-Alvarez et al., 2024; Ozanne et al., 2022; Tiwasing et al., 2023; Vu et al., 2023).

CONCLUSION

Based on the analysis of 395 MSME respondents in Jambi City, this study concludes that financial literacy has a significant positive effect on MSMEs' financial performance. Entrepreneurs with better financial literacy are more capable of managing cash flow, planning finances, and making appropriate investment and financing decisions, which contribute to improved profitability and business sustainability. The findings also show that financial literacy strengthens social capital by encouraging transparency, credibility, trust, and cooperation with customers, suppliers, financial institutions, and other stakeholders. Furthermore, social capital mediates the relationship between financial literacy and financial performance, indicating that financial literacy improves MSME performance both directly and indirectly through stronger social networks and collaboration.

Theoretically, this study implies that financial literacy should be understood not only as an individual cognitive capability, but also as a strategic managerial and social resource that strengthens financial decision-making, trust, cooperation, and business networks. The mediating role of social capital confirms that MSME financial performance is shaped not only by internal financial knowledge, but also by the quality of social relationships and collaboration with stakeholders. Practically, the findings suggest that MSME owners need to improve financial literacy to manage cash flow, plan finances, make investment and financing decisions, and sustain business growth. Local governments, financial institutions, and MSME development agencies should design integrated empowerment programs that combine financial education with mentoring, networking, trust-building, and partnership development, so that MSMEs become more financially capable, socially connected, credible, and competitive.

This study is limited to MSMEs in Jambi City, so the findings may not fully represent MSMEs in other regions with different economic, social, and institutional characteristics. In addition, the study focuses on financial literacy and social capital, while other factors such as digital literacy, innovation capability, entrepreneurial orientation, and access to finance were not examined in depth.

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