
Linking Internal Capabilities and External Conditions: A Systematic Review of SME Financial Performance in Indonesia

Ghiyats Furqan Dewantara¹ | Saras Shinta Qurrota'Aini² | Khalilul Rahman³ | Fandi Galang Wicaksana⁴

^{1,2,3,4} Faculty of Economics, Universitas Tidar, Magelang, Indonesia
Corresponding: ghiyatsdewantara@untidar.ac.id

Abstract

Objective – This study aims to examine the factors influencing the financial performance of small and medium enterprises (SMEs) in Indonesia. It focuses on identifying key internal and external factors and analyzing their interaction through mediating and moderating mechanisms.

Design/Methodology/Approach – This study uses a systematic literature review (SLR) with the PRISMA framework. Articles were sourced from the Scopus database using predefined criteria. Through identification, screening, eligibility, and inclusion stages, 17 relevant studies were selected.

Findings – The findings show that SME financial performance is influenced by both internal and external factors. Internal factors, such as financial literacy and intellectual capital, are often latent and do not directly affect performance. External factors, including market conditions and access to funding, help translate these internal capacities into measurable outcomes.

Implications – The study concludes that financial performance depends on the interaction between internal capabilities and external conditions. SMEs need to align both to improve performance. Future research should develop more integrated models to capture these relationships.

Keywords: Financial Performance Determinants, Small and Medium Enterprises, Systematic Literature Review.



INTRODUCTION

During the global Great Recession of 2007–2009, SMEs played a crucial role in helping Indonesia avoid falling deeper into the crisis (Tambunan, 2010). In developing countries, including Indonesia, SMEs have crucial role in economic stability because they do indeed make a significant contribution to absorbing labor, especially in this time. In addition, the characteristics of SMEs are generally not always directly connected to international trade activities, so the impact of global economic turmoil tends not to be felt directly by many of these business actors. Even more importantly, SMEs also play a role in creating local economic circulation. As mentioned earlier, SMEs absorb a large amount of local labor, which ultimately increases purchasing power in the area. That, in turn, will also increase demand for goods because needs rise along with increased purchasing power. This condition can then trigger the emergence of new SMEs, so that, gradually, a local economic cycle forms in which business actors support one another. The presence of economic resilience in each region will have an impact on national economic stability (Abduh *et al.*, 2024; Tambunan, 2010; Wardaya *et al.*, 2019).

The vital role of SMEs in developing nations is often undermined by significant barriers, with capital constraints being the most prominent challenge. This condition is further exacerbated by the lack of managerial capabilities among individuals within SMEs, which creates a domino effect (Mer & Viridi, 2024; Silva *et al.*, 2018; Tuffour *et al.*, 2025). For example, limited ability in accounting and bookkeeping, lack of risk management, as well as weak business strategies. These conditions make formal financial institutions reluctant to provide loans to SMEs. There are also many SMEs that are reluctant to take advantage of technological developments that could actually support their business. With these obstacles, SMEs find it difficult to adapt to the rapidly changing business environment and market demand.

These obstacles, ranging from limited capital to weak managerial capabilities, ultimately dictate the business's financial performance, the most vital indicator of its survival (Bojnec & Žampa, 2021). Without healthy financial performance, the strategic contribution of SMEs to the local economy, as mentioned earlier, would be difficult to sustain in the long term. Financial performance itself includes at least how SMEs generate profit, manage cash flow, and grow sustainably (Hiremath *et al.*, 2025; Metzker *et al.*, 2023). When SMEs have well-prepared financial statements with low financial risk, this will increase the trust of financial institutions, which in turn helps address the main problem faced by most SMEs, namely capital (Masdupi *et al.*, 2024; Nadir *et al.*, 2026).

Unfortunately, even though financial performance is very crucial for SMEs, many previous studies still provide fragmented findings, especially in the Indonesian context. These studies generally focus only on internal issues, such as financial literacy, while others focus solely on external aspects, such as technological development. More recently, the scope of internal factors has expanded into more specific areas like sustainability and leadership styles. For instance, green HRM practices and knowledge-oriented leadership (KOL) are investigated by (Widanarni, 2025) to see how they facilitate creative and green work. In that research, it is emphasized that sharing of leadership stimulates a green ideas climate, where the leader acts as a coach to encourage green work engagement among employees. On the other side, external factors are also analyzed through consumer perceptions. Dwijaya *et al.* (2025) examined how functional, emotional, and social values influence the repurchase intention of products in the local market. It was found that social value is the most dominant factor in shaping consumer inclination to buy again, suggesting that social identity is a strong driver for market sustainability. While these specific studies confirm that integrated management or consumer value dimensions can enhance certain outcomes, they often

stand alone in separate categories. There are still limited studies that integrate these diverse perspectives, ranging from internal green leadership to external consumer social values, into a more comprehensive framework that directly explains the financial performance of SMEs in Indonesia.

Based on these conditions, this study is conducted to summarize and synthesize findings related to the factors influencing the financial performance of SMEs in Indonesia by proposing the following research questions:

RQ1: What are the key internal and external factors identified in recent literature (2015–2025) regarding SME financial performance in Indonesia?

RQ2: How do these factors interact through mediating and moderating variables to influence SME profitability?

By providing a structured synthesis of existing research, this study contributes to a more comprehensive understanding of the SME financial landscape and identifies critical directions for future empirical inquiry.

METHODS

In this systematic literature review, the selection of articles used as the core literature applies the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework as presented in Figure 1. The reason this framework is used is to ensure that this SLR is transparent in the selection of literature so that the filtering process can be replicated (Page et al., 2021). Each article goes through four strict selection stages so that only relevant literature is used as the basis for this SLR. The four stages are identification, screening, eligibility assessment, and inclusion. In this study, the PRISMA procedure was applied to systematically identify and select relevant scholarly articles related to SME financial performance and its factors that influenced financial performance in the Indonesian context.

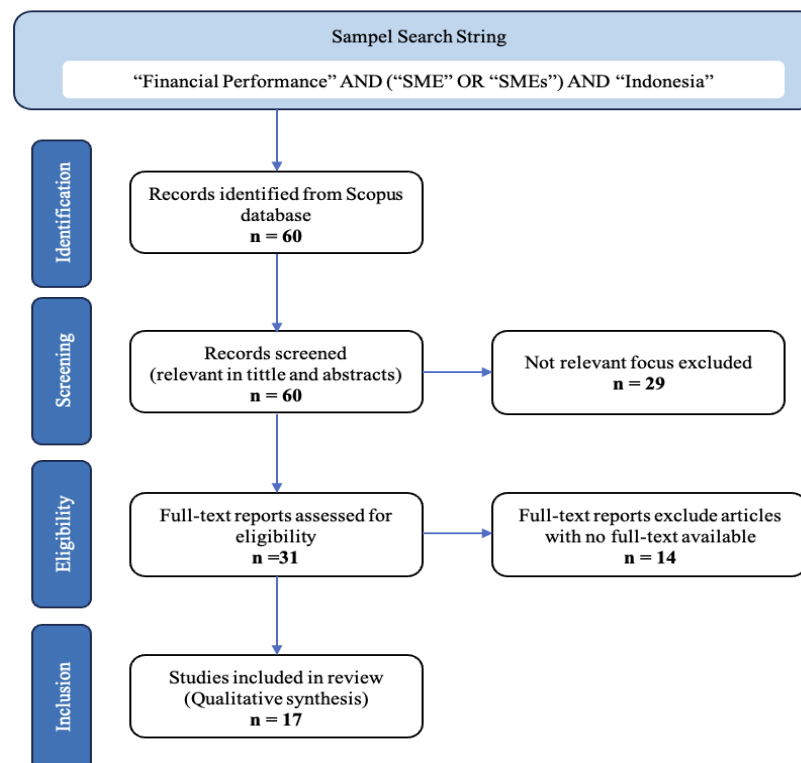


Figure 1. PRISMA framework

This SLR uses the Scopus database as the only source because articles indexed in Scopus generally have high quality, as they have passed a rigorous peer review process. At the identification stage, this study uses a search query, namely “financial performance” AND “Indonesia” AND “SMEs” OR “SME”, which is set with several criteria, including that the publication is an article, written in English, and published in the period 2015 to 2025. This study limits its scope to small and medium enterprises because micro enterprises are generally informal businesses, thus facing fundamental constraints in accounting reporting, which result in financial statement quality that is not accurate and does not represent the actual condition, or even do not have financial statements at all (Seman *et al.*, 2019). At this stage, a total of 60 articles were obtained.

The next stage is the screening process, which is carried out through several filtering steps to ensure that the selected articles do not contain duplication, are not meta-analyses or SLR studies, do not use micro businesses as research samples, and use financial performance as the dependent variable. Based on the screening procedure, a total of 31 articles were obtained.

Following the screening stage, the articles underwent an eligibility assessment, which included the process of evaluating the availability of full-text versions of these articles. This is done so that the researcher can conduct an in-depth analysis of the articles, such as the research methods used, the theoretical framework, and the findings. As a result of this assessment, 14 articles were excluded due to the unavailability of full-text access. After this eligibility evaluation process, 17 articles remained that satisfied all the criteria for further analysis.

Finally, the inclusion stage consists of 17 articles that will be brought into the further analysis process to identify what factors influence the financial performance of SMEs in Indonesia. In addition, this study will also present the theoretical perspectives used by the articles, thematic synthesis, and ideas for future research that can be used as references. Through this systematic and transparent selection procedure, the study ensures that the literature review is based on reliable, relevant, and methodologically sound academic sources.

RESULTS AND DISCUSSION

Descriptive Analysis

Based on Table 1, it is found that approximately 77%, or a total of 13 articles, were published in the last five years (2021–2025). This provides an overview of the financial performance of SMEs before and in the post-pandemic period. Although the number of studies included in this SLR may be relatively limited, these studies involve respondents covering regions from western to eastern Indonesia. This diversity of respondents should provide adequate external validity. In addition, the total number of respondents across these 17 studies is also substantial, so the findings of this research are expected to offer a more reliable and generalizable overview within the Indonesian context.

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Most of these studies use analysis methods based on Structural Equation Modeling (SEM). This suggests that research on SME financial performance in Indonesia has moved toward more complex model testing, allowing researchers to examine mediation and moderation effects between latent variables. On the other hand, regression analysis continues to play an important role in

identifying the direct effects of determinant factors on profitability, as demonstrated by Dai & Raharja (2020). Moreover, Hakimah *et al.* (2019) used panel data regression, which provides a five-year perspective and further strengthens the validity of the findings. The use of these various methods across more than 3,800 SME units provides a solid and reliable foundation for the synthesis results in this study.

Table 1. Descriptive Summary of Selected Studies

Year	Author (Year)	Research Location	Sample (SMEs)	Analysis Method
2015	Muslimin <i>et al.</i>	Central Sulawesi	120 SMEs	Linear Regression
2018	Sopha & Hestiani	Yogyakarta	39 SMEs	SEM
2019	Hakimah <i>et al.</i>	Palembang	50 SMEs*	Panel Data Regression
2020	Dai & Raharja	Cimahi	64 SMEs	Linear Regression
2021	Rinawiyanti <i>et al.</i>	Five provinces in Java Island	138 SMEs	PLS-SEM
2021	Jamaludin	Bandung	83 SMEs	SEM
2022	Rustiarini <i>et al.</i> (a)	Bali (9 Regencies/Cities)	336 SMEs	SEM-PLS
2022	Rustiarini <i>et al.</i> (b)	Bali (9 Regencies/Cities)	336 SMEs	SEM-PLS
2022	Hidayat <i>et al.</i>	Malang	243 SMEs	SEM
2022	Syariati	Gowa/Makassar	530 SMEs	CB-SEM
2023	Achmad <i>et al.</i>	Samarinda	300 SMEs	SEM
2023	Mutamimah <i>et al.</i>	National	100 SMEs	PLS-SEM
2023	Menne <i>et al.</i>	Makassar	350 SMEs	PLS-SEM
2024	Miswanto <i>et al.</i>	Yogyakarta, Bandung, Jakarta, Parepare	345 SMEs	SEM-PLS
2024	Satria <i>et al.</i>	Tanjungpinang	71 SMEs	SEM-PLS
2025	Yuliani <i>et al.</i>	Palembang	524 SMEs	SEM
2025	Widhiastuti <i>et al.</i>	National	124 SMEs	PLS-SEM

*Data panel for 5 years (total 250 observations)

Theoretical Framework

From the 17 articles included in the inclusion stage, only 9 articles explicitly state the theories used to explain the determinants of SME financial performance in Indonesia, as presented in Table 2. Identifying the framework used is an important step in an SLR. For the remaining literature, previous empirical studies are used as the basis for explaining the phenomena found in those studies.

The theories in the main literature used in this SLR can be classified into two major groups. The first group consists of theories that explain internal factors within the firm that can improve company performance, including financial performance. This approach reflects the potential that originates from within the company itself. The second group consists of theories that explain external factors based on influences from outside the company, including customers, technology, and government. However, these theories do not stand alone; in several studies, they need to work together in order to explain how internal potential is transformed into actual financial performance through external mechanisms.

Internal basic capacity: The foundation of SME potential

The theory most frequently used in these studies is the Resource-Based View or Resource-Based Theory. This theory states that the resources owned by a firm represent the fundamental potential that supports its success. Therefore, a company, including SMEs, will be able to develop and focus on optimizing internal resources that are valuable, rare, and difficult to imitate by

competitors. These resources are not only tangible but also include intangible resources in the form of intellectual capital. These elements will create firms with a competitive advantage and enable SMEs to respond to strategic issues, which is believed to support long-term sustainability (Achmad *et al.*, 2023; Rustiarini *et al.*, 2022b; Yuliani *et al.*, 2025).

A deeper understanding of internal capacity can be explained through the perspectives of Strategic Behavior Theory and Attribution Theory, which describe how individuals within the firm make business decisions based on behavioral and cognitive dimensions. In many cases, decision-making is influenced by irrational thinking shaped by mindset and emotions. This behavior is explained in Strategic Behavior Theory (Syariati, 2022).

On the other hand, there is another perspective that attributes the success or failure of a company or a decision to the individual who makes the decision, while others consider that it is influenced by external factors. This concept is reflected in Locus of Control (LoC), which is part of Attribution Theory. It is explained that individuals with an internal LoC tend to have a stronger sense of responsibility and ethics, making them more effective in strategic business decision-making (Syariati, 2022). This concept overlaps with Stewardship Theory, which states that managers have intrinsic motivation to advance the organization they manage, although these motivations come from different sources. LoC is based on self-belief and self-efficacy, while Stewardship Theory is based on values, loyalty, and organizational achievement held by individuals. Furthermore, Stewardship Theory explains that individuals with this perspective view the success of the company as part of their personal identity. However, not all managers hold such a perspective. Some individuals pursue personal goals without aligning them with organizational goals, which creates the need for strong monitoring to ensure that company resources are used appropriately (Hakimah *et al.*, 2019).

As a complement to the internal capacity dimension, Dynamic Capability Theory provides another perspective, particularly through the concept of Financial Ambidexterity. This perspective is used by Widhiastuti *et al.* (2025), who argue that companies should not be too rigid but instead remain flexible in various aspects, including strategy, in order to survive and compete over time. Financial ambidexterity refers to the ability of firms to maintain financial stability, such as meeting cash needs, keeping debt low, and maintaining sufficient reserves, while also achieving financial flexibility, such as adapting to changes in technology and consumer behavior, making timely investments, and reallocating resources efficiently. Both capabilities need to be present simultaneously in SMEs, as these firms typically face similar constraints, including limited capital, high uncertainty, and rapidly changing market conditions. If a company focuses only on stability, it may struggle to grow, whereas if it focuses only on flexibility, it may face financial vulnerability.

External actualization path

Theories that explain changes in business processes due to external pressures are often based on adaptation mechanisms and the need for external legitimacy. Institutional Theory explains that strategic changes in firm behavior are driven by pressures or demands from external parties, such as society and government. Through such actions, SMEs seek to gain legitimacy, which in turn can improve profitability (Rustiarini *et al.*, 2022a). A related perspective is Stakeholder Theory, which suggests that firms should consider the interests of stakeholders affected by their business activities, both internal and external, so that their actions are recognized as legitimate by multiple parties. Public trust in business processes and products will ultimately contribute to improved financial performance (Rinawiyanti *et al.*, 2021).

In many countries, SMEs face financial limitations, making it costly to develop their own technology. Therefore, SMEs are expected to remain open to external resources and knowledge. This openness allows firms to achieve cost efficiency, particularly in accelerating product innovation and improving business processes (Satria *et al.*, 2024). This is also supported by Resource Dependence Theory, which states that organizations cannot operate independently from external environments, as they cannot fulfill all required resources on their own. Therefore, they need to establish connections with external parties such as suppliers, governments, and financial institutions. Hakimah *et al.* (2019) also emphasize the importance of board diversity. Diversity in the characteristics and backgrounds of directors provides additional value, as it brings different education, knowledge, experience, and social networks, as well as diverse perspectives in decision-making. As a result, firms can access more diverse resources, including capital, become more innovative, and build broader relationships.

Table 2. Distribution of Theories Across Selected SME Studies

Theory	Authors
Resource Based View Theory / Resource Based Theory	Yuliani <i>et al.</i> (2025); Achmad <i>et al.</i> (2023); Rustiarini <i>et al.</i> (2022b)
Agency Theory	Hakimah <i>et al.</i> (2019)
Stewardship Theory	Hakimah <i>et al.</i> (2019)
Dynamic Capability Theory (Financial Ambidexterity)	Widhiastuti <i>et al.</i> (2025)
Resource-Dependence Theory	Hakimah <i>et al.</i> (2019)
Institutional Theory	Rustiarini <i>et al.</i> (2022a)
Stakeholder Theory	Rinawiyanti <i>et al.</i> (2021)
Open Innovation Theory	Satria <i>et al.</i> (2024)
Disruptive Innovation Theory	Satria <i>et al.</i> (2024)
Strategic Behavior Theory	Syariati (2022)
Attribution Theory (Locus of Control)	Syariati (2022)

Thematic Categorization

This SLR identifies several recurring themes that explain how various internal and external factors influence SME financial performance in Indonesia. These themes do not stand as separate categories, but rather reflect different roles played by the variables discussed across the studies, such as foundational capabilities, behavioral aspects, transformation mechanisms, operational linkages, and digital or ecosystem support. To better illustrate how these variables interact, this study provides a visual mapping of the relationships between independent, mediating, and moderating variables, as presented in Figure 2. To explain these patterns, the analysis is first viewed from the origin of the factors, whether they come from within or outside the firm. However, it cannot be said that only internal or external factors independently determine financial performance. In many cases, both are interconnected and work together in shaping financial outcomes. For clarity, the discussion is still organized into internal and external factors.

Internal factors of SME financial performance

One internal factor that is frequently discussed across various articles is financial literacy. However, financial literacy cannot be understood merely as the technical ability to do bookkeeping. Its scope is actually broader. It includes how business actors separate personal and business finances, prepare budgets based on forward-looking projections, and the ability to read and anticipate financial risks that may arise in the future (Miswanto *et al.*, 2024; Yuliani *et al.*, 2025). Those abilities, in many cases, indeed help SMEs run their businesses more orderly. Cash flow can be better

maintained, financial reports become neater and easier to understand, and business decisions are not only based on intuition but are also supported by available data. In addition, by understanding risk management, companies will avoid the risk of operational losses (Miswanto *et al.*, 2024).

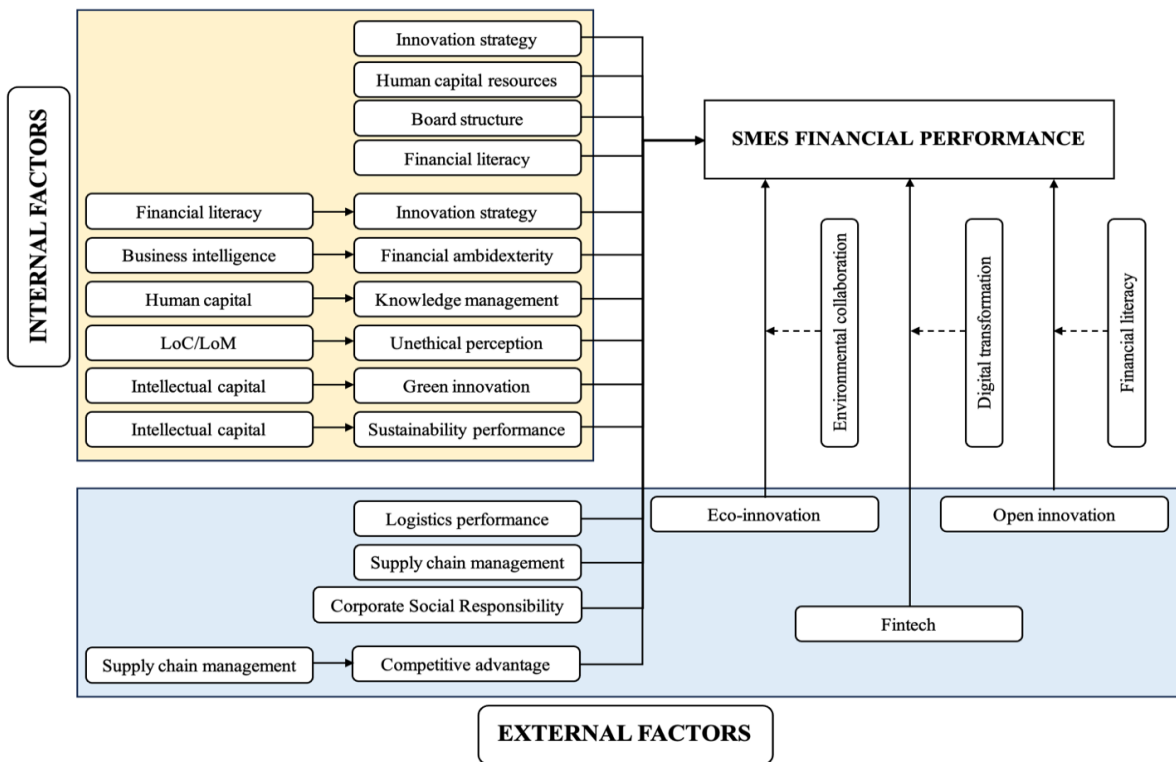


Figure 2. Conceptual Framework of Factors Influencing SMEs Financial Performance

However, the findings of Yuliani *et al.* (2025) show that this relationship is not that simple. Good financial literacy does not automatically increase the performance or profitability of SMEs. At this point, it appears that there are other mechanisms that also influence that relationship. When related to the condition of SMEs in Indonesia, this is quite relevant. Many business actors still face capital constraints, so operational activities cannot be fully supported by internal funds. As a result, the need for external funding sources becomes quite important. In this context, financial literacy seems to play a more indirect role. SMEs that have good financial literacy tend to understand accounting and are able to prepare financial reports that are neater and easier for outsiders to understand, as well as having a better understanding of financial risk. This can increase the credibility of the business in the eyes of financial institutions. With more transparent reports and a relatively more controlled risk profile, the opportunity to obtain funding becomes greater. Those funds can then be used to support business development. From here, the impact on profitability begins to appear. Thus, the role of financial literacy does not disappear, but is more indirect, namely through access to funding from financial institutions, whether from banks or fintech which have recently been booming. This indicates that there is a synergy between internal factors (financial literacy) and external factors (external funding, including in the form of financial digital transformation).

The second variable included as an internal factor is the SME management's ability to collect and analyze business data, such as stock data, daily sales, and customer data. The existence of business data that can be accessed in real time and of high quality will later allow the company to

easily read the direction of market movement. This reduces business uncertainty. This concept is commonly called Business Intelligence. However, business intelligence requires a moderating variable to be reflected in financial performance. In the study by Widhiastuti *et al.* (2025), it is stated that what is needed is Financial Ambidexterity, namely the ability for SMEs on one hand to maintain cash stability (liquidity) and on the other hand to remain flexible to invest in new profitable opportunities. From here, the profitability of SMEs will increase, as reflected in good ROI.

Next, the behavioral factors studied by Syariati (2022) include Locus of Control (LoC) and financial ambition or Love of Money (LoM) as the main independent variables. These two internal factors affect financial performance through the mediation of Unethical Perception, which is measured by proxies of tolerance for fraud and pragmatic attitudes in business. Entrepreneurs with high money ambition tend to perceive that ethically “cutting corners” is acceptable as a strategy to achieve profit targets instantly. The research results show that such unethical perceptions paradoxically have a positive effect on financial performance through the route of short-term efficiency. Pragmatic attitudes allow SMEs to drastically reduce operational costs, which mathematically directly increases net profit on financial statements. However, this performance is illusory; although profit figures increase on paper, neglecting ethical standards threatens reputation and business sustainability in the long term if detected by the market or regulators.

Beyond personal behavioral aspects, SME financial efficiency is also strongly determined by mastery of intangible assets encompassed in Intellectual Capital (IC). Within the Resource-Based View (RBV) framework, IC is the main engine that transforms knowledge potential into tangible financial gains (Rustiarini *et al.*, 2022b). IC is divided into three major company capitals. First, Human Capital, which combines the educational background, experience and, skills of individuals within the company. Without competent human resources, no matter how sophisticated the systems, structures, or technologies owned by the organization, they will not generate profit. Second, Structural Capital which includes up-to-date SOPs, databases, patents, and organizational culture. The presence of structural capital allows the organization to create a container so that individual creativity within the organization can be replicated into stable work processes. Lastly, Relational Capital, which is the quality of relationships with customers, suppliers, government, and other business networks that provide access to external resources. To turn IC into financial gains requires support from other variables.

In Menne *et al.* (2023), IC must be accompanied by Knowledge Management (KM), a function used to ensure that individual expertise is not lost, which can be achieved through knowledge sharing and documentation. SMEs must always be open to individual ideas within them which can then be developed. Successful ideas then become organizational work standards. With good KM, work errors decrease, and production processes become faster. Operational costs also fall, which automatically increases net profit.

Different from Menne *et al.* (2023), Hidayat *et al.* (2022) bring another perspective to the relationship between IC and financial performance. They state that the capacity and capability of individuals in SMEs can directly affect financial performance when those individuals have negotiation skills, leadership spirit, and business ethics. Those individual competencies become the main cost controllers. Furthermore, negotiation ability will lead to a reduction in input costs, such as raw material costs, so that SMEs are able to widen gross profit margins directly. Rustiarini *et al.* (2022a) provide another perspective for IC. That study uses Green Innovation, which has recently been widely implemented by many companies, as a mediating variable. IC in the form of creative Human Capital owned by individuals in the company is used to help design environmentally friendly

products and eco-friendly production processes. “Green” products create differentiation in the eyes of consumers. This allows SMEs to set premium prices, which results in increased profit margin per product unit. Rustiarini et al. (2022b) use Sustainability Performance as a mediating variable. In their research, they bring Structural Capital and Relational Capital as independent variables. Structural Capital in the company acts as the backbone of the company’s operations. With the implementation of sustainability performance, standardized systems will enable SMEs to run environmentally friendly practices efficiently. This not only reduces operational costs but also protects profits from the risk of legal fines or environmental disputes.

On the other hand, Relational Capital functions to build a “bridge of trust” with external parties. If internal systems are the engine, then relational capital is the fuel of reputation. When SMEs show real social concern, customers will see value beyond just product price. The trust that is built is what creates high loyalty and repeat purchases. In conclusion, Structural Capital ensures that the SME’s sustainability promises are operationally real, while Relational Capital ensures those actions are economically valued in the eyes of customers. Their synergy transforms intangible assets (knowledge and relationships) into tangible assets in the form of stable cash flows and long-term profits. In the category of internal factors, the findings of Dai & Raharja (2020) on 100 SMEs in the creative industry sector provide an important note regarding organizational effectiveness. It was found that Formal Structure or standardization of organizational structure, almost similar to Structural Capital in the concept of Intellectual Capital, does not have a significant effect on the company’s financial performance. This indicates that for SMEs and the creative industry, the existence of rigid hierarchy or overly formal division of labor is not the main determinant of profitability.

Conversely, financial efficiency in this context is much more influenced by Innovation Culture and Technological Capabilities. Investment in developing team creativity and adopting useful technology yields far higher returns than merely restructuring the organization formally. The speed of the organization in responding to the market has proven to be more pronounced in boosting profits compared to internal bureaucratic formality. Hakimah et al. (2019) bring a Governance lens to find out the factors that influence SME profitability in Indonesia. Governance proxies that affect increased financial performance are twofold: board size and gender diversity. Those two proxies make SMEs’ strategic decisions more rational and targeted, thereby minimizing the risk of cash leakage and misuse of company assets. Every expenditure made by SMEs becomes more controlled and productive. Operational cost efficiency increases, raising ROA.

External factors of SME financial performance

The group of external factors in this SLR article focuses on how SMEs can manage interactions with the external environment and how SMEs are open to ideas or collaborations from outside to maintain the company’s financial stability.

The first external factor that affects SME financial performance is Supply Chain Management (SCM). This variable becomes one of the keys because SME financial performance is not only determined by what happens inside the company but also by the smoothness of relationships with suppliers and distributors. Sopha & Hestiani (2018), through a system integration and information sharing approach, found that the existence of a credible, real-time inventory system owned by SMEs and integrated directly with suppliers makes the ordering process efficient, fast, and accurate. This will impact improved financial performance because SMEs do not need to spend more on storing excessive raw materials/stock, and SMEs can avoid the risk of stockouts. Mathematically, this lean

operation accelerates the cash conversion cycle, so the company's cash flow becomes smoother, and storage costs can be drastically reduced. Meanwhile, Jamaludin (2021) expands Sopha & Hestiani (2018) findings by stating that SCM builds competitive advantage first through product availability and market responsiveness, which ultimately results in strengthened customer loyalty that makes company profitability stable.

Besides SCM, Logistics Performance becomes a variable that can play an instant role in increasing SME profit margins. Logistics performance is proxied in two forms: first, logistics costs, consisting of transportation costs, packaging, and third-party warehouse costs. Second is delivery reliability. When SMEs can master these two components, SMEs will easily minimize unnecessary cost leakage which means profit margins will widen (Muslimin *et al.*, 2015)

The next factor is Strategic Innovation, which sometimes feels like an internal factor but is actually an external factor. Strategic innovation arises as a form of company responsiveness to external dynamics, for example, changes in consumer demands and shifts in industry trends. If SMEs do not quickly adapt to that, they will be outcompeted by competitors. In Dai & Raharja (2020), which focused on innovation planning in the creative industry proxied through innovation budgets, long-term planning, and technological capabilities, it was found that companies that deliberately always carry out innovation planning will have products that are always up-to-date. This supports companies in the creative industry, which move very quickly. SMEs that cannot capture these opportunities will be eroded by competitors who carry out strategic innovation.

Satria *et al.* (2024) also use Strategic Innovation as their research topic, specifically linked to product innovation in the digital era. Rapid changes in demand and market pressures often make SMEs struggle to meet them due to limited resources. Therefore, SMEs are expected to collaborate with other companies, one of which is by utilizing contract manufacturing. With contract manufacturing, SMEs do not need to invest more in fixed assets, but capital can be redirected to creation/innovation in packaging and product diversification. Thus, SMEs will be able to meet market demand while still being able to innovate and diversify products to add to the catalog they can offer to the public. This study uses a moderating variable, namely the utilization of technology in the form of e-commerce and social media, and the results are highly significant because e-commerce cuts physical distribution costs and social media accelerate the product's "voice" to reach consumers, so the Return on Investment (ROI) from innovation costs returns faster.

As mentioned earlier, innovation is often a response to changes or demands from outside the company, not least Eco-Innovation, which in recent years has been attracting much attention. This pressure should be received positively because some parties are willing to pay more for products that have a "green" branding, even though this is a very niche market; however, because not many companies do this, companies that implement Eco-innovation will be able to sell their products at higher prices, widening profit margins. In addition, behind that pressure, there is a positive side for companies in implementing environmentally friendly technology. Initial capital may be quite large, but it will reduce energy usage costs, which are generally large for industry, especially manufacturing. However, the eco-innovation variable cannot stand alone (Achmad *et al.*, 2023). It needs a moderating variable to strengthen its effect on SME performance, namely, Environmental Collaboration with external parties, especially suppliers. This dependency exists because the successful implementation of eco-innovation is fundamentally contingent upon a green supply chain, particularly the availability of sustainable raw materials and green logistics providers. Collaboration with parties that are truly "green" will reduce research costs due to R&D sharing, and this form of collaboration will encourage efficiency by minimizing production waste.

Corporate Social Responsibility (CSR) also takes an important role if SMEs want to improve their financial performance. CSR in Rinawiyanti *et al.* (2021) can be carried out through two main routes: first the defensive route. This route can play an important role in mitigating the risk of unexpected costs related to legal violations because this route uses legal compliance mechanisms. That means in the course of SME business, it will always comply with business laws applicable in Indonesia, for example, obtaining business permits, creating environmental standards, or other rules that must be followed by companies under applicable laws. The second route is the offensive route. This route uses mechanisms of philanthropic activities and social responsibility. Both mechanisms will improve reputation to increase sales volume.

The final variable of external factors is the utilization of Financial Technology. In recent years, payment methods in Indonesia have shown a positive trend in the use of technological assistance, namely barcode-based payments released by Bank Indonesia in cooperation with the Indonesian Payment System Association (ASPI) called QRIS (Quick Response Code Indonesian Standard). This system provides payment convenience for both sellers and buyers. For sellers (SMEs), the digital data provided by QRIS should be able to be used to improve transparency and automatic cash recording, and this can become a means to separate personal and business money more discipline. In addition, many fintechs have emerged that provide capital loans that are more flexible compared to banking institutions. In Mutamimah & Indriastuti (2023), fintech advancement is described as a double-edged sword; it can provide benefits as mentioned earlier, but it can also fail to provide additional benefits and even pose great risks to SMEs. The losses that can be caused by massive fintech advancement include debt traps and the possibility that data provided by QRIS will only become a pile of unused digital documents. This is very likely to occur when individuals in SMEs do not have good financial literacy. What should stabilize or even improve financial performance instead causes bankruptcy for SMEs. For that reason, Mutamimah & Indriastuti (2023) use financial literacy (an internal factor) as a moderating variable for the development of fintech adopted by SMEs.

Discussion

Based on the reviewed literatures, this suggest that the determinants of SME financial performance in Indonesia are inherently complex and cannot be explained through a single-dimensional perspective. Although they are from internal factors, some can directly affect financial performance, while others must pass through an intermediary mechanism before they can influence the financial performance of SMEs. This difference arises because some internal factors are operational in nature, such as negotiation ability and board quality, while other internal factors represent latent capacities such as financial literacy and intellectual capital. Operational factors can directly influence the stability of financial performance because these factors can be directly measured and are closely related to the company's business processes, for example, negotiation ability with suppliers can directly reduce raw material costs. In contrast, internal factors that are latent capacities must be mediated through concrete actions in order to be translated into monetary outcomes, which are often reflected in external factors of the firm.

The results of this study also indicate that rather than categorizing factors based solely on their origin, SMEs should adopt a more comprehensive perspective, where both internal and external factors are integrated to maintain stability or improve financial performance in Indonesia. The literature suggests that instead of treating external factors as secondary variables, they should be positioned as essential actualization pathways for latent internal capacities. In other words,

internal factors represent potential, while external factors act as the driving force. They must work in synergy.

CONCLUSION

This systematic literature review concludes that SMEs should integrate internal and external factors into their business processes and products to create a company with strong financial performance for long-term sustainability. In other words, firms must focus on gaining a deep understanding of their tangible and intangible resources and then maximizing their development. At the same time, SMEs should also be able to actively engage in the external ecosystem.

Future research is encouraged to develop more comprehensive models by further exploring the moderating and mediating roles of variables such as digital transformation and considering regional diversity and longitudinal perspectives to better understand the dynamics of SMEs performance.

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