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# Fostering sustainable growth: Analyzing the impact of financial access and managerial expertise on the growth of small and medium enterprises

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**Abstract**

This study will seek to investigate the effect of access to finance and managerial capability on driving SME growth in Bali, Indonesia. The study used a quantitative research design with a population of 100 legally registered SMEs in Bali, with data collected through questionnaires. The analytical method applied for testing the relationships among variables is PLS-SEM. These results indicate that access to finance is positive for the growth of SMEs, which would lead to business expansion. The interaction between managerial capability and access to finance is also significant in determining growth, underlining that higher managerial competence enhances SMEs' ability to leverage financing for better growth. These findings underline that access to finance needs to be complemented with improved managerial capabilities if sustainable SME sector development is to be supported. These findings imply that policymakers and development programs, apart from the facilitation of access to finance, should be targeting training and capacity-building for entrepreneurship management skills.

Keywords: Financial Access, Managerial Capability, SMEs Growth

**Abstrak**

Studi ini bertujuan untuk menyelidiki pengaruh akses pembiayaan dan kemampuan manajerial dalam mendorong pertumbuhan UKM di Bali, Indonesia. Penelitian ini menggunakan desain penelitian kuantitatif dengan populasi 100 UKM yang terdaftar secara hukum di Bali, dengan data dikumpulkan melalui kuesioner. Metode analisis yang diterapkan untuk menguji hubungan antar variabel adalah PLS-SEM. Hasil penelitian menunjukkan bahwa akses pembiayaan berpengaruh positif terhadap pertumbuhan UKM, yang dapat mendorong ekspansi bisnis. Interaksi antara kemampuan manajerial dan akses pembiayaan juga signifikan dalam menentukan pertumbuhan, menekankan bahwa kompetensi manajerial yang lebih tinggi meningkatkan kemampuan UKM dalam memanfaatkan pembiayaan untuk pertumbuhan yang lebih baik. Temuan ini menggarisbawahi pentingnya kombinasi antara akses pembiayaan dan peningkatan kemampuan manajerial untuk mendukung pengembangan sektor UKM secara berkelanjutan. Temuan ini mengimplikasikan bahwa pembuat kebijakan dan program pengembangan, selain memfasilitasi akses pembiayaan, juga perlu menargetkan pelatihan dan pembangunan kapasitas untuk keterampilan manajemen kewirausahaan.

Kata kunci: Akses Pembiayaan, Kemampuan Manajerial, Pertumbuhan UMKM

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## 1. Introduction

SMEs make up a significant contribution to the Indonesian economy (Novitasari, 2022),. From the data derived from the Ministry of Cooperatives and SMEs, it is recorded that SMEs account for more than 60% towards the GDP and absorb over 90% of Indonesia's total labor input (Nurprabowo & Meilani, 2023). However, one of the main challenges SMEs go through is limited access to sufficient financing (Santoso, 2020). Some studies reveal that the limited accesses to finance turn out to be the main constraint on SMEs growth, especially in developing countries (Nofriadi et al., 2024).

Access to finance is one of the important factors in supporting business growth according to (Supriyadi et al., 2024). Within the firm growth theory that mentions business growth is very dependent on its ability to obtain available resources, one of which is financial capital as mentioned by (Jhon et al., 2022). This theory finds relevance with SMEs because working capital and investment access determines the eventual success of the small businesses in attaining sustained growth. However, open access to financing alone does not provide a guarantee of optimal growth. A study says that much as access to finance is increasingly available, effectiveness in capital utilization largely depends on managerial factors by (Khosasi et al., 2024).

The managerial capability of the actors in SMEs becomes a determining key in utilizing available financing optimally (Abdillah et al., 2019). Based on the RBV theory, managerial capability is one resource deemed to provide a competitive advantage (Hutabarat et al., 2023). This capability includes knowledge in managing finance, planning a business strategy, and allocating resources efficiently. SMEs that have higher managerial capability are able to handle their finances better, where there might be positive influences on business growth (Tafsir et al., 2024).

Another study also shows that managerial capability is an important aspect in the enhancement of SMEs performance, especially in financial management (Reni, 2018). Unfortunately, managerial and financial literacies of most SMEs actors are still limited (Widyaningsih & Widodo, 2024). The consequence is that the utilization of acquired financing becomes inefficient. Therefore, the full growth potential of many SMEs is not achieved even in conditions when access to finance is there.

Access to finance is important to stimulate the growth of SMEs; sufficiently capitalized enterprises can expand their operations, invest in new technologies, and increase productivity. However, availability does not equate to success, for if mismanaged, much of the funds are wasted by the SME owners and managers. Those who have more knowledge regarding financial matters and who can make plans for their strategy are likely to be more capable of making prudent decisions on resource allocation that will allow them to ensure resources will be well spent for viable business growth. In several instances, the fault has been pinned on limited financial literacy for not allowing producers to achieve the full potential of available financing.

Beyond this, managerial capability extends beyond financial management to innovation and the ability to adapt to the changing market. Strong managerial competencies mean the SME is in an ideal position to explore new business opportunities, enhance their competitive advantages, and manage operations more effectively (Nugrahanti et al., 2024). Such capabilities allow businesses to grow beyond their starting scale, expand into new markets, and increase profitability. Thus, combining management capabilities with access to finance has always been fundamental for long-term business success.

In most developing countries, the problems confronting SMEs are in both finance and management (Supriatna et al., 2023). While the latter has been captured in a number of development projects, financial accessibility has also been engaged, but with poor management capabilities most of the time, thus limiting the full potential of these initiatives. This means that assistance to SME growth needs to be complemented with integrated training and capacity-building programs in order for entrepreneurs to be facilitated in not only accessing finance but also in managing it. Only then, when financial access combines with managerial competence, will SME growth be fully realized.

This brief overview shows that the literature has lacked inclusion of access to finance and managerial capability as a moderator in the SMEs growth. Previous studies on financing access and managerial capability have been presented separately; none of them considered the interaction effect of these two variables. In this paper, an attempt is made to bridge this deficiency by exploring the role of managerial capability as a moderator in the financing access-growth relationship for SMEs.

The current study presents an integrated approach to linking access to finance with the growth of SMEs, considering managerial capability as a moderating variable. Few have examined the interplay of these two factors, yet both exert significant effects on SMEs success. Hence, the contribution of this research into SMEs development incorporates in its analysis a fresh holistic approach, taking into consideration both financing and managerial aspects.

## 2. Literature Review

Most of the literature reviews have only addressed one variable, namely, access to finance or managerial capability in isolation, without examining the inter-relationship that exists between the two in encouraging SMEs growth. This implies a more profound research expectation in understanding how managerial capability can moderate the effect of finance on business growth. This study, therefore, seeks to fill this gap with more comprehensive empirical analysis. The purpose of this study is to analyze the influence that access to finance has on the growth of entrepreneurship-based SMEs by using managerial capability as its moderating variable.

Access to finance is among the essential variables that spur enterprise development; hence, it is considered one of the critical factors for SMEs since they are usually beset by inadequate capital levels. Theoretically, the growth of a firm will be affected by ease of access to capital. One of the most formidable barriers to SMEs development in most developing economies remains restricted access to finance (Hasibuan & Marliyah, 2024).

Hypothesis 1 ($H_1$): Access to finance influences the growth of SMEs positively.

The Resource-Based View posits that managerial capability represents an influential and distinctive resource that can confer a competitive advantage on a firm. It is this capability-that includes financial management and strategic decision-making-that determines how financing is used effectively (Anggraeni & Herlinawati, 2019) insist that SMEs with good managerial capability are able to put financing to better use and eventually exhibit enhanced performance and growth.

Hypothesis 2 ($H_2$): Managerial capability mediates the effect of access to finance on SMEs growth.

## 3. Research Method

This study focuses on SMEs in Bali, specifically those working towards business legality using decentralized funds from the Directorate General of Small and Medium Enterprises. SMEs are an important constituent in local economic growth and job creation. The study examines whether access to finance and managerial capability influences SME performance. Quantitative data were collected using questionnaires administered to SME owners, a basis that ensures systematic coverage in analysis. The target population consisted of 16,650 SMEs in Bali, and samples were purposively selected from businesses with formal legality to ensure representativeness and reliability.

Key variables include Access to Finance, which is the availability of external funds through loans and grants that impede or enhance the innovation and expansion capabilities of SMEs. Managerial capability refers to the decision-making and financial management and operational skills of owners that enhance the way resources are used and mobilized. SME growth is measured in terms of revenue growth, production capacity, innovation, and competitiveness to provide a holistic view of business development. In order to ascertain the level of variation in each and every variable, a Likert scale was used to obtain the responses in this study, making it a very resourceful way in acquiring information in a more incremental manner into owners' perceptions and experiences of SMEs. The use of a Likert scale allows the quantification of attitudes and opinions (Albaum, 1997). This approach was effective method for assessing attitudes and perceptions in economic and social research contexts suitable as recommended by (Claveria, 2021).

The data analysis has been done using Partial Least Squares Structural Equation Modeling (PLS-SEM) version 4.0, a strong analytical method that provides a detailed investigation of the inter-relations between access to finance, managerial capability, and SME growth. PLS-SEM offers effective tools to study the relations between the variables involved in this study (Magno et al., 2024). In addition, this approach explains not only how these factors interact with one another but also conveys those critical insights into dynamics for the success of SMEs in Bali.

To illustrate the relationships between the variables and analyze the hypotheses, the mathematical models are as follows:

(H1): $Y = \beta_1 X + \varepsilon.$

Explanation: Y represents SME growth, X represents access to financing, $\beta_1$ is the coefficient of direct effect, and ε is the error term.

(H2): $Y = \beta_1 X + \beta_2 Z + \beta_3 (X \times Z) + \varepsilon.$

Explanation: Z represents managerial capability, $\beta_3(X \times Z)$ is the interaction term between access to financing and managerial capability, $\beta_2$ is the coefficient of the direct effect of managerial capability, $\beta_1$ is the coefficient of the direct effect of access to financing, and ε is the error term.

## 4. Results and Discussion

### *4.1 Results*

Table 1. Construct Reliability and Validity.

| | Cronbach's alpha | Composite reliability (rho_a) | Composite reliability (rho c) | Average variance extracted (AVE) |
|---|---|---|---|---|
| Access to Financing | 0.779 | 0.803 | 0.871 | 0.645 |
| Managerial Capability | 0.676 | 0.788 | 0.803 | 0.519 |
| SME Growth | 0.740 | 0.825 | 0.836 | 0.575 |

*Source: Data processed by authors, 2024*

From the Table 1 output, it can be seen that AVE values for each variable stand more than 0.5, hence, all indicators are said to converge to their corresponding variables legitimately. Secondly, there were Cronbach's Alpha and CR values found, with both being above threshold value of 0.6 for each variable. Based on the fact that the validity and reliability requirements are met by the variables and their items in the study, it should be said that.

Table 2. R-Square

| | R-square | R-square adjusted |
|---|---|---|
| SME Growth | 0.918 | 0.916 |

The R-square value for the combined access to financing on SMEs Growth is 0.918, while the adjusted R squared is 0.916 as highlighted in Table 2. As shown, access to finance explains around 91.8% of the variation in SMEs Growth by exogenous factors. Given that the adjusted R-square is above 33%, access to finance has a significant effect on SMEs Growth.

Table 3. Path Coeffisients

| | Access to Financing | Managerial Capability | SMES Growth |
|---|---|---|---|
| Access to Financing | | | 0.179 |

From the results in Table 3, it can be read directly that the effect of access to finance on SME growth is 0.179, meaning SME growth may increase by 17.9% for a one-unit increase in access to financing. This effect is positive.

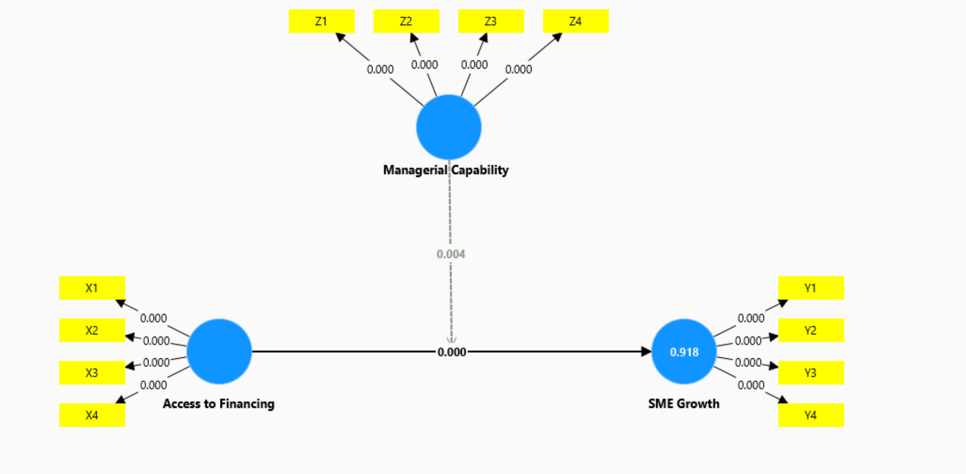


Figure 1. Structural Equation Model Testing

Table 5. Regression Weight Structural Equational Model.

| | Original sample | Sample mean | Standard deviation | T statistics | P values |
|---|---|---|---|---|---|
| Access to Financing -> SME Growth | 0.179 | 0.177 | 0.043 | 4.196 | 0.000 |
| Managerial Capability x Access to Financing -> SME Growth | 0.060 | 0.057 | 0.021 | 2.868 | 0.004 |

From Table 5, it can be read the results. These results show that access to finance significantly impacts the growth of SMEs at an effect size of 0.179 with a p-value of 0.000, hence supporting Hypothesis 1 (H1). In other words, the better the access of SMEs to sources of external finance, the brighter their growth prospects. Financing allows SMEs to expand their scale of operations, invest in newer equipment, enhance productivity, and innovate their products and services. The result shows that access to finance positively and significantly influences the growth of SMEs, having an effect size of 0.179. That means increasing access to finance will improve SMEs' growth, and vice versa. Hence, H1 is accepted.

The study also shows that managerial capability significantly moderates the relationship between access to finance and SMEs growth, with an effect size of 0.004 and a p-value of 0.004, hence supporting Hypothesis 2 (H2). This means that the positive effects of financing on SMEs growth are heightened when business owners or managers possess strong managerial skills. In other words, managerial capability positively moderates the relationship between financial resources and business performance because effective management ensures that financing is optimally utilized. The results indicate that managerial capability positively and significantly influences the moderating effect of access to finance on SMEs growth, with a partial effect size of 0.004. Therefore, H2 is accepted.

### *4.2 Discussion*

**Access to Finance-SMEs Growth Relationship**

This result is in concert with the firm growth theory, which postulates that the availability of required financial facilities is an important factor for the expansion of a business.

This result is also in agreement with Hasibuan & Marliyah (2024) who observed that restricted financing acts as one of the major barriers to SMEs growth, particularly in developing nations. Nofriadi et al. (2024) also drew on the fact that access to finance is one of the driving forces for SMES sustainability and development, especially in capital-intensive industries.

Therefore, this study has contributed to the list of research studies affirming that financial access plays a critical role in facilitating growth among SMEs. This financial growth relationship doles out an appropriate policy direction that enhances access to finance for SMEs, especially in developing countries, where capital shortages are immense.

**Managerial Capability as a Moderator Between Access to Financing and SMEs Growth**

The result is in support of the RBV theory, which states that managerial capability is one of the crucial resources by which firms are able to create competitive advantages. The findings also agree with (Anggraeni & Herlinawati, 2019), where it was established that SMEs with improved managerial capability can thus use financial resources more constructively to improve performance for growth. Tafsir et al. (2024) also established that the possibility of successful growth by SMEs with a high level of competence in their management is great, since they can manage both financial and nonfinancial resources with ease.

It therefore adds to the literature by pointing out a critical complementary role that managerial capability plays in ensuring that financing results in meaningful outcomes for a business. It underlines the fact that improving access to finance alone is not sufficient, but managerial skills are equally crucial in reaping the maximum benefit from increased access to external financing.

## 5. Conclusion

This study, therefore, concludes that access to finance is important for the growth of SMEs in Bali Province and is significantly positively influenced by managerial capability. This is evidenced in the findings of the study, which reflect that while access to financial resources is very important for business expansion, equal attention is supposed to be given to the management of such facilities as a means of ensuring sustainability. This underlines that not only is financing vital, but so too is the ability to use it strategically in a manner that adds to the impact of such financing in business development.

This study has its limitation. First, the geographical scope of this study is confined to Bali; generally, this restricts the applicability of the findings to other economic, cultural, or regulatory contexts. Specific conditions of the SME landscape in Bali may not be exactly comparable with the conditions in which SMEs of other Indonesian provinces or other countries find themselves. Also, the sample size used in this study, 100 SMEs, is sufficient to derive preliminary insights but might not capture the full diversity of SME experiences and perspectives. Besides, the cross-sectional design is a limitation in that it captures data at one point and could miss out on the dynamic nature of the SME sector, whereby the influences on growth could change very fast.

Managerial capability refers to a broad spectrum of skills and competencies regarding financial literacy, strategic planning, and adaptation to changing market conditions. Those SMEs with stronger managerial capabilities tend to be in a better position to transform their financial capital into innovation and competitive advantage. The skills required to build this base tend to be ongoing through training and education; owners and managers of SMEs may not all have direct access to these. Closing this gap involves responding with targeted training programs that shall empower the entrepreneurs toward higher managerial capabilities, translating into improved business performance. Further, it would be expected that future research extends the geographical scope to diversified regions and contexts, and explores how different market conditions or government policies influence SME growth dynamics to further an understanding of the complexities characterizing this sector.

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