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Financial resilience of small and medium enterprises in Bali

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The economy of Bali heavily relies on the tourism sector, leading to economic vulnerability. There are numerous challenges in Bali's economy, with COVID-19 being one of the most prominent examples. During the COVID-19 pandemic, Bali's economy experienced the deepest contraction and slowest recovery compared to other provinces in Indonesia. Amid this economic vulnerability, it is important to conduct research on the financial resilience of SMEs in Bali. This research aims to analyze the influence of financial literacy on financial resilience, as well as the mediating role of financial performance and fintech adoption on the impact of financial literacy on financial resilience among SMEs in Bali. The research method used is a quantitative approach with a sample of 177 SMEs in Bali, selected through non-probability sampling techniques. Data were analyzed using descriptive and inferential statistics, with SEM-PLS in SmartPLS 3.0 program. The test results indicate that financial literacy has a positive and significant influence on financial resilience, financial performance, and fintech adoption. Financial performance and fintech adoption also have a positive and significant impact on financial resilience. Furthermore, financial performance and fintech adoption can partially mediate the influence of financial literacy on financial resilience in SMEs in Bali. The findings of this research are beneficial for the development of Knowledge-Based View theory and Technology Acceptance Model, as well as for SMEs in Bali and the government as policy makers in efforts to enhance financial resilience.

1. Introduction

The social and economic landscapes have been significantly impacted by the COVID-19 pandemic. Businesses in different nations, regardless of their level of development, are facing potential viability risks due to the economic challenges caused by the pandemic (Putritamara et al., 2023). Global economic growth in 2020 recorded a contraction of 4.30 percent, the lowest in the history of the world economy in recent decades. The economic contraction has affected all countries worldwide, including Indonesia. Economic recovery only began in 2021, with World Bank data showing global economic growth reaching 4 percent. In addition to its global economic impact, Covid-19 has also affected the Micro, Small, and Medium Enterprises (MSMEs) sector. A survey by the UNDP and LPEM UI from the University of Indonesia found that Covid-19 really hit Indonesian households hard, especially MSMEs. About 77 percent of people said their income went down, and almost 35 percent of MSMEs reported a 40 to 60 percent drop in revenue during the pandemic. Throughout the COVID-19 pandemic, Bali's economy faced its most severe contraction and is recovering at a slower pace compared to other provinces in Indonesia. Bali experienced a deep contraction of up to -9.34 percent. As of 2021, Indonesia's economy has shown a positive growth of 3.69 percent, but Bali's economy is still struggling with a contraction of -2.46 percent. The tourism-dependent economy of Bali leaves it highly susceptible to fluctuations in global and domestic conditions (Bappenas, 2021). The social and economic landscapes have been significantly impacted by the COVID-19 pandemic. Businesses in different nations, regardless of their level of development, are facing potential viability risks due to the economic challenges caused by the pandemic (Putritamara et al., 2023). Global economic growth in 2020 recorded a contraction of 4.30 percent, the lowest in the history of the world

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economy in recent decades. The economic contraction has affected all countries worldwide, including Indonesia. Economic recovery only began in 2021, with World Bank data showing global economic growth reaching 4 percent. In addition to its global economic impact, Covid-19 has also affected the Micro, Small, and Medium Enterprises (MSMEs) sector. A survey by the UNDP and LPEM UI from the University of Indonesia found that Covid-19 really hit Indonesian households hard, especially MSMEs. About 77 percent of people said their income went down, and almost 35 percent of MSMEs reported a 40 to 60 percent drop in revenue during the pandemic. Throughout the COVID-19 pandemic, Bali's economy faced its most severe contraction and is recovering at a slower pace compared to other provinces in Indonesia. Bali experienced a deep contraction of up to -9.34 percent. As of 2021, Indonesia's economy has shown a positive growth of 3.69 percent, but Bali's economy is still struggling with a contraction of -2.46 percent. The tourism-dependent economy of Bali leaves it highly susceptible to fluctuations in global and domestic conditions (Bappenas, 2021). Bali, as a tourism destination, heavily relies on the tertiary sector, particularly the tourism industry, as one of its main sources of income. The widespread impact of the COVID-19 pandemic has greatly affected Bali's economy as a majority of its revenue comes from the tourism industry (Soritua, 2016). Amid the pandemic, Bali's tourism sector faced a notable decline, as travel restrictions and the shuttering of tourist attractions took their toll. The consumption from the tourism sector has been the most affected, resulting in a drastic decrease in income for many businesses in Bali, ranging from hotels, restaurants, to micro, small, and medium enterprises (MSMEs). Bali's economic vulnerability, stemming from an excessive dependence on a specific sector, emphasizes the need for economic diversification to reduce risks in facing future crises.

There have been studies mainly focused on the factors determining financial performance, but there is a lack of research connecting it to financial resilience. This study, building on prior research, uses financial performance and fintech adoption as mediators for the impact of financial literacy on financial resilience. The novelty of this study also resides in the development of an integrated research model by testing the direct and indirect effects of financial literacy, fintech adoption, and financial performance on financial resilience. This research seeks to provide concrete and empirical evidence on the determinants influencing financial resilience, in order to confirm previous studies and serve as a basis for decision-making and policy considerations by various stakeholders.

Research on financial resilience is crucial to explain the procedures and governance that SMEs must implement in order to have sufficient financial strength to face the increasingly complex business competition. The topic of research on financial resilience is relatively new, and the number of previous studies is still limited. Research on determining variables of financial resilience, such as financial literacy, fintech adoption, and financial performance, is also limited. Based on the background presented, the motivation for this research is to further develop the previous studies conducted. This research aims to develop an integrated model that explore the influence of financial literacy, fintech adoption, and financial performance on financial resilience, as previous studies have mostly been partial.

2. Literature review

Business resilience and financial resilience are closely related, mutually reinforcing, and synergistic in creating a solid foundation for the sustainability of an organization. Business resilience is about a business's strength to get through and bounce back from disruptions or crises, while financial resilience means a company's ability to manage financial resources and maintain financial stability (Sari et al., 2023). Financial resilience means being able to remain stable and resilient in the face of financial pressures or economic crises. This concept encompasses the ability to manage financial risks, maintain liquidity, and ensure long-term financial sustainability, regardless of changes in economic conditions or crisis situations. Financial resilience reflects the ability to recover and adapt after experiencing financial shocks. In the context of financial resilience, the Knowledge-Based View recommends financial literacy as a crucial source of knowledge that can influence financial resilience by playing a vital role in managing a company's financial resources. Financial literacy encompasses understanding financial reports, managing cash flow, financial planning, and making wise investment decisions. Through strong financial literacy, SMEs can enhance operational efficiency, mitigate financial risks, and capitalize on growth prospects. The study carried out by Chen and Yuan (2021) brings to light the crucial role of strong financial literacy in the role of a valuable asset for SMEs, aiding them in facing fluctuating economic conditions. A thorough comprehension outlined by Chen and Volpe in 1998 regarding the concept of financial literacy encompasses fundamental comprehension about financial management, credit handling, savings, investments, and managing risks. Financial literacy includes the understanding, abilities, and convictions that shape attitudes and actions, aimed at improving decision-making and financial management to achieve overall well-being (OJK, 2017). The 2019 National Survey on Literacy and Financial Inclusion (SNLIK) revealed a financial literacy index of 38.03 percent and a financial inclusion index of 76.19 percent (Otoritas Jasa Keuangan, 2019). The survey highlighted that the Indonesian population still lacks a solid understanding of the attributes of different financial products and the array of services offered by mainstream financial institutions, Even though knowing about finances is crucial for helping communities, individuals, protecting consumers, and making sure everyone has access to financial services.

The Knowledge-Based View (KBV) perspective suggests that organizations proficient in knowledge management are likely to achieve superior financial performance. Conversely, companies with lower performance will find themselves in an unfavorable market position and experience lower financial results. Financial performance indicators include profit, return on assets, and return on equity. By acquiring a comparative advantage in resources, companies can outperform competitors in key market segments, leading to significantly improved financial results. This study illustrates the vital importance of financial performance in ensuring that financial literacy translates into financial resilience. The ability of SMEs to attain competitive financial performance can serve as a competitive advantage and address the knowledge gap regarding the correlation towards financial literacy and financial resilience.

The adoption of fintech can explain how financial literacy affects financial resilience. Financial literacy provides the necessary knowledge base to understand and effectively utilize financial technology. SMEs with high levels of financial literacy can more easily recognize the benefits of fintech, such as easier access to finance, transaction efficiency, and better financial management. In this context, fintech adoption can serve as a mediator that explains the mechanisms or processes through which financial literacy influences financial resilience. Fintech adoption is believed to be able to mediate based on logical considerations and previous research findings that SMEs endowed with enhanced financial literacy will have the capacity to easily adopt financial technology (fintech) as a strategy and make appropriate financial decisions. Financial literacy affects how decisions are made related to the adoption of technology, which is expected to enhance the effectiveness and efficiency of SMEs in running their businesses. Research carried out by Lusardi & Tufano (2015) demonstrates that an improved comprehension of financial principles can enhance individuals' inclination and desire to utilize financial technology services. Increased financial literacy among SMEs, particularly in Bali Province, will result in a better understanding of the benefits, risks, and functionality of technology-driven finance.

In addition to impacting financial resilience, the adoption of fintech also has an influence on financial performance. The adoption of fintech can be pivotal in enhancing financial inclusion by providing access to SMEs that were previously difficult to reach through conventional financial systems. Technology-based financial services can reach segments of society that lack access to traditional financial services. Numerous investigations have explored the positive and significant impact of financial literacy variables on financial performance (Ananda et al., 2023; Djoewita et al., 2023; Hamzah et al., 2023; Kimunduu et al., 2016; Menike, 2018; Ruhmi & Tanjung, 2023; Sudewi & Dewi, 2022; Thadeus et al., 2023). While the impact of financial literacy variables on financial resilience also been done by various researchers (Adam et al., 2021; Agatha et al., 2023; Aulia et al., 2023; Latipah et al., 2023; Lestari et al., 2022; Lyons & Kass-Hanna, 2021; Seraj, 2022). However, studies by (Nihayah et al., 2022; Sumidartini & Muhyi, 2022) have yielded different findings, suggesting that financial literacy does not influence financial resilience. Research on the effect of fintech adoption variables on financial resilience was explored by (Cai et al., 2023; Lestari et al., 2022; Pongtanalert & Assarut, 2022; Akma et al., 2023; Baker et al., 2023; Chuc et al., 2023; Hermuningsih et al., 2023; Kaddumi et al., 2023; Muthaura et al., 2021; Sunardi & Tatariyanto, 2023; Yaniar et al., 2021) shows the results that fintech adoption is correlated with improved financial performance and financial performance variables on financial resilience carried out by (Atiase et al., 2023; Wati et al., 2023) with results that consistently have a positive impact. Research on fintech adoption has a positive and significant effect on financial performance conducted by (Akma et al., 2023; Baker et al., 2023; Chuc et al., 2023; Hermuningsih et al., 2023; Kaddumi et al., 2023; Muthaura et al., 2021; Sunardi & Tatariyanto, 2023; Yaniar et al., 2021). Likewise, research on Financial Literacy on Fintech Adoption (Hasan et al., 2020; Histori, 2022; Long et al., 2023; Yoshino et al., 2020).

3. Methodology

This research adopts the positivist research paradigm. The approach used is quantitative associative as it aims to examine the relationship or association between two or more quantitative variables. This approach aims to identify whether there is a significant statistical correlation between these variables. This study focused on Small and Medium Enterprises (SMEs) in the Bali Province based on SME data published by the Department of Cooperatives, Small and Medium Enterprises of Bali Province. The data collected in this study includes quantitative and qualitative data. Primary and secondary data sources are the foundation of this study. The primary source in this study is the respondents' answers on the questionnaire survey. The secondary data sources include books, journals, databases, research reports, or other electronic sources. The population in this study consists of Small and Medium Enterprises (SMEs) in the province of Bali. The study chose not to include micro-enterprises in the study population due to their unique dynamic characteristics. Micro-enterprises tend to emerge quickly, often without involving well-established organizational structures, and have varying levels of survival. While micro-enterprises can grow rapidly, many of them also face high business risks and can fail quickly. This decision is also driven by the understanding that focusing on small and medium enterprises (SMEs) will provide more consistent and relevant coverage. SMEs have more defined business structures and viability, often involving more stable management and measurable growth. Based on the Diversity Data of SMEs in Bali Province in 2023, the number of SMEs is 439,382. This number consists of 395,612 micro-enterprises, 36,837 small enterprises, and 6,932 medium enterprises. By focusing on small and medium enterprises, the total population of this study is 43,769. The classification of businesses in this study is based on the classification of businesses according to Government Regulation No. 20 of 2008. This study will use criteria based on the annual sales results of Small and Medium Enterprises (SMEs), considering the practicality of accessing relevant data for research. The use of these criteria is because annual sales are one of the key performance indicators of SMEs and can provide a comprehensive overview of SME business activities. This study focuses on annual sales results that can provide a deeper understanding of the growth potential, challenges, and opportunities faced by SMEs. The availability of relatively easy-to-access data will also facilitate the data collection and analysis process, allowing for more accurate and relevant findings on SMEs. The determination of the sample size used in this study was determined using the Slovin formula. Based on the calculation, the determined sample size is 177 small and medium enterprises. The sample in this study was selected using a non-probability sampling technique, namely purposive sampling. The reason for using purposive sampling technique is that not all members of the population have criteria that are suitable for the phenomenon being studied. The criteria used in determining the research sample are as follows:

1. Small and medium enterprises that were established before the pandemic (before 2020) and still exist until the time of this research.
2. Have already utilized fintech services.
3. Small and medium enterprises will be selected based on the proportional classification of business sectors according to the Diversity Data of SMEs in Bali in 2023 from the Department of Cooperatives, Small and Medium Enterprises in the Province of Bali. SMEs are classified into 4 sectors: Trade, Agricultural Industry, Non-Agricultural Industry, and Various Services.

In this study, the dependent variable used is Financial literacy (X). The endogenous variable in this study is Financial resilience (Y). The mediating variables in this study are Financial performance (M1) and Fintech adoption (M2). The financial resilience construct is adopted from (Salignac et al., 2019) and measured with four dimensions: Economic Resources, Financial Resources, Financial Knowledge and Behavior, and Social Capital. The dimensions of the financial literacy variable used in this study are adapted from the research of (Lyons & Kass-Hanna, 2021). The Financial Literacy variable is measured with three dimensions: Basic Financial Concepts, Knowledge of financial products and services, understanding positive financial attitudes and behaviors, and the capacity to make informed financial decisions, reflecting attitudes and behaviors. The financial performance variable in this study is measured based on the perceptions of SMEs in the Bali Province regarding their company's financial performance based on predefined indicators. The measurement dimensions of the financial performance variable use four dimensions of financial performance adopted from (Brigham & Houston, 2022) and Kasmir (2013), with indicators including Liquidity Ratio, Solvency Ratio / Debt Management, Efficiency Ratio / Asset Management, and Profitability Ratio. The fintech adoption construct in this study is adopted from the TAM (Technology Acceptance Model) proposed by (Davis, 1989) with two dimensions: Perceived Usefulness (PU) and Perceived Ease of Use (PEOU).

Data collection was conducted using a survey method through electronic questionnaires. Electronic questionnaires are advantageous when responses to multiple questions need to be obtained from a geographically dispersed sample, making it difficult or impossible to conduct oral interviews. The research sample is distributed across all districts/cities in Bali, making the use of electronic questionnaires a more practical choice. The research data, which has been tabulated, is then looked at using the Smart PLS-SEM. The results of the data analysis are then interpreted according to the research objectives.

4. Research analysis

4.1 Characteristics of the Research Sample

In the data collection process, information was obtained from 177 respondents who represent various classifications of businesses, business sectors, and regencies/cities in the province of Bali. Most of the sample consists of small businesses (63.84 percent), which is significantly more than medium-sized businesses (36.16 percent). Based on business sectors, most of the sample operates in the trade sector (44.63 percent). The sample locations are spread across nine regencies/cities in Bali, with the majority located in Denpasar City (50.28 percent). According to the cross-tabulation between business sectors, business qualifications, and regions, most of the sample consists of small businesses in the trade sector (28.81 percent) and from Denpasar City in the trade sector (24.29 percent). The survey participants' demographics feature includes gender, age, and education level. Most respondents are male (81.36 percent), aged between 30-39 years (50.28 percent), and have a Bachelor's/D-4 degree (49.15 percent). Based on that cross-tabulation, most respondents are males aged between 30-39 years (41.81 percent) and males with a Bachelor's/D-4 degree (38.42 percent).

4.2 Evaluation of the measurement model (outer model)

Convergent Validity Test Results

Table 1
AVE Value

Variable	Average Variance Extracted (AVE)
Financial resilience (Y)	0.622
Financial performance (M1)	0.713
Fintech Adoption (M2)	0.838
Financial Literacy (X)	0.623

The analysis results, as shown in Table 1, indicate that all AVE values are ≥ 0.5, which means that all variables meet the criteria for convergent validity.

Discriminant Validity Result

Table 2
Validity Based on AVE and Correlation

Variable	(FP) M1	(FA) M2	(FL) X	(FR) Y
(FP) M1	0,844			
(FA) M2	0,428	0,915		
(FL) X	0,347	0,469	0,789	
(FR) Y	0,626	0,528	0,670	0,789

Table 2 demonstrates that all constructs have a higher √AVE value than the diagonal assessment cross-correlation, indicating that the research is supported by valid research constructs. The √AVE value for the financial performance variable is 0.844, which is higher than the correlation coefficients between financial performance and other variables, namely 0.428, 0.347, and 0.626. The √AVE value for the fintech adoption variable is 0.915, which is higher than the correlation coefficients between fintech adoption and other variables, namely 0.469 and 0.528. The √AVE value for the financial literacy variable is 0.789, which is higher than the correlation coefficient between financial literacy and other variables, which is 0.670. These values indicate that the indicators reflecting the variables in this study have good discriminant validity.

Composite Reliability and Chronbach's Alpha

A measurement's reliability is confirmed if both composite reliability and Cronbach's alpha surpass the 0.70 threshold.

Table 3
Calculation Results of Composite Reliability and Cronbach's Alpha

Variable	Cronbach's Alpha	Composite Reliability	Description
Financial resilience (Y)	0.932	0.933	Reliable
Financial performance (M1)	0.899	0.925	Reliable
Fintech Adoption (M2)	0.982	0.984	Reliable
Financial Literacy (X)	0.913	0.929	Reliable

On Table 3, we can see that since the measurement model passed all the tests for validity and reliability, we can now look at the structural model.

4.3 Structural model evaluation (inner model)

R-square (R2)

The calculation results show the R-square (R2) value for financial performance (M1) is 0.116, fintech adoption (M2) is 0.215, and financial resilience (Y) is 0.631. The R2 value of financial performance (M1) at 0.116 means that financial performance (M1) is influenced by 11.6 percent by financial literacy (X), while the remaining 88.4 percent is influenced by other factors. The R2 value of fintech adoption (M2) at 0.215 means that fintech adoption is influenced by 21.5 percent by financial literacy (X), while the remaining 78.5 percent is shaped by others. The R2 value of financial resilience (Y) at 0.631 means that financial resilience is influenced by 63.1 percent by financial literacy (X), financial performance (M1), and fintech adoption (M2), while the remaining 36.9 percent is influenced by other factors.

Table 4
Calculation Results of Adjusted R-Square (R2)

Variable	R Square Adjusted	Description
Financial performance (M1)	0.116	Weak
Fintech Adoption (M2)	0.215	Weak
Financial resilience (Y)	0.631	Moderate

Q-square predictive relevance (Q2)

Table 5
Construct Cross validated Redundancy

Variable	Q^2 (=1-SSE/SSO)
Financial performance (M1)	0.144
Fintech Adoption (M2)	0.182
Financial resilience (Y)	0.383
Total	0.710

The Q-square value is 0.710, which means 71% of how the variables are related is explained by our model. This covers financial literacy, performance, and fintech adoption explaining financial resilience. The other 29% is due to different factors outside the model. A value near 1 shows the model predicts well.

Goodness of Fit Analysis (GoF)

The GoF has a range of values between 0 (zero) and 1 (one). As it approaches a value of one, the GoF becomes better. The calculation of GoF is based on the R2 value and the AVE value for each variable, namely:

$$GoF = \sqrt{\text{average AVE} \times \text{average R}^2} = \sqrt{((.662 + 0.713 + .838 + .623) / 4) \times ((.116 + .215 + .631) / 3)} = .473$$

Based on the structural assessment outcomes (inner model) evaluated using R-square (R2), Q-square predictive relevance (Q2), GoF criteria, the measurements can be classified as substantial. All three factors demonstrate that the research model incorporating financial literacy (X), financial performance (M1), fintech adoption (M2), and financial resilience (Y) is considered a strong model.

Hypothesis Testing

Table 6
Summary of Hypothesis Testing Results

	Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics (O|/STDEV|)	P Values	Conclusion
H1	Financial Literacy → Financial Resilience	0.465	0.463	0.051	9.079	0.000	Positive & Significant
H2	Financial Literacy → Financial Performance	0.347	0.350	0.088	3.933	0.000	Positive & Significant
H3	Financial Performance → Financial Resilience	0.406	0.406	0.049	8.283	0.000	Positive & Significant
H4	Financial Literacy → Financial Performance → Financial Resilience	0.141	0.143	0.042	3.333	0.001	Partial Mediation
H5	Financial Literacy → Financial Adoption	0.469	0.468	0.072	6.503	0.000	Positive & Significant
H6	Financial Adoption → Financial Resilience	0.137	0.137	0.061	2.244	0.025	Positive & Significant
H7	Financial Literacy → Financial Adoption → Financial Resilience	0.064	0.064	0.031	2.089	0.037	Partial Mediation
H8	Financial Adoption → Financial Performance	0.341	0.339	0.099	3.455	0.001	Positive & Significant

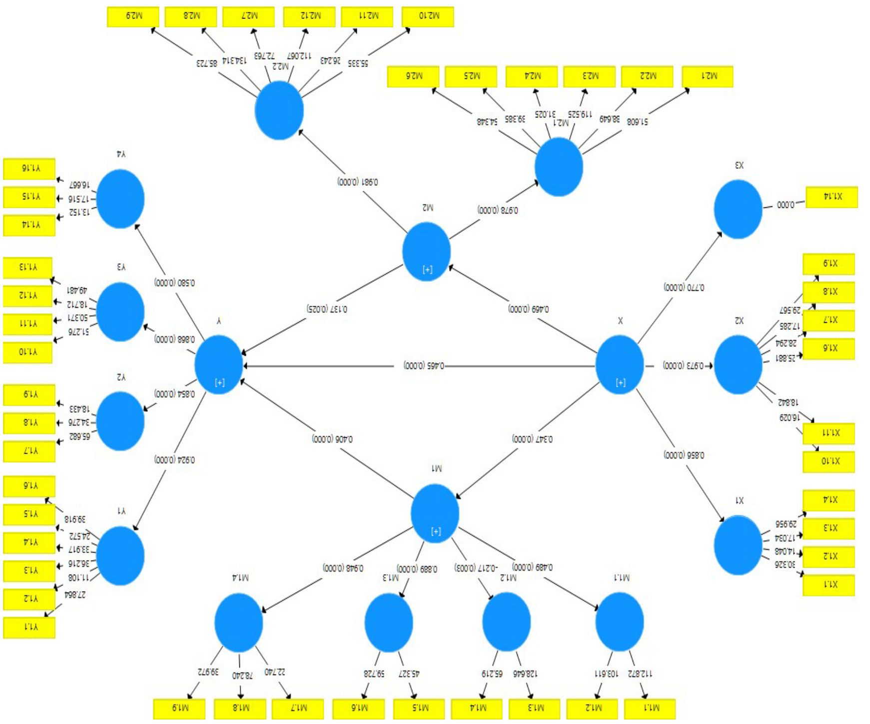

Fig. 1. SEM Analysis Model Output

Source: data processed, 2024

5. Research discussion

The effect of financial literacy towards financial resilience

The analysis results indicate that financial literacy has a positive influence on financial resilience. This finding implies that the higher the financial literacy, the higher the financial resilience of Small and Medium Enterprises (SMEs) in the province of Bali. It shows that better grasp and understanding of financial ideas and products enable SMEs to manage their finances more effectively, make wiser financial decisions, and utilize various financial instruments to face economic challenges and crises. Therefore, high financial literacy becomes one of the important factors supporting the resilience and sustainability of SMEs in Bali.

Financial literacy is measured by dimensions of basic financial concepts, awareness of available financial products and services, awareness of positive financial attitudes and behaviors, and the ability to make sound financial decisions. The analysis results show that the respondents' highest average score on the financial literacy variable is the compound interest indicator. This indicates that the respondents have a good understanding of compound interest and consider it as an important aspect of financial literacy. Knowledge of compound interest is fundamental in financial management as it influences investment decisions, savings, and long-term financial planning. A high understanding of this indicator may mean that SMEs in Bali are more capable of making wise financial decisions, thereby enhancing their financial resilience. A good understanding of compound interest can also promote healthier financial behaviors, such as utilizing compound interest in investments to maximize profits.

In order to sustain their business, SMEs must consider various factors, including the personal capabilities of individual owners or company leaders. The Knowledge-Based View framework is utilized to analyze how the insights and facts possessed by an organization can serve as a source of competitive advantage (Penrose, 2009). Financial literacy involves grasping fundamental financial concepts, managing money, investing, debts, financial planning, and the capability to create wise financial decisions. Having financial resilience is a competitive advantage that individuals or businesses must possess. Financial literacy influences the financial resilience of SMEs.

To enhance the financial resilience of SMEs, it is crucial to continuously develop financial literacy through educational programs and ongoing training. SME owners who have a better understanding of financial concepts are more prepared to face financial challenges that may arise in their business operations. They also have the ability to make the right decisions in crisis situations to protect the financial stability of their businesses. By improving financial literacy, SME owners can manage their income and expenses more effectively, take advantage of better investment opportunities, and avoid unnecessary debt, thereby enhancing the overall financial resilience of their businesses.

Having a high level of financial literacy enables SMEs to make more accurate and intelligent financial decisions. Having a deep understanding of financial management allows SMEs to identify financial risks and take appropriate preventive measures. A profound understanding can lead to better risk management and better decision-making, which will enhance the financial resilience of SMEs against various possibilities. A strong understanding of the concept of financial literacy helps SMEs manage their finances more effectively, enhance their ability to face financial challenges, and strengthen their financial foundation for sustainable growth.

The findings of this study are in line with what previous research has shown by (Adam et al., 2021). Enhancing financial literacy has been established as an effective strategy for improving financial attitudes, facilitating better financial behaviors, and fostering resilience in financial well-being. Higher financial literacy and increased financial inclusion are associated with improved financial attitudes that bolster resilience in financial well-being (Adam et al., 2021). Latipah et al. (2023) also argues that financial literacy and inclusion can impact organizational resilience.

The effect of financial literacy towards financial performance

The study uncovered that higher financial literacy positively impacts the financial performance of SMEs in Bali Province. Specifically, understanding compound interest was seen as a key thing that makes financial performance better. This suggests that improving financial literacy, particularly in areas such as basic financial concepts and positive financial behaviors, can pave the way for improvement of financial outcomes for SMEs.

The Knowledge-Based View provides a valuable framework for assessing how an organization's knowledge and information can be a source of competitive advantage (Penrose, 1959). This perspective highlights the significance of individuals' financial literacy in gaining a competitive edge. Financial literacy, which encompasses understanding key financial concepts, effective money management, smart investments, debt management, financial planning, and the capacity to make informed financial decisions, has a positive impact on a business's financial performance.

Having a solid grasp of compound interest is vital for financial literacy. SMEs who understand this concept are able to make more informed investment decisions and effectively allocate their resources for maximum long-term returns. Familiarity with compound interest can also motivate SMEs to begin saving or investing early, as they witness the potential growth of their wealth over time. Enhanced financial literacy can assist SMEs in cultivating saving and investing habits that will enhance their long-term financial security.

This study's findings are in agreement with Alshebami & Murad (2022), which indicates that financial literacy positively impacts sustainable performance, while other studies show that financial literacy, financial inclusion, and internal locus of control significantly influence the performance of SMEs (Ningsih & Tasman, 2020). In their 2021 research, Yakob et al.(2021) found a positive link between financial literacy and SME financial performance. Financial literacy is key in connecting financial access to company growth (Adomako et al., 2016). Research by Lusardi et al. (2015) indicates that improving financial literacy and management can boost small and medium-sized businesses' profitability and growth.

The effect of financial performance towards financial resilience

The analysis shows that financial performance positively affects financial resilience for SMEs in Bali. This means that higher financial performance leads to greater financial resilience. Financial performance is figured out by liquidity, solvency, efficiency, and profitability. The analysis reveals that the highest average score for financial performance is having enough cash to pay short-term obligations. SMEs that understand this concept can improve their financial resilience. Having enough cash allows SMEs to overcome financial difficulties without needing additional funding.

Sufficient cash reserves for high short-term obligations ensure financial stability during emergencies or unexpected financial pressures. This helps SMEs continue operating without liquidity issues and increases confidence from lenders and financial institutions. Adequate cash reserves also strengthen business trust and open up opportunities for better purchase discounts or credit. Financial institutions are more likely to provide loans or credit to SMEs with sufficient cash reserves, as it indicates effective cash flow management.

A strong financial performance is crucial for determining the financial resilience of an entity, including SMEs in Bali. It includes indicators like profitability, liquidity, and leverage that show the stability and competitiveness of a business (Koto et al., 2023). Not only measures operational success but also supports the financial resilience of SMEs. A solid financial performance helps businesses face external challenges like economic fluctuations or crises. Therefore, improving financial performance is a strategic step in building strong financial resilience in a changing business and economic environment.

The study results align with V. Y. Atiase et al. (2022) who highlight that financial performance and accounting positively impact SME resilience. Wati (2023) researched the ramifications of financial performance on financial resilience during the crisis period of companies from 2019 to 2021 using ratio analysis. The study found that liquidity ratio positively contributes to financial resilience. Yahya (2023) similarly found that improved company performance measured by ROA affects the company's resilience ability.

Financial performance mediates the effect of financial literacy towards financial resilience

The study indicates that financial performance partially mediates the relationship between financial literacy and financial resilience. This means that while financial literacy directly impacts financial resilience, it also indirectly influences it through improvements in financial performance. In summary, financial literacy still directly affects financial resilience, but some of this impact is mediated by enhancements in financial performance.

Having a strong grasp of financial literacy is crucial for SMEs. It enables business owners to make sound financial decisions, ultimately enhancing the company's financial performance. A solid financial performance, in turn, provides greater financial resilience for the company when facing economic uncertainties and business challenges.

Partial mediation occurs when financial literacy has two pathways influencing financial resilience: directly and through financial performance. The direct influence reflects the ability of SMEs to directly use their financial skills to enhance the financial resilience of the company. Meanwhile, the influence through financial performance indicates that these financial skills are also translated into better financial management practices, which then improve financial performance and, in turn, the financial resilience of the company.

According to this research, the Knowledge-Based View theory holds true, which explains the framework used to analyze how knowledge and information held by an organization can be a source of sustainable competitive advantage (Penrose, 1959). A study by Lusardi et al. (2015) states that a better understanding of financial concepts and more efficient financial management can enhance the profitability and growth of SMEs.

The study's results point to having a strong understanding of financial matters is crucial for improving the financial performance of SMEs and their ability to handle difficult circumstances. By possessing good financial knowledge, SME owners can make decisions that not only boost profitability but also enhance the company's ability to withstand challenges. This aligns with the KBV perspective.

Based on the analysis findings, respondents in financial literacy rated the compound interest indicator with the highest average score. The analysis further indicates that SMEs who comprehend the concept of compound interest consider it a vital factor in impacting their financial performance. A strong understanding of compound interest allows SMEs to efficiently utilize funds, whether for saving or investing, leading to higher profits and ultimately strengthening the financial resilience of the SME.

Compound interest, or compound growth, is key to understanding how wise financial management can generate significant wealth growth over time. High financial literacy improves the performance of SMEs by emphasizing the importance of compound interest. SMEs with strong financial literacy can plan their business strategies, considering the potential wealth growth from compound interest. This knowledge helps SMEs make smarter investment decisions and manage debts more efficiently, ultimately enhancing their long-term financial performance.

SMEs that have a solid financial performance, which is influenced by high financial literacy, can play a role in connecting financial literacy and financial resilience. When SMEs perform well financially, they have better access to financial resources like extra funding or profitable investments. This easy access to financial resources helps SMEs effectively handle financial risks and maintain stability during difficult times or crises. Additionally, improved financial performance allows SMEs to take advantage of growth opportunities created by compound interest. SMEs that can establish a stable cash flow and make the most of their financial resources are able to invest their company funds more actively in financial instruments.

This study's results confirm the established link between financial literacy and financial resilience observed in various previous studies (Adam et al., 2021; Agatha et al., 2023; Alshebami & Murad, 2022; Latipah et al., 2023; Lestari et al., 2022; Seraj, 2022). The findings of this study are in accordance with research on the effect of financial literacy variables on financial performance conducted by (Ananda et al., 2023; Djoewita et al., 2023; Hamzah et al., 2023; Kimunduu et al., 2016; Menike, 2018; Ruhmi & Tanjung, 2023; Sudewi & Dewi, 2022; Thadeus et al., 2023), also research on the effect of financial performance on financial resilience was conducted by (V. Y. Atiase et al., 2022; Wati et al., 2023) with consistent results having a positive impact.

The effect of financial literacy towards fintech adoption

The analysis results indicate that financial literacy has a positive influence on fintech adoption. This finding suggests that an improvement in financial literacy is expected to result in a rise in the utilization of financial technology (fintech adoption). Financial literacy is measured by basic financial concepts, awareness of available financial products and services, awareness of positive financial attitudes and behaviors, and the ability to make sound financial decisions, reflecting attitudes and behaviors. The analysis results show that the highest average score of respondents' financial literacy variable is on the compound interest indicator. The analysis results reveal that SMEs who understand the concept of compound interest will consider this factor crucial in influencing fintech adoption. Compound interest can motivate SMEs to explore fintech solutions that offer products or services yielding optimal results. SMEs who comprehend how compound interest can enhance wealth growth are more likely to be interested in using fintech that provides savings or investment products with competitive returns.

Financial literacy encompasses understanding basic financial concepts, money management, investments, debt, financial planning, and the ability to make smart financial decisions. The Technology Acceptance Model (TAM) also explains the cause and effect relationship between beliefs (benefits and ease of use) and behavior, goals and needs, and the actual usage by users (Tira et al., 2016). Financial literacy is vital for using fintech, which affects digital financial inclusion. SMEs will use digital financial products to improve credit access, which will grow with financial literacy (Hasan et al., 2020).

The long-term profit potential that can be obtained through the use of fintech can be a strong motivation to adopt this financial technology. Understanding compound interest can also help SMEs in choosing the right fintech platform for their financial needs and goals. SMEs can use their knowledge of compound interest to compare various fintech products or services available, as well as calculate the amount of profit that can be obtained from each option. Financial literacy enables SMEs to make more informed and intelligent decisions in choosing the most suitable fintech for their financial situation. Understanding compound interest can also help SMEs in planning long-term financial strategies using fintech. SMEs can use this knowledge to design a diverse investment portfolio to maximize profit potential. Financial literacy enables SMEs to fully utilize the potential of fintech as a tool to achieve financial stability and sustainable business growth. A higher level of digital financial literacy is needed to take advantage of the increased access to fintech services, which will impact SMEs' ability to sustain their businesses.

Excitingly, the findings of this study are consistent with those of groundbreaking previous work (Hasan et al., 2020) and (Yoshino et al., 2020) shows the results that higher financial literacy is positively associated with higher use of fintech services. These results are bolstered by recent research findings (Long et al., 2023) and (Histori, 2022) which clearly show that higher financial literacy strongly correlates with a heightened inclination towards adopting ePayment services. Research conducted (Yoshino et al., 2020) also found that the uptake of fintech services varies across individuals which also exhibit varying behavioral traits. Individuals are risk-averse, with higher financial literacy is linked to greater proficiency in using fintech services, including e-money and mobile payment apps

The effect of fintech adoption towards financial resilience

The analysis findings suggest that the adoption of fintech has a beneficial impact on the financial resilience of Small and Medium Enterprises in Bali Province. This implies that if there is an increase in the adoption of fintech, it will result in an enhancement of financial resilience. The analysis reveals a clear correlation on the highest average score in fintech adoption is flexibility. SMEs have a strong understanding of financial concepts, particularly in terms of flexibility, indicating their ability to adapt to financial situations according to business needs.

Fintech has become an innovative solution that is increasingly popular among SMEs in managing their finances. The adoption of fintech enhances the financial flexibility of SMEs by providing easier and faster access to financial services. By utilizing fintech platforms, SMEs can easily access various financial services such as digital payments, financing, or cash flow management, without having to go through complicated or time-consuming processes as commonly experienced when using traditional financial services. This flexibility enables SMEs to quickly and efficiently respond to their business financial needs, improving their ability to manage ever-changing financial situations.

The Technology Acceptance Model (TAM) brings the light on factors influencing technology adoption (Davis, 1985). Fintech adoption affects financial resilience, the ability to withstand financial pressures. While fintech can benefit resilience, risks should be considered. Smart use strengthens resilience, while unwise use increases risks.

Fintech adoption enhances flexibility and innovation for SMEs. It allows them to easily test and adopt new solutions to meet evolving financial needs. This adoption also helps SMEs remain competitive in a changing market and improves diversification and risk management. Fintech platforms provide access to various financial instruments, reducing exposure to single risks and improving long-term stability. This research emphasizes the positive impact of fintech on SMEs' financial resilience and ability to face challenges and seize growth opportunities.

The findings also corroborate existing research (Putritamara et al., 2023) which states that absorptive capacity and stunt SMEs have a significant and positive impact on economic resilience. Absorptive capacity is a broad concept, including a firm's overall capacity to learn, apply new knowledge, disseminate it internally, and create new resources, including new technologies (Zahra & George, 2002). Numerous studies have unequivocally shown a strong and positive link of fintech adoption and financial resilience (Cai et al., 2023; Kass-Hanna et al., 2022; Lestari et al., 2022; Xia et al., 2022). Gomber et al. (2017) highlighted that fintech adoption can expand MSMEs' access to financing and help in overcoming difficult economic situations.

Fintech adoption mediates the effect of financial literacy towards financial resilience

Analysis shows that fintech adoption partially mediates the link between financial literacy and financial resilience. This signifies that while financial literacy directly impacts financial resilience, it also influences it through the use of fintech. Respondents excel in financial literacy with compound interest, a key concept. Understanding it leads to smarter investment decisions, growth comprehension, and debt management. Those who grasp compound interest are more likely to use financial technologies effectively.

In the Knowledge-Based View (KBV), knowledge is a key asset for organizations to create value and competitive advantage. Financial literacy, as a form of knowledge, helps companies make better financial decisions and adopt financial technology. KBV highlights that strong financial knowledge improves a company's ability to manage resources efficiently, ultimately strengthening its financial resilience.

Current investigation confirms the Technology Acceptance Model (TAM) which links beliefs to behavior and actual usage of information systems. TAM also explains how perceived usefulness and ease of use influence technology adoption, particularly in the context of financial literacy and fintech adoption. This adoption helps improve financial resilience by enhancing financial management.

Financial literacy is a consideration in the use of fintech that impacts digital financial inclusion. With the increasing financial literacy, the community, including SME players, are more inclined to utilize digital financial products and services to expand access to credit (Cai et al., 2023; Lestari et al., 2022; Pongtanalert & Assarut, 2022). The utilization of electronic money and mobile payment apps, or at least one of these fintech services, is a direct consequence of financial literacy.

The ease and usefulness of payment technology play a crucial role in its adoption by SMEs. Access to various financial services through fintech applications can help optimize financial resources and improve business performance. Fintech also enhances financial flexibility, allowing SMEs to quickly adapt to market changes and respond to opportunities more efficiently.

The research findings align with previous studies by Hasan et al. (2020) and Yoshino et al. (2020), indicating a positive association between financial literacy and fintech usage. Similarly, Long et al. (2023) and Histori (2022) found that higher financial literacy is linked to a higher likelihood of adopting ePayment services. Other studies have also shown a significant and positive relationship between fintech adoption and financial resilience. Gomber et al. (2017) emphasize that fintech adoption can enhance financing access for SMEs and help them overcome economic challenges, making it a crucial component for achieving financial resilience.

The effect of fintech adoption towards financial performance

The analysis indicates that fintech adoption boosts financial performance for SMEs in Bali, with increased adoption. Analysis results show that the highest average score in fintech adoption among respondents is for the flexible indicator. This indicates that SMEs grasp the concept of financial technology, especially in terms of financial flexibility. Fintech is increasingly being used as an innovative solution by SMEs to manage finances, providing easier and faster access to financial services. This enhanced flexibility allows SMEs to respond quickly and efficiently to their financial needs, improving their ability to navigate changing financial situations and maintain financial performance.

The TAM explains factors influencing technology acceptance. To maximize fintech's impact on financial performance, understand the technology, protect personal data, and plan finances wisely. Fintech can enhance financial performance when used correctly and with awareness of risks. Fintech adoption improves accessibility to financial services for SMEs, allowing them to easily access financing, digital payments, cash flow management, and investments. This flexibility helps SMEs adapt to market changes and enhance their competitiveness.

The adoption of fintech also expands the financial options available to SMEs, which in turn enhances flexibility in managing SME finances. With various fintech platforms offering a range of products and services, SMEs have more flexibility in choosing solutions that best suit the financial needs and goals of the SME. SMEs can choose from various financing options such as peer-to-peer lending, invoice financing, or crowd funding, depending on the financial situation and business preferences. Furthermore, fintech adoption also enables SMEs to be more flexible in planning long-term financial strategies for the company. By using fintech platforms to manage business finances, SMEs can more easily access company financial data, analyze business performance, and plan necessary actions to achieve company financial goals. This flexibility allows SMEs to respond to market changes or business opportunities more quickly and efficiently, as well as optimize the long-term financial performance of SMEs.

The findings of this study align with the research conducted by Alkhawaldeh et al. (2023), which states that fintech adoption has a positive and significant impact on financial performance, as the implementation of technology encourages SMEs to have better income. Financial technology and financial literacy also have a positive and significant partial effect on financial performance

(Lontchi et al., 2023). The digitization or adoption of technology in MSMEs plays a significant role in improving financial performance (Indriastuti & Kartika, 2022).

5.1. Implications

The present study has outlined that enhancing financial literacy among SMEs in Bali can significantly improve their financial resilience and performance. It underscores the importance of integrating fintech solutions tailored to SME needs to further bolster their operational efficiency and competitiveness in the market.

5.2. *Suggestions for further research*

This study suggests further exploration into the specific types of fintech applications that SMEs in diverse industries could adopt to optimize their financial operations. Additionally, future research could expand beyond Bali to examine how varying economic contexts influence the adoption of fintech and its impact on SMEs' financial resilience and performance.

6. Conclusion

Based on the findings and analysis of the research, it is concluded that financial literacy has a positive impact on the financial resilience and financial performance of SMEs in the province of Bali. As SMEs' financial literacy improves, so does their resilience and financial performance. A good understanding of financial concepts can enhance the resilience and financial performance of SMEs. Furthermore, good financial performance also has a positive impact on the financial resilience of SMEs, as their ability to generate income, manage assets and liabilities, and make profits can strengthen their ability to cope with financial pressures or changes in the business environment.

Moreover, financial performance has been proven to mediate the influence of financial literacy on the financial resilience of SMEs in the province of Bali. This means that good financial literacy not only improves financial performance, but also, through the improvement of financial performance, enhances the financial resilience of SMEs. On the other hand, financial literacy also has a positive impact on the adoption of financial technology (fintech) by SMEs. A high level of financial literacy enables SMEs to better evaluate and choose fintech solutions that are most suitable for their business needs and goals, thereby supporting business growth and development.

The utilization of fintech has a positive impact on the financial resilience of SMEs, as fintech platforms can enhance flexibility and efficiency, as well as help SMEs reduce operational costs, improve access to capital, and expedite financial transactions. Fintech adoption also mediates the influence of financial literacy on the financial resilience of SMEs, so good financial literacy together with fintech adoption enhances the financial resilience of SMEs. Lastly, fintech adoption also has a positive effect on the financial performance of SMEs, as it expands financial options and enables long-term financial strategy planning that is more flexible through access to financial data, business performance analysis, and financial planning.

Given the findings of this study, it is prudent for SMEs in Bali to improve access to and use of banking services to enhance financial resilience, by opening bank accounts and utilizing products such as small business loans and cash management services. It is also important for SMEs to maintain a balanced asset-to-debt ratio in order to sustain a healthy financial performance. Adopting user-friendly fintech will assist SMEs in efficiently leveraging financial technology, while good financial literacy, particularly in responsible borrowing, will prevent excessive debt issues. For future researchers, focusing on specific types of fintech and expanding the research locations will provide deeper and broader insights into the financial resilience of SMEs. For policymakers, the findings also can practically inform decisions regarding designing policies that support SMEs through the enhancement of financial literacy, financial performance, and fintech adoption, involving various stakeholders to strengthen program effectiveness.

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