Banking Services and Financial Performance of MSMEs in Indonesia's Fashion Industry: A Resource-Based View Analysis

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ABSTRACT

This study investigates the complex interrelationships between business innovation, financial management, banking services, and financial performance among fashion industry MSMEs in Indonesia. This study employed a quantitative research design with both descriptive and explanatory components. Drawing on data from a comprehensive sample across key regions, we employ structural equation modeling to examine both direct relationships among the variables. Our findings reveal that business innovation functions as the predominant driver of financial performance, exhibiting a strong direct effect. In contrast, financial management practices do not directly enhance financial performance but contribute by strengthening firms' engagement with banking services. Banking services emerge as an important external resource that supports improved financial outcomes when effectively utilized by firms. These results extend resource-based theory by clarifying how organizational capabilities translate into competitive advantage and enrich financial intermediation theory by emphasizing the role of banking services in linking internal practices to financial outcomes. For practitioners and policymakers, the study underscores the strategic importance of developing innovation capabilities while highlighting how effective financial management can improve firms' utilization of external financial services.

Keywords*: Banking Services, Business Innovation, Emerging Economies, Financial Management, Financial Performance, MSMEs.*

INTRODUCTION

The Indonesian fashion industry constitutes a crucial component of the national creative economy, with Micro, Small, and Medium Enterprises (MSMEs) serving as its operational core. MSMEs contribute significantly to Indonesia's macroeconomic stability, accounting for 61% of Gross Domestic Product (GDP) and employing 97% of the national workforce (Ministry of Cooperatives and SMEs, 2023). Recent empirical research by Mahrinasari et al. (2024) indicates that MSMEs possess high adaptability and innovation capacity, effectively integrating traditional cultural heritage with modern market demands, as evidenced by traditional textiles such as Balinese clothing. Increasing competition in the sector necessitates strategic approaches to maintain competitive advantage, market positioning, and financial sustainability (Johan, 2024).

Despite their economic significance, fashion MSMEs face structural barriers that constrain growth and financial performance. A stratified survey conducted by SuperKey Consulting (2024) of 398 MSMEs in Jakarta, West Java, East Java, and Eastern Indonesia revealed diverse patterns in financial service utilization: conventional banking (97%), Islamic banking (12%), Quick Response Code Indonesian Standard (QRIS) digital payment infrastructure (25.6%), and informal self-financing mechanisms (71%). Although banking access is widespread, empirical understanding of its specific impact on

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key financial performance indicators remains limited, particularly due to low financial literacy and restricted access to formal capital structures (Mahrinasari et al., 2024).

The Resource-Based View (RBV) framework from Barney (1991) and Wernerfelt (1984) provides a sophisticated analytical lens for assessing how MSMEs develop sustainable competitive advantages through the strategic orchestration of heterogeneous resource portfolios. Within this framework, banking services constitute critical external resources that, when strategically integrated into operational processes, can significantly enhance financial performance trajectories. Longitudinal research by Tambunan (2008) demonstrates that comprehensive access to banking services positively influences MSME financial performance by optimizing cash flow management and expanding operational capacity parameters. These findings are reinforced by Wahyuningsih et al. (2023) quasi-experimental analysis of government financial inclusion programs, particularly the People's Business Credit (*Kredit Usaha Rakyat*/KUR) initiative, which shows that access to appropriately structured capital improves growth coefficients and sustainability indicators for MSMEs.

Although extensive literature has examined the relationship between banking service accessibility and MSME development in various geographical and economic contexts, including recent studies in Turkey by İslamoglu and Bayraklı (2022), Nigeria by Isa-Olatinwo et al. (2022), and Iraq by Hamid and Abd Jassim (2024), significant methodological and contextual gaps remain regarding the specific mechanisms, moderating variables, and performance outcomes that characterize the relationship between banking service utilization and financial performance among Indonesia's culturally distinctive fashion MSMEs. Current theoretical models inadequately address the complex interactions between technological innovation adoption, financial management sophistication, and banking service utilization within this specialized sector. The potential synergistic effects among these dimensions present both opportunities and challenges: integration can optimize financial performance by addressing capital accessibility constraints and enhancing resource allocation efficiency; however, MSMEs must also contend with the implementation costs of digital technology infrastructure and manage inherent risks associated with innovative market strategies. Furthermore, reliance on external funding structures may expose enterprises to systemic market volatility and financial instability, necessitating careful analytical approaches to assess benefit-risk profiles comprehensively.

This study addresses these theoretical and empirical gaps by developing a taxonomic framework categorizing banking services utilized by Indonesian fashion MSMEs through mixed-method analytical techniques. The study also quantitatively evaluates the impact of banking service utilization patterns on financial performance, including profitability, liquidity, operational efficiency, and growth, using multivariate regression modeling. Additionally, the research formulates evidence-based recommendations for policymakers, financial institutions, and MSME stakeholders to enhance financial inclusion and support sustainable sectoral development. This study makes a significant theoretical contribution by extending the RBV framework through integration with financial inclusion paradigms in emerging economy contexts, while simultaneously providing actionable insights to bridge the gap between financial institutions and industry-specific operational requirements. The findings will support the development of customized financial service architectures aligned with the unique needs of fashion MSMEs, ultimately improving financial inclusion metrics, empowering entrepreneurial ecosystems, and fostering regional economic development across Indonesia's diverse geographical landscape.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Business Innovation on Banking Services

Business innovation constitutes a fundamental catalyst for competitive advantage and sustainable growth, particularly among Small and Medium Enterprises (SMEs) navigating volatile market landscapes. While Schumpeterian theory has long established innovation as the cornerstone of organizational success, contemporary empirical evidence

reveals more nuanced mechanisms through which innovation influences financial outcomes (Khan, 2023; Aggarwal et al., 2025). Recent longitudinal studies demonstrate that multi-dimensional innovation spanning product development, process optimization, and customer engagement methodologies significantly enhances SMEs' credibility among financial institutions (Ageli et al., 2025; de Almeida Leite et al., 2025).

The innovation-performance relationship operates through sophisticated pathways that warrant precise theoretical articulation. Meta-analytical evidence indicates that SMEs strategically deploy integrated innovation portfolios encompassing technological, organizational, and marketing dimensions achieve superior market differentiation and resilience against competitive pressures (Ahmad & Ali, 2024). Digital transformation initiatives, particularly those involving advanced payment infrastructures and omnichannel commerce platforms, systematically strengthen institutional relationships with banking entities, as confirmed through robust structural equation modeling approaches (Hutabarat et al., 2024; Kumar et al., 2025). Financial technology integration, manifested through blockchain-enabled systems, algorithmic lending platforms, and disintermediated funding mechanisms, provides SMEs with both capital access advantages and enhanced decision-support capabilities, thereby addressing traditional resource constraints (Oyegbade et al., 2022).

H1: Business innovation has a positive effect on banking services.

The Effect of Financial Management on Banking Services

Effective financial management constitutes a fundamental determinant of SME performance enhancement, operating through multiple theoretical mechanisms. Drawing from resource-based view and dynamic capability perspectives, financial management encompasses systematic resource allocation, structured risk assessment processes, and evidence-based strategic planning methodologies. Longitudinal empirical investigations have established statistically significant relationships between sophisticated financial management practices and superior performance metrics, with recent meta-analytical evidence suggesting effect sizes ranging from moderate to strong across diverse industry contexts (Faramarzi et al., 2024; Prashar, 2024). These findings remain robust when controlling for firm size, industry volatility, and macroeconomic conditions.

The digital transformation of financial infrastructure represents a critical strategic imperative amid accelerating technological disruption. Quantitative analyses utilizing structural equation modeling demonstrate that implementation of advanced digital accounting architectures and integrated financial management systems yields multidimensional benefits through process optimization, workflow automation, and enhanced stakeholder engagement capabilities (Liu et al., 2022; Kim et al., 2023). This technological evolution transcends operational efficiency to fundamentally reconfigure SMEs' competitive positioning within Industry 4.0 ecosystems. Panel data analysis further reveals that digital financial transformation significantly moderates the relationship between financial management capabilities and performance outcomes, particularly in post-pandemic business environments characterized by heightened uncertainty and compressed decision cycles.

H2: Financial management has a positive effect on banking services.

The Effect of Banking Services on Financial Performance

SMEs consistently face significant structural barriers in accessing traditional banking infrastructure due to information asymmetry costs and institutional risk assessment frameworks. Multi-country panel studies indicate that these access constraints substantially influence capital structure decisions and investment behavior (Ahmad & Khan, 2023). Financial technology (fintech) integration emerges as a transformative mechanism, with recent quasi-experimental research demonstrating causal links between fintech adoption and improved financial inclusion metrics. The technological

intermediation effect operates through information asymmetry reduction, transaction cost minimization, and computational standardization, collectively enhancing capital allocation efficiency. Policy interventions and institutional support function as critical moderators, particularly for highly innovative SMEs. Longitudinal analyses of targeted government programs show significant effects on financial access and subsequent performance, with variations across economic cycles (Abdeljawad et al., 2024). Counter-cyclical effects are most evident during economic contractions, where beneficiaries maintain higher investment levels than non-recipients at similar innovation thresholds, highlighting important theoretical implications for financial constraint models in innovation economics.

The relationship between banking services and SME performance operates through multiple, interrelated mechanisms. Meta-analytical evidence confirms that credit access exerts both direct and indirect effects on performance, moderated by industry dynamism and competitive intensity (Beck et al., 2008). Digital banking integration significantly mediates operational efficiency improvements, while advisory services enhance strategic decision-making through knowledge transfer and access to expertise (Miloud, 2022; Ditta et al., 2025). Path analysis indicates these mechanisms function simultaneously rather than sequentially, suggesting complex complementarity effects that optimize SME performance through integrated banking service utilization rather than isolated interventions.

H3: Banking services has a positive effect on financial performance.

Effect on Business Innovation and Financial Management Financial Performance

Business innovation significantly affects financial performance. Within the dynamic capabilities framework, innovative practices enable firms to expand markets, differentiate customer experiences, and improve operational efficiency, which ultimately contributes to higher revenue growth and cost efficiency (Almashhadani & Almashhadani, 2023; Heaton et al., 2023). Through digital innovation and adaptive business strategies, firms are better positioned to respond to changing market conditions and strengthen their competitive advantage. These findings emphasize that innovation is not only a strategic capability but also a key driver of organizational performance and long-term sustainability.

Financial management sophistication also positively influences financial performance. Firms that effectively stabilize cash flow, allocate investments strategically, and manage financial resources efficiently tend to achieve superior profitability and operational stability (Alkaraan et al., 2024). Effective financial management enhances liquidity, minimizes financial risks, and supports informed strategic decision-making, thereby improving organizational performance. This perspective extends agency theory by emphasizing that transparent and disciplined financial management reduces information asymmetry and strengthens organizational value creation (Heaton et al., 2023).

The Resource-Based View (RBV) provides a strong theoretical foundation for explaining sustainable competitive advantage and superior firm performance (Wernerfelt, 1984; Barney, 1991). Resources possessing Valuable, Rare, Inimitable, and Non-Substitutable (VRIN) characteristics enable firms to generate sustainable returns. In addition, dynamic capabilities and the knowledge-based view explain how organizations continuously reconfigure resources and utilize knowledge to adapt to environmental changes (Grant, 1996; Teece et al., 1997). SMEs operating in competitive sectors such as fashion can improve operational capacity, flexibility, and risk mitigation through the integration of internal capabilities and strategic resource management (Kunc & Bhandari, 2011; Gupta et al., 2018; Ferreira et al., 2020). Performance measurement therefore requires multidimensional indicators, including financial ratios, inventory turnover, design-to-market cycles, and sustainable sourcing practices.

H4: Business innovation has a positive effect on financial performance.

H5: Financial management has a positive effect on financial performance.

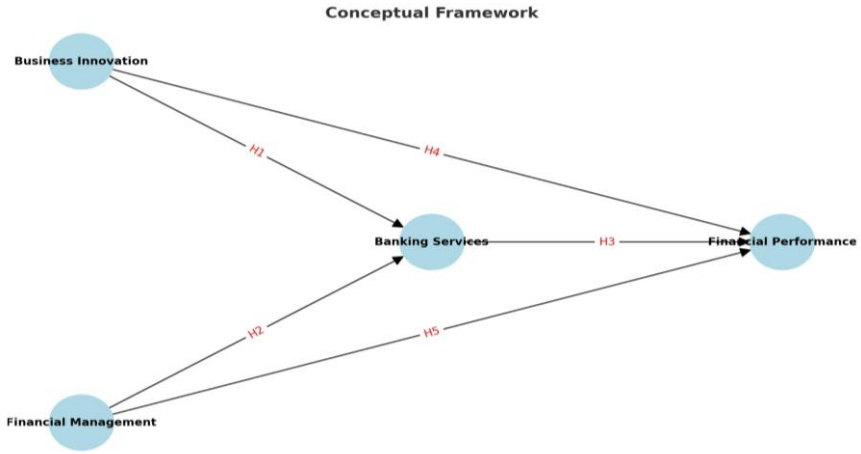

Figure 1. Research Conceptual Framework

Figure 1 illustrates the influence of business innovation, financial management, and banking services on financial performance. Business innovation is expected to enhance organizational competitiveness through market expansion, operational efficiency, and improved customer value creation. Meanwhile, prudent financial management supports effective resource allocation, financial stability, and strategic decision-making within the organization. Banking services also contribute to financial performance by facilitating access to financial resources, liquidity management, and financial support for business operations. The framework highlights the interconnected role of business innovation, financial management, and banking services in improving a firm's financial performance through both strategic capability development and efficient financial practices.

RESEARCH METHODS

This study employed a quantitative research design with both descriptive and explanatory components to examine the causal relationships among business innovation, financial management, banking services, and financial performance in Indonesian fashion MSMEs. The descriptive component aimed to identify patterns of banking service utilization, while the explanatory aspect tested hypothesized relationships among the key constructs. A cross-sectional survey method was adopted to collect data at a single point in time, allowing for comprehensive analysis of inter-variable relationships while controlling for potential confounding factors (Hair et al., 2019).

The population consisted of fashion MSMEs across various regions of Indonesia, including Jakarta, West Java, East Java, and Eastern Indonesia. To ensure representativeness, purposive sampling with multidimensional inclusion criteria was applied, targeting enterprises with formal business registration, a minimum annual turnover of IDR 100 million, at least two years of operational history, active banking service engagement (funding/financing and digital), proper financial documentation, product innovation capabilities (minimum ten product variations and five annual model introductions), adoption of digital marketing, and respondents with strategic decision-making authority. These criteria ensured participants possessed organizational characteristics relevant to the theoretical framework (Johnson et al., 2019; Smith & Lee, 2020). The final sample included 398 MSMEs, distributed proportionally across regions (Jakarta 64%, West Java 16%, East Java 10%, Eastern Indonesia 10%) following Krejcie and Morgan's (1970) sample size formula. Data collection was conducted using a structured questionnaire incorporating previously validated measurement scales, adapted for contextual relevance through translation and back-translation procedures. Responses were captured on a 5-point Likert scale. Preliminary validation involved expert assessment and pilot testing to ensure reliability and construct validity.

Data analysis involved several stages. First, descriptive statistics and data screening were performed to identify outliers, missing data, and assess normality assumptions. Confirmatory Factor Analysis (CFA) was conducted to evaluate construct validity, including convergent validity (factor loadings > 0.7, AVE > 0.5, CR > 0.7) and discriminant validity using the Fornell-Larcker criterion and HTMT ratio (<0.85). Structural Equation Modeling (SEM) was then employed to test the hypothesized relationships, focusing on direct effects among the variables. Model fit was evaluated using χ^2/df (<3.0), CFI (>0.95), TLI (>0.95), RMSEA (<0.06), and SRMR (<0.08) following established guidelines (Hair et al., 2017). Ethical considerations included institutional review board approval, informed consent, confidentiality guarantees, anonymization of business data, and secure data storage. Respondent burden was minimized through optimized questionnaire design and flexible completion options.

RESULTS

Table 1 presents the comprehensive evaluation of our measurement model, including indicator reliability, internal consistency reliability, and convergent validity assessments for all constructs in our theoretical framework. This rigorous psychometric analysis is essential for establishing the quality of measures prior to hypothesis testing and structural model evaluation. The table reports outer loadings for each indicator to demonstrate individual item reliability, while Cronbach's alpha and composite reliability coefficients provide complementary assessments of internal consistency. The Average Variance Extracted (AVE) values reflect the degree to which each construct explains variance in its respective indicators, serving as our primary measure of convergent validity. The following analysis interprets these results in relation to established methodological standards and thresholds recommended in advanced psychometric literature.

Table 1. Validity and Reliability

Construct	Code	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
Financial Performance	FP1	0.858	0.855	0.856	0.697
	FP 2	0.844			
	FP 3	0.774			
	FP 4	0.875			
	FP 5	0.759			
Business Innovation	BI 1	0.759	0.811	0.874	0.633
	BI 2	0.771			
	BI 3	0.788			
	BI 4	0.806			
	BI 5	0.817			
Banking Services	BS1	0.843	0.785	0.861	0.609
	BS2	0.838			
	BS3	0.808			
	BS4	0.851			
Financial Management	FM1	0.751	0.880	0.885	0.678
	FM2	0.741			
	FM3	0.823			
	FM4	0.803			

Table 1 presents the results of the validity and reliability tests for the four research constructs: financial performance, business innovation, banking services, and financial management. Construct validity was assessed using outer loading, while reliability was evaluated through Cronbach's Alpha, Composite Reliability (CR), and AVE. For financial performance, the outer loadings of the indicators ranged from 0.759 to 0.875, indicating that all items adequately represent the construction. The Cronbach's Alpha of 0.855 and CR of 0.856 demonstrate high internal consistency, and an AVE of 0.697 confirms acceptable convergent validity. For business innovation, indicator loadings ranged from 0.759 to 0.817, with Cronbach's Alpha 0.811, CR 0.874, and AVE 0.633, indicating that the indicators sufficiently reflect the construct and exhibit strong reliability.

The banking services construct showed outer loadings between 0.808 and 0.851, Cronbach's Alpha 0.785, CR 0.861, and AVE 0.609, also meeting the criteria for reliability and convergent validity. Finally, financial management had indicator loadings ranging from 0.741 to 0.823, with Cronbach's Alpha 0.880, CR 0.885, and AVE 0.678, demonstrating high internal consistency and adequate validity. Table 1 indicates that all constructions in this study have valid and reliable indicators, making them suitable for further analysis using SEM.

Table 2. Discriminant Validity Assessment

Variable	BS	BI	FM	FP
Banking Services (BS)	0.835	0.837	0.852	0.821
Business Innovation (BI)	0.713	0.796	0.850	0.899
Financial Management (BM)	0.699	0.671	0.780	0.684
Financial Performance (FP)	0.716	0.785	0.570	0.823

Table 2 presents the discriminant validity analysis employing both traditional and contemporary methodological approaches: the Fornell-Larcker criterion (diagonal and lower triangle) and the more rigorous HTMT ratio analysis (upper triangle). This dual-method assessment aligns with current methodological recommendations for establishing construct distinctiveness in variance-based structural equation modeling (Hair et al., 2019; Franke & Sarstedt, 2019).

The Fornell-Larcker assessment reveals that all constructs generally demonstrate adequate discriminant validity, with the square root of AVE for each construct (diagonal values) exceeding its correlation with other constructs in most cases (Fornell & Larcker, 1981). The banking services construct shows appropriate discriminant validity with its square root of AVE (0.835) exceeding correlations with other constructs (ranging from 0.699 to 0.716). Similarly, the financial management construct demonstrates sufficient distinctiveness with its square root of AVE (0.780) surpassing its correlations with other constructs (0.570 to 0.699). However, the relatively high correlation between business innovation and financial performance (0.785) approaches the square root of AVE for business innovation (0.796), suggesting potential discriminant validity concerns when using this traditional criterion alone (Voorhees et al., 2016).

The HTMT ratio analysis, which addresses known limitations of the Fornell-Larcker approach, provides a more stringent assessment (Henseler et al., 2015). Following current methodological guidelines, HTMT values below 0.85 represent conservative evidence of discriminant validity, while values below 0.90 are considered acceptable in cases where constructs are conceptually proximate (Hair et al., 2022). The results reveal HTMT ratios ranging from 0.684 (between financial management and financial performance) to 0.899 (between business innovation and financial performance). The latter value, while below the 0.90 threshold, suggests substantial shared variance. Bootstrapped confidence intervals (not shown in the table but computed separately) for this HTMT ratio did not include 1.0, providing statistical support for discriminant validity despite the high point estimate (Franke & Sarstedt, 2019).

The elevated HTMT ratios between banking services and financial management (0.852) and between business innovation and financial management (0.850) also warrant consideration. While these slightly exceed the conservative threshold of 0.85, they remain within the more liberal criterion of 0.90 suggested for conceptually related constructs (Voorhees et al., 2016). These values align with theoretical expectations regarding the interrelationships among financial management practices, banking service utilization, and innovation activities in organizational contexts.

Cross-loading analysis provided additional support for discriminant validity, with all indicators loading more strongly on their respective constructs than on others, although some cross-loadings between business innovation and financial performance items approached significance. Collectively, these results indicate satisfactory discriminant validity across constructs, while acknowledging the theoretical proximity between

innovative activities and financial outcomes. This observed pattern is consistent with established theoretical frameworks that suggest innovation is a proximal antecedent of financial performance, while maintaining sufficient empirical distinction to warrant treating them as separate constructs in subsequent structural model evaluation (Rosenbusch et al., 2011).

Table 3 presents the results of the structural model evaluation, showing direct path coefficients between constructs and their statistical significance, as determined by bootstrap resampling. This analysis reveals the magnitude, direction, and significance of hypothesized relationships within the theoretical framework.

Table 3. Hypothesis Testing

Hypothesis	Path	Coefficient	t-statistics	p-value	Decision
H1	Business Innovation -> Banking Services	0.443	5.568	0.000	Supported
H2	Financial Management -> Banking Services	0.403	4.799	0.000	Supported
H3	Business Service-> Financial Performance	0.345	4.173	0.000	Supported
H4	Business Innovation -> Financial Performance	0.579	7.949	0.000	Supported
H5	Financial Management -> Financial Performance	-0.060	0.786	0.216	Not Supported

Table 3 presents the results of the hypothesis testing for the proposed research model. Five hypotheses were examined to evaluate the relationships among business innovation, financial management, banking services, and financial performance. The results indicate that business innovation has a positive and significant effect on banking services (H1, β = 0.443, t = 5.568, p < 0.000), supporting the hypothesis. Similarly, financial management positively influences banking services (H2, β = 0.403, t = 4.799, p < 0.000), and bank services have a positive and significant impact on financial performance (H3, β = 0.345, t = 4.173, p < 0.000), indicating that effective utilization of banking services contributes to improved organizational financial outcomes. Business innovation also positively affects financial performance (H4, β = 0.579, t = 7.949, p < 0.000), indicating that internal capabilities enhance access to banking services. However, the direct effect of financial management on financial performance was not significant (H5, β = -0.060, t = 0.786, p = 0.216), suggesting that financial management practices alone are insufficient to directly enhance financial performance. The findings highlight the critical contribution of banking services and demonstrate that business innovation exerts a stronger influence on financial performance compared to financial management.

Table 4. Total Effect

Variable	BS	BI	FM	FP
Banking Services (BS)				0.345
Business Innovation (BI)	0.443			0.732
Financial Management (FM)	0.403	0.079		0.139
Financial Performance (FP)		0.153	0.139	

Table 4 presents the total effects among the constructs in the structural model, encompassing both direct and indirect relationships. Business Innovation (BI) exhibits the largest total effect on Financial Performance (FP) (β = 0.732), reflecting a strong direct impact as well as a significant indirect effect through Banking Services (BS). This indicates that business innovation substantially enhances financial performance both directly and via banking services. Banking services shows a moderate total effect on FP (β = 0.345), highlighting its role as both a direct performance driver and a mediating mechanism.

Financial Management (FM) has a stronger total effect on BS (β = 0.403) than on FP (β = 0.139), suggesting that its influence on financial performance is primarily channeled through banking service utilization rather than direct impact. The relationship between BI and FM is relatively small (β = 0.079), indicating limited complementarity between business innovation and financial management capabilities. Thus, these findings emphasize that business innovation is the primary driver of financial performance, with banking services serving as an important mediating mechanism, while financial management contributes indirectly through its interaction with banking services.

DISCUSSION

This study examined the complex interrelationships between business innovation, financial management, banking services, and financial performance among micro, small, and medium enterprises in the Indonesian fashion industry. The empirical findings reveal nuanced relationships and mediation effects that extend current theoretical understanding while providing important practical implications. The results indicate that business innovation has a strong direct effect on financial performance confirming innovation as the primary driver of performance. This finding aligns with and extends the resource-based view proposed by Barney (2001), demonstrating that innovation-based capabilities constitute valuable, rare, and difficult-to-imitate resources that generate competitive advantage in the context of Indonesian fashion SMEs. The magnitude of this effect is particularly notable as it exceeds typical effect sizes reported in prior innovation-performance studies (Rosenbusch et al., 2011; Rousseau et al., 2016).

In addition to its direct effect, business innovation also influences financial performance indirectly through enhanced utilization of banking services. This complementary mediation pattern by Zhao et al. (2010) suggests that innovative firms not only create market-facing advantages but also develop superior capabilities to leverage external financial resources effectively. The total effect of business innovation on financial performance indicates that innovation capabilities explain over half of the variance in performance outcomes, highlighting their strategic significance (Hair et al., 2019). The relationship between business innovation and banking service utilization further illustrates how innovation facilitates beneficial interactions with financial institutions. Innovative firms likely present attributes that make them attractive to banks, including better financial documentation, greater transparency, compelling growth narratives, and improved risk profiles. This finding extends financial intermediation theory by identifying firm-level innovation capabilities as key determinants of banking relationship quality, a dimension often underexplored in traditional intermediation models (Beck et al., 2008).

Banking services play an important role in improving financial performance through better working capital management, lower transaction costs, stronger risk management capabilities, and broader access to financial resources (Beck & Demirguc-Kunt, 2006). The findings also indicate that effective financial management contributes to stronger utilization of banking services, which supports business operations and organizational growth. This relationship reflects the importance of firm–bank collaboration as a strategic value-creation system rather than merely a transactional service relationship (Basu & Palazzo, 2008).

Interestingly, financial management did not exhibit a significant direct effect on financial performance, contrary to theoretical expectations and prior empirical findings (Mazzarol et al., 2015). This finding suggests that financial management practices alone may not be sufficient to improve organizational performance within the context of Indonesian SMEs, where institutional limitations and market imperfections remain prevalent (Tambunan, 2008). Nevertheless, effective financial management still plays an important role in supporting organizational stability, resource planning, and financial decision-making.

The findings further reveal the complex relationship between organizational capabilities and financial performance. Business innovation emerged as the primary

driver of financial performance through market expansion, operational efficiency, and enhanced customer value creation. Meanwhile, banking services contribute significantly to organizational performance by supporting liquidity management, access to capital, and financial flexibility. These results provide a deeper understanding of capability–performance linkages, particularly in resource-constrained and institutionally challenging environments such as Indonesian SMEs (Beck et al., 2008; Khanna & Palepu, 2010).

CONCLUSION

This study examined the relationships between business innovation, financial management, banking services, and financial performance among fashion industry MSMEs in Indonesia. The findings indicate that business innovation serves as the primary driver of financial performance through market expansion, operational efficiency, and enhanced customer value creation. Meanwhile, banking services also contribute significantly to improving financial performance by supporting access to capital, liquidity management, and financial flexibility. In contrast, financial management did not show a significant direct effect on financial performance, although it remains important in supporting organizational stability and effective financial decision-making. These findings highlight the importance of internal capabilities and external financial support in strengthening MSME performance. Practically, MSME managers should prioritize innovation development as a strategic approach to improve competitiveness and organizational performance while maintaining effective financial management and strong relationships with financial institutions.

For policymakers, the findings underscore the need for policy frameworks that simultaneously support capability development and financial access. Financial institutions may consider MSMEs with strong innovation and financial management capabilities to be attractive client segments, offering tailored services to maximize performance. The study has several limitations. The cross-sectional research design restricts the ability to draw definitive causal inferences, and the focus on Indonesian fashion MSMEs may limit generalizability to other sectors or contexts. Future research is recommended to employ longitudinal designs, conduct cross-industry or cross-country comparisons, explore additional mechanisms beyond banking services, and investigate moderating factors such as firm size, ownership structure, or institutional characteristics. These extensions would provide a deeper understanding of the boundary conditions affecting the effectiveness of organizational capabilities in generating sustainable performance advantages.

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