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The Effect of Access to Capital on The Financial Performance of MSMEs with Moderation if Market Competition and Sustainability Practices

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ABSTRACT

Purpose: This study aims to examine the effect of capital access on the financial performance of SMEs and to see how market competition and sustainability practices moderate this relationship.

Method: The study uses a quantitative approach with a sample of 180 SME actors in Yogyakarta obtained through convenience sampling techniques. Data analysis was conducted using multiple linear regression and Moderated Regression Analysis (MRA).

Finding: The results show that capital access affects the financial performance of SMEs , and market competition and sustainability practices also have a significant positive effect on financial performance. In addition, sustainability practices have been proven to strengthen the influence of capital access on the financial performance of SMEs.

Novelty: This research adds market competition and sustainability practices as factors that moderate the relationship between capital access and financial performance. These findings highlight the importance of access to financing, market strategies, and sustainability for enhancing the competitiveness of SMEs.

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INTRODUCTION

MSMEs are one of the strategic economic sectors that have an important role in supporting national economic development. Its role is not only reflected in its contribution to the creation of job opportunities, but also to the formation of Gross Domestic Product (GDP), the provision of goods and services, and its ability to maintain economic stability, especially when there is a crisis (Idawati & Pratama, 2020). In the Special Region of Yogyakarta (DIY), MSMEs function as the backbone of the community's economy. Based on data from the DIY Cooperatives and MSMEs Office, the number of MSMEs as of 2024 will reach more than 345,000 units, spread across five districts/cities (Dinas Koperasi dan UMKM DIY, 2024). This large number confirms that the MSME sector is the main driver of the regional economy as well as a provider of employment for most people.

Despite playing a very important role, MSMEs in Yogyakarta and in general still face various problems that can hinder the development of their business. One of the crucial issues is access to capital (Nababan et al., 2023). Capital is a vital element for carrying out business activities, including the purchase of raw materials, asset investment, production capacity development, and market expansion. Unfortunately, many MSME actors have not been able to obtain capital from formal financial institutions such as banks. This obstacle is caused by factors such as limited collateral, lack of credit history, low financial literacy, and long administrative processes (Ulfasari, 2023). These limitations often force MSMEs to use high-interest informal financing sources, which, although easily accessible, actually increase business costs and reduce long-term financial stability (Hutabarat, 2021). Capital is thus still a critical issue that demands serious attention from the government and financing institutions (Suardana, 2020).

In addition to capital issues, MSMEs also face serious challenges in the form of increasingly fierce market competition. Globalization, the development of digital technology, and ease of access to information have changed the pattern of competition to become increasingly competitive (Ramadhan, 2018). MSMEs now not only compete with local business actors, but also with products outside the region and even imported products that are relatively cheap and varied. This competition directly requires MSMEs to improve product quality, strengthen innovation, differentiate, and respond quickly to changes in consumer tastes. MSMEs that fail to keep up with market changes risk declining sales, losing customers, and ultimately not being able to survive (Gunawan Aji et al., 2023). Therefore, competitiveness is a very important determining factor for the performance of MSMEs. Market competition must be understood as the intensity of competition, innovation capabilities, and marketing strategies carried out by MSME actors themselves.

In the midst of this intense competition, there is an urgent need for MSMEs to implement *sustainability practices*. Sustainability in the context of MSMEs includes three aspects: economic, social, and environmental. Sustainability practices are not only about preserving the environment, but also about production efficiency, waste reduction, wise use of energy, and the creation of environmentally friendly product innovations (Poerwanto et al., 2019). Modern consumers are increasingly concerned about environmental issues and tend to choose products that are considered safe, quality, and have a positive impact. The implementation of sustainability practices not only has a positive impact on business reputation, but is also proven to be able to increase operational cost efficiency in the long term (Damert et al., 2021). MSMEs that apply this principle tend to be more adaptive and have a greater chance of surviving fluctuating economic conditions (Harymawan et al., 2022), making sustainability an important strategy to increase competitiveness (Nuskha et al 2021).

Given the urgency of these problems, this study focuses on the relationship between access to capital, market competition, sustainability practices, and the financial performance of MSMEs in Yogyakarta. Although previous studies have addressed the influence of access to capital on performance, there have not been many studies that have included the variables of market competition and sustainability practices as important factors in strengthening these relationships. Thus, this study has an academic urgency to enrich the literature related to factors that affect the

performance of MSMEs. By understanding how these three factors are interconnected, it is hoped that it can provide practical implications for MSMEs to increase competitiveness and achieve better financial performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Resources Based View (RBV) Theory

The RBV theory was first proposed by Wernerfelt (1984). This theory explains how a business can strengthen and expand its business based on the internal assets it owns. Resources in this context are defined as significant capital associated with the success or weakness of a business. Fundamentally, RBV focuses on how businesses can provide a competitive advantage by leveraging existing strengths. An ideal organization, according to this theory, is one that is able to provide a competitive environment, implement effective strategies, and leverage core strengths to overcome obstacles and achieve business goals (Sono et al., 2023).

Access to Capital

Access to capital is defined by Ketoy and Naruanarnd as the ability to obtain capital with certain constraints. It covers various aspects, such as outside equity capital, cost credit, cost processing loans, installment requirements, and loan procurement procedures. Accessibility stability itself refers to the level of ease and stability that can be achieved by an individual or a group of people in meeting their needs, both through means and infrastructure. This principle makes accessibility an important factor that must be considered in the analysis of economic systems. However, this access has not been fully achieved by MSMEs due to the problem of high interest rates and limited guarantees. Easy access to capital for MSMEs is very important because it can increase national economic growth and provide a safe source of information (Ramadhan, 2018).

Financial Performance of MSMEs

Financial performance is an analysis that is carried out to evaluate the extent to which a company has carried out its activities by following the rules of financial implementation properly and correctly. This analysis involves evaluating past performance, predicting the company's future prospects, and reviewing past performance for future improvements (Hutabarat, 2021). Wijaya & Khoironi (2021) added that financial performance is an analysis that describes the financial condition of a company and is shown in financial statements. This financial statement serves as an indicator of the company's success in carrying out its financial activities efficiently and effectively.

MSME Market Competition

Competition is a term in the management dictionary that involves two or more businesses, where each is supported by the most favorable price quote. The structure of the market in a business, whether for selling goods or services, is very important because it allows the identification of the relative size of the company and the intensity of competition that exists in the market (Nababan, Panjaitan, Siregar, & Sudirman, 2023). The performance of each business in the market is largely determined by the structure of market competition. The market structure includes market share, concentration, and barriers to entry for new traders. Analysis of market structure is necessary because it can affect the efficiency of actions and the performance of the industry of the business operations themselves.

MSME Sustainability Practices

Business sustainability refers to the stability of business conditions, where its operational systems function continuously, including in terms of business expansion and growth (Suardana, 2020). Given that MSMEs are one of the most important economic factors, the sustainability of MSMEs has a significant impact on national business and economic activities. The sustainability of MSMEs requires self-adjustment to market and technological advances (Coordinating Ministry for the Economy, 2022). With digitalization, MSMEs can expand the market and increase productivity, and can continue to operate even without proper instructions. Therefore, MSMEs need technology

investment and training from the government. In addition, the sustainability of MSMEs is also greatly influenced by the managerial skills of the business concerned (Yuslem et al., 2023).

Hypothesis Development

The Effect of Capital Access on the Financial Performance of MSMEs (H1)

Access to capital significantly increases the production capacity of MSMEs and encourages efficiency in operational management (Ramadhan, 2018). This finding is consistent with Hutabarat (2021), who stated that the ease of obtaining business capital financing is positively correlated with revenue growth and business profitability. Putri et al. (2023) also found that access to capital has a positive and significant effect on the development of MSMEs, especially in increasing competitiveness and product innovation.

H1: Access to capital has a positive effect on the financial performance of MSMEs

The Influence of Market Competition on the Financial Performance of MSMEs (H2)

The structure of market competition greatly affects business efficiency and performance, especially in the MSME sector (Nababan et al., 2023). Research by Gunawan Aji et al. (2023) confirms that high competition intensity tends to reduce the financial performance of MSMEs, especially if it is not balanced with product differentiation. In line with that, Suardana & Musmini (2020) stated that the financial performance of MSMEs is greatly influenced by the level of competition in the market.

H2: Market competition has a positive effect on the financial performance of MSMEs

Access to capital affects the financial performance of MSMEs with moderation of sustainability practices

The success of business capital management is greatly influenced by the sustainability strategies implemented by MSMEs (Serly Darmayanti et al., 2022). Azhari Hutabarat (2020) stated that sustainability practices can strengthen the relationship between resource inputs and financial outputs through cost efficiency and increased customer loyalty. Thus, sustainability practices are believed to be able to strengthen the relationship between access to capital and the financial performance of MSMEs.

H3: Access to capital has a positive effect on the financial performance of MSMEs with moderation of sustainability practices

Market competition affects the financial performance of MSMEs with moderation of sustainability practices

MSMEs that apply sustainability principles have better resilience to market changes and economic crises (Ulfasari, 2023). Sustainability practices increase the level of consumer confidence, which has an impact on increasing revenue and operating profit (Harymawan et al., 2022). Poerwanto et al. (2019) also found that the implementation of sustainable business models is able to create social innovation and strengthen business competitiveness.

H4: Market competition has a positive effect on the financial performance of MSMEs with moderation of sustainability practices

RESEARCH METHODOLOGY

This study uses a quantitative descriptive approach by utilizing primary data. Primary data was collected through the distribution of questionnaires to respondents using *the google form* platform. The sampling method used is convenience sampling. The population in this study is all MSME actors domiciled in Yogyakarta, with a total population of 345,886. There were 209 respondents who managed to fill out the questionnaire, but after the screening process, the data used for the research was 180 respondents.

The research variables were measured using the Likert scale. The Likert scale is used to measure the opinions, attitudes, and perceptions of a person or a group of people regarding a social phenomenon (Sugiyono, 2019). The scale used in this study is a 5-*point likert scale* that has the same interval (Hartono, 2017), including Strongly Agree, Agree, Neutral, Disagree, and Strongly Disagree (Sugiyono, 2019). The variables tested included Access to Capital, Market Competition, Financial Performance, and Sustainability Practices. The instrument consists of 7 questions for Capital Access, 7 questions for Market Competition, 7 questions for Financial Performance, and 6 questions for MSME Sustainability, so that the total number of questions is 27.

Before the actual data collection was carried out, the researcher had carried out a *pilot* test using 30 respondents. Instruments that have been proven to be valid and reliable are then used in the research. Data processing is carried out using IBM SPSS software version 27. The data analysis techniques applied in this study are multiple linear regression and Moderated Regression Analysis (MRA). In addition, to produce valid inferences despite indications of heteroscedasticity, this study also conducted a Robust Test using *Robust Standard Error* (RSE)

RESULTS AND DISCUSSION

The data of this research was obtained by distributing questionnaires to MSME actors in Yogyakarta. The collection was carried out by distributing the questionnaire link through the google form. There were 209 respondents who filled in. respondents who were then used for research. The following is a distribution table of research samples.

Table 1.5
Research Distribution Data

Information	Sum
Questionnaires received	209
Unused questionnaires	29
Response Rate: 180/209 x 100%	86,1%
Data obtained	180

Data Quality Test Results

Validity Test

This study used 180 respondents obtained through a questionnaire by distributing a google form link. Data tabulation is done using Microsoft Excel software. Then the data is processed using SPSS IBM 27. Before the research was carried out, the researcher had conducted a pilot test using 30 respondents. Valid and reliable instruments are then used for actual research. Based on the results of data processing, it can be seen that in this study there are 7 questions from the Capital Access variable, 7 questions from the market competition variable, 7 questions from the performance variable, and 6 questions from the sustainability of MSMEs. So the total questions from this study are 27 questions with 180 respondents.

Reliability Test

Based on the results of the data processing, all the variables tested (financial performance, access to capital, market competition, and business sustainability) were proven to be reliable. This is indicated by *a Cronbach Alpha* value greater than 0.6.

Normality Test

The data normality test aims to test whether the data used in the study has a normal data distribution or not. The regression criteria are good if they have normal or near-normal data distribution. The normality test in this study used a one-sample Kolmogorov-Smirnov (K-S) statistical test with the help of the IBM SPSS version 27 program.

Based on the results of data processing, an Asymp value was obtained. Sig (2-tailed) is 0.89. This value is greater than the normality value limit of 0.05 so that the residual is normally distributed and can strengthen the assumption of normality in the regression model of this study.

Moderate Regression Analysis (MRA)

The test was carried out to see if sustainability can moderate independent variables on dependent variables. Based on the results of the data processing that has been carried out, it can be seen that the F value is calculated as 37.364 (F table) and the significance value is 0.000 < 0.05. This indicates that there is a significant influence of the variables of access to capital, market competition, and strengthened by sustainability as a moderation variable, on financial performance simultaneously or simultaneously.

Table 1
Statistical Test Results t

Coefficient

Type	***Unstandardized Coefficients***		***Standardized Coefficients***	***t***	***Sig***
	B	***Std. Error***	***Beta***		
(Constant)	-19.489	12.321		-1.582	.115
Access to Capital	2.021	.451	2.616	4.486	<,001
Market Competition	-.424	.406	-.549	1.044	<,001
Sustainability	1.389	.482	1.368	2.882	.004
Access to Capital*Sustainability	-.069	.017	-3.636	-4.015	<,001
Market Competition*Sustainability	.025	.016	1.412	1.588	.014

a. *Dependent Variable*: Financial performance

Source: Primary Data, processed 2025

Based on table 1, the results of the statistical test t obtained from data processing using the IBM SPSS version 27 program can be seen that the results of the first hypothesis test (H1) obtained a significance value of 0.001. This shows that the significance value is smaller than the significant level of 0.001 >0.05, meaning that access to capital affects the financial performance of MSMEs. Therefore, H1 which states that fiscal services have an effect on the compliance of MSME taxpayers is supported.

The second hypothesis test (H2), obtained a significance value of 0.001 that is smaller than the predetermined significance level of 0.05, then, it can be concluded that market competition affects the financial performance of MSMEs. Therefore, H2 states that tax incentives have an effect on the compliance of supported MSME taxpayers.

The third hypothesis test (H3), obtained a significance value of 0.004 smaller than the predetermined significance level of 0.05, then, it can be concluded that sustainability affects the compliance of MSME taxpayers. Therefore, H3 states that sustainability affects the compliance of supported MSME taxpayers.

The fourth hypothesis test (H4), obtained a significance value of 0.001 smaller than the predetermined significance level of 0.05, therefore, it can be concluded that sustainability has a significant influence in moderating the relationship between capital access and the financial performance of MSMEs. Therefore, stating that sustainability can positively moderate the relationship between access to capital and the financial performance of MSMEs is supported.

Robust Test

The results of the regression model estimation using Robust Standard Error (RSE) are presented in Table 1.7. The use of RSE aims to produce valid inferences even though there are indications of heteroscedasticity in the data. The results showed that the variable X1 had a positive and significant influence on Y, with a regression coefficient (B) of 0.205 (p-value = 0.030). The X2 variable also showed a positive and very significant influence on Y, with a coefficient value of B = 0.264 (p-value = 0.000). Furthermore, the Z variable is the most dominant predictor, having a positive coefficient of 0.707 and very statistically significant (p-value < 0.001). Overall, the hypothesis that X1, X2, and Z have a significant effect on Y is proven to be supported by the data.

Table 2
Parameter Estimates with Robust Standard Error

Parameters		*B*	*Robust Std. Error*	t	*Sig.*
1	*(intercept)*	-2,180	2,274	-,795	,428
	X1	,205	,140	1,469	,030
	X2	,262	,160	1,640	,000
	Z	,707	,097	7,287	<,001

Dependent Variable: Y

DISCUSSION

The results of the study consistently show that access to capital, market competition, and sustainability practices have a positive and significant influence on the financial performance of MSMEs in Yogyakarta. Easy access to capital has been proven to be able to increase business profits because loan funds are used for development. These findings are consistent with Lambey et al. (2018). Fierce market competition encourages MSMEs to be more innovative, efficient, and adaptive, thereby increasing sales and profits. These results are in line with the theory of Porter (2008) as well as the research of Sari & Lestari (2020) and Rahmawati & Hadi (2021).

Furthermore, sustainability practices have proven to be crucial in improving business reputation, cost efficiency, and customer loyalty. These findings are in line with the study of Herlina & Suparman (2021). Most importantly, the results of the moderation test show that sustainability practices are able to strengthen the relationship between access to capital and financial performance. Sustainable MSMEs are considered more transparent and low-risk, making it easier to obtain financing that ultimately optimizes financial performance. These findings are supported by Fitriana & Putra (2022).

CONCLUSION AND RECOMMENDATIONS

This quantitative research used 180 respondents of MSME actors in Yogyakarta to examine the influence of access to capital, market competition, and business sustainability on the financial performance of MSMEs[151]. Based on the hypothesis test, it can be concluded that Access to Capital has a positive effect on the financial performance of MSMEs, in line with Lambey et al. (2018). Market competition also has a positive effect, confirming that fierce competition encourages increased competitiveness and financial performance (Sari & Lestari, 2020; Rahmawati & Hadi, 2021). Similarly, Sustainability Practices have been proven to have a positive effect, resulting in more stable and prospective financial performance (Herlina & Suparman, 2021). In addition, sustainability practices have been proven to moderate (strengthen) the relationship between capital

access and the financial performance of MSMEs, as sustainable MSMEs are more trusted by investors and financial institutions (Fitriana & Putra, 2022). The *Adjusted R Square value* of 0.538 indicates that the variables in the model simultaneously explain 53.8% of the performance variation.

Based on the results of the research, it is suggested that the government strengthen the MSME ecosystem through more partisan policies. This can be realized through expanding access to inclusive financing, both through subsidized credit programs and supervised technology-based financing support. The government is also expected to maintain a healthy competitive climate by preventing monopoly practices and providing a wider space for local products. Furthermore, the government needs to encourage sustainability practices by providing fiscal incentives, facilitating certifications, and mentoring programs, so that MSMEs are able to increase long-term competitiveness in a sustainable manner.

CONFLICT OF INTEREST

The authors declare that there are no conflicts of interest regarding the publication of this manuscript

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