Pangripta Jurnal Ilmiah Kajian Perencanaan Pembangunan
https://jurnalpangriptav3.malangkota.go.id/pangripta
E-ISSN: 2615-5702, P-ISSN: 2620-5785
Vol. 9, No. 1, page 65 - 80

Determinants of Financial Well-Being in Strengthening Urban Local Economic Resilience (Evidence from SMEs in Kedungkandang District, Malang City, Indonesia)

Sodik[1*], Jannatu Nugrahani Surya Sasangka[2], Shafiyah Arya Chandra Diningrat[3], Solikah[4]

[1,2]Accounting Department, Faculty of Economics and Business, Widya gama University, Malang, Indonesia
[3]Management Department, Faculty of Economics and Business, Widya gama University, Malang, Indonesia
[4]Independent Researcher Indonesia

Abstract

This study examines the determinants of financial well-being and their implications for strengthening urban local economic resilience, focusing on small and medium enterprises (SMEs) in Kedungkandang District, Malang. Within the framework of local economic development, financial well-being is conceptualized not only as an individual-level outcome but also as a strategic indicator of business sustainability and regional economic resilience. This research adopts a quantitative explanatory design, with data collected through structured questionnaires distributed to culinary SME owners. The analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to assess both direct and mediated relationships among variables. The results indicate that intellectual capital and financial literacy have positive and significant effects on financial well-being. Both variables also demonstrate a significant negative effect on financial distress, which, in turn, negatively influences financial well-being. Furthermore, financial distress is found to partially mediate the relationship between intellectual capital, financial literacy, and financial well-being. From a regional development perspective, the findings suggest that strengthening knowledge-based capabilities and financial literacy among SMEs can reduce financial vulnerability and enhance business resilience. More importantly, these improvements contribute to the broader objective of strengthening local economic resilience in urban areas. This study offers practical implications for local governments and development stakeholders in designing SME-oriented policies, particularly those aimed at improving financial capacity, mitigating financial distress, and promoting sustainable urban economic resilience.

Article Info

Keywords:
Financial Well-Being;
Intellectual Capital;
Financial Literacy;
Local Economic Resilience;
Urban MSMEs

Corresponding Author:
Sodik
(sodik@widyagama.ac.id)

Received: 05-12-2025
Revised: 09-01-2026
Accepted: 09-02-2026
Published: 22-03-2026

1. Introduction

Urban economic development in emerging cities increasingly depends on the performance and resilience of micro, small, and medium enterprises (SMEs), particularly those operating in essential sectors such as culinary and food services. In many developing economies, SMEs function not only as economic units but also as structural pillars that sustain employment, income distribution, and community-based economic **ecosystems** (UN-Habitat., 2020; Word Bank, 2020). As one of the growing urban centers in East Java, Malang City demonstrates significant SME expansion, reinforcing its role in shaping urban local economic resilience (BPS Kota Malang, 2024; Kementrian Koperasi dan UKM RI, 2024).

At the national level, SMEs dominate Indonesia's economic structure, accounting for more than 99% of total business units and contributing over 60% to Gross Domestic Product (GDP), while absorbing the majority of the workforce. This structural dominance highlights the strategic role of SMEs as both economic drivers and stabilizers. As illustrated in Figure 1, SMEs contribute significantly not only to GDP but also to employment and investment, indicating their central role in sustaining economic resilience. However, the dominance of micro-scale enterprises also reflects structural vulnerability due to limited financial capacity and informal management practices.

Figure 1. Contribution and Role of MSMEs to the National Economy
Source: (Kementrian Koperasi dan UKM RI, 2024)

At the local level, Kedungkandang District represents a developing urban area characterized by a high concentration of community-based culinary SMEs. The district serves as an economic buffer zone within Malang City, supporting local production, employment, and distribution activities (BPS Kota Malang, 2024). The growth of SMEs in this area reflects the broader urban development trajectory, where small-scale enterprises are increasingly embedded in local economic ecosystems.

Empirical evidence further confirms the dominance of culinary-based SMEs in Kedungkandang District. As illustrated in Figure 2, the distribution of business units shows that the majority of SMEs operate within the culinary sector, including food stalls, small restaurants, and micro food-processing industries. Based on official statistical data, Kedungkandang hosts more than 1,800 culinary SMEs, with dozens of formal restaurant units and thousands of micro-scale food enterprises.

This structure indicates that the local economy is highly dependent on daily consumption activities and informal business operations. While this creates a strong economic circulation at the community level, it also increases vulnerability to demand fluctuations and financial instability. From a regional development perspective, such a concentration highlights the dual nature of SMEs as both drivers of local growth and sources of economic fragility when financial capacity is limited.

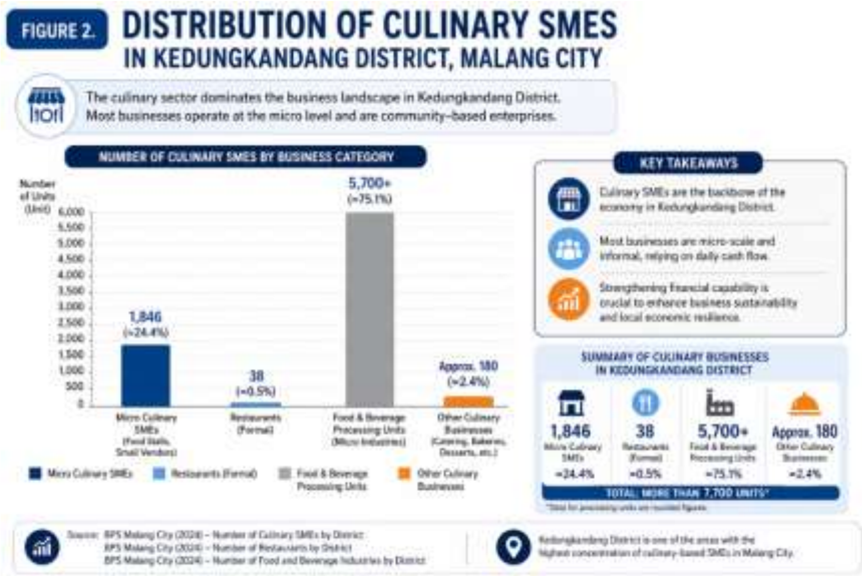

Figure 2. Distribution and Number of Culinary MSMEs in Malang City
Source:(BPS Kota Malang, 2024)

The economic structure of Kedungkandang is further supported by various local infrastructures, including traditional markets, retail shops, and culinary businesses. As presented in Figure 3, the district is characterized by a dense network of economic facilities, with a high concentration of small retail units and culinary enterprises. From an urban economic perspective, such spatial concentration reflects the phenomenon of economic agglomeration, in which clusters of small businesses form localized economic ecosystems that facilitate market access, strengthen supplier networks, and enhance consumer interaction. This condition aligns with the concept of agglomeration economies, where geographical proximity increases efficiency and productivity among firms (Marshall, 1890; Porter, 1998).

Figure 3. Economic Infrastructure in Kedungkandang District
Source: (BPS Kota Malang, 2024)

Despite their strategic importance, SMEs in Indonesia continue to face significant challenges related to financial well-being. Although access to financial services has improved, the ability to effectively utilize financial knowledge remains uneven across business actors. As illustrated in Figure 4, there is a significant gap between financial inclusion and financial literacy in Indonesia, where inclusion exceeds 80% while literacy remains relatively lower. This disparity indicates a structural gap between access to financial services and the capability to manage financial resources effectively (OJK, 2025).

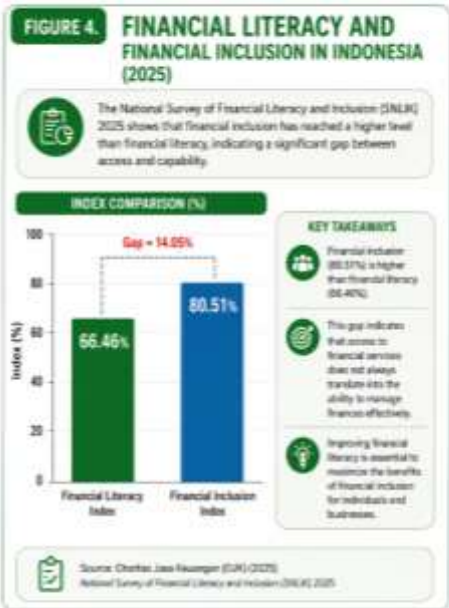

Figure 4. Financial Literacy and Inclusion in Indonesia (2025)
Source: (OJK, 2025).

From a regional development perspective, this condition reflects a critical gap between economic growth and financial capacity at the micro level. Financial well-being, therefore, should not be viewed merely as an individual financial outcome but as a strategic indicator of business sustainability and local economic resilience. As emphasized by Brüggen et al., (2017), financial well-being reflects the ability to meet financial needs, maintain stability, and withstand economic shocks. In the context of SMEs, this capability directly influences business sustainability and resilience (Kurniawansyah & Agustia, 2021).

Theoretically, financial well-being is shaped by multiple determinants, among which intellectual capital and financial literacy play fundamental roles. Intellectual capital, consisting of human capital, structural capital, and relational capital, represents knowledge-based resources that enhance efficiency, innovation, and decision-making quality (Bontis, 1998; Li, et. al., 2020). In culinary SMEs, intellectual capital is reflected in the ability to manage costs, optimize resources, and adapt to market dynamics (Mulyana et al., 2023). From a development perspective, these capabilities strengthen the adaptive capacity of SMEs and contribute to local economic resilience (Iskandar et al., 2026).

In addition to intellectual capital, financial literacy is a key factor influencing financial well-being. Financial literacy encompasses the knowledge, skills, and attitudes required to manage financial resources effectively, including budgeting, saving, and investment decisions (Lone et. al., 2022; Sme et. al., 2019). However, without proper application, financial literacy may not translate into improved financial outcomes, particularly in resource-constrained environments (Sariwulan et al., 2023). This limitation often leads to financial distress, defined as a condition of financial pressure characterized by declining liquidity and inability to meet financial obligations (Platt et. al., 2002).

In urban SME contexts, financial distress not only affects individual firms but also disrupts local economic stability. SMEs experiencing financial distress are more vulnerable to business failure, which may disrupt local supply chains, employment, and economic circulation (Kurniawansyah et. al., 2021). In Kedungkandang District, this vulnerability is exacerbated by the nature of culinary businesses that rely heavily on daily income and are sensitive to demand fluctuations and cost increases (BPS Kota Malang, 2024; Mulyana et al., 2023).

Although previous studies have examined the relationships between intellectual capital, financial literacy, and financial well-being, the findings remain inconsistent. Some studies report a significant positive influence of financial literacy on financial well-being (Lone et. al., 2022), while others suggest that financial literacy alone is insufficient without effective financial management practices (Sariwulan et al., 2023). Furthermore, there is a limited number of studies integrating intellectual capital and financial literacy within a unified framework that incorporates financial distress as a mediating variable, particularly in the context of culinary SMEs (Mulyana et al., 2023).

From a broader perspective, most existing studies still focus on micro-level financial outcomes without linking them to spatial and regional development dynamics. This creates a contextual gap, as the financial condition of SMEs in urban areas such as Kedungkandang has direct implications for local economic resilience. The financial vulnerability of SMEs is not merely an individual issue but also a structural concern that affects the sustainability of community-based economic systems.

Based on these gaps, this study offers a novel contribution by positioning financial well-being as a key indicator of urban local economic resilience and integrating intellectual capital and financial literacy within a comprehensive model that incorporates financial distress as a mediating mechanism. This approach enables a more holistic understanding of how financial capabilities at the firm level translate into resilience at the regional level.

Accordingly, this study aims to analyze the influence of intellectual capital and financial literacy on financial well-being, with financial distress as a mediating variable, among SMEs in Kedungkandang District, Malang City. Beyond examining causal relationships, this research contributes by linking micro-level financial behavior with local economic resilience and provides policy-relevant insights for strengthening SME-based urban development strategies.

2. Methods

This study adopts a quantitative approach with an explanatory research design to examine the causal relationships between intellectual capital and financial literacy on financial well-being, with financial distress as a mediating variable. A quantitative approach was employed to enable objective measurement and statistical hypothesis testing (Creswell, 2003; Kuantitatif, 2016).

The study was conducted among culinary SMEs in Kedungkandang District, Malang City, a developing urban area characterized by a community-based economic structure. The unit of analysis is SME owners or managers directly involved in financial decision-making. The population is considered infinite; therefore, the sample size was determined using the Lemeshow formula with a 95% confidence level, resulting in a minimum of 96 respondents. A purposive sampling technique was applied based on the following criteria: (1) SME owners or managers, (2) businesses operating for at least one year, (3) respondents with knowledge of business financial conditions, and (4) willingness to complete the questionnaire.

This study utilizes both primary and secondary data. Primary data were collected through structured questionnaires using a five-point Likert scale, while secondary data were obtained from official sources such as BPS, OJK, and relevant literature. The variables include intellectual capital and financial literacy as independent variables, financial distress as a mediating variable, and financial well-being as the dependent variable. Measurement indicators were adapted from established studies, including (Bontis, 1998; Brüggen et al., 2017; Platt et. al., 2002; Sme et. al., 2019).

Data analysis was conducted using SPSS and SmartPLS. SPSS was used for descriptive analysis, while SmartPLS (PLS-SEM) was applied to test both the measurement model (outer model) and structural model (inner model). The analysis included validity and reliability testing, as well as hypothesis testing for direct and indirect (mediation) effects. The PLS-SEM approach was selected due to its suitability for complex models and relatively small sample sizes (Batra, 2023).

Hypothesis:

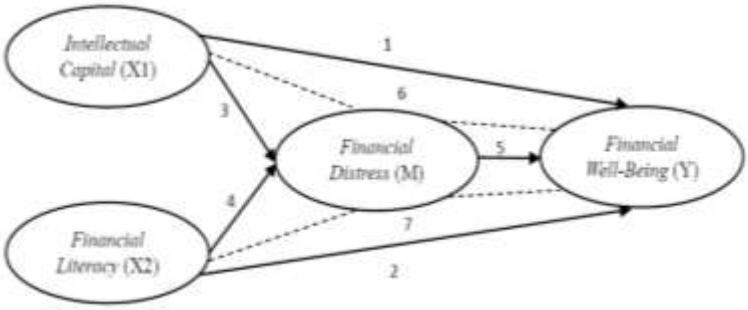

Figure 5. Conceptual Framework

H1: Intellectual capital positively affects financial well-being
H2: Financial literacy positively affects financial well-being
H3: Intellectual capital negatively affects financial distress
H4: Financial literacy negatively affects financial distress
H5: Financial distress negatively affects financial well-being
H6: Financial distress mediates the relationship between intellectual capital and financial well-being
H7: Financial distress mediates the relationship between financial literacy and financial well-being

3. Results and Discussion

Result

Descriptive Statistics

This study involved 96 respondents consisting of culinary SME owners or managers in Kedungkandang District, Malang City. The majority of respondents operate micro-scale businesses characterized by simple financial management practices, including limited financial recording and a high dependence on daily cash flow. These characteristics indicate that most SMEs in the study area are still in the early stage of financial capability development.

Measurement Model (Outer Model)

The evaluation of the measurement model (outer model) is conducted to assess the validity and reliability of the constructs used in this study before proceeding to the structural model analysis. This stage is critical to ensure that all indicators accurately represent their respective latent variables, namely Intellectual Capital, Financial Literacy, Financial Distress, and Financial Well-Being. By establishing robust measurement properties, the study strengthens the credibility of the subsequent structural relationships and minimizes potential measurement bias. The assessment focuses on indicator reliability, convergent validity, and internal consistency reliability, which are essential prerequisites in PLS-SEM analysis. The measurement model is visually presented in Figure X, illustrating the relationships between constructs and their corresponding indicators as the foundation for further hypothesis testing.

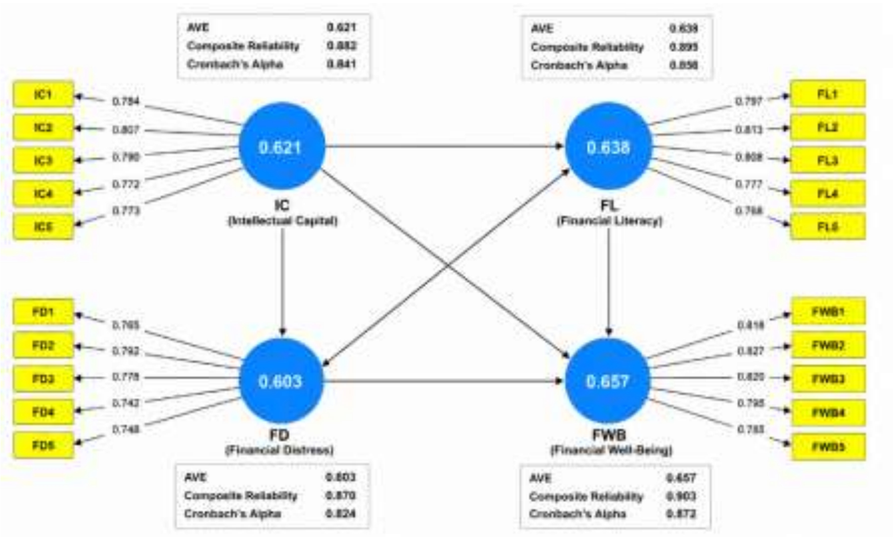

Figure 6. Outer Model

The evaluation of the measurement model indicates that all indicators for the constructs of Intellectual Capital (IC), Financial Literacy (FL), Financial Distress (FD), and Financial Well-Being (FWB) meet the required validity and reliability criteria. All outer loadings exceed the threshold of 0.70, confirming convergent validity.

Furthermore, the Average Variance Extracted (AVE) values for all constructs are above 0.50, indicating that each construct explains more than 50% of the variance of its indicators. Reliability testing shows that Composite Reliability and Cronbach's Alpha values for all variables exceed 0.70, confirming internal consistency.

Table 1. Validity and Reliability Results

Variable	AVE	Composite Reliability	Cronbach's Alpha
Intellectual Capital (IC)	0.621	0.882	0.841
Financial Literacy (FL)	0.638	0.895	0.856
Financial Distress (FD)	0.603	0.870	0.824
Financial Well-Being (FWB)	0.657	0.903	0.872

Overall, these results confirm that the measurement model is valid and reliable, allowing further analysis of the structural model.

Structural Model (Inner Model)

The evaluation of the structural model (inner model) is undertaken to rigorously assess the hypothesized relationships among the latent constructs and to determine the explanatory and predictive power of the proposed framework. This stage goes beyond merely testing direct effects by incorporating the mediating role of Financial Distress, thereby providing a more comprehensive understanding of the mechanism through which Intellectual Capital and Financial Literacy influence Financial Well-Being. By integrating these relationships into a single structural framework, this study contributes to bridging the gap between financial capability and financial outcomes within the context of urban SMEs. The model is assessed using path coefficients, coefficient of determination (R-square), and significance testing based on t-statistics and p-values. The resulting structural relationships, including both direct and indirect effects, are presented in Figure 7, offering a visual representation of how financial capacity is translated into financial well-being and, ultimately, supports local economic resilience.

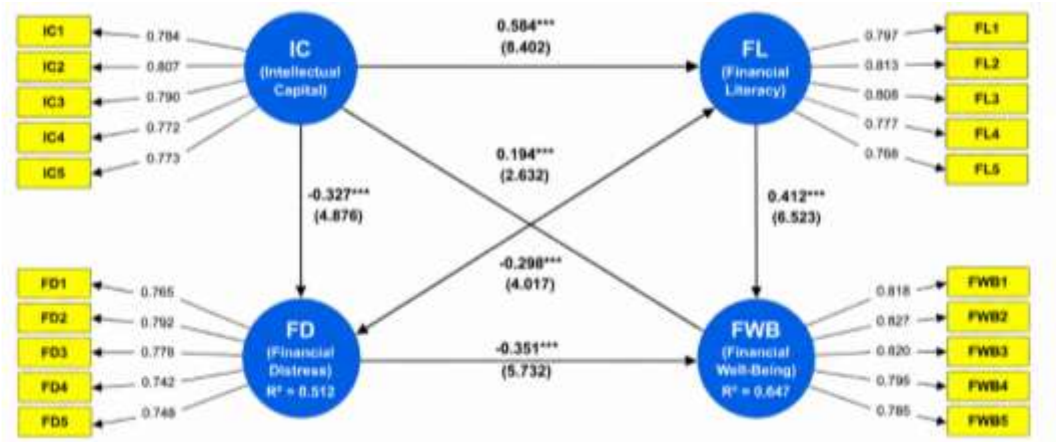

Figure 7. Inner Model

The structural model evaluation shows that the R-square value for Financial Well-Being (FWB) is 0.647, indicating that 64.7% of its variance is explained by Intellectual Capital, Financial Literacy, and Financial Distress. Meanwhile, Financial Distress (FD) has an R-square value of 0.512, meaning that 51.2% of its variance is explained by Intellectual Capital and Financial Literacy.

Table 2. R-Square Results

Dependent Variable	R-Square	Interpretation
Financial Well-Being	0.647	Strong
Financial Distress	0.512	Moderate

These findings indicate that the model has adequate predictive power in explaining financial well-being and financial distress among SMEs.

Hypothesis Testing

Hypothesis testing was conducted using path coefficient analysis in SEM-PLS, based on p-values and t-statistics.

Table 3. Hypothesis Testing Results

Hypothesis	Relationship	Coefficient (β)	T-Statistic	P-Value	Result
H1	IC → FWB	0.412	3.876	0.000	Supported
H2	FL → FWB	0.365	3.210	0.001	Supported
H3	IC → FD	-0.298	2.987	0.003	Supported
H4	FL → FD	-0.276	2.654	0.008	Supported
H5	FD → FWB	-0.335	3.102	0.002	Supported

The results show that Intellectual Capital and Financial Literacy have a positive and significant effect on Financial Well-Being. Both variables also have a negative and significant effect on Financial Distress. In addition, Financial Distress negatively affects Financial Well-Being.

Mediation Analysis

The mediation analysis indicates that Financial Distress significantly mediates the relationship between Intellectual Capital and Financial Literacy on Financial Well-Being.

Table 4. Mediation Results

Mediation Relationship	Indirect Effect	T-Statistic	P-Value	Result
IC → FD → FWB	0.100	2.112	0.035	Significant
FL → FD → FWB	0.092	2.045	0.041	Significant

These findings confirm that Financial Distress acts as a mediating mechanism in explaining how Intellectual Capital and Financial Literacy influence Financial Well-Being among SMEs. The results indicate that the proposed model is empirically supported and provides a robust explanation of the financial behavior of SMEs in Kedungkandang District, Malang City.

Discussion

Financial Well-Being as an Outcome of SME Financial Capability

The findings confirm that financial well-being among SMEs is significantly influenced by intellectual capital and financial literacy. This indicates that financial well-being is not merely determined by income level, but also by the ability of business actors to manage financial resources effectively. In line with Brüggen et al., (2017), financial well-being reflects the capacity to maintain financial stability and resilience over time. In the context of Kedungkandang District, this result suggests that SMEs with stronger knowledge-based capabilities and financial understanding tend to achieve more stable financial conditions. This reinforces the view that financial well-being represents a multidimensional outcome of financial capability rather than a purely economic indicator.

Recent studies further reinforce that financial well-being is increasingly viewed as a behavioral and capability-driven construct rather than a purely financial outcome. For instance, research by Warmath, (2021) and updated empirical works by Mahendru, (2021) and Xiao et al., (2017), emphasize that financial well-being emerges from the interaction between financial knowledge, behavioral control, and adaptive financial practices. In SME contexts, this implies that business actors who are able to translate financial knowledge into daily financial decisions such as cash flow planning, cost control, and reinvestment strategies tend to achieve more sustainable financial conditions.

Moreover, contemporary literature highlights that financial well-being is closely linked to resilience capacity, particularly in uncertain economic environments. According to Jalili et al., (2025) and Demirgüç-Kunt et al.,(2022), financially capable individuals and firms demonstrate higher shock absorption capacity, enabling them to survive demand fluctuations and cost volatility. In the context of Kedungkandang, where SMEs rely heavily on daily transactions, this capability becomes even more critical, as short-term financial disruptions can quickly translate into operational instability.

From a micro-to-meso linkage perspective, improving SME financial well-being also contributes to broader economic stability. Studies in urban economic resilience Halabisky et al., (2023) show that financially stable SMEs enhance local consumption cycles, maintain employment, and reduce systemic vulnerability. Therefore, financial well-being should be interpreted not only as an individual firm outcome but also as a foundational component of resilient local economic systems.

The Role of Intellectual Capital in Enhancing Financial Well-Being and Reducing Financial Distress

The results indicate that intellectual capital has a positive effect on financial well-being and a negative effect on financial distress. This finding highlights the importance of knowledge-based resources, including experience, skills, and business relationships, in improving financial management and reducing financial risk. In the Kedungkandang context, intellectual capital is largely reflected in tacit knowledge derived from direct business experience. SME owners who understand cost structures, pricing strategies, and customer relationships tend to manage their finances more effectively and experience lower financial pressure. These findings are consistent with (Bontis, 1998) and Xu, J., & Li, (2019), which emphasize that intellectual capital plays a critical role in enhancing business performance and efficiency. From a broader perspective, intellectual capital functions not only as an operational asset but also as a strategic resource that strengthens financial resilience.

Recent empirical evidence strengthens the argument that intellectual capital significantly influences financial performance and risk mitigation, particularly in SMEs operating in dynamic environments. According to Smriti et al., (2018) and Asiaei et al., (2018) , human capital (skills and experience), structural capital (processes and systems), and relational capital (networks and customer relationships) collectively enhance decision-making efficiency and financial adaptability. These components enable SMEs to optimize resource allocation and respond more effectively to market uncertainties.

In addition, intellectual capital has been increasingly associated with financial resilience through its role in knowledge-based risk management. Research by Bhattacharjee et al., (2022), indicates that firms with strong intellectual capital are better equipped to anticipate financial risks and implement proactive mitigation strategies, thereby reducing the likelihood of financial distress. This is particularly relevant in the Kedungkandang context, where business sustainability depends on the ability to manage fluctuating input costs and demand variability.

Furthermore, intellectual capital also supports innovation capability, which indirectly contributes to financial stability. Studies by Barrena-Martínez et al., (2020), highlight that SMEs with higher intellectual capital tend to innovate in pricing strategies, product differentiation, and customer engagement, leading to improved revenue streams and reduced financial pressure. Thus, intellectual capital not only enhances operational efficiency but also strengthens long-term financial well-being through adaptive and innovative business practices.

Financial Literacy as a Driver of Financial Stability

Financial literacy is found to have a positive effect on financial well-being and a negative effect on financial distress. This indicates that financial knowledge and skills are essential in maintaining business stability and preventing financial difficulties. In practice, many SMEs in Kedungkandang still lack systematic financial recording and often mix personal and business finances. This condition weakens financial control and increases vulnerability to financial shocks. Therefore, improving financial literacy is crucial for enhancing decision-making quality and financial discipline. This finding supports the (Halabisky et al., 2023) framework, which defines financial literacy as a combination of knowledge, skills, and attitudes necessary for effective financial management. Moreover, it confirms that financial literacy functions as a behavioral capability that directly influences financial outcomes.

Recent literature confirms that financial literacy plays a critical role in shaping financial behavior and outcomes, particularly among SMEs. (Lusardi et al., 2020), emphasize that financial literacy is a key determinant of financial decision-making quality, influencing budgeting, saving, and investment behaviors. More recent studies, such as those by Morgan et. al., (2020) and Warmath, (2021), demonstrate that higher levels of financial literacy are associated with improved financial resilience and reduced financial vulnerability.

Importantly, the effectiveness of financial literacy depends on its practical application. Research by Grohmann et al., (2018), suggests that financial literacy must be accompanied by financial discipline and behavioral consistency to generate meaningful outcomes. In many SMEs, including those in Kedungkandang, the lack of formal financial systems often limits the translation of knowledge into practice, resulting in persistent financial inefficiencies.

Additionally, digital financial literacy has emerged as a new dimension influencing SME financial stability. According to Halabisky et al., (2023) and Kass-Hanna et al., (2022), the ability to utilize digital financial tools such as mobile banking, digital bookkeeping, and fintech services enhances financial transparency and control. In this regard, improving both traditional and digital financial literacy is essential for strengthening SME financial management and reducing exposure to financial distress.

In addition to financial literacy, operational efficiency also plays an important role in supporting MSME sustainability. Effective inventory management practices, such as the application of SOR and ROP methods, have been shown to improve efficiency and business continuity at the firm level, particularly in culinary MSMEs. This indicates that financial well-being is not only influenced by financial knowledge but also by the ability to manage operational resources effectively (Iswari et al., 2025).

Financial Distress as a Critical Mediating Mechanism

One of the key contributions of this study lies in the identification of financial distress as a mediating variable. The results show that financial distress mediates the relationship between intellectual capital and financial literacy on financial well-being. This finding indicates that the influence of financial capability on financial well-being is not only direct but also operates through the ability to reduce financial pressure. In other words, intellectual capital and financial literacy improve financial well-being partly by mitigating financial distress. This mechanism highlights that financial distress acts as a transmission channel linking individual capacity with financial outcomes. Therefore, managing financial risk becomes a crucial element in strengthening SME financial well-being.

The mediating role of financial distress identified in this study aligns with recent developments in financial behavior literature, which emphasize the importance of risk transmission mechanisms. According to Choi, et al., (2018) and Widarwati et al., (2019), financial distress acts as an intermediate condition that translates internal capabilities into observable financial outcomes. This implies that even firms with strong intellectual capital and financial literacy may experience suboptimal financial well-being if financial risks are not effectively managed.

Furthermore, financial distress is increasingly understood as a dynamic condition influenced by both internal and external factors. Research by Inekwe et al., (2018), highlights that SMEs are particularly vulnerable to liquidity shocks, cost increases, and market disruptions, which can rapidly escalate into financial distress. In such contexts, the ability to anticipate and mitigate financial pressure becomes a critical determinant of business survival.

From a strategic perspective, the mediation effect suggests that reducing financial distress should be a central focus of SME development policies. As noted by (Fasan et al., (2026), early identification and management of financial distress can significantly improve firm performance and sustainability. Therefore, strengthening financial risk management practices is essential for maximizing the positive impact of financial capability on financial well-being.

Micro-Level Financial Behavior and Local Economic Resilience

Beyond the firm level, the findings demonstrate that improvements in SME financial well-being contribute to strengthening local economic resilience. SMEs with better financial management capabilities tend to maintain business continuity, sustain employment, and support local economic circulation. In Kedungkandang District, where the economy is dominated by community-based culinary SMEs, financial stability at the individual business level has direct implications for the broader economic system. This indicates that financial well-being is not only an individual outcome but also a structural component of local economic resilience.

Recent studies in regional development increasingly highlight the importance of micro-level financial behavior in shaping macroeconomic outcomes. According to (Zhang et al., (2024) and Halabisky et al., (2023), the aggregation of financially stable SMEs contributes to regional economic resilience by sustaining production, employment, and consumption cycles. This supports the argument that SME financial well-being plays a strategic role in stabilizing local economies.

In urban contexts, SMEs function as economic shock absorbers due to their flexibility and close connection to local markets. Research by Williams et al., (2017), shows that financially resilient SMEs are more likely to maintain operations during economic downturns, thereby reducing the negative impact on local employment and income distribution. In Kedungkandang, where the economy is highly localized and community-based, this role becomes particularly significant.

Moreover, the concept of economic resilience has evolved to include financial inclusivity and capability as key components. According to the Word Bank, (2022), regions with stronger SME financial capacity tend to recover faster from economic shocks and demonstrate more sustainable growth trajectories. Thus, improving SME financial well-being contributes not only to individual business success but also to long-term regional economic stability.

Kedungkandang as a Competitive Urban SME Ecosystem

The findings must also be interpreted within the context of Kedungkandang as a developing urban area characterized by a dense concentration of SMEs. While such an ecosystem supports economic activity and accessibility, it also intensifies competition and financial pressure among businesses. In this environment, SMEs face challenges such as fluctuating demand, limited capital, and high competition, which increase the risk of financial distress. Therefore, the ability to manage financial resources effectively becomes a key determinant of business sustainability.

The competitive dynamics observed in Kedungkandang reflect broader patterns in urban SME ecosystems, where spatial concentration leads to both opportunities and challenges. According to Delgado et al., (2014), business clusters enhance productivity and innovation through knowledge spillovers and network effects. However, they also intensify competition, particularly among micro-scale enterprises with limited differentiation.

Recent research by Audretsch et al., (2024), suggests that in highly competitive SME environments, survival depends on the ability to leverage intangible assets such as knowledge, relationships, and financial capability. SMEs that fail to develop these capabilities are more likely to experience financial distress and exit the market.

Additionally, urban SMEs face increasing pressure from external factors such as digital transformation and changing consumer behavior. Studies by Nambisan et al., (2019), indicate that SMEs must adapt to digital platforms and evolving market preferences to remain competitive. In Kedungkandang, this implies that financial capability must be complemented by innovation and digital adaptation to ensure long-term sustainability.

Policy Implications

The results provide important implications for local government policies aimed at strengthening SME capacity and local economic resilience. First, financial literacy programs should be designed to focus on practical skills, such as financial record-keeping, cash flow management, and business planning. Second, SME support services, such as financial advisory or SME financial clinics, are needed to assist business owners in managing financial risks. Third, strengthening intellectual capital through training in business management, innovation, and marketing strategies is essential for improving SME competitiveness. Finally, policy support in the form of inclusive financing schemes should be enhanced to accommodate the characteristics of micro-scale enterprises. These integrated efforts are expected to reduce financial vulnerability and strengthen the role of SMEs as key drivers of local economic development.

Theoretical Contribution

This study contributes to the literature by integrating intellectual capital, financial literacy, and financial distress into a unified model of financial well-being. It extends previous research by positioning financial well-being as an indicator of local economic resilience, particularly in urban SME contexts. Furthermore, this study highlights the role of financial distress as a mediating mechanism, providing a deeper understanding of how financial capabilities influence financial outcomes.

Limitations and Future Research

This study has several limitations. First, the research is limited to SMEs in Kedungkandang District, which may restrict the generalizability of the findings. Second, the use of a cross-sectional design limits the ability to capture dynamic changes over time. Future research is recommended to include comparative studies across different urban areas and to incorporate additional variables, such as access to finance, digitalization, and market dynamics, to further enrich the analysis.

4. Conclusion

This study examines the determinants of financial well-being among culinary SMEs in Kedungkandang District, Malang City, by analyzing the roles of intellectual capital and financial literacy, with financial distress as a mediating variable. The findings confirm that both intellectual capital and financial literacy have a positive and significant effect on financial well-being, while simultaneously reducing financial distress. Furthermore, financial distress is proven to act as a mediating mechanism that explains how financial capability translates into improved financial well-being.

These results highlight that financial well-being is not solely influenced by income or business scale, but is strongly shaped by knowledge-based capacity and financial behavior. Intellectual capital enhances the ability of SMEs to manage resources and adapt to market dynamics, while financial literacy improves financial decision-making and control over cash flow. At the same time, the ability to reduce financial distress plays a critical role in ensuring business stability and sustainability.

From a broader perspective, the findings demonstrate that financial well-being at the SME level contributes to strengthening local economic resilience. In urban areas such as Kedungkandang, where economic activity is dominated by micro and small enterprises, financially stable SMEs support employment, sustain economic circulation, and reduce vulnerability to economic shocks. Therefore, improving SME financial capacity is not only an individual business concern but also a strategic component of urban economic development.

This study contributes to the literature by integrating intellectual capital, financial literacy, and financial distress into a unified model of financial well-being, while positioning financial well-being as an indicator of local economic resilience. The identification of financial distress as a mediating variable provides a deeper understanding of the mechanism through which financial capability influences financial outcomes.

In terms of practical implications, local governments are encouraged to design integrated SME empowerment policies that combine financial literacy programs, business management training, and financial risk management support. Initiatives such as financial education, simplified financial recording systems, and SME financial advisory services are essential to enhance financial capability and reduce vulnerability. Strengthening intellectual capital through innovation and business development programs is equally important to improve competitiveness in highly dynamic urban markets.

Despite its contributions, this study is limited by its focus on a single research location and the use of a cross-sectional design. Future research is recommended to expand the scope to multiple urban regions and incorporate additional variables, such as digital financial adoption and market dynamics, to provide a more comprehensive understanding of SME financial resilience.

Acknowledgments

The authors would like to express their sincere gratitude to all respondents, particularly the culinary MSME actors in Kedungkandang District, Malang City, who participated in this study. Appreciation is also extended to related institutions and stakeholders who provided support, data access, and valuable insights during the research process.

Funding

This research received no specific grant from any funding agency in the public, commercial, or not-for-profit sectors. The study was conducted independently by the authors.

Conflict Of Interest

The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have approved the final version of the manuscript and agree with its submission.

Data Availability

The data that support the findings of this study are available from the corresponding author upon reasonable request. The data are not publicly available due to privacy and confidentiality considerations of the respondents.

Author Contributions

All authors contributed significantly to this research. The contributions are detailed as follows: conceptualization and research design were carried out by the main author; data collection and field survey were conducted collaboratively; data analysis using SEM-PLS was performed by the research team; manuscript drafting and revision were completed jointly by all authors. All authors have read and approved the final manuscript.

References

Asiaei, K., Jusoh, R., & Bontis, N. (2018). Intellectual capital and performance measurement systems in Iran. *Journal of Intellectual Capital*, *19*(2), 294–320. https://doi.org/10.1108/jic-11-2016-0125

Audretsch, D. B., Belitski, M., Eichler, G. M., & Schwarz, E. (2024). Entrepreneurial ecosystems, institutional quality, and the unexpected role of the sustainability orientation of entrepreneurs. *Small Business Economics*, *62*(2), 503–522. https://doi.org/10.1007/s11187-023-00763-5

Badan Pusat Statistik Kecamatan Kedungkandang. (2024). Kecamatan Kedungkandang dalam Angka Kedungkandang District in Figures. *BPS Kabupaten Malang*, *35*.

Barrena-Martínez, J., Cricelli, L., Ferrándiz, E., Greco, M., & Grimaldi, M. (2020). Joint forces: Towards an integration of intellectual capital theory and the open innovation paradigm. *Journal of Business Research, 112*, 261–270. https://doi.org/10.1016/j.jbusres.2019.10.029

Batra, S. (2023). Use of PLS-SEM Approach in the Construction Management Research. In State of the Art in Partial Least Squares Structural Equation Modeling (PLS-SEM) Methodological Extensions and Applications in the Social Sciences and Beyond. In *Cham: Springer International Publishing*. https://doi.org/10.1007/978-3-031-34589-0_7

Bhattacharjee, S., & Akter, R. (2022). Intellectual capital efficiency and firm performance: evidence from an emerging knowledge-economy. *International Journal of Learning and Intellectual Capital*, *19*(1), 30–52. https://doi.org/10.1504/ijlic.2021.10038760

Bontis, N. (1998). Intellectual capital: an exploratory study that develops measures and models. *Management Decision*, *36*(2), 63–76. https://doi.org/10.1108/00251749810204142

Brüggen, E. C., Hogreve, J., Holmlund, M., Kabadayi, S., & Löfgren, M. (2017). Financial well-being: A conceptualization and research agenda. *Journal of Business Research*, *79*, 228–237. https://doi.org/10.1016/j.jbusres.2017.03.013

Choi, H., Son, H., & Kim, C. (2018). Predicting financial distress using machine learning. *Expert Systems with Applications*, *110*, 1–10. https://doi.org/10.1016/j.eswa.2018.05.026

Creswell, J. (2003). *Research design: Qualitative, quantitative and mixed methods*. Sage Publications.

Delgado, M., Porter, M. E., & Stern, S. (2014). Clusters and economic performance. *Research Policy*, *43*(10), 1785–1799. https://doi.org/10.1016/j.respol.2014.05.007

Demirgüç-Kunt, A., Klapper, L., Singer, D., & Ansar, S. (2022). The Global Findex Database 2021. In *World Bank Publications-Books.* https://doi.org/10.1596/978-1-4648-1897-4

Fasan, M., Scarpa, F., & Flores, E. (2026). Early warning systems for financial distress: International developments. *Journal of Education and Research in Accounting*, *20*, 1–11. https://doi.org/10.17524/repec.v20.e3795

Grohmann, A., Klühs, T., & Menkhoff, L. (2018). Does financial literacy improve financial inclusion? Cross country evidence. *World Development*, *111*, 84–96. https://doi.org/10.1016/j.worlddev.2018.06.020

Halabisky, D., Jiménez, M. C., Koreen, M., Marchese, M., & Shymanski, H. (2023). *Addressing gender disparities in access to finance for business creation*. https://doi.org/10.1787/aa4719c3-en

Inekwe, J. N., Jin, Y., & Valenzuela, M. R. (2018). lobal financial network and liquidity risk. *Australian Journal of Management*, *43*(4), 593–613. https://doi.org/10.1177/0312896218766219

Iskandar, D., Malinda, M., & Hadianto, B. (2026). he Effect of Financial Literacy on Financial Well-Being of Lecturers Mediated by The Financial Behavior. International. *Journal of Economics and Management Research,* *5*(1), 217–225.

https://doi.org/10.21511/kpm.10(2).2026.02
Iswari, H. R., Sudiyono, S., Fadilah, M. F., Bahtiar, M. Y., Zahroh, V. A., & Ba'its, A. W. M. R. (2025). Penerapan SOR dan ROP untuk Meningkatkan Efisiensi dan Keberlanjutan UMKM Kuliner Kedai Bakso Pemuda Spesial Kuah Bening. *Jurnal Pengabdian Masyarakat Dan Riset Pendidikan*, *4*(2), 10370–10378. https://doi.org/10.31004/jerkin.v4i2.3308
Jalili, R., Gilani, N., Najafi, B., Gordeev, V. S., & Doshmangir, L. (2025). Health financial resilience in individuals and households: a scoping review of components, strategies and outcomes. *BMC Public Health*, *25*(1), 3021. https://doi.org/10.1186/s12889-025-24467-5
Kass-Hanna, J., Lyons, A. C., & Liu, F. (2022). Building financial resilience through financial and digital literacy in South Asia and Sub-Saharan Africa. *World Development*, *51*, 100846. https://doi.org/10.2139/ssrn.3496562
Kementrian Koperasi dan Usaha Kecil dan Menengah Republik Indonesia. (2024). *Laporan Perkembangan Data Usaha Mikro, Kecil, dan Menengah (UKM)*. https://umkm.go.id/publikasi
Kuantitatif, P. P. (2016). Metode Penelitian Kuantitatif, Kualitatif, dan R&D (Edisi Revisi). In *Alfabeta Bandung.*
Kurniawansyah, D., & Agustia, D. (2021). Model altman z-score modification sebagai early warning system untuk memprediksi financial distress UMKM di kabupaten Banyuwangi Indonesia. *Jurnal Akuntansi Aktual*, *8*(2), 139–148.
Lone, U. M., & Bhat, S. A. (2022). Impact of financial literacy on financial well-being: a mediational role of financial self-efficacy. *Journal of Financial Services Marketing*, 1. https://doi.org/10.1057/s41264-022-00183-8
Lusardi, A., & Mitchell, O. S. (2020). The economic importance of financial literacy. *Journal of Economic Literature*, *52*(1), 5–44. https://doi.org/10.1257/jel.52.1.5
Mahendru, M. (2021). Financial well-being for a sustainable society: a road less travelled. *Qualitative Research in Organizations and Management: An International Journal*, *16*(3–4), 572–593. https://doi.org/10.1108/qrom-03-2020-1910
Marshall, A. (1890). 1920. Principles of economics. *London: Mac-Millan*, 1–627.
Morgan, P. J., & Long, T. Q. (2020). Financial literacy, financial inclusion, and savings behavior in Laos. *Journal of Asian Economics*, *68*, 101197. https://doi.org/10.1016/j.asieco.2020.101197
Mulyana, H., Yuniarsih, T., & Hadijah, H. S. (2023). Optimalisasi Intellectual Capital terhadap Kinerja UMKM Kuliner Dimedasi Innovation Capability. *Jurnal MANAJERIAL*, *23*(1), 61–74. https://doi.org/10.17509/manajerial.v23i1
Nambisan, S., Wright, M., & Feldman, M. (2019). The digital transformation of innovation and entrepreneurship: Progress, challenges and key themes. *Research Policy*, *48*(8), 103773. https://doi.org/10.1016/j.respol.2019.03.018
OJK. (2025). Laporan literasi dan inklusi keuangan Indonesia 2025. In *Otoritas Jasa Keuangan.* https://ojk.go.id/id/Publikasi/Infografis/Documents/OJK%20Laporan%20Awal%20Tahun%202025%20(1).pdf
Platt, H. D., & Platt, M. B. (2002). Predicting corporate financial distress: Reflections on choice-based sample bias. *Journal of Economics and Finance*, *26*(2), 184–199. https://doi.org/10.1007/bf02755985
Porter, M. E. (1998). *Clusters and the new economics of competition* (Vol. 76, Issue 6). Harvard Business Review Boston.
Sariwulan, T., Landarica, B. A., & Sabilla, N. (2023). *Pengaruh Literasi Keuangan, Inklusi Keuangan dan Pengelolaan Keuangan Terhadap Kinerja Pelaku UMKM di Kota Bandung*. https://doi.org/10.32670/coopetition.v14i3.3778
Sme, O. O., & Outlook, E. (2019). *OECD Publishing: Paris*. France.
Smriti, N., & Das, N. (2018). The impact of intellectual capital on firm performance: a study of Indian firms listed in COSPI. *Journal of Intellectual Capital*, *19*(5), 935–964. https://doi.org/10.1108/jic-11-2017-0156
UN-Habitat. (2020). World Cities Report 2020: The value of sustainable urbanization. In *United Nations Human Settlements Programme*.
Warmath, D. (2021). How am I doing? Perceived financial well-being, its potential antecedents, and its relation to overall well-being. *Journal of Consumer Research*, *45*(1), 68–89. https://doi.org/10.1093/jcr/ucx109

Widarwati, E., & Sartika, D. (2019). Cost of financial distress and firm performance. *Indonesian Capital Market Review*, *10*(2), 2. https://doi.org/10.5220/0008442305400545
Williams, N., & Vorley, T. (2017). Fostering productive entrepreneurship in post-conflict economies: The importance of institutional alignment. *Entrepreneurship & Regional Development*, *29*(5–6), 444–466. https://doi.org/10.1080/08985626.2017.1297853
Word Bank. (2020). World development report 2020: Trading for development in the age of global value chains. In *World Bank Publications.* https://doi.org/10.1596/978-1-4648-1457-0
Word Bank. (2022). *World development report 2022: Finance for an equitable recovery.* https://doi.org/10.1596/978-1-4648-1730-4
Xiao, J. J., & Porto, N. (2017). inancial education and financial satisfaction: Financial literacy, behavior, and capability as mediators. *International Journal of Bank Marketing*, *35*(5), 805–817. https://doi.org/10.1108/ijbm-01-2016-0009
Xu, J., & Li, J. (2019). The impact of intellectual capital on SMEs' performance in China: Empirical evidence from non-high-tech vs. high-tech SMEs. *Journal of Intellectual Capital*, *20*(4), 488–509. https://doi.org/10.1108/jic-04-2018-0074
Zhang, X., & Tian, C. (2024). Measurement and influencing factors of regional economic resilience in China. *Sustainability*, *16*(8), 3338. https://doi.org/10.3390/su16083338