



## The Influence of Working Capital on MSME Sustainability with Liquidity Level as a Mediator

Gregorius Paulus Tahu<sup>1</sup>, Yenny Verawati<sup>1</sup>, Dominicus Djoko Budi Susilo<sup>1</sup>

<sup>1</sup>Faculty of Economics and Business, Mahasaraswati University Denpasar

\*Corresponding Author: Gregorius Paulus Tahu

E-mail: [gregori\\_tahu@unmas.ac.id](mailto:gregori_tahu@unmas.ac.id)



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### Abstract

Micro, Small, and Medium Enterprises (MSMEs) are a crucial pillar of Indonesia's economy, significantly contributing to the national GDP and absorbing the majority of the workforce. However, MSMEs face various challenges, particularly related to limited working capital and liquidity issues, which can threaten their business continuity. This study aims to analyze the impact of working capital on the sustainability of MSMEs, as well as the role of liquidity as a mediator in this relationship. Additionally, the study explores external factors, such as government policies and market changes, that influence MSME sustainability. Using a literature review method, this research examines previous studies on working capital management, liquidity, and external factors that support MSME sustainability. The findings indicate that well-managed working capital facilitates operations and enhances MSME competitiveness, while adequate liquidity functions as a crucial link ensuring business continuity. External factors, such as government policies, also play a significant role in creating an ecosystem that supports MSME growth. Therefore, this study suggests that MSMEs optimize their working capital management, improve financial literacy, and leverage financial technology to maintain business continuity. Furthermore, adequate policy support is essential to create a conducive environment for MSMEs.

## Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy. With more than 99% of businesses in Indonesia belonging to the MSME sector, this sector contributes approximately 60% to the national GDP and absorbs more than 97% of the workforce (Hidayat et al., 2022). MSMEs serve as a key driver of national economic resilience, supporting job diversity, and are one of the sectors capable of surviving and adapting during economic crises, including the recent COVID-19 pandemic. The sustainability of MSMEs is not only linked to the well-being of business owners but also has a direct impact on regional and national economies (Dutta et al., 2024; Msomi & Aliamutu, 2024; Saputra & Darmawan, 2023).

However, despite their vital role, MSMEs in Indonesia face significant challenges that threaten their business sustainability. One of the main challenges is the limited access to adequate working capital. Working capital is a crucial element that supports the smooth daily operations of MSMEs, such as procuring raw materials, paying wages, and meeting other financial obligations. Insufficient working capital can hinder business development and make it difficult for MSMEs to maintain operational continuity (Al Farisi & Fasa, 2022; Rosyadah et al., 2022; Roy et al., 2025). Additionally, liquidity issues often become a major obstacle that disrupts financial stability and threatens the long-term survival of MSMEs. The role of working capital in ensuring MSME business continuity is crucial, as it allows business owners to meet their

operational needs without falling into liquidity crises. MSME entrepreneurs often struggle with managing cash flow effectively, making them vulnerable to liquidity crises that can affect their competitiveness and ability to sustain their businesses. Therefore, it is essential for MSMEs to have effective working capital management strategies that support daily operations while ensuring financial liquidity remains stable (Firdarini & Prasetyo, 2020; Atamaya, 2025).

Beyond working capital management, external factors also influence MSME sustainability, such as government policies, market changes, and access to technology. MSMEs that can adapt to market changes and optimize technology tend to survive and grow more easily (Hokmabadi et al., 2024; Widiastini et al., 2023). On the other hand, MSMEs that lack access to the latest technology or are less adaptive to market shifts often struggle to sustain their businesses. Hence, MSME sustainability depends not only on internal management, such as working capital but also on the ability to respond to and adapt to global and local economic dynamics (Aulia et al., 2023).

In this context, research on the relationship between working capital and MSME sustainability becomes highly relevant, particularly by considering the role of liquidity as a mediator that can strengthen the impact of working capital on business sustainability. Previous studies have revealed that liquidity plays a significant role in ensuring business continuity, especially by bridging the gap between working capital needs and sufficient cash flow (Assibi, 2024). Thus, MSMEs with adequate and well-managed working capital are more likely to maintain operational sustainability amid economic challenges (Anisa & Anwar, 2021).

Furthermore, this study aims to provide a deeper understanding of the relationship between working capital, liquidity, and MSME sustainability. It seeks to identify the factors influencing MSME sustainability and offer practical recommendations for business owners, financial institutions, and government bodies to support the growth and development of the MSME sector. The findings of this research are expected to contribute positively to the formulation of more inclusive policies and the empowerment of MSMEs in Indonesia (Aryanti et al., 2022).

The sustainability of MSMEs depends not only on internal factors but also on their ability to access various resources from both public and private sectors. Therefore, this research will provide a more comprehensive insight into the role of working capital, liquidity, and external factors in maintaining MSME sustainability in Indonesia. With a better understanding, MSME entrepreneurs can make more informed decisions in managing their businesses and addressing existing challenges, allowing them to continue growing in an increasingly competitive market (Kusuma et al., 2022; Junaidi et al., 2025).

### **Problem Statement**

Based on the background explained, the research questions formulated in this study are as follows: 1) How does working capital affect the sustainability of MSMEs in Indonesia? 2) What is the role of liquidity as a mediator in the relationship between working capital and MSME sustainability? 3) What factors influence the management of working capital and liquidity in supporting the sustainability of MSMEs in Indonesia? 4) To what extent do external factors, such as government policies and market changes, affect MSME sustainability despite well-managed working capital and liquidity? 5) How can effective working capital management strategies help MSMEs survive and grow in the face of economic challenges?

### **Research Objectives**

Based on the research questions formulated, the objectives of this study are as follows: 1) To analyze the impact of working capital on the sustainability of MSMEs in Indonesia; 2) To identify the role of liquidity as a mediator in the relationship between working capital and

MSME sustainability; 3) To determine the factors influencing the management of working capital and liquidity in supporting MSME sustainability; 4) To explore the impact of external factors, such as government policies and market changes, on MSME sustainability despite optimal working capital and liquidity management. To propose effective working capital management strategies to help MSMEs survive and grow amid economic challenges.

## **Methods**

This study employs a literature review approach, in which the author organizes and examines previous research related to working capital, liquidity, and MSME sustainability. The data used comes from various sources such as journal articles, books, and relevant research reports. The literature selection process is conducted through verified academic platforms such as Google Scholar and PubMed to ensure the authenticity and relevance of the data. Articles focusing on working capital, liquidity, and MSME sustainability challenges will serve as the primary references in this study (Ramdhan, 2021).

At the analysis stage, the author will synthesize existing findings on the impact of working capital on MSME sustainability and the role of liquidity as a mediating variable, as well as analyze the relationship between these three variables. Additionally, a critical analysis will be conducted to identify gaps in existing research and potential developments in existing theories. The purpose of this analysis is to gain a deeper understanding of how efficient working capital management can enhance liquidity and contribute to MSME sustainability, as well as to identify areas that require further research (Ramdhan, 2021).

## **Results and Discussion**

This section summarizes the key findings from the literature relevant to the topic of the influence of working capital on MSME sustainability, with liquidity as a mediating factor.

### **The Influence of Working Capital on MSME Sustainability**

Based on research findings, working capital has a significant impact on the sustainability of MSMEs in Indonesia. Properly managed working capital influences the smooth operation, innovation capacity, and ability of MSMEs to survive in a highly competitive market (Firdarini & Prasetyo, 2020; Muntahanah et al., 2024). A study by Aryanti et al. (2022) found that adequate working capital ensures financial stability and reduces liquidity pressures commonly faced by MSMEs.

### **The Role of Liquidity as a Mediator**

Several studies suggest that liquidity functions as a mediator between working capital and MSME sustainability. As stated by Yusuf & Suherman (2021), maintained liquidity facilitates cash flow, which is essential for MSMEs to survive in the long term. This is further supported by Abid (2021), who found that MSMEs with high liquidity tend to be more resilient against economic crises and market volatility.

### **Factors Affecting Working Capital and Liquidity Management**

Effective working capital management requires a deep understanding of cash flow and operational cost control. Kusuma et al. (2022) highlight that external factors such as inflation rates, interest rates, and access to capital significantly affect MSME liquidity. Additionally, the success of working capital management depends on MSME managers' financial literacy and their ability to utilize financial technology (Aulia et al., 2023).

## **The Influence of External Factors on MSME Sustainability**

External factors, particularly government policies and market fluctuations, also play a significant role in MSME sustainability, even when working capital and liquidity management are optimized. According to Hidayat et al. (2022), government policies providing access to capital and financial incentives can enhance MSME performance and sustainability. However, global economic uncertainties and shifting market demands remain significant challenges for MSMEs.

## **Effective Working Capital Management Strategies**

This study also identifies working capital management strategies that can help MSMEs survive and grow, such as optimizing external funding sources, including bank loans and investors, as well as leveraging venture capital to expand market reach and capacity. Lestari & Raja (2020) emphasize the importance of product and service diversification to stabilize cash flow and expand market opportunities.

In this discussion, the researcher analyzes the findings from the reviewed literature to provide a deeper understanding of the influence of working capital on the sustainability of MSMEs in Indonesia.

## **Effective Working Capital Management Drives Sustainability**

The findings from Abid (2021) and Firdarini & Prasetyo (2020) align with this study, showing that optimal working capital positively impacts business efficiency and resilience in facing market fluctuations. Proper working capital management allows MSMEs to reinvest in their operations, strengthening their competitiveness.

## **Liquidity as a Bridging Factor in the Influence of Working Capital**

This study confirms the crucial role of liquidity in maintaining MSME sustainability. As stated by Yusuf & Suherman (2021) and Hidayat et al. (2022), liquidity acts as a "safeguard" to ensure business operations remain smooth, even when working capital fluctuates. With sufficient liquidity, MSMEs can avoid payment difficulties and continue making strategic investment decisions.

## **External Factors Influencing MSME Sustainability**

The influence of external factors, such as government policies, plays a significant role in supporting MSME sustainability. Even with well-managed internal operations, Muntahanah et al. (2024) and Saputro et al. (2024) highlight that policies facilitating access to financing and entrepreneurship training can enhance external aspects affecting MSMEs. Therefore, governments must continue supporting MSME financing access and implementing pro-MSME policies to create a more conducive ecosystem.

## **Sustainable Working Capital Management Strategies**

Based on the conclusions from Kusuma et al. (2022) and Lestari & Raja (2020), which emphasize the importance of diversification and financial literacy, sustainable working capital management relies not only on sufficient capital but also on the ability to assess risks and manage cash flow intelligently. MSMEs should be encouraged to adopt financial technology and digitalization systems to improve financial management efficiency.

Thus, the findings from this literature review indicate that working capital and liquidity play a crucial role in supporting MSME sustainability. However, external factors such as government policies and market conditions must also be considered simultaneously to ensure that MSMEs can operate sustainably amid a dynamic and challenging economic environment.

## Conclusion

Based on the findings and discussion, this study concludes that efficient working capital management plays a crucial role in supporting the sustainability of MSMEs in Indonesia. Properly managed working capital ensures smooth operations and enhances the competitiveness of MSMEs in an increasingly competitive market. Additionally, liquidity serves as a mediator that strengthens the relationship between working capital and business sustainability. MSMEs with good liquidity are better equipped to withstand economic challenges and financial crises, ensuring long-term business continuity.

However, external factors such as government policies and market changes continue to impact MSME sustainability, even when working capital management and liquidity are optimal. Therefore, pro-MSME policies are essential to expanding business growth opportunities. Effective working capital management strategies, including leveraging external funding sources and financial technology, can help MSMEs survive and grow amid economic challenges. With the right strategies and external support, MSMEs can continue to thrive despite economic uncertainties.

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