



Financial Sustainability of Culinary SMEs: Examining the Role of Working Capital and Liquidity in Makassar

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Abstrak: Usaha Kecil dan Menengah (UKM) memegang peranan penting dalam pembangunan ekonomi, khususnya di pasar berkembang seperti Indonesia. Di Makassar, sektor kuliner telah menjadi salah satu penggerak utama kegiatan ekonomi, namun banyak UKM yang mengalami kendala dalam pengelolaan keuangan, khususnya dalam pengelolaan modal kerja dan likuiditas. Penelitian ini bertujuan untuk menganalisis dampak modal kerja dan likuiditas terhadap kinerja UKM kuliner di Makassar. Penelitian ini menggunakan pendekatan kuantitatif, dengan mengumpulkan data dari 96 pemilik UKM melalui kuesioner terstruktur. Analisis ini menggunakan Structural Equation Modelling (SEM) dengan SmartPLS 4. Hasil penelitian menunjukkan bahwa likuiditas memiliki pengaruh positif yang signifikan terhadap kinerja UKM, sedangkan modal kerja tidak menunjukkan pengaruh yang signifikan secara statistik. Hal ini menunjukkan bahwa stabilitas keuangan, khususnya kemampuan untuk memenuhi kewajiban jangka pendek, sangat penting bagi keberlanjutan UKM di industri kuliner. Namun, pengelolaan modal kerja yang efisien saja tidak menjamin keberhasilan bisnis, yang berarti bahwa faktor lain seperti efisiensi operasional dan strategi pasar mungkin memegang peranan yang lebih dominan. Hasil ini memberikan wawasan berharga bagi pemilik UKM, pembuat kebijakan, dan lembaga keuangan dalam merumuskan strategi untuk meningkatkan pertumbuhan dan ketahanan UKM. Penelitian di masa mendatang disarankan untuk mengeksplorasi variabel tambahan yang memengaruhi kinerja UKM, seperti literasi keuangan, transformasi digital, dan aksesibilitas pendanaan eksternal.

Kata kunci: UKM, Modal Kerja, Likuiditas, Kinerja Bisnis, Industri Kuliner, Makassar

Abstract: Small and Medium Enterprises (SMEs) play a crucial role in economic development, particularly in emerging markets such as Indonesia. In Makassar, the culinary sector has become one of the primary drivers of economic activity, yet many SMEs struggle with financial management, particularly in working capital and liquidity management. This study aims to analyze the impact of working capital and liquidity on the performance of culinary SMEs in Makassar. The research employs a quantitative approach, collecting data from 96 SME owners through structured questionnaires. The analysis utilizes Structural Equation Modelling (SEM) with SmartPLS 4. The findings indicate that liquidity has a significant positive effect on SME performance, while working capital does not exhibit a statistically significant impact. This suggests that financial stability, particularly the ability to meet short-term obligations, is crucial for SME sustainability in the culinary industry. However, efficient working capital management alone does not guarantee business success, implying that other factors such as operational efficiency and market strategies may play a more dominant role. These results provide valuable insights for SME owners, policymakers, and financial institutions in formulating strategies to enhance SME growth and resilience. Future research is recommended to explore additional variables that influence SME performance, such as financial literacy, digital transformation, and external funding accessibility.

Keywords: *SMEs, Working Capital, Liquidity, Business Performance, Culinary Industry, Makassar.*

INTRODUCTION

Small and Medium Enterprises (SMEs) play a crucial role in economic development, particularly in emerging markets such as Indonesia. The SME sector contributes significantly to employment and national income, accounting for approximately 61% of Indonesia's GDP and absorbing 97% of the workforce (Halik et al., 2023). Among various industries, the culinary sector holds a strategic position, especially in Makassar, which is renowned for its rich culinary heritage (Halik & Halik, 2024). As a major economic driver, the culinary SME sector has substantial potential for growth. However, despite their significance, many culinary SMEs face financial challenges, particularly in working capital and liquidity management, which threaten their long-term sustainability.

Effective financial management is essential for SMEs to maintain stable operations and ensure growth. Poor working capital management can lead to cash flow imbalances, resulting in operational disruptions and difficulties in covering short-term expenses. Similarly, low liquidity levels limit SMEs' ability to meet their financial obligations, potentially damaging relationships with suppliers and financial institutions. A report by the (Dinas Koperasi Kota Makassar, 2024) indicates that 42% of culinary SMEs struggle with liquidity issues, while 38% face difficulties in managing working capital effectively. These financial constraints highlight the need for empirical research on how working capital and liquidity impact SME performance, particularly in the culinary industry.

Prior research has established a connection between financial management and firm performance, primarily in large enterprises. Studies by (Margaretha & Oktaviani, 2016) and (Abdul Raheman, 2007) demonstrated that efficient working capital and liquidity management positively influence profitability and business sustainability. However, most of these studies focus on corporate or industrial sectors, leaving a research gap in the context of SMEs, particularly in the culinary industry. Given that SMEs operate with limited financial resources and restricted access to formal credit, understanding the financial dynamics specific to this sector is essential.

This study aims to examine the relationship between working capital, liquidity, and business performance in culinary SMEs in Makassar. By focusing on this sector, the research provides both theoretical and practical contributions. Theoretically, it extends financial management literature by applying working capital and liquidity theories to SMEs in a highly competitive industry. Practically, the findings offer insights for SME owners, financial institutions, and policymakers on optimizing financial strategies to enhance business resilience and profitability.

To achieve this objective, this study employs a quantitative research approach, collecting data from 96 culinary SME owners in Makassar. The analysis utilizes Structural Equation Modeling (SEM) with SmartPLS 4 to assess the impact of working capital and liquidity on business performance. The findings are expected to provide a deeper understanding of financial management practices within SMEs and serve as a foundation for developing financial policies tailored to this sector.

LITERATURE REVIEW

Financial management plays a critical role in business sustainability, particularly for Small and Medium Enterprises (SMEs), where resource limitations often create operational challenges.

Working capital management theory suggests that firms must balance their current assets and liabilities to maintain liquidity while optimizing profitability (Yeo, 2016). Working capital consists of cash, accounts receivable, and inventory, which are essential for maintaining business operations. Inefficient working capital management can result in cash shortages, limiting a firm's ability to seize growth opportunities (Boisjoly et al., 2020).

Liquidity theory, as proposed by Keynes (1936) and developed further by modern scholars, posits that firms must maintain sufficient liquid assets to meet short-term obligations without disrupting operations (Nurfitriah, 2024). In the context of SMEs, liquidity management is particularly crucial due to their reliance on internal financing and limited access to external credit (Kaya, 2024). Low liquidity often forces SMEs to delay supplier payments or reduce investment in growth

initiatives, negatively impacting long-term sustainability (Flynn & Li, 2023). Thus, both working capital and liquidity serve as fundamental financial elements affecting business performance, particularly in competitive sectors such as the culinary industry.

Business performance in SMEs is commonly evaluated using financial and operational indicators, such as revenue growth, profitability, and employment expansion. The **resource-based view (RBV) theory** suggests that financial resources, including working capital and liquidity, influence a firm's ability to achieve competitive advantage (Komakech et al., 2024). In the culinary industry, efficient financial management allows SMEs to maintain consistent supply chains, invest in innovation, and enhance customer satisfaction (Erdian et al., 2022). However, despite theoretical support, the extent to which working capital and liquidity contribute to SME success remains an area requiring further empirical investigation.

Previous Research

Several studies have explored the relationship between financial management and firm performance. (Margaretha & Oktaviani, 2016) found that firms with optimized working capital management achieved higher profitability due to improved cash flow and reduced operational disruptions. Similarly, (Abdul Rahman, 2007) demonstrated a positive correlation between working capital efficiency and financial performance in manufacturing firms. However, these studies primarily focus on large corporations, raising questions about the applicability of their findings to SMEs.

Research on SMEs has provided mixed results. (Tran et al., 2017) examined Vietnamese SMEs and found that while liquidity management significantly affected profitability, working capital showed a weaker impact. In contrast, (Erdian et al., 2022) observed that Indonesian SMEs with high working capital efficiency experienced sustained revenue growth. These inconsistencies suggest that contextual factors such as industry type, market competition, and financial accessibility may moderate the relationship between working capital, liquidity, and business performance.

Despite the growing body of literature, there remains a gap in research focusing on the culinary SME sector, particularly in emerging

markets. Most studies either generalize across SME industries or focus on large enterprises, leaving limited empirical evidence on how working capital and liquidity specifically impact culinary businesses. Given that culinary SMEs face unique financial constraints, such as fluctuating demand and perishable inventory, further investigation is needed to understand their financial management strategies.

Hypothesis and Conceptual Model

Based on the theoretical framework and previous research, this study hypothesizes the following relationships:

- **H1:** Working capital has a significant positive impact on the performance of culinary SMEs in Makassar.
- **H2:** Liquidity has a significant positive impact on the performance of culinary SMEs in Makassar.

The conceptual model guiding this research is illustrated as follows (**Figure 1**).

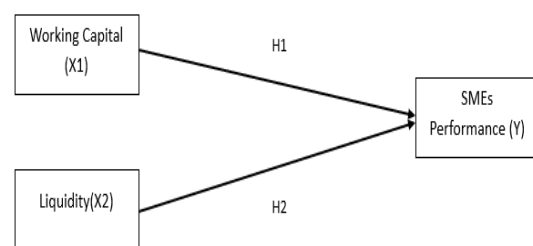


Figure 1. Research Concept Framework
Source: Author's personal conception (2024)

This model is tested using Structural Equation Modeling (SEM) with SmartPLS 4, allowing for a robust evaluation of how financial management practices influence SME performance. By focusing on the culinary sector in Makassar, this research aims to provide context-specific insights that contribute to both academic literature and practical financial management strategies.

METHODS

This study employs a quantitative research design to examine the impact of working capital and liquidity on the performance of culinary SMEs in Makassar (Santosa, 2018). A survey-based approach was used to collect primary data

through structured questionnaires distributed to SME owners operating in the culinary sector. The research was conducted between October and December 2024, allowing for the collection of up-to-date financial and operational data. Given the study's objective of evaluating financial management practices, Structural Equation Modeling (SEM) with SmartPLS 4 was employed to analyze the relationships between variables and assess their statistical significance (Ghozali, 2021; Hair et al., 2021; Haryono, 2017).

The population of this study consists of culinary SMEs in Makassar, as recorded by the (Dinas Koperasi Kota Makassar, 2024). However, due to the absence of precise data on the total number of culinary SMEs, the sample size was determined using the Lemeshow formula, which is commonly applied when the population is unknown. A total of 96 respondents were selected using cluster sampling (Sugiyono, 2017; Susilana, 2015), dividing the sample across four major districts in Makassar: North, East, South, and West Makassar. Each district contributed 24 respondents, ensuring a representative distribution across the city. The selection criteria included SMEs that had been operating for at least one year, ensuring that respondents had sufficient financial management experience relevant to the study.

Data analysis was conducted using descriptive statistics and SEM-PLS. Descriptive analysis was used to summarize respondent characteristics and financial management trends, while SEM-PLS was applied to test the hypotheses and evaluate the model's explanatory power. The study assessed convergent validity, discriminant validity, and reliability to ensure robust measurement. Additionally, R-square and path coefficient tests were performed to determine the strength and significance of relationships between working capital, liquidity, and SME performance (Hair et al., 2019). This methodological approach provides a rigorous framework for understanding the financial strategies that influence business success in the culinary sector.

RESULTS AND DISCUSSION

Descriptive Statistics

This study surveyed 96 culinary SMEs in Makassar, ensuring a representative distribution across four major districts. The sample comprised 54% female-owned businesses and 46% male-owned businesses, reflecting gender diversity in

entrepreneurship. In terms of business longevity, 40.3% of SMEs had been in operation for over 10 years, while 30.4% had operated between 6–10 years. Regarding revenue, 75.7% reported high monthly sales, while 19.2% had moderate revenue, and 5.1% faced financial difficulties.

The descriptive statistics for the research variables indicate key financial management trends. The working capital variable (X1) had a mean score of 3.83, indicating moderate efficiency in capital allocation. Liquidity (X2) had a mean score of 3.79, suggesting that some SMEs faced cash flow difficulties. SME performance (Y) had a mean score of 3.98, reflecting overall business success but with opportunities for improvement. These figures suggest that liquidity management remains a significant challenge for many SMEs, necessitating better financial planning strategies.

Model Fit Evaluation

The model fit indices were assessed to ensure the appropriateness of the structural model. The Standardized Root Mean Square Residual (SRMR) value was 0.058, which is below the 0.08 threshold, indicating a good model fit (Henseler et al., 2015). Additionally, the Normed Fit Index (NFI) was 0.921, confirming that the model sufficiently explains the data structure. These results validate the robustness of the research model. (See Figure 2)

Model fit		
	Saturated model	Estimated model
SRMR	0.054	0.054
d_ULS	0.449	0.449
d_G	0.366	0.366
Chi-square	200.320	200.320
NFI	0.855	0.855

Figure 2. Model Fit

Source: Primary data processed with Smart-PLS (2024)

Validity and Reliability Tests

To confirm the reliability and validity of the measurement model, convergent validity, discriminant validity, and reliability tests were conducted.

Convergent Validity

Convergent validity was assessed using Average Variance Extracted (AVE), where values above 0.50 indicate that the constructs explain at least 50% of variance in their indicators. The results are as follows:

Table 1. Average Variance Extracted (AVE)

Variable	AVE	Threshold	Decision
Working Capital (X1)	0.773	>0.50	Valid
Liquidity (X2)	0.832	>0.50	Valid
SME Performance (Y)	0.688	>0.50	Valid

Source: Primary data processed with Smart-PLS (2024)

All variables meet the AVE requirement, confirming strong convergent validity (Ghozali, 2021; Hair et al., 2019; Haryono, 2017).

Discriminant Validity

Discriminant validity was examined using the Fornell-Larcker Criterion, which requires the square root of AVE to be greater than inter-construct correlations (Hair et al., 2019). The results indicate that each construct is distinct, ensuring adequate discriminant validity. (See **Figure 3**)

Discriminant validity - Fornell-Larcker criterion				
	X1 MODAL KERJA	X2 LIKUIDITAS	Y KINERJA UKM	
X1 MODAL KERJA	0.879			
X2 LIKUIDITAS	0.127	0.912		
Y KINERJA UKM	0.230	0.703	0.829	

Figure 3. Fornell Larcker Criterion

Source: Primary data processed with Smart-PLS (2024)

Reliability Test

Reliability was evaluated using Cronbach's Alpha and Composite Reliability (CR). The acceptable threshold for reliability is 0.70 (Hair et al., 2019). See **Table 2**.

Table 2. Construct Reliability and Validity

Variable	Cronbach's Alpha	Composite Reliability (CR)	Threshold	Decision
Working Capital (X1)	0.905	0.931	>0.70	Reliable
Liquidity (X2)	0.899	0.937	>0.70	Reliable

Variable	Cronbach's Alpha	Composite Reliability (CR)	Threshold	Decision
SME Performance (Y)	0.847	0.897	>0.70	Reliable

Source: Primary data processed with Smart-PLS (2024)

The results confirm high internal consistency and reliability for all constructs.

Hypothesis Testing and Path Analysis

Structural Equation Modeling (SEM) with SmartPLS 4 was employed to test the research hypotheses. The R-square value for SME performance (Y) was 0.514, indicating that 51.4% of the variance in performance could be explained by working capital and liquidity. (See **Figure 4**). The path coefficient analysis provides further insights into the relationships between variables.

R-square - Overview		
	R-square	R-square adjusted
Y (KINERJA UKM)	0.514	0.503

Figure 4. R-Square Value

Source: Primary data processed with Smart-PLS (2024)

- H1: Working capital has a significant positive impact on SME performance. The results showed $\beta = 0.089$, $t = 1.616$, $p = 0.105$, indicating that working capital does not significantly impact SME performance. This suggests that while efficient working capital management is essential, it alone does not directly enhance SME performance in the culinary sector.
- H2: Liquidity has a significant positive impact on SME performance. The results showed $\beta = 0.064$, $t = 10.734$, $p = 0.000$, confirming a strong and statistically significant relationship between liquidity and SME performance. This highlights the critical role of liquidity management in ensuring business stability and growth, as SMEs with sufficient cash flow are better equipped to handle operational challenges and market fluctuations.

Discussion

The findings align with prior research on the significance of liquidity in business performance (Tran et al., 2017) also found that liquidity positively influences SME profitability, reinforcing the argument that financial flexibility is crucial in dynamic business environments. However, the insignificant impact of working capital contradicts studies such as (Margaretha & Oktaviani, 2016), which identified a strong correlation between working capital efficiency and profitability. This discrepancy may be due to industry-specific characteristics, as culinary SMEs operate in a highly dynamic and fast-moving sector where liquidity plays a more immediate role than structured capital management.

The strong relationship between liquidity and SME performance suggests that businesses should prioritize cash flow management over rigid capital structures. SMEs facing liquidity constraints often experience supplier distrust, inventory shortages, and operational inefficiencies, all of which negatively affect performance. These findings have practical implications for policymakers and financial institutions, emphasizing the need for targeted financial support programs that enhance SME liquidity access, such as low-interest credit lines and flexible repayment schemes.

In conclusion, while working capital remains an essential financial management aspect, this study confirms that liquidity is the key determinant of business performance in the culinary SME sector. Future research should explore additional financial variables, such as debt management, financial literacy, and external financing accessibility, to develop a more comprehensive model of SME financial sustainability.

CONCLUSION

This study investigated the impact of working capital and liquidity on the performance of culinary SMEs in Makassar. The findings indicate that liquidity has a significant and positive effect on SME performance, suggesting that maintaining sufficient cash flow is crucial for business sustainability. SMEs with better liquidity management can meet short-term obligations, build strong supplier relationships, and sustain operational efficiency. In contrast, working capital did not show a significant impact on SME performance, implying that while capital management is essential, it may not be the primary determinant of success in the highly dynamic culinary sector.

These findings provide practical implications for SME owners, policymakers, and financial institutions. Since liquidity strongly influences business performance, SMEs should prioritize effective cash flow management, financial planning, and access to short-term financing solutions. Policymakers and financial institutions should consider designing financial assistance programs tailored to SMEs, such as low-interest credit and flexible loan repayment schemes, to support businesses facing liquidity constraints.

Research Limitations and Recommendations for Further Research

Despite its contributions, this study has several limitations. **First**, the sample was limited to 96 culinary SMEs in Makassar, which may not fully represent the broader SME sector in Indonesia. Future research should consider a larger and more diverse sample across multiple cities or regions to enhance generalizability. **Second**, this study focused solely on working capital and liquidity, while other financial factors, such as debt management, financial literacy, and access to external financing, could also influence SME performance. Further research should incorporate these variables to develop a more comprehensive financial management model. **Finally**, the study relied on self-reported data, which may introduce response bias. Future studies could use a longitudinal approach to track SME financial performance over time and validate causal relationships.

Novelty of the Study

This research contributes to financial management literature by focusing specifically on the culinary SME sector, which has been largely overlooked in prior studies. While existing research has emphasized the importance of working capital and liquidity in large corporations or manufacturing firms, this study extends the discussion to SMEs in the service industry, particularly in an emerging market context. Additionally, the findings challenge previous studies that suggest working capital directly improves performance, showing that liquidity plays a more dominant role in fast-moving businesses like culinary SMEs. This insight helps refine financial strategies for SMEs, emphasizing the importance of liquidity over rigid capital structures in ensuring business sustainability.

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