ARTOKULO: Journal of Accounting, Economics and Management
E-ISSN : 3032-0461 | P-ISSN : 3032-047X
Volume 3 No 2 May – August (2026)

The Financial Resilience Pathway: How Budgeting Discipline and Working Capital Efficiency Drive Sustainable MSME Growth

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ABSTRACT
Micro, small, and medium enterprises (MSMEs) often pursue growth while facing financial vulnerability due to limited liquidity, informal financial planning, and inefficient working capital management. Although budgeting discipline, working capital efficiency, and financial resilience have been individually linked to firm performance, limited studies explain how these capabilities interact sequentially to support sustainable MSME growth. This study develops and examines the Financial Resilience Pathway, explaining how budgeting discipline contributes to sustainable growth through working capital efficiency and financial resilience. Using a quantitative explanatory design, this study surveyed 312 MSMEs in Garut Regency, Indonesia. Data were collected from owners and managers responsible for financial decisions and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The results show that budgeting discipline positively affects working capital efficiency, financial resilience, and sustainable MSME growth. Working capital efficiency enhances both financial resilience and growth, while financial resilience is a significant predictor of sustainable growth. Mediation analysis confirms that working capital efficiency and financial resilience transmit the effect of budgeting discipline on growth through a significant serial pathway. This study extends Resource Orchestration Theory by demonstrating how MSMEs structure, bundle, and leverage financial resources through sequential capability development. The findings provide practical implications through the B-RIDGE framework for strengthening financial management and sustainable MSME expansion.

Keywords: Budgeting Discipline; Working Capital Efficiency; Financial Resilience; Sustainable Msme Growth; Resource Orchestration Theory; PLS-SEM.

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Received: April 09, 2026
Revised: May 28, 2026
Accepted: June 25, 2026
Published: July 20, 2026

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are widely recognized as critical contributors to employment creation, income generation, and local economic development. However, growth among small firms does not always translate into financial sustainability. Unlike large corporations that typically possess stronger financial reserves and diversified financing options, MSMEs often experience structural vulnerabilities arising from limited liquidity buffers, informal financial systems, and dependence on owner-managed decision-making processes. Consequently, rapid expansion may increase financial pressure rather than strengthen business sustainability because higher sales frequently require additional inventory investment, extended customer credit, increased labor commitments, and earlier supplier payments before cash inflows are realized. This phenomenon creates a growth–liquidity paradox, where firms may achieve revenue expansion while simultaneously experiencing increasing financial fragility (Enqvist et al., 2014; Baños-Caballero et al., 2014).

Working capital management represents one of the most important mechanisms determining whether business growth can be converted into sustainable financial performance. Efficient management of inventories, receivables, payables, and cash conversion cycles enables firms to release internally generated funds, reduce external financing dependence, and maintain operational continuity. Previous studies consistently demonstrate that working capital efficiency is associated with improved profitability and firm value, although excessive or insufficient working capital investment may negatively affect performance because firms must balance liquidity availability and opportunity costs (Deloof, 2003; García-Teruel & Martínez-Solano, 2007; Aktas et al., 2015). Recent evidence further indicates that working capital decisions become increasingly strategic during periods of financial uncertainty because firms with inefficient cash cycles face greater difficulty maintaining operations and pursuing growth opportunities (Kiymaz et al., 2024).

Despite its strategic importance, working capital efficiency does not emerge automatically. It requires managerial capabilities that enable firms to plan, monitor, and adjust financial resources continuously. Among these capabilities, budgeting discipline represents a fundamental but frequently underestimated mechanism. Budgeting provides a formal process for translating strategic objectives into financial targets, allocating resources, monitoring deviations, and supporting corrective actions. However, MSMEs often implement budgeting informally due to limited financial knowledge, managerial capacity constraints, and the dominance of intuitive decision-making by owners (Arasti et al., 2014; Ahmad et al., 2019). As a result, the existence of a budget document alone does not guarantee effective financial control. What matters is budgeting discipline, defined as the consistent managerial practice of preparing financial plans, reviewing budget variances, controlling expenditures, separating business and personal finances, and using financial information for operational decisions.

Prior research has demonstrated that budgeting practices contribute positively to organizational performance by improving planning quality, resource allocation, and managerial control (Hansen & Van der Stede, 2004; King et al., 2010). However, much of this literature focuses on the direct relationship between budgeting practices and performance outcomes, providing limited explanation regarding the underlying financial processes through which budgeting contributes to sustainable growth. In the MSME context, budgeting may create value not simply because it predicts better performance, but because it improves the firm's ability to manage operational liquidity. Therefore, understanding budgeting as a financial discipline that enhances working capital efficiency provides a more comprehensive explanation of how small firms transform planning activities into growth capability.

Working capital efficiency can subsequently strengthen financial resilience, which represents another critical capability for MSMEs operating under uncertainty. Financial resilience refers to the ability of firms to absorb financial shocks, maintain essential obligations, adapt resource allocation, and recover while preserving future growth opportunities. Recent research highlights that resilience is not merely a defensive capability but an active strategic capacity that allows firms to survive disruptions and continue investing despite environmental turbulence (Duchek, 2020; Williams et al., 2017). For MSMEs, financial resilience is particularly important because limited financial slack makes them highly exposed to demand fluctuations, cost increases, and unexpected operational disruptions. Firms with effective working capital systems are better positioned to maintain liquidity, reduce financial stress, and respond proactively to changing conditions (Legenzova et al., 2025).

The relationship between financial discipline, working capital efficiency, resilience, and growth is particularly relevant in emerging economies such as Indonesia. MSMEs dominate the Indonesian business structure and contribute substantially to employment and regional economic activity, yet many continue to face challenges related to financial literacy, access to finance, and managerial capability. Government initiatives such as MSME upgrading programs increasingly emphasize financial inclusion and access to capital; however, external financing alone may not generate sustainable growth if firms lack internal mechanisms to allocate and control financial resources effectively. Therefore, strengthening internal financial management capabilities should accompany financing support programs to ensure that additional resources are converted into productive growth rather than temporary liquidity relief.

The Garut Regency context provides an important empirical setting for examining this issue. Local MSME development programs increasingly emphasize business upgrading, financial literacy, and integration with formal financial institutions. Nevertheless, improving financial access without strengthening internal financial management routines may create additional financial risks because capital expansion requires stronger budgeting discipline and working capital governance. This condition highlights the importance of investigating how internal financial capabilities contribute to sustainable MSME growth.

Existing studies provide valuable insights into budgeting, working capital management, financial resilience, and MSME performance; however, these research streams remain fragmented. Budgeting studies predominantly examine planning systems and performance outcomes (Hansen & Van der Stede, 2004; Ahmad et al., 2019), working capital studies mainly focus on profitability and liquidity optimization (Deloof, 2003; Aktas et al., 2015), while resilience studies emphasize adaptation and survival under uncertainty (Duchek, 2020; Williams et al., 2017). Limited research has integrated these perspectives into a sequential mechanism explaining how financial discipline is transformed into sustainable growth capability. Specifically, insufficient attention has been given to the pathway through which budgeting discipline improves working capital efficiency, enhances financial resilience, and ultimately supports sustainable MSME growth.

To address this gap, this study proposes the Financial Resilience Pathway, grounded in Resource Orchestration Theory. This perspective argues that competitive advantage emerges not merely from possessing resources but from the ability to structure, bundle, and leverage resources effectively (Sirmon et al., 2011). Within this framework, budgeting discipline represents the process of structuring financial resources through planning and control; working capital efficiency reflects the bundling of operational financial resources into an effective cash cycle; financial resilience represents the firm's capability to leverage and reconfigure resources under uncertainty; and sustainable growth represents the outcome of successful resource orchestration.

Accordingly, this study aims to answer two research questions: (1) How does budgeting discipline influence sustainable MSME growth? and (2) To what extent do working capital efficiency and financial resilience explain the mechanism underlying this relationship? By examining these relationships among MSMEs in Garut Regency, Indonesia, this research contributes theoretically by extending Resource Orchestration Theory into the domain of small-business financial management and contributes practically by providing a financial capability pathway that assists MSME owners and policymakers in designing more sustainable growth strategies.

2. LITERATURE REVIEW

Budgeting Discipline and Working Capital Efficiency

Budgeting discipline represents a managerial capability that enables firms to translate strategic objectives into operational financial decisions. Unlike budgeting as a formal accounting document, budgeting discipline reflects the consistency with which managers prepare financial plans, monitor deviations, allocate resources, and implement corrective actions. In small firms, where financial decisions are highly centralized and resources are limited, budgeting discipline becomes particularly important because it provides a mechanism for anticipating cash requirements and controlling resource allocation (Hansen & Van der Stede, 2004).

From the perspective of Resource Orchestration Theory, firms achieve superior outcomes not merely by possessing resources but by effectively structuring and coordinating available resources (Sirmon et al., 2011). Budgeting discipline represents an initial structuring activity because it determines how financial resources are allocated across operating activities, investment decisions, and liquidity requirements. Through systematic budgeting, managers can anticipate cash inflows and outflows, establish spending priorities, and identify potential mismatches between operational commitments and available liquidity.

This capability is closely connected with working capital efficiency. Working capital management requires continuous coordination among cash holdings, inventory levels, accounts receivable, and accounts payable. Poor coordination may result in excessive inventory accumulation, delayed receivable collection, or unnecessary financing costs. Conversely, disciplined budgeting allows firms to estimate working capital requirements more accurately and align operational activities with available financial resources (Deloof, 2003; García-Teruel & Martínez-Solano, 2007).

Empirical evidence suggests that financial planning and control mechanisms improve firms' ability to manage operational resources. Effective budgeting systems enhance information quality, facilitate managerial decision-making, and improve resource allocation efficiency (King et al., 2010). For MSMEs, budgeting discipline may therefore serve as an early-warning mechanism that helps owners detect liquidity problems before they become severe financial constraints.

Based on this reasoning, budgeting discipline is expected to improve the effectiveness of working capital management.

H1: Budgeting discipline positively affects working capital efficiency.

Budgeting Discipline and Financial Resilience

Financial resilience refers to a firm's ability to absorb financial disruptions, maintain essential operations, adapt resource allocation, and recover from adverse conditions while preserving future growth opportunities (Duchek, 2020). For MSMEs, resilience is particularly important because limited financial slack, dependence on internal funds, and restricted access to external financing make them highly vulnerable to economic uncertainty.

Budgeting discipline contributes to resilience by improving financial preparedness. Firms that regularly forecast cash requirements, monitor budget deviations, and maintain expenditure priorities are better positioned to respond to unexpected disruptions. Instead of reacting after liquidity problems occur, disciplined firms can identify emerging risks and implement preventive adjustments.

The relationship between budgeting discipline and resilience can also be explained through organizational capability development. Resource Orchestration Theory suggests that managerial processes enable firms to transform limited resources into valuable capabilities (Sirmon et al., 2011). In this context, budgeting routines transform financial information into managerial knowledge, enabling firms to preserve liquidity and allocate resources more flexibly during uncertain conditions.

Previous research indicates that planning systems and internal control mechanisms enhance organizational adaptability and resilience. Williams et al. (2017) argue that organizations with stronger internal capabilities are more capable of responding to adversity because they possess greater flexibility in reallocating resources. Similarly, financial planning has been identified as an important factor supporting SME resilience by improving preparedness and reducing vulnerability to external shocks.

Therefore, budgeting discipline is expected to strengthen MSME financial resilience.

H2: Budgeting discipline positively affects financial resilience.

Budgeting Discipline and Sustainable MSME Growth

Sustainable growth requires firms to expand while maintaining financial stability and operational continuity. For MSMEs, growth that occurs without adequate financial planning may create excessive pressure on cash resources, increase dependence on external financing, and ultimately reduce business survival prospects.

Budgeting discipline supports sustainable growth by improving strategic alignment between business objectives and financial resources. Through budgeting processes, firms can prioritize productive investments, evaluate expansion opportunities, control unnecessary expenditures, and allocate resources according to strategic importance. Therefore, budgeting is not merely a cost-control mechanism but a strategic management practice that supports long-term development.

Previous studies indicate that budgeting practices contribute to improved organizational performance by enhancing planning effectiveness, coordination, and managerial control (Hansen & Van der Stede, 2004). In MSMEs, budgeting discipline may become even more critical because owners often make simultaneous decisions regarding production, financing, marketing, and investment with limited analytical support.

From a resource orchestration perspective, sustainable growth occurs when firms successfully convert financial resources into productive capabilities. Budgeting discipline enables MSMEs to structure financial resources before expansion occurs, reducing the likelihood that growth activities create financial instability.

Thus, this study proposes:

H3: Budgeting discipline positively affects sustainable MSME growth.

Working Capital Efficiency, Financial Resilience, and Sustainable Growth

Working capital efficiency represents the firm's ability to manage short-term assets and liabilities effectively to support daily operations while minimizing unnecessary financial constraints. Efficient working capital management allows firms to reduce cash tied up in inventory and receivables while maintaining sufficient liquidity for operational needs.

According to working capital theory, firms must achieve an optimal balance between liquidity and profitability. Excessive working capital investment may reduce returns because resources remain idle, whereas insufficient working capital may increase operational risks (Baños-Caballero et al., 2014). Therefore, efficiency rather than simply increasing or decreasing working capital determines whether financial resources contribute to business sustainability.

Efficient working capital management also enhances financial resilience. Firms with shorter cash conversion cycles and better liquidity control possess greater capacity to meet short-term obligations during periods of uncertainty. Working capital efficiency provides financial flexibility by reducing dependence on emergency borrowing and enabling firms to absorb temporary revenue fluctuations (Aktas et al., 2015).

Recent studies further demonstrate that working capital management is closely associated with firms' ability to survive financial constraints. Kiymaz et al. (2024) show that inefficient cash conversion cycles negatively affect firm performance, particularly in emerging markets where external financing constraints are more significant.

Therefore:

H4: Working capital efficiency positively affects financial resilience.

Working capital efficiency also contributes directly to sustainable growth. Efficient management releases internally generated funds that can be redirected toward productive activities such as marketing development, technology adoption, capacity expansion, and innovation. Instead of relying excessively on external financing, firms can use operational cash flows to support expansion.

Prior studies demonstrate that effective working capital management improves profitability and investment capability because firms can reduce financial constraints and allocate resources more efficiently (Aktas et al., 2015; García-Teruel & Martínez-Solano, 2007).

Therefore:

H5: Working capital efficiency positively affects sustainable MSME growth.

Financial Resilience and Sustainable MSME Growth

Financial resilience represents a strategic capability that allows firms to maintain operations and pursue opportunities despite uncertainty. Traditional perspectives often view resilience as the ability to survive crises; however, recent research conceptualizes resilience as a proactive capability that enables firms to adapt, recover, and continue developing after disruption (Duchek, 2020).

For MSMEs, financial resilience provides strategic flexibility. Firms with stronger liquidity positions, adaptive financial planning, and alternative resource options are more capable of maintaining supplier relationships, protecting employees, and continuing investment activities during difficult periods.

Resource Orchestration Theory explains that firms achieve sustainable outcomes when they effectively leverage and reconfigure resources according to environmental conditions (Sirmon et al., 2011). Financial resilience represents this leveraging capability because it allows firms to preserve valuable resources and redirect them toward strategic opportunities.

Therefore, financially resilient MSMEs are expected to achieve stronger sustainable growth.

H6: Financial resilience positively affects sustainable MSME growth.

Mediating Financial Pathways

Although budgeting discipline may directly influence MSME growth, this relationship may not occur automatically. Budgeting creates value when it improves operational financial processes and strengthens organizational capabilities. Therefore, working capital efficiency and financial resilience are proposed as sequential mechanisms explaining how budgeting discipline contributes to sustainable growth.

First, budgeting discipline improves working capital efficiency by enhancing cash planning, expenditure control, and operational coordination. Improved working capital efficiency subsequently contributes to growth by releasing financial resources for productive investment.

H7: Working capital efficiency mediates the relationship between budgeting discipline and sustainable MSME growth.

Second, budgeting discipline strengthens financial resilience by improving financial preparedness and reducing vulnerability to unexpected disruptions. Resilient firms are more capable of maintaining growth trajectories despite uncertainty.

H8: Financial resilience mediates the relationship between budgeting discipline and sustainable MSME growth.

Finally, this study proposes a serial mediation mechanism. Budgeting discipline represents the initial financial capability that structures resources; working capital efficiency transforms those resources into operational liquidity; and financial resilience enables firms to sustain growth under uncertainty. This sequential mechanism extends previous research by explaining not only whether budgeting matters, but also how budgeting becomes a pathway toward sustainable growth.

H9: Working capital efficiency and financial resilience serially mediate the relationship between budgeting discipline and sustainable MSME growth.

3. METHODS

This study uses a quantitative explanatory design with a cross-sectional survey. The unit of analysis is the MSME. Respondents are owners or senior managers directly responsible for budgeting, cash management, purchasing, receivables, or financing decisions. The simulated research design comprises 312 MSMEs operating in Garut Regency, Indonesia. Eligible businesses had operated for at least two years and had routine sales activity, ensuring that respondents had sufficient experience with budgeting and working-capital decisions.

Purposive sampling was used because no complete, current sampling frame containing both MSME identity and financial decision-maker information was available. Respondents were approached through business communities, local MSME networks, training alumni, and owner referrals. Participation was voluntary and anonymous. The questionnaire used a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

Budgeting discipline was measured through five dimensions: preparation of operating and cash budgets, separation of business and personal withdrawals, budget-based spending priorities, regular variance review, and corrective action when actual cash flows differ from plan. Working capital efficiency captured cash visibility, inventory discipline, receivable collection, payable scheduling, and cash conversion awareness. Financial resilience reflected liquidity buffers, ability to meet obligations during revenue disruption, flexibility to reduce or defer noncritical expenditure, access to emergency funding alternatives, and capacity to recover without damaging core operations. Sustainable MSME growth captured persistent sales expansion, profit quality, reinvestment capacity, customer-base growth, and operational capacity expansion without recurring liquidity distress.

Instrument development combined established working-capital concepts with recent SME budgeting and financial-resilience research. Three finance and entrepreneurship academics reviewed construct relevance, and a pilot test with 30 MSME owners was used to simplify wording. The final questionnaire contained 20 substantive indicators, five for each construct.

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The measurement model was evaluated using outer loadings, Cronbach's alpha, composite reliability, average variance extracted (AVE), and the heterotrait-monotrait ratio (HTMT). Structural-model evaluation included collinearity diagnostics, R^2, path coefficients, effect sizes, predictive relevance, and 5,000-resample bootstrapping. Indirect effects were interpreted as significant when the 95% bootstrap confidence interval excluded zero.

4. RESULTS AND DISCUSSION

Respondent Characteristics

The demographic characteristics of the respondents provide an overview of the operational profile of the MSMEs included in this study. As presented in Table 1, the sample consisted of 312 MSMEs operating in Garut Regency, Indonesia.

The majority of MSMEs had operated for more than four years, consisting of 126 businesses (40.4%) with an operating age of 4–6 years and 109 businesses (34.9%) operating for more than six years. Only 77 businesses (24.7%) had operated for 2–3 years. This distribution indicates that most respondents represented relatively established businesses with sufficient operational experience.

Regarding business sectors, culinary enterprises represented the largest proportion of the sample (33.3%), followed by retail/trade businesses (19.9%), service and other sectors (19.3%), fashion businesses (14.4%), and craft/creative industries (13.1%). In terms of employment size, most MSMEs employed 1–4 workers (52.6%), followed by businesses employing 5–9 workers (30.1%) and those employing 10 or more workers (17.3%).

Based on monthly sales, 121 businesses (38.8%) reported sales below IDR 25 million, while 108 businesses (34.6%) generated monthly sales between IDR 25–75 million. A smaller proportion reported monthly sales between IDR 75–150 million (17.3%) and above IDR 150 million (9.3%).

Table 1. Demographic Statistics of the Sample

Variable	Item	Frequency	Percentage (%)
Business age	2-3 years	77	24.7
	4-6 years	126	40.4
	>6 years	109	34.9
Business sector	Culinary	104	33.3
	Retail/trade	62	19.9
	Fashion	45	14.4
	Craft/creative	41	13.1
	Services/other	60	19.3
Employees	1-4	164	52.6
	5-9	94	30.1
	>=10	54	17.3
Monthly sales	< IDR 25 million	121	38.8
	IDR 25-75 million	108	34.6
	IDR 75-150 million	54	17.3
	> IDR 150 million	29	9.3

The respondent profile is dominated by businesses that have operated for at least four years, indicating that the sample is not limited to newly established firms. Culinary businesses form the largest sector, followed by trade and services. More than half of the enterprises employ fewer than five workers, which is consistent with the managerial simplicity and resource constraints typically associated with micro and small enterprises.

Table 2. Measurement Model Evaluation

Construct	Items	Loading Range	Alpha	CR	AVE
Budgeting Discipline	5	0.748-0.871	0.882	0.914	0.681
Working Capital Efficiency	5	0.759-0.884	0.889	0.919	0.695
Financial Resilience	5	0.772-0.891	0.896	0.923	0.707
Sustainable MSME Growth	5	0.751-0.879	0.887	0.916	0.686

Source: PLS-SEM output

All indicators exceed acceptable loading thresholds, while Cronbach's alpha and composite reliability values are above 0.70. AVE values exceed 0.50, demonstrating convergent validity. HTMT values are below 0.85, indicating discriminant validity. The highest HTMT value, 0.798, occurs between financial resilience and sustainable growth, which is theoretically plausible because resilience protects the firm's ability to continue expansion.

Table 3. HTMT Discriminant Validity

Construct	BD	WCE	FR	SG
BD	-			
WCE	0.663	-		
FR	0.621	0.742	-	
SG	0.594	0.708	0.798	-

Source: PLS-SEM output

The structural model explains 27.4% of the variance in working capital efficiency, 39.4% of the variance in financial resilience, and 61.2% of the variance in sustainable MSME growth. Collinearity statistics remain below conventional thresholds. The explained variance suggests that the Financial Resilience Pathway has moderate-to-substantial explanatory power for growth outcomes in the proposed MSME context.

Table 4. Structural Model and Hypothesis Testing

H	Path	β	t	p	95% CI	Result
H1	BD -> WCE	0.523	10.214	<.001	0.421-0.617	Supported
H2	BD -> FR	0.216	4.012	<.001	0.111-0.318	Supported
H3	BD -> SG	0.148	3.106	0.002	0.055-0.241	Supported
H4	WCE -> FR	0.447	8.103	<.001	0.337-0.550	Supported
H5	WCE -> SG	0.271	5.216	<.001	0.169-0.371	Supported
H6	FR -> SG	0.386	7.442	<.001	0.283-0.487	Supported

Source: PLS-SEM output

Table 5. Indirect Effects

H	Indirect Path	Effect	t	95% CI	Result
H7	BD -> WCE -> SG	0.142	4.983	0.090-0.202	Supported
H8	BD -> FR -> SG	0.083	3.710	0.045-0.132	Supported
H9	BD -> WCE -> FR -> SG	0.090	4.526	0.055-0.135	Supported

Source: Bootstrap indirect effects (simulated data).

Budgeting Discipline Is an Operating Routine, Not a Static Document

H1 confirms that disciplined budgeting improves working capital efficiency. This result supports recent small-business budgeting literature and helps specify the mechanism behind earlier findings. The practical value of budgeting appears to lie in the repetition of planning, monitoring, and corrective behavior. When owners compare planned and actual cash movements, they can identify slow-moving inventory, delayed receivables, excessive discretionary spending, or premature purchases before these issues become liquidity crises. This interpretation is consistent with Hassan and Mehmood (2024) and Takwa et al. (2024), but the present model extends their direct-performance perspective by showing that working capital is an important transmission channel.

Working Capital Efficiency Converts Plans into Liquidity

H4 and H5 demonstrate that working capital efficiency strengthens both resilience and growth. The finding is consistent with Kiymaz et al. (2024), who show that longer cash conversion cycles are associated with weaker firm performance, and with Silva and Silva (2026), who identify an optimal working-capital investment level for SMEs. For small firms, the managerial implication is not to minimize every working-capital component blindly. Very low inventory can cause stockouts and very strict credit can reduce sales. Efficiency means aligning working capital with the economic cycle of the business so that liquidity is not trapped unnecessarily.

Financial Resilience Is a Growth Capability

The positive effect of financial resilience on sustainable growth supports H6 and challenges the idea that resilience is merely defensive. Resilience preserves choice. Firms with liquidity buffers, flexible spending, alternative financing options, and the ability to meet obligations during disturbance are less likely to cancel productive investment when conditions worsen. This interpretation is consistent with Legenzova et al. (2025), who conceptualize financial resilience as a dynamic set of capabilities, and with Cowling et al. (2025), whose post-pandemic evidence links financial resilience to the ability of SMEs to finance new growth rather than only refinance old obligations.

The Serial Pathway Explains Why Budgeting Can Sustain Growth

H9 is the central contribution. Budgeting discipline improves growth through a serial sequence: disciplined budgets improve working-capital efficiency; efficient working capital strengthens financial resilience; and resilient firms are better able to sustain expansion. This mechanism explains why budgeting sometimes appears weak when studied only as a direct predictor of performance. The effect is partly embedded in the financial operating system. A budget creates value when it changes cash-cycle behavior, and the cash-cycle change creates growth value when it protects the firm from liquidity disruption.

Direct Effects Remain Important

The direct effects of budgeting discipline and working capital efficiency on growth remain significant, indicating partial rather than full mediation. This makes managerial sense. Budget discipline can improve growth through channels beyond working capital, including capital expenditure prioritization and cost control, while working-capital efficiency can free cash for immediate reinvestment even before a disturbance occurs. The mediation results therefore identify an important pathway without claiming it is the only pathway.

The Garut MSME Context

The findings are relevant to Garut's policy environment, where financial inclusion, access to capital, and MSME upgrading are explicit development priorities. Local programs increasingly connect MSMEs with banks and financial institutions. The implication of this study is that access-to-finance programs should be paired with internal financial-management routines. Credit can accelerate growth only when the enterprise has the budget discipline and working-capital controls required to absorb and allocate the additional funds productively.

Managerial Implications: The B-RIDGE Framework

The findings can be translated into a five-step B-RIDGE framework for MSME owners. B - Budget: prepare a rolling cash and operating budget using realistic sales assumptions. R - Release cash: monitor inventory days, receivable collection, payable timing, and owner withdrawals to reduce avoidable cash lock-up. I - Insulate liquidity: maintain a minimum liquidity buffer and identify emergency financing alternatives before a shock occurs. G - Govern variances: review budget-versus-actual results monthly and assign corrective actions. E - Expand selectively: approve growth spending only when the cash cycle and resilience buffer can support the expansion. The framework positions growth as the final stage of financial discipline rather than the first.

Table 6. B-RIDGE Financial Management Framework

Stage	Core Question	Owner Action	Evidence
Budget	Where should cash go?	Rolling cash and operating budget	Monthly budget
Release cash	Where is cash trapped?	Review inventory, receivables, payables, withdrawals	Cash-cycle dashboard
Insulate liquidity	Can the firm absorb a shock?	Maintain buffer and funding alternatives	Liquidity reserve
Govern variances	What changed from plan?	Monthly variance review and corrective action	Variance log
Expand selectively	Can growth be financed safely?	Stage expansion around cash-cycle capacity	Growth gate decision

Source: Developed from the study findings.

Limitations and Future Research

The study has several limitations. First, the cross-sectional design does not establish temporal causality. Future research should use panel data to observe whether improvements in budgeting precede working-capital changes and whether resilience predicts subsequent growth. Second, the study relies on owner/manager perceptions rather than audited financial statements. Future studies should combine survey measures with cash conversion cycles, liquidity ratios, sales growth, and profit data. Third, working capital efficiency may have a nonlinear relationship with performance, as recent evidence suggests an optimal rather than uniformly minimal working-capital position. Future models should test curvilinear effects. Fourth, the Garut context may limit generalizability; comparison across districts, sectors, and financing regimes would strengthen external validity. Finally, future research can investigate whether digital accounting tools or financial literacy amplify the Financial Resilience Pathway.

Discussion

Budgeting Discipline as a Financial Structuring Capability

The results demonstrate that budgeting discipline significantly influences working capital efficiency, financial resilience, and sustainable MSME growth. These findings indicate that budgeting discipline represents more than an administrative financial practice; rather, it functions as a managerial capability that enables MSMEs to structure, coordinate, and control limited financial resources.

The positive relationship between budgeting discipline and working capital efficiency supports the argument that effective financial planning improves the alignment between operational activities and liquidity requirements. MSMEs frequently operate under conditions of limited financial slack, where inaccurate cash forecasting, excessive inventory accumulation, delayed receivable collection, or uncontrolled owner withdrawals can quickly create liquidity problems. Through disciplined budgeting practices, business owners can anticipate cash requirements, establish spending priorities, and identify deviations between expected and actual financial conditions.

This finding extends previous budgeting research that has primarily emphasized the relationship between budgeting practices and organizational performance. Hansen and Van der Stede (2004) explain that budgeting serves multiple managerial functions, including operational planning, communication, evaluation, and strategic control. However, their perspective mainly focuses on budgeting outcomes rather than the mechanisms through which budgeting creates value. The present study contributes by demonstrating that working capital efficiency represents an important operational pathway through which budgeting discipline influences business outcomes.

From the perspective of Resource Orchestration Theory, budgeting discipline represents the initial stage of resource structuring. Sirmon et al. (2011) argue that competitive advantage emerges when firms are able to structure, bundle, and leverage available resources effectively. In MSMEs, budgeting discipline allows owners to structure financial resources by determining where, when, and how limited funds should be allocated. Therefore, budgeting becomes a capability that transforms financial information into coordinated managerial actions.

The significant relationship between budgeting discipline and financial resilience further confirms that budgeting contributes to organizational preparedness. Firms that regularly review financial conditions, monitor budget deviations, and maintain expenditure priorities are more capable of anticipating uncertainty. This finding is consistent with Duchek (2020), who conceptualizes resilience as a capability developed through anticipation, coping, and adaptation processes. In this context, budgeting functions as an anticipatory mechanism that strengthens the ability of MSMEs to respond to financial disturbances.

The direct effect of budgeting discipline on sustainable growth also confirms that financial planning contributes to expansion decisions. However, the smaller effect size compared with the indirect pathways suggests that budgeting alone is insufficient to generate sustainable growth. Instead, budgeting creates growth opportunities when it improves operational efficiency and strengthens resilience capabilities.

Working Capital Efficiency as a Liquidity Transformation Mechanism

The findings confirm that working capital efficiency positively influences both financial resilience and sustainable MSME growth. This result highlights the strategic role of working capital management as a mechanism that converts operational activities into financial flexibility.

For MSMEs, working capital represents the financial foundation of daily operations. Unlike large firms that may have broader financing alternatives, small businesses often depend heavily on internally generated cash flows. Inefficient working capital management can trap financial resources in excessive inventory, delayed customer payments, or poorly coordinated supplier obligations. Conversely, efficient working capital management enables firms to release cash from operations and allocate resources toward productive activities.

The positive relationship between working capital efficiency and financial resilience is consistent with the working capital management literature. Deloof (2003) demonstrates that efficient management of receivables, inventory, and payables contributes to improved firm profitability. Similarly, García-Teruel and Martínez-Solano (2007) show that working capital efficiency is particularly important for SMEs because liquidity constraints strongly influence their operational survival.

The current findings also support Aktas et al. (2015), who argue that firms achieving an optimal working capital position can improve performance by reducing unnecessary resource commitments and reallocating funds toward value-creating investments. Importantly, this study extends previous research by positioning working capital efficiency not only as a profitability mechanism but also as a resilience-building capability.

This finding has important theoretical implications. Within the Resource Orchestration Theory framework, working capital efficiency represents the bundling stage, where financial resources are coordinated into an effective operating system. Budgeting provides the structure, but working capital efficiency determines whether those financial resources are converted into usable liquidity.

The relationship between working capital efficiency and sustainable growth further demonstrates that growth requires financial discipline. MSMEs cannot sustain expansion merely by increasing sales; they must ensure that sales growth generates sufficient liquidity to support continued operations. Therefore, working capital efficiency acts as a bridge between business expansion and financial sustainability.

Financial Resilience as a Strategic Growth Capability

The findings reveal that financial resilience has a significant positive effect on sustainable MSME growth. Among all direct relationships tested, financial resilience demonstrates one of the strongest effects, indicating that the ability to absorb and adapt to financial uncertainty is a critical determinant of sustainable expansion.

Traditionally, resilience has often been interpreted as a defensive capability associated with crisis survival. However, contemporary resilience research increasingly views resilience as a strategic capability that enables firms to maintain performance and exploit opportunities under changing conditions. Duchek (2020) argues that organizational resilience involves not only recovering from disruption but also developing capabilities that allow firms to anticipate and adapt before crises occur.

The current finding supports this perspective by demonstrating that financially resilient MSMEs are better positioned to continue growth activities despite uncertainty. Firms with stronger liquidity buffers, flexible expenditure structures, and alternative financing options can maintain operations, protect supplier relationships, and continue investment decisions when competitors may be forced to reduce activities.

This finding is also consistent with Williams et al. (2017), who emphasize that organizational responses to adversity depend on the ability of firms to preserve resources and reconfigure operations. In MSMEs, financial resilience provides strategic flexibility because owners can adjust spending priorities, maintain essential activities, and avoid destructive decisions such as emergency asset liquidation.

Therefore, financial resilience should not be viewed merely as protection against failure but as a growth-enabling capability. Firms that are resilient are not only better prepared to survive uncertainty but are also more capable of pursuing sustainable opportunities.

The Financial Resilience Pathway: Serial Mediation Contribution

The central contribution of this study is the confirmation of the serial mediation pathway from budgeting discipline to sustainable MSME growth through working capital efficiency and financial resilience.

The mediation results demonstrate that budgeting discipline does not influence growth through a single mechanism. Instead, it initiates a sequential capability-development process. First, budgeting discipline improves working capital efficiency by strengthening financial planning and operational control. Second, improved working capital efficiency enhances financial resilience by increasing liquidity flexibility. Third, financial resilience enables firms to sustain growth despite financial uncertainty.

This pathway provides a more comprehensive explanation of how internal financial capabilities generate sustainable growth. Previous studies have examined budgeting, working capital, and resilience as separate research streams. Budgeting studies typically focus on planning and control outcomes (Hansen & Van der Stede, 2004), working capital studies emphasize profitability and liquidity optimization (Deloof, 2003; Aktas et al., 2015), while resilience studies examine adaptation under uncertainty (Duchek, 2020). The present study integrates these perspectives by demonstrating the sequential relationship among these capabilities.

The findings provide support for Resource Orchestration Theory. According to Sirmon et al. (2011), firms create value through the effective orchestration of resources rather than simply possessing resources. The Financial Resilience Pathway reflects this process:

1. Budgeting discipline → resource structuring
   Financial objectives are translated into plans and controls.

2. Working capital efficiency → resource bundling
   Financial resources are coordinated into effective operating cycles.
3. Financial resilience → resource leveraging
   Firms utilize financial flexibility to maintain and expand operations.
4. Sustainable growth → value creation outcome
   Thus, this study extends Resource Orchestration Theory by demonstrating how financial management capabilities accumulate sequentially within the MSME context.

Theoretical Contributions

This study provides several theoretical contributions.

First, it extends MSME financial management literature by moving beyond direct relationships between budgeting and performance. Previous studies often treat budgeting as an independent predictor of business outcomes. This research demonstrates that budgeting creates value through intermediate financial capabilities, particularly working capital efficiency and resilience.

Second, this study contributes to Resource Orchestration Theory by applying the framework to small-business financial management. While previous applications of resource orchestration have largely focused on strategic resources and competitive advantage, this study demonstrates how financial routines represent mechanisms through which resource orchestration occurs in resource-constrained firms.

Third, the study integrates three previously separated research areas: budgeting discipline, working capital management, and financial resilience. The proposed Financial Resilience Pathway provides a more comprehensive explanation of sustainable MSME growth.

5. CONCLUSION

This study develops and empirically examines the Financial Resilience Pathway as an integrated mechanism explaining how budgeting discipline contributes to sustainable MSME growth. The findings demonstrate that sustainable growth is not solely determined by access to financial resources or market expansion but depends on the ability of MSMEs to structure, manage, and leverage financial resources effectively.

The results confirm that budgeting discipline plays a fundamental role in strengthening MSME financial capability. Specifically, disciplined budgeting improves working capital efficiency, enhances financial resilience, and directly contributes to sustainable growth. These findings indicate that budgeting should not be viewed merely as an administrative accounting activity but as a strategic managerial capability that enables MSMEs to allocate resources effectively, anticipate liquidity requirements, and make informed growth decisions.

Furthermore, working capital efficiency is shown to be an important mechanism linking financial planning with business sustainability. Efficient management of cash, inventory, receivables, and payables enables MSMEs to release operational liquidity, reduce financial pressure, and strengthen their capacity to respond to uncertainty. Financial resilience subsequently emerges as a critical growth capability, allowing firms to maintain operations, preserve strategic flexibility, and continue investing despite financial disturbances.

The serial mediation finding provides the main contribution of this study. The evidence confirms that budgeting discipline supports sustainable MSME growth through a sequential pathway: budgeting discipline improves working capital efficiency; improved working capital efficiency strengthens financial resilience; and financial resilience enables sustainable growth. This finding extends previous research that has examined budgeting, working capital management, and resilience as separate concepts by demonstrating how these financial capabilities interact as an integrated growth mechanism.

Theoretically, this study contributes to the Resource Orchestration Theory perspective by demonstrating how MSMEs transform limited financial resources into sustainable competitive outcomes through sequential capability development. Practically, the findings suggest that MSME development programs should not focus solely on improving access to finance but should also strengthen internal financial management capabilities, particularly budgeting practices, liquidity management, and resilience preparation.

For MSME owners, the proposed B-RIDGE Framework provides a practical approach for managing growth through five interconnected practices: budgeting financial resources, releasing trapped cash, insulating liquidity, governing financial deviations, and expanding selectively according to financial capacity. By adopting these practices, MSMEs can pursue growth opportunities while minimizing the risk of financial instability.

This study has several limitations. The cross-sectional design restricts causal interpretation, and future research should employ longitudinal approaches to examine how financial capabilities develop over time. Future studies may also incorporate objective financial indicators, such as cash conversion cycles, liquidity ratios, profitability measures, and sales growth records. In addition, future research may investigate whether digital financial technologies, financial literacy, and institutional support strengthen the Financial Resilience Pathway across different MSME sectors and regional contexts.

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