

The Role of the Five Loyalties Philosophy in Creating Business Sustainability for Small and Medium Enterprises in Bali

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Abstract: The number of Small and Medium Enterprises (SMEs) in Bali declined by 18.42% in 2023, threatening business sustainability, partly due to limited managerial capabilities. This study examines the effect of financial capability on SME business sustainability, with financial performance as a mediator and the *Panca Satya* (Five Loyalties) philosophy as a moderator. Data were collected from 177 SMEs using proportional stratified random sampling and a questionnaire. The hypotheses were tested using partial least squares structural equation modelling (PLS-SEM). The results show that financial capability positively affects both financial performance and business sustainability. Financial performance partially mediates this relationship. While the *Panca Satya* philosophy positively predicts business sustainability, it does not significantly moderate the relationship between financial capability and business sustainability. This study contributes to the literature by positioning *Panca Satya* as an indigenous cultural resource that supports sustainable entrepreneurship and broadens the application of local wisdom in sustainability research.

Keywords: *panca satya* philosophy; business sustainability; small and medium enterprises (SMEs)

1. Introduction

Business sustainability remains a major challenge for Small and Medium Enterprises (SMEs) in Indonesia due to limited resources for implementing sustainable business practices and the need to balance economic, social, and environmental objectives (Prabawani, 2016; Chatterjee et al., 2024). These challenges are particularly evident among SMEs in Bali, which continue to face low financial capability, limited access to finance, inadequate managerial

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competence, and heavy dependence on the tourism sector. As a result, they are highly vulnerable to economic shocks and fluctuations in tourist arrivals. Strengthening financial capability while leveraging local cultural values is therefore essential for enhancing business sustainability (Poerwanto et al., 2021; Prabawani et al., 2023; Widiastini et al., 2025; BPS Bali Province, 2026).

The expansion of the financial sector stimulates economic growth but also increases the risk of financial instability. In Indonesia, rapid financial innovation and the widespread adoption of e-commerce have improved access to financial services, yet they have also heightened the risk of financial shocks that can adversely affect individuals, households, businesses, and the broader economy (OJK, 2020; Sanchez et al., 2021; Sun et al., 2022).

The sustainability of SMEs in Bali is particularly vulnerable to financial shocks, fluctuating business conditions, and heavy dependence on the tourism sector. During the COVID-19 pandemic, 77% of Micro, Small, and Medium Enterprises (MSMEs) experienced declining revenues, while 87.5% were directly affected. Only 12.5% were able to survive by adopting innovation, digitalisation, product diversification, and market adjustments (OJK, 2021; Heatubun, 2021; Bali Provincial Cooperatives and SMEs Office, 2023). These conditions highlight the importance of financial capability as a strategic resource for strengthening business sustainability. Consistent with the Resource-Based View (RBV), financial capability enables firms to develop competitive advantages that support long-term sustainability. Empirical evidence also confirms that financial capability has a positive effect on SME sustainability (Hilmawati & Kusumaningtias, 2021; Susanto et al., 2023).

Organizational culture is a strategic internal resource that supports business sustainability. In the Balinese context, Panca Satya embodies five ethical values—truthfulness in speech (*satya wacana*), sincerity (*satya hredaya*), integrity in action (*satya laksana*), loyalty in relationships (*satya mitra*), and commitment to promises (*satya samaya*)—derived from the Hindu principle of *satya* (Dauh, 2019; Budiasih et al., 2023). These values shape organizational behavior, strengthen stakeholder trust, and support sustainable business performance (Chatterjee et al., 2024).

Despite their economic importance, SMEs in Bali continue to face financial constraints, including limited access to formal financing and dependence on high-interest informal loans, which reduce competitiveness and innovation capacity (Mardika, 2024). Although the number of SMEs increased during 2019–2022, it declined by 0.28% in 2023, indicating challenges to long-term business sustainability (Department of Cooperatives and SMEs, 2023). According to Law Number 20 of 2008, SMEs are distinguished from micro-enterprises by their larger business scale, workforce, and broader access to markets, technology, and other productive resources (President of the Republic of Indonesia, 2008).

Bali's SME population declined by 18.42% in 2023 (Department of Cooperatives and SMEs, 2023). The decline comprised a 14.13% reduction in small enterprises and a 35.52% reduction in medium-sized enterprises. This trend has been associated with limited human resources, particularly inadequate business management knowledge and experience, which constrain SME growth and long-term sustainability. Accordingly, SME leaders and managers require strong financial capability, together with loyalty, integrity, and accountability, to sustain business performance in an increasingly uncertain environment.

This study examines the effect of financial capability on SME business sustainability and investigates the role of *Panca Satya* culture as a strategic local resource in strengthening this relationship through financial performance. The study contributes to the literature by extending the Resource-Based View (RBV), Legitimacy Theory, and Contingency Theory through the integration of financial capability, financial performance, *Panca Satya* culture, and business sustainability. Practically, it offers insights for SME managers to strengthen long-term business sustainability and provides evidence to inform government policies promoting sustainable SME development.

2. Literature Review

Business sustainability refers to a firm's ability to maintain continuous operations, growth, and long-term viability while creating economic, social, and environmental value (Chang & Cheng, 2019; Gomis et al., 2018). It encompasses three interrelated dimensions—economic, social, and environmental sustainability—commonly referred to as the *people, planet, and profit* framework (Prabawani, 2016).

Financial capability refers to the ability to make informed financial decisions and effectively manage financial resources, products, and services (Taylor, 2011). It comprises two key dimensions—financial literacy and financial inclusion—which enable business owners to understand, access, manage, and utilise financial resources efficiently (Çera et al., 2021; Amaliya & Anam, 2023). By integrating financial knowledge with access to financial services, financial capability enhances decision-making, improves financial performance, and supports SME sustainability (Quaid & Egdell, 2010; Susanto et al., 2023).

Financial performance reflects a firm's financial condition and operational effectiveness over a given period (Faisal et al., 2017). It is commonly assessed using indicators such as profitability, asset utilisation, revenue growth, and business expansion (Trailer et al., 1996; Chong, 2008). Previous studies (Miswanto & Oematan, 2020; Rosyadah et al., 2022; Yunus et al., 2022) have shown that financial performance mediates the positive relationship between financial capability and business sustainability.

In this study, *Panca Satya* is proposed as a moderating variable because it embodies loyalty, honesty, ethical conduct, and Balinese local wisdom that may influence financial management practices and business sustainability. These values were operationalised into questionnaire items measuring loyalty in speech, thoughts, actions, relationships, and commitments using a five-point Likert scale. The instrument was subsequently validated by experts in Hindu teachings.

Financial capability is expected to enhance SME business sustainability by strengthening financial literacy, financial inclusion, and financial decision-making (Prasetya et al., 2021; Rukmiyati et al., 2023). Higher levels of financial literacy contribute to improved business performance and long-term sustainability (Piyani et al., 2023; Rahayu & Musdholifah, 2017). Likewise, financial literacy and financial inclusion have been shown to improve SME financial performance (Aribawa, 2016; Ayem et al., 2020; Darmawan et al., 2021; Yi et al., 2023). Strong financial performance, in turn, enhances business sustainability by supporting long-term growth and organisational resilience (Rosyadah et al., 2022; Selvarajah et al., 2018; Indriastuti & Mutamimah, 2023; Yaniar et al., 2021).

Financial capability also improves SME financial performance, which subsequently strengthens business sustainability (Riffianto & Suryani, 2016; Menne et al., 2022; Miswanto et al., 2024; Yaniar et al., 2021). Firms with stronger financial capability are better able to manage financial resources efficiently, make informed financial decisions, and achieve superior organisational performance. However, the magnitude of these benefits may vary across different organisational and cultural contexts (Xiao & O'Neill, 2016; Sulistyowati, 2023).

Financial capability enables SMEs to manage financial resources effectively through appropriate financing decisions, investment planning, and sound financial record-keeping (Riffianto & Suryani, 2016a). Nevertheless, many SMEs still experience weaknesses in these areas, including selecting unsuitable loan products, inadequate investment planning, and poor financial record management, which ultimately constrain business growth and sustainability (Riffianto & Suryani, 2016a).

Access to financial resources and literacy have no bearing on the long-term viability of SMEs' businesses, according to Zaitul & Ilona (2022). Naufal & Purwanto (2022) stated that financial literacy has little bearing on the sustainability and business success of SMEs. Additionally, according to Hilmawati & Kusumaningtias (2021), financial inclusion has no bearing on MSMEs' sustainability or financial success. SMEs' business sustainability is unaffected by financial literacy (Kusuma et al., 2022).

Previous findings remain inconclusive. Mahanavami et al. (2019) found that the local wisdom value of *Asta Brata*, reflected in human capital, had no significant effect on the financial performance of Rural Banks (BPR) in Bali Province. Similarly, Nuryani (2017) reported a positive but insignificant relationship between organizational culture and the financial performance of farmer cooperatives in Bali.

Previous studies (e.g., Susanto et al., 2023; Zaitul & Ilona, 2022; Darmawan et al., 2021; Yi et al., 2023; Song et al., 2007; Rosyadah et al., 2022; Çera et al., 2021; Miswanto et al., 2024; Yaniar et al., 2021) have examined the relationships among financial capability, financial performance, and business sustainability in SMEs. However, the role of indigenous cultural values, particularly *Panca Satya* culture, remains underexplored.

This study conceptualizes *Panca Satya* as an intangible cultural resource that promotes ethical behaviour, stakeholder trust, and business sustainability. It integrates financial capability, financial performance, and *Panca Satya* culture into a unified framework to address an important research gap. Specifically, previous studies have not examined *Panca Satya* culture as a moderating variable, have largely overlooked the mediating role of financial performance, and have paid limited attention to the integration of Balinese local wisdom into business sustainability research. The RBV has rarely been applied to explain financial capability as an intangible strategic resource that enhances business sustainability. Accordingly, this study proposes an integrative model with financial capability as the exogenous variable, business sustainability as the endogenous variable, financial performance as the mediator, and *Panca Satya* culture as the moderator. The subsequent section presents a description of this study concept (Figure 1).

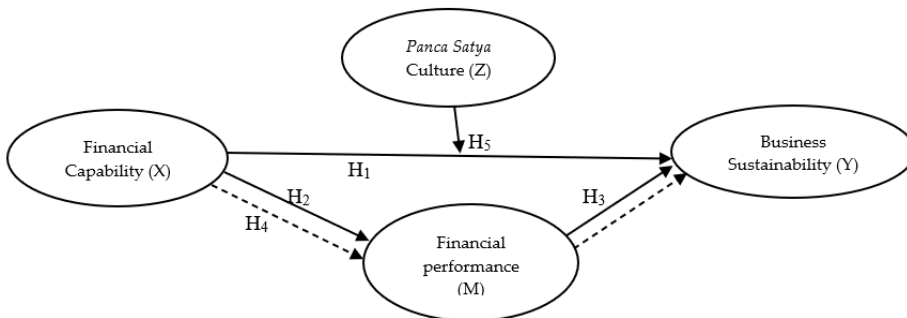


Figure 1. The Research Concept

Relevant mediating and moderating factors are needed to address the different constraints on SMEs' financial capacity to sustain business

sustainability. Both empirical and theoretical research support the use of *Panca Satya* culture as a moderator and financial performance as a mediator.

Financial capability is expected to enhance SME business sustainability by improving financial literacy, financial inclusion, and financial decision-making (Prasetya et al., 2021; Rukmiyati et al., 2023). Higher financial literacy contributes to better financial performance and long-term sustainability (Piyani et al., 2023; Rahayu & Musdholifah, 2017), while financial literacy and financial inclusion positively influence SME financial performance (Aribawa, 2016; Ayem et al., 2020; Darmawan et al., 2021; Yi et al., 2023). Consistent with the RBV, financial capability represents a valuable strategic resource that enables firms to utilize financial resources effectively, improve financial performance, and achieve sustainable competitive advantage (Barney, 1991).

Financial performance is a key driver of business sustainability by strengthening organizational resilience and long-term growth (Rosyadah et al., 2022; Selvarajah et al., 2018; Indriastuti & Mutamimah, 2023; Yaniar et al., 2021; Weber, 2017; Bartolacci et al., 2020). In line with Legitimacy Theory, superior financial performance enhances stakeholder trust and organizational legitimacy, thereby supporting long-term business sustainability (Alfiana, 2021). Therefore, financial performance is expected to mediate the relationship between financial capability and business sustainability (Riffianto & Suryani, 2016; Menne et al., 2022; Miswanto et al., 2024; Yaniar et al., 2021).

Furthermore, the effectiveness of financial capability may depend on contextual and cultural factors (Xiao & O'Neill, 2016; Sulistyowati, 2023). Based on Contingency Theory, this study proposes that *Panca Satya* culture moderates the relationship between financial capability and business sustainability by fostering honesty, integrity, loyalty, sincerity, and commitment in financial management. As a Balinese ethical value rooted in local wisdom, *Panca Satya* is expected to reduce opportunistic behavior, strengthen stakeholder trust and accountability, and promote a long-term business orientation (Natih, 2021; Sari & Savira, 2022). *Panca Satya*, as the embodiment of a code of ethics based on Balinese local wisdom, teaches SMEs to maintain loyalty, increase responsibility, and maintain business sustainability.

3. Method and Theory

3.1 Method

This study surveyed SMEs in Bali Province, comprising a population of 43,769 enterprises (36,837 small and 6,932 medium-sized). Using the Slovin formula with a 7.5% margin of error, a sample of 177 SMEs was selected from various business sectors (Radjab & Jam'an, 2017). The sample included both Hindu and non-Hindu business owners, as most SMEs operate within Bali's shared socio-cultural environment, where the values underlying *Panca*

Satya, particularly loyalty and ethical conduct, are broadly reflected across communities despite differences in religious beliefs.

A proportional stratified random sampling technique was employed to select 177 SMEs across the nine regencies/cities of Bali. Samples were allocated proportionally according to the SME population in each region, with the largest proportion drawn from Gianyar (103 SMEs), followed by Buleleng (26), Badung (20), Bangli (14), and Denpasar (11). The remaining samples were obtained from Jembrana, Karangasem, and Klungkung (one SME each), while no sample was drawn from Tabanan due to its negligible population proportion. The sample size in each district/city is quite different and varied because samples were drawn proportionally from the population in each district/city. The population data was obtained from the Department of Cooperatives, Small and Medium Enterprises, which recorded the highest number of MSMEs in Gianyar and none in Tabanan.

The variables used in this study consist of four types, namely: one endogenous variable, namely business sustainability, one exogenous variable, namely financial capability, one mediating variable, namely financial performance, and one moderating variable, namely the *Panca Satya* culture. The variables analyzed are shown in Table 1.

Table 1. Operational Definition and Measurement of Variables

Variable	Operational Definition	Indicators	Number of Items	References
Financial Capability	The ability of SME owners to manage financial resources effectively through knowledge, skills, access, and financial behaviour	Financial behaviour, financial skills, financial knowledge, financial attitude, financial experience, financial information, time value of money, financial access, financial quality, financial use, financial well-being	39	Rosyadah et al. (2022); Naufal & Purwanto (2022); Aribawa (2016); Yunus et al. (2022)
Financial Performance	SME financial achievement reflected through profitability, assets, capital, sales, customer growth, and cost efficiency	Profitability growth, asset growth, capital growth, fixed cost reduction, sales growth, customer growth	14	Menne et al. (2022); Aribawa (2016)

Variable	Operational Definition	Indicators	Number of Items	References
Business Sustainability	SME ability to maintain long-term business continuity economically, socially, environmentally, and operationally	Economic condition, social condition, environmental condition, production growth	11	Bae & Smardon (2011); Yunus et al. (2022)
Panca Satya Culture	Balinese local wisdom emphasizing honesty, loyalty, integrity, commitment, and trustworthiness in business activities	Satya Wacana, Satya Hredaya, Satya Lak-sana, Satya Mitra, Satya Samaya	13	Sari & Savira (2022); Sharma & Rawat (2023)

Sources: Some Previous Empirical Research

All variables were measured using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree). Instrument validity was established through expert review and PLS-SEM analysis. Content validity was confirmed by a professor of Hindu philosophy and a certified Hindu religious instructor, while construct validity and reliability were verified through outer loadings (>0.70), average variance extracted (AVE >0.50), Composite Reliability, and Cronbach's Alpha (both >0.70).

The sample size was proportional to the population in each district/city. Gianyar Regency had the largest SME population, reaching 25,639 units (58.58%), according to data from the Bali Provincial Cooperatives and SMEs Office in 2023. The sample size used in Gianyar Regency, using a proportional system of 58.58%, was 103 units. Gianyar, with the largest SME population, ultimately had the largest sample size in Bali Province.

Primary data were collected through observations, semi-structured interviews (30 unit), and structured questionnaires administered both online/Google Forms (17 unit) and in person (130) over a 2.5-month period. These qualitative activities supported instrument development rather than hypothesis testing. Quantitative data were obtained using a structured questionnaire, with most responses collected through direct field distribution and a smaller proportion via Google Forms. Descriptive analysis was performed using mean scores and frequency distributions. The use of *Panca Satya* as a moderating variable requires in-depth interviews with relevant sources or figures, including lecturer and religious leaders, non-Hindu religious leaders, and SMEs that have implemented it.

PLS-SEM, as described by Rahadi (2023), was the data analysis method employed. PLS-SEM was used to explain the qualitative nature of the *Panca Satya* cultural phenomenon, which was previously initiated by conducting in-depth interviews with a Hindu religious figure and lecturer who is an expert in Hindu religious teachings and a competent Hindu religious instructor from the Ministry of Religion, Bali Provincial Office.

The initial phase was to determine the validity of the interpretation of the findings through validity testing (convergent and discriminant) (Karakaya-Ozyer & Aksu-Dunya, 2018). The second step, reliability testing, examines how well the measurement model can consistently assess the latent construct. The reliability indicators, namely Cronbach's Alpha and composite reliability score of over 0.7 suggests acceptable reliability (Tentama & Anindita, 2020). Calculating the R-squared (R^2) is the third step in determining the model's degree of fit.

The fourth step involves comparing statistical significance was assessed based on a t-statistic of 1.96 or a corresponding p-value of 0.05 to determine statistical significance. The fifth step involves testing for mediation. According to Hair et al. (2021), there are three forms of mediation: competitive mediation, indirect-only/complete mediation, and supplementary/partial mediation. The sixth step is to employ moderated regression analysis (MRA) to check for moderation. The regression equations for the moderation test are as follows (Ghozali, 2013): a) $Y_{i=\alpha} + \beta_1 X_i + e$ (without considering the moderating variable), b) $Y_{i=\alpha} + \beta_1 X_i + \beta_2 Z_i + e$ (involving the moderating variable), and c) $Y_{i=\alpha} + \beta_1 X_i + \beta_2 Z_i + \beta_3 X_i * Z_i + e$ (involving the moderating variable and its interaction). Sharma et al. (1981) divided the tipology of moderation as follows (Figure 2):

	Related to Criteria and/or Predictors	Not related to Criteria and Predictors
No Interaction with Predictor	1 <i>Intervening; Exogenous; Antecedent; Suppressor; Predictor</i>	2 <i>Moderator (Homologizer)</i>
Interacting with Predictors	3 <i>Moderator (Quasi Moderator)</i>	4 <i>Moderator (Pure Moderator)</i>

Figure 2. Tipology of Moderation by Sharma et al., (1981).

3.2 Theory

This study is primarily grounded in the RBV theory, which posits that sustainable competitive advantage originates from valuable intangible resources. Financial capability enhances financial performance through effective financial

management, thereby supporting business sustainability. *Panca Satya* culture is conceptualized as an intangible cultural resource that strengthens stakeholder trust and sustainable business practices. Financial performance is proposed as a mediator, as RBV suggests that strategic resources improve sustainability through enhanced organizational performance.

RBV theory recognizes that financial capability and *Panca Satya* culture function as complementary strategic resources. Their synergy enables SMEs to manage financial resources more responsibly, ethically, and strategically, thereby strengthening the positive effect of financial capability on business sustainability. Legitimacy Theory complements RBV by explaining that superior financial performance enhances stakeholder recognition and long-term sustainability, while Contingency Theory provides the rationale for *Panca Satya* culture as a moderating variable, suggesting that the effectiveness of financial capability depends on contextual factors.

4. Result and Discussion

4.1 Research Dimension Testing

All indicators fulfilled the outer loading criteria of more than 0.7 in the phase 3 validity test results (Figure 3). The AVE values for all indicators were also above 0.5. The loading factors and AVE values for this investigation the measured by Table 2, which satisfied the validity criteria.

The PLS-SEM analysis is also equipped with the Heterotrait-Monotrait Ratio of Correlation (HTMT) or Discriminant Validity test, Variance Inflation Factor (VIF) or Collinearity, and Standardized Root Mean Square Residual (SRMR) or Model Fit. The HTMT test produces the following figures: 1) Financial Capability $\leftrightarrow$ Panca Satya Culture = 0.617; 2) Business Sustainability $\leftrightarrow$ Panca Satya Culture = 0.841; 3) Business Sustainability $\leftrightarrow$ Financial Capability = 0.647; 4) Financial Performance $\leftrightarrow$ Panca Satya Culture = 0.635; 5) Financial Performance $\leftrightarrow$ Financial Capability = 0.635; and 6) Financial Performance $\leftrightarrow$ Business Sustainability = 0.709. The test results showed that all HTMT values between constructs were below 0.90. The HTMT test concluded that the model met discriminant validity.

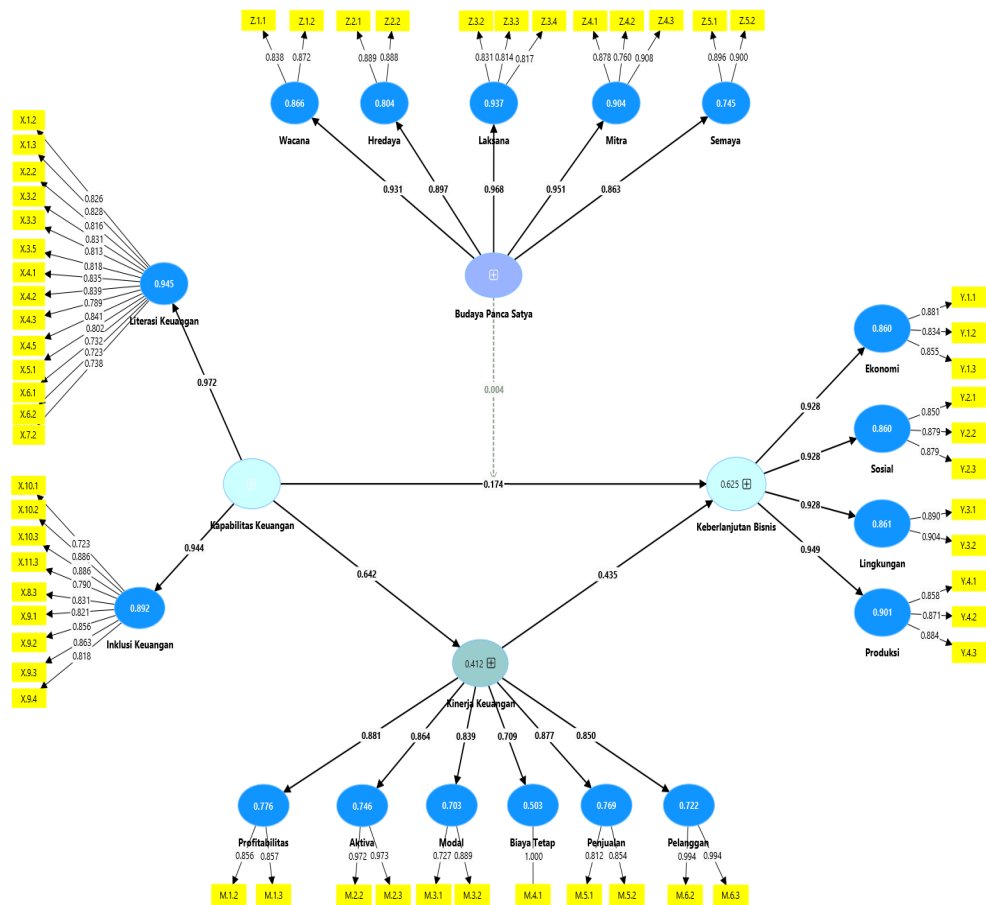


Figure 3. The Testing of Outer Model (Validity) after One Indicator Statement Item is Eliminated from The Model

Table 2. Results of the Third Test of Convergent Validity of Research Variables After One Indicator Statement Item was Removed

Financial Capability (X)			Financial Performance (M)			Business Sustainability (Y)			Panca Satya Culture (Z)		
Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE
X.1.2	0.826		M.1.2	0.856	0.734	Y.1.1	0.881		Z.1.1	0.838	0.732
X.1.3	0.828		M.1.3	0.857		Y.1.2	0.834	0.734	Z.1.2	0.872	
X.2.2	0.816		M.2.2	0.972	0.946	Y.1.3	0.855		Z.2.1	0.889	0.790
X.3.2	0.831		M.2.3	0.973		Y.2.1	0.850		Z.2.2	0.888	
X.3.3	0.813		M.3.1	0.727	0.659	Y.2.2	0.879	0.756	Z.3.2	0.831	
X.3.5	0.818		M.3.2	0.889		Y.2.3	0.879		Z.3.3	0.814	0.674
X.4.1	0.835	0.645	M.4.1	1.000		Y.3.1	0.890	0.805	Z.3.4	0.817	
X.4.2	0.839		M.5.1	0.812	0.695	Y.3.2	0.904		Z.4.1	0.878	
X.4.3	0.789		M.5.2	0.854		Y.4.1	0.858		Z.4.2	0.760	0.725
X.4.5	0.841		M.6.2	0.994	0.988	Y.4.2	0.871	0.759	Z.4.3	0.908	

Financial Capability (X)			Financial Performance (M)			Business Sustainability (Y)			Panca Satya Culture (Z)		
Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE	Items Code/ Indicator	Loading Factor	AVE
X.5.1	0.802		M.6.3	0.994		Y.4.3	0.884		Z.5.1	0.896	0.806
X.6.1	0.732								Z.5.2	0.900	
X.6.2	0.723										
X.7.2	0.738										
X.8.3	0.831										
X.9.1	0.821										
X.9.2	0.856										
X.9.3	0.863										
X.9.4	0.818	0.692									
X.10.1	0.723										
X.10.2	0.886										
X.10.3	0.886										
X.11.3	0.790										

Source: Data Processing Results, 2025.

The VIF test yielded the following values: 1) *Panca Satya Culture* → Business Sustainability = 2.237; 2) Financial Capability → Business Sustainability = 1.944; 3) Financial Capability → Financial Performance = 1.000; 4) Financial Performance → Business Sustainability = 1.872; and 5) *Panca Satya Culture* × Financial Capability → Business Sustainability = 2.002. After testing, all variables had VIF values below 5. A VIF value below 5 indicates that the research model does not experience multicollinearity issues.

The SRMR test yielded the following values: saturated model = 0.085 and estimated model = 0.099. Both values are below 0.100. This shows that the research model is stated to have good goodness of fit or is statistically acceptable.

4.2 Research Variable Testing

4.2.1 Convergent Validity Test

Convergent validity was assessed using outer loadings and AVE. All indicator loadings exceeded 0.70 and the AVE values for each construct were above the recommended threshold of 0.50, confirming satisfactory convergent validity. As shown in Tables 3, these results indicate that the indicators reliably and accurately measure their respective constructs. This study focused on the general characteristics of SME owners and did not perform t-tests or ANOVA to examine differences in the application of *Panca Satya* principles across education levels or age groups. Such analyses are recommended for future research involving more specific respondent characteristics.

Table 3. Results of Convergent Validity Testing of Research Variables

Variable	Dimension	Loading Factor	AVE Value
Financial Capability (X)	Financial Literacy (X ₁)	0.988	0.976
	Financial Inclusion (X ₂)	0.988	
Financial Performance (M)	Profitability (M ₁)	0.892	0.706
	Assets (M ₂)	0.846	
	Capital (M ₃)	0.848	
	Fixed Cost (M ₄)	0.747	
	Sales (M ₅)	0.881	
	Customer (M ₆)	0.819	
Panca Satya Culture (Z)	Wacana (Z ₁)	0.925	0.860
	Hredaya (Z ₂)	0.908	
	Laksana (Z ₃)	0.970	
	Mitra (Z ₄)	0.936	
	Samaya (Z ₅)	0.896	
Business Sustainability (Y)	Economic (Y ₁)	0.925	0.871
	Social (Y ₂)	0.926	
	Environmental (Y ₃)	0.933	
	Production (Y ₄)	0.950	
Panca Satya Culture x Financial Capability	Panca Satya Culture x Financial Capability	1.000	

Source: Data Processing Results, 2025.

4.2.2 Discriminant Validity Test

Discriminant validity was assessed by comparing the square root of the $\sqrt{\text{AVE}}$ with inter-construct correlations. As all $\sqrt{\text{AVE}}$ values exceeded their corresponding inter-construct correlations, the results confirmed satisfactory discriminant validity, indicating that each construct was empirically distinct and well represented by its indicators (Table 4).

Table 4. Results of Discriminant Validity Testing of Research Variables

Variable	Panca Satya Culture	Financial Capability	Business Sustainability	Financial Performance
Panca Satya Culture	0,927			
Financial Capability	0,478	0,988		
Business Sustainability	0,614	0,640	0,933	
Financial Performance	0,448	0,639	0,709	0,840

Source: Data Processing Results, 2025.

4.2.3 Reliability Test

Reliability between indicator blocks in the study model is tested based on Cronbach's Alpha and Composite Reliability coefficients. As seen in Table 5,

Indicators of construct reliability, including Cronbach's Alpha and Composite Reliability both have values over 0.70. For each study variable, Composite Reliability and Chronbach's Alpha offer acceptable reliability. As indicated by the Table 5's findings, the study variables satisfy the validity and reliability requirements, enabling the structural model (inner model) to be evaluated.

Table 5. Results of Reliability Testing of Research Variables

Variabel	<i>Composite Reliability</i>	<i>Chronbach's Alpha</i>	Description
Panca Satya Culture	0.968	0.960	Reliable
Financial Capability	0.988	0.975	Reliable
Business Sustainabiliy	0.964	0.951	Reliable
Financial Performance	0.935	0.916	Reliable

Source: Data Processing Results, 2025.

4.2.4 Model Goodness of Fit Test

The model's overall fit quality was assessed using R-Square. The evaluation of the model's overall fit quality using PLS starts with analyzing the R-Square for each variable. The R^2 numbers are 0.67, 0.33, and 0.19 demonstrate that the structural model is classified as the categories of good, moderate, and poor, respectively. Table 6 displays the R-Square results.

Table 6. Results of the Model Goodness of Fit Test in R-Square Values

Variable	<i>R-square</i>	<i>R-square adjusted</i>
Business Sustainabiliy	0.637	0.628
Financial Performance	0.408	0.405

Source: Data Processing Results, 2025.

Financial capability and financial performance explain 62.8% of the variance in business sustainability ($R^2 = 0.628$), indicating a good model, while the remaining 37.2% is explained by other factors. Financial capability explains 40.5% of the variance in financial performance ($R^2 = 0.405$), representing a moderate model, with the remaining 59.5% influenced by other variables.

Business sustainability was measured using four dimensions: economic conditions, social conditions, environmental conditions, and production growth. The economic and production growth dimensions included objective performance indicators, ensuring that business sustainability was assessed not only through SME owners' subjective perceptions.

4.2.5 Significance Testing

Hypothesis testing was conducted using the bootstrapping procedure. Relationships between latent variables were considered significant when the *t*-statistic exceeded 1.96 and the *p*-value was below 0.05. As presented in Tables 7, financial capability significantly affected business sustainability and financial performance, while financial performance also had a significant positive effect on business sustainability.

Table 7. Results of the Significance Test of Research Variables

Path	Coefficients Value	T-Statistics	P-Value	Description
Financial Capability--> Business Sustainability	0.214	2.746	0.006	Significant
Financial Capability --> Financial Performance	0.639	11.607	0.000	Significant
Financial Performance --> Business Sustainability	0.430	4.640	0.000	Significant

Source: Data Processing Results, 2025.

4.2.6 Mediation Test

The mediation analysis (Table 8) revealed that financial performance significantly mediates the relationship between financial capability and business sustainability ($t = 4.934$, $p < 0.001$). The significant direct and indirect effects indicate that financial performance serves as a partial mediator.

Table 8. Results of the Mediation Test (Indirect) of the Influence of Financial Capability on Business Sustainability Through Financial Performance

Path	Coefficients Value	T-Statistics	P-Value	Description
Financial Capability --> Business Sustainability	0.316	3.985	0.000	Significant
Financial Capability --> Financial Performance	0.639	11.610	0.000	Significant
Financial Performance --> Business Sustainability	0.507	6.186	0.000	Significant
Financial Capability --> Financial Performance --> Business Sustainability	0.324	4.934	0.000	Significant

Source: Data Processing Results, 2025.

4.2.7 Moderation Test

The first step of the moderation test was carried out without considering the panca satya cultural factor. The beginning phase of the MRA testing process

produced the formula: $Y_i = \alpha + 0.644 X_i$. The T-statistics is 11.239 and P-Value is 0.000. That is significant.

The second phase focuses on examining the influence of financial competence and the panca satya culture on company sustainability. The second-step test yields a number which assesses the acceptability of the moderating variable. The equation derived from the second-step analysis is $Y_i = \alpha + 0.451 X_i + 0.399 Z_i$ with each T-Statistics and P-Value is significant.

In the third phase, the interaction between financial capacity and the panca satya cultural values in shaping long-term business viability is examined. Table 9 displays the findings of the third-step moderation experiment. The following equation is derived from the third-step moderation test: $Y_i = \alpha + 0.214 X_i + 0.323 Z_i + 0.005 X_i Z_i$.

Table 9. Results of the Third-Step Moderation Test: The Effect of the Interaction of Financial Capability and *Panca Satya* Culture

Path	Coefficients Value	T-Statistics	P-Value	Description
Financial Capability --> Business Sustainability	0.214	2.746	0.006	Significant
Panca Satya Culture --> Business Sustainability	0.323	5.033	0.000	Significant
Panca Satya Culture x Financial Capability --> Business Sustainability	0.005	0.135	0.893	Non Significant

Source: Data Processing Results, 2025.

The moderation analysis (Table 9) showed that financial capability and *Panca Satya* culture each had significant positive effects on business sustainability (Figure 4). However, the interaction effect was positive but not significant, indicating that *Panca Satya* culture did not moderate the relationship between financial capability and business sustainability. Instead, it functioned as an independent predictor of business sustainability among SMEs in Bali Province.

The inability of *Panca Satya* culture to moderate the relationship may be attributed to several factors. First, its loyalty dimensions are not consistently applied across thoughts, words, actions, relationships, and commitments. Second, the dynamic and pragmatic nature of SME financial management limits the consistent implementation of loyalty values. Third, SMEs prioritize short-term financial needs due to limited resources and dependence on external funding. Fourth, financial capability is more technical while five satya is more of a value philosophy. Finally, the flexibility and rapid decision-making

required for business survival may reduce adherence to loyalty-based financial principles, limiting the moderating role of *Panca Satya* culture.



Figure 4. Micro, small, and medium enterprises (MSMEs) producing and selling stone shrines and other religious structures while serving customer at their workshop (Photo: I Nyoman Darma Putra, 2023).

Preliminary observations and expert interviews were conducted to develop and validate the *Panca Satya* construct, ensuring its content validity and contextual relevance. The experts included I Wayan Surpa, a lecturer at the Faculty of Social and Political Sciences, Udayana University, and a certified Hindu religious scholar, as well as I Gusti Putu Suanda, a Hindu religious counsellor at the Bali Regional Office of the Ministry of Religious Affairs. Wayan Surpa emphasised that *Panca Satya* represents a fundamental ethical principle that should guide all aspects of life, including business. He noted that conflicts of loyalty may arise among its five elements, requiring ethical judgement in their application. Putu Suanda explained that *Panca Satya* is closely associated with *Tri Kaya Parisudha* and the Three Basic Frameworks of Hinduism, making it highly relevant to business management.

According to Budi Astuti, an Islamic religious leader and Secretary of the Halal Product Team at the Bali Regional Office of the Ministry of Religious Affairs, the values embodied in *Panca Satya* are comparable to the Islamic

concept of *rahmatan lil alamin*, which emphasises honesty, loyalty, and ethical responsibility. She argued that businesses lacking honesty and loyalty are unlikely to survive or achieve sustainable growth. Nyoman Agus Eka Putra and Father Oscar Naib, Buddhist religious leaders at the Bali Regional Office of the Ministry of Religious Affairs, explained that the values of *Panca Satya* are consistent with the Buddhist principle of *Asta Arya Marga* (the Noble Eightfold Path), which provides an ethical foundation for responsible business leadership and management.

In-depth interviews were also conducted with SME entrepreneurs to examine the practical application of *Panca Satya*. Made Megayasa, a silver crafts entrepreneur from Celuk, Sukawati, Gianyar, described *Panca Satya* as the philosophical foundation of his business, particularly in fostering trust and maintaining long-term relationships with customers. Putu Adi Saputra, owner of *Metamorfosis Ceramics*, stated that adopting the *Panca Satya* philosophy had contributed to the growth and prosperity of his business. Similarly, I Made Arjana, owner of UD Sinar, explained that *Panca Satya* has played a vital role in maintaining business partnerships and supporting the long-term continuity and sustainability of his enterprise.

4.2.8 Hypothesis Testing

The findings of the path coefficient and p-value tests reveal the correlation between each study variable. Table 10 displays the findings of the relationship testing between each variable. Using Smart PLS 3.0, the collected data were processed and analyzed and each hypothesis was examined in depth. Table 10 displays the numerical values regarding the hypothesis testing findings.

Table 10. Summary of Research Hypothesis Testing Results

Symbol	Hypothesis	Coefficients Value	T-Statistics	P-Values	Valuation
H ₁	Financial Capability --> Business Sustainability	0.316	3.985	0.000	Positive & Significant
H ₂	Financial Capability --> Financial Performance	0.639	11.610	0.000	Positive & Significant
H ₃	Financial Performance --> Business Sustainability	0.507	6.186	0.000	Positive & Significant
H ₄	Financial Capability --> Financial Performance --> Business Sustainability	0.324	4.934	0.000	Positive & Significant
H ₅	Panca Satya Culture x Financial Capability --> Business Sustainability	0.005	0.135	0.893	Positive & Non Significant

Source: Data Processing Results, 2025.

Hypothesis testing showed that financial capability positively affected business sustainability (H1; $\beta = 0.316$, $t = 3.985$, $p < 0.001$) and financial performance (H2; $\beta = 0.639$, $t = 11.610$, $p < 0.001$). Financial performance also had a significant positive effect on business sustainability (H3; $\beta = 0.507$, $t = 6.186$, $p < 0.001$). Furthermore, financial performance partially mediated the relationship between financial capability and business sustainability (H4; $\beta = 0.324$, $t = 4.934$, $p < 0.001$), indicating that financial capability enhances sustainability both directly and indirectly through improved financial performance. However, the moderating effect of *Panca Satya* culture was not significant (H5; $\beta = 0.005$, $t = 0.135$, $p = 0.893$), suggesting that it functions as an independent predictor rather than a moderator of the relationship between financial capability and business sustainability.

The findings indicate that *Panca Satya* functions as a predictor of SME business sustainability but does not significantly moderate the relationship between financial capability and business sustainability. Future research should therefore examine *Panca Satya* as an exogenous construct to better understand its direct contribution to SME sustainability. The insignificant moderating effect may reflect the inconsistent implementation of *Panca Satya* values across SMEs, the dynamic nature of financial management, firms' short-term business orientation, limited financial resources, and the flexibility of financial management practices.

4.3 Discussion

Financial capability had a positive but relatively weak effect on business sustainability ($\beta = 0.316$), indicating the need to strengthen SMEs' financial capability. Based on the RBV, financial capability comprises 11 internal resource indicators that support competitive advantage and business sustainability. The highest mean score was observed for maintaining emergency funds and the efficient use of loans (mean = 4.33), while the highest outer loading was for the efficient use of loans without deviation (0.886). These findings suggest that SMEs prioritize liquidity and prudent financial management due to limited resources and restricted access to finance, consistent with previous studies by Piyani et al. (2023); Rahayu & Musdholifah (2017); Rahadhini (2021); and Rukmiyati et al. (2023).

Financial capability had a strong positive effect on the financial performance of SMEs ($\beta = 0.639$). The most influential dimensions were the availability of emergency funds and the efficient use of loans, indicating that effective financial resource management improves business performance. These findings support the RBV, which considers financial capability a valuable strategic resource that enhances organizational performance, and are consistent

with previous studies by Barney (1991); Darmawan et al. (2021); Yi et al. (2023); Aribawa (2016); and Song et al. (2007).

Financial performance had a positive moderate effect on business sustainability ($\beta = 0.507$), indicating that improvements in profitability, capital, sales growth, customer expansion, and cost efficiency enhance SME sustainability. Although paid-in capital was perceived as the most important financial performance indicator, customer expansion contributed more strongly to business sustainability. These findings support Legitimacy Theory, suggesting that strong financial performance strengthens stakeholder recognition and promotes sustainable business development, consistent with previous studies by Indriastuti and Mutamimah (2023); Rosyadah et al. (2022); and Selvarajah et al. (2018).

Financial performance partially mediated the relationship between financial capability and business sustainability ($\beta = 0.324$), indicating that financial capability influences sustainability both directly and indirectly through improved financial performance. The relatively weak mediation effect suggests that strengthening both financial capability and financial performance is essential for long-term sustainability. These findings support the RBV and Legitimacy Theory and are consistent with previous studies by Riffianto and Suryani (2016); Menne et al. (2022); Miswanto and Oematan (2020); and Yaniar et al. (2021).

The *Panca Satya* culture has not been demonstrated to increase the influence of financial resources to the business continuity of SMEs in Bali Province, but It can serve as a predictor variable. From the perspective of Contingency Theory, cultural values were expected to function as contextual factors that strengthen the effectiveness of organizational resources. Financial capability was conceptualized as a strategic resource, while *Panca Satya* culture was expected to enhance the utilization of that resource through values such as honesty, integrity, commitment, and loyalty. However, the empirical findings indicate that these cultural values do not significantly alter the relationship between financial capability and business sustainability.

Several factors may explain the non-significant moderating effect of *Panca Satya* culture. Financial capability and *Panca Satya* appear to influence business sustainability through different mechanisms, with financial capability representing a managerial resource and *Panca Satya* reflecting ethical and cultural values. The significant direct effect of *Panca Satya* suggests that values such as honesty, trustworthiness, loyalty, and commitment independently promote sustainable business practices rather than strengthen the effect of financial capability. Moreover, increasing market competition, digital transformation, financing constraints, and economic uncertainty may reduce the moderating

role of cultural values, making managerial competence a more dominant driver of business sustainability.



Figure 5. Ceramic artisans demonstrating their commitment to producing high-quality products at the MSME exhibition during the annual Bali Arts Festival (Photo: I Nyoman Darma Putra, 2025).

This finding contributes to the literature on local wisdom and entrepreneurship by suggesting that indigenous cultural values should not always be conceptualized as moderators. In the context of Balinese SMEs, *Panca Satya* appears to operate more effectively as a cultural resource or form of cultural capital that directly supports sustainability. This finding extends previous studies that primarily viewed local wisdom as a contextual or moderating factor and suggests that cultural values may independently influence organizational outcomes (Figure 5).

The result also helps explain why *Panca Satya* differs from other cultural frameworks commonly examined in sustainability studies, such as *Tri Hita Karana*. While *Tri Hita Karana* emphasizes harmonious relationships among humans, nature, and the divine, *Panca Satya* focuses on personal integrity, commitment, honesty, and loyalty. These values are more closely associated with ethical conduct and organizational trust than with the enhancement of financial capability. Consequently, their contribution is more likely to be

direct rather than moderating. The inclusion of the five notions of loyalty and honesty, which affect the sustainability of the company, is the sole reason that the *Panca Satya* culture acts as a predictor. Financial management that considers the effects or implications of agreements has the greatest average score among respondents on the *Panca Satya*.

In financial management, SMEs that comprehend the concepts of the efficient use of loans, reserve funds, and agreements consider these elements to be essential to the business. and can maximize the usage of their money by investing in other, more lucrative businesses or using it for business operations, as permitted by the agreement. Income that will eventually have an effect on the viability of the SMEs. The results of this investigation are consistent with previous studies conducted by Mahanavami et al. (2019); Hendra et al. (2021); Monogina & Rachmawati (2023); Lusmeida the papers by Rusli et al (2023), Alminanda & Indonesia (2018), Hasan & Kunci (2025), and Arsjah (2024) all make the argument that organizational culture has not been able to be reinforced. The interaction between exogenous and endogenous factors in the study model that was used.

This study did not include both business size and business sector as control variables in the model because it focused on small and medium enterprises as a whole, excluding micro-enterprises and using all business sectors (trade, agricultural industry, non-agricultural industry, and various services) as a single SME business unit. Another reason is that this study used district/city-based stratification in sampling. The use of control variables for business size or business sector presents an opportunity for further research.

This research remains valid when applied to non-Hindu respondents even though *Panca Satya* is a specific teaching in Hinduism, because some of the research respondents interviewed and filled out the questionnaire were SME owners who are non-Hindu. The *Panca Satya* model remains relevant to be applied outside the Hindu-Balinese community. The results of in-depth interviews with several non-Hindu religious figures such as: Islam and Buddhism show that the teaching of loyalty is a very good teaching and has been applied in each religion, but in other terms it is not *Satya*. The results of this study are not only applicable to the Bali region which adheres to Hinduism, but to adherents of all religions.

In-depth interviews were conducted with several SMEs, two of which are Metamorfosis Ceramic and UD Sinar. Metamorfosis Ceramic is a SME operating in the ceramic crafts industry for 13 years, located at Jl. Lembusora I Gg 2A No. 2 Peguyangan, Denpasar. The company has been implementing *Panca Satya* in its business management since 2020, an idea that came from its spiritual mentor. The manager and owner, Mr. Putu Adi Saputra, stated that since implementing

Panca Satya, his ceramic crafts business has grown and prospered.

“I believe *Panca Satya* has helped our business grow and prosper because *Panca Satya* teaches loyalty and disciplined financial management,” said the manager (Interview, May 21, 2025).

UD Sinar, established in 1999, operates in the trading sector. The company is located at Jl. W.R. Supratman 21, Denpasar, has been implementing *Panca Satya* in managing his business since 2018. The SME owner drew inspiration from Hindu teachings. The manager and owner, Mr. I Made Arjana, stated that *Panca Satya* has been instrumental in maintaining partnerships, ensuring the survival and sustainability of his business.

“I feel that *Panca Satya* inspires our business to remain resilient and sustainable because it maintains lasting partnerships, especially with customers and suppliers,” said the manager (Interview, May 24, 2025).

Interview results indicate that implementing the *Panca Satya* culture provides tangible benefits for business sustainability. The values of loyalty, discipline in financial management, and a commitment to maintaining good relationships with customers and suppliers can drive business growth, increase trust, and strengthen business continuity. These findings indicate that *Panca Satya* serves as a cultural value that supports sustainability-oriented business governance.

5. Conclusion and Suggestion

5.1 Conclusion

This study confirms that financial capability is a key determinant of both financial performance and business sustainability among SMEs in Bali. Financial performance partially mediates the relationship between financial capability and business sustainability, indicating that financially capable SMEs are more likely to achieve sustainable business outcomes through improved financial performance.

Although *Panca Satya* does not significantly moderate the relationship between financial capability and business sustainability, it exerts a significant positive direct effect on business sustainability. This finding suggests that business sustainability is influenced not only by financial capability but also by local cultural values that foster ethical behaviour, trust, commitment, and a long-term business orientation. Integrating *Panca Satya* into SME development programmes may therefore enhance sustainable business practices while preserving Balinese cultural values.

5.2 Suggestion

This study recommends that SMEs in Bali strengthen business sustainability by enhancing financial capability, improving financial and waste management practices, expanding market access, and embedding *Panca Satya* values, particularly *Satya Mitra*, in business operations. Policymakers should promote financial inclusion, improve access to finance, strengthen entrepreneurship programmes, and foster collaboration between SMEs and universities to support resilient and sustainable enterprises.

This study is limited to SMEs in Bali, a selected set of business sustainability indicators, and financial capability as the primary antecedent, while *Panca Satya* functioned as a direct predictor rather than a moderator. Future research should employ broader and more diverse samples, incorporate more comprehensive measures of business sustainability, examine additional antecedents such as innovation, entrepreneurial orientation, and digital capability, and apply comparative or mixed method approaches to further investigate the role of *Panca Satya* in promoting SME business sustainability.

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The author made limited use of ChatGPT (OpenAI) to assist with language editing and improve the clarity of the manuscript. All content, analysis, interpretation, and conclusions in this article are the sole responsibility of the author.

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