

Analysis of the Impact of Cash Management on Liquidity in SMEs in Indonesia

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ABSTRACT

Small and Medium Enterprises (SMEs) play a crucial role in Indonesia's economic growth, yet they often struggle with liquidity constraints due to ineffective cash management. This study employs a literature review method to examine the impact of cash management on liquidity among Indonesian SMEs. The findings reveal that structured financial planning, digital financial adoption, and improved access to funding are essential in mitigating liquidity risks. Additionally, the study identifies a strong correlation between effective cash management and business performance, emphasizing the need for SMEs to adopt sound financial practices. The research highlights gaps in existing literature and suggests further empirical studies to develop practical frameworks tailored to the financial landscape of Indonesian SMEs. The study contributes to the discourse on SME financial resilience and offers policy recommendations to enhance liquidity management.

Keywords: *Cash Management, Liquidity, SMEs*

1. INTRODUCTION

Small and Medium Enterprises (SMEs) play a pivotal role in Indonesia's economic development, serving as a backbone of the national economy by contributing significantly to employment generation, poverty alleviation, and GDP growth (DAHİYAT et al., 2021). According to the Indonesian Ministry of Cooperatives and SMEs, these enterprises account for over 99% of total businesses and absorb more than 90% of the national workforce, underscoring their critical impact on economic resilience and social welfare (Jiang et al., 2021).

Despite their substantial contribution, SMEs frequently encounter various financial challenges, with liquidity constraints being one of the most pressing issues that hinder their sustainability and expansion (Badakhshan et al., 2020). Limited access to financing, coupled with inefficient financial planning, exacerbates cash flow volatility, making it difficult for SMEs to meet short-term obligations, invest in business growth, and withstand economic downturns. Effective cash management is, therefore, a fundamental component of financial stability and operational efficiency for SMEs, as it ensures the availability of working capital, enhances decision-making, and mitigates the risk of insolvency (Adityo & Heykal, 2020).

However, many SMEs in Indonesia continue to struggle with inadequate cash flow management practices, often due to a lack of financial literacy, poor record-keeping, and reliance on informal financial systems. These weaknesses can lead to liquidity mismatches, increased dependency on high-cost short-term borrowing, and, ultimately, financial distress. Research suggests that ineffective cash flow management is one of the leading causes of business failure among SMEs, as it hampers their ability to adapt to market fluctuations, sustain operational expenses, and seize growth opportunities (Al-Fasfus, 2020). Given these challenges, there is a growing need for targeted financial education, policy interventions, and access to digital financial solutions that can help SMEs improve their cash management strategies and enhance their long-term viability.

Several studies have examined the impact of cash management on financial performance. For instance, Challoumis (2024) found that efficient cash management positively influences profitability in Belgian firms. Similarly, Beladi et al. (2021) demonstrated that proper working capital management, including cash management, enhances liquidity and firm performance in European SMEs. However, limited research has been conducted on the specific impact of cash management on liquidity within the Indonesian SME context.

The novelty of this research lies in its focus on SMEs in Indonesia, considering the unique financial and regulatory environment in which they operate. Unlike large corporations, SMEs often lack access to formal financial instruments and rely heavily on internal cash flow for survival (Gupta, 2022). Understanding how cash management practices influence liquidity in Indonesian SMEs can provide valuable insights for policymakers and business owners.

This study fills a research gap by addressing the lack of empirical evidence on the relationship between cash management and liquidity among Indonesian SMEs. While previous research has explored cash management strategies in developed economies (Nangih et al., 2020), there is a dearth of literature examining this issue within emerging markets, particularly in Southeast Asia. Furthermore, most existing studies focus on profitability rather than liquidity, neglecting the crucial role of cash availability in ensuring the financial health of SMEs (Fachrudin & Ihsan, 2021).

By analyzing the impact of cash management on liquidity, this study aims to contribute to the existing literature by offering empirical evidence and practical recommendations for SME owners and financial managers in Indonesia. Additionally, the findings may inform policymakers in designing financial support mechanisms tailored to the needs of SMEs in emerging economies.

2. METHOD

This study employs a literature review method to analyze the impact of cash management on liquidity in Indonesian SMEs. The research follows several key steps (Sugiyono, 2018):

1. **Literature Selection:** Relevant academic papers, journal articles, books, and reports related to cash management and SME liquidity were collected from reputable databases such as Scopus, Google Scholar, and Web of Science. The selection criteria focused on recent studies (past 10 years) and those directly relevant to SMEs and liquidity management.
2. **Thematic Analysis:** The collected literature was categorized into key themes, including cash flow management practices, liquidity constraints, and financial strategies in SMEs. This classification helped in identifying patterns and common findings among previous studies.
3. **Comparison and Synthesis:** The research compared findings from different studies to identify consensus and gaps in the existing literature. Special attention was given to studies conducted in emerging economies and Indonesia specifically.
4. **Implications and Conclusion:** Based on the synthesized findings, the study draws conclusions regarding the relationship between cash management and liquidity. Recommendations for SMEs and policymakers are proposed to enhance cash management practices.

This literature review method ensures a comprehensive understanding of the topic by integrating insights from previous research, offering a theoretical foundation for future empirical studies. The concept analysis of this research flow is presented in the following figure:

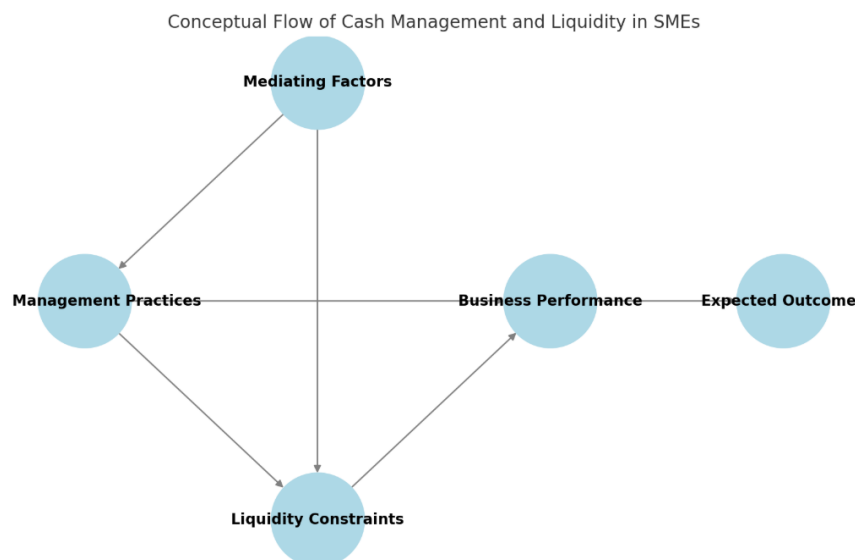


Figure 1. Conceptual Framework of the Study

3. RESULTS AND DISCUSSION

Results

Based on the literature review, several key findings have emerged regarding the impact of cash management on liquidity in Indonesian SMEs:

1. **The Importance of Effective Cash Management:** Studies consistently indicate that SMEs with structured cash management practices experience greater financial stability and improved liquidity. Cash budgeting, cash flow forecasting, and efficient working capital management play significant roles in maintaining liquidity (Afiezan et al., 2020).
2. **Liquidity Constraints in SMEs:** A major challenge faced by Indonesian SMEs is the lack of access to formal financial institutions, making internal cash flow management critical. Many SMEs rely on short-term financing, which increases financial risk and instability (Dirman, 2020).
3. **The Role of Digital Financial Solutions:** The adoption of digital financial tools, such as automated cash flow management software and mobile banking, has shown to enhance liquidity management in SMEs. However, the adoption rate remains low due to limited financial literacy and access to technology (Effiong & Ejabu, 2020).
4. **The Relationship Between Cash Management and Business Performance:** The review indicates a strong correlation between sound cash management practices and overall business performance. SMEs that implement proper cash control measures tend to exhibit higher levels of liquidity and sustainability (Widyasti & Putri, 2021).
5. **Gaps in Existing Research:** While studies in developed markets provide insights into cash management practices, research focusing on Indonesian SMEs remains limited. There is a need for further empirical investigations to provide localized strategies tailored to the unique financial landscape of Indonesia.

These findings highlight the crucial role of cash management in sustaining liquidity among SMEs in Indonesia. By improving financial planning, leveraging digital solutions, and addressing liquidity constraints, SMEs can enhance their financial resilience and long-term growth potential.

4. DISCUSSION

The findings of this study align with previous research that emphasizes the importance of effective cash management in sustaining financial stability and improving liquidity in SMEs. Almeida (2021) highlighted the significance of cash flow forecasting and budgeting in enhancing liquidity, a notion further supported by the present review. This suggests that Indonesian SMEs should prioritize structured financial planning to mitigate liquidity risks (Rahman & Sharma, 2020).

Additionally, the identified liquidity constraints due to limited access to financial institutions echo the findings of Tahir et al. (2020), who observed similar challenges among SMEs in emerging markets. The reliance on short-term financing underscores the necessity for alternative funding mechanisms tailored to SME needs. Government and financial institutions should work together to provide accessible credit facilities and digital banking solutions to address this issue (Wuave et al., 2020).

Moreover, the role of digital financial solutions in improving cash management aligns with the research by Dahiyat et al. (2021), who found that technology adoption enhances liquidity control. However, the low adoption rate in Indonesia indicates a gap in financial literacy and technological infrastructure, necessitating targeted education programs and policy interventions.

The correlation between sound cash management practices and business performance supports the conclusions drawn by Brown et al. (2021), who demonstrated a positive impact of working capital efficiency on profitability. This study extends their findings by emphasizing liquidity as a critical determinant of business sustainability in Indonesian SMEs.

In light of these discussions, the study highlights the pressing need for future research to develop SME-specific cash management frameworks that address local economic and financial challenges. Policy recommendations should focus on enhancing access to financing, promoting digital financial literacy, and implementing cash management training for SME owners to ensure long-term financial resilience.

5. CONCLUSION

This study concludes that effective cash management is crucial for maintaining liquidity and ensuring business sustainability in Indonesian SMEs. Structured financial planning, digital financial adoption, and improved access to funding are key factors in overcoming liquidity constraints. Future research should explore empirical approaches to validate these findings and develop practical frameworks for SME cash management.

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