

Revenue Diversification Capability and Financial Sustainability of Culinary MSMEs: The Mediating Role of Income Stability

Nur Listiani^{a,*}, Siti Alliyah^b, Rita Meiriyanti^c

^{a,b} Universitas YPPI Rembang, Indonesia

^c Universitas Persatuan Guru Republik Indonesia Semarang, Indonesia

*e-mail: nurlistiani@uyr.ac.id

ARTICLE HISTORY

Submitted:
January 19, 2026
Revised:
March 12, 2026
Accepted:
March 17, 2026
Available Online:
March 31, 2026

*Correspondence Author

Name:
Nur Listiani
e-mail:
nurlistiani@uyr.ac.id

ABSTRACT

This study aims to examine the effect of revenue diversification capability on the financial sustainability of culinary micro, small, and medium enterprises (MSMEs), with income stability as a mediating variable. Data were collected through a survey of 150 culinary MSMEs in Rembang Regency, Central Java, Indonesia, using a structured questionnaire. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with a bootstrapping approach to test the proposed relationships. The results indicate that revenue diversification capability has a positive and significant effect on both income stability and financial sustainability. Income stability also significantly influences financial sustainability and partially mediates the relationship between diversification capability and sustainability. These findings suggest that diversification enhances financial sustainability primarily by stabilizing income streams, providing practical implications for MSMEs to develop strategies that ensure more predictable and sustainable income.

Keywords: *Revenue Diversification Capability; Income Stability; Financial Sustainability; Culinary MSMEs.*

ABSTRAK

Penelitian ini bertujuan untuk menganalisis pengaruh kemampuan diversifikasi pendapatan terhadap keberlanjutan keuangan UMKM sektor kuliner, dengan stabilitas pendapatan sebagai variabel mediasi. Data dikumpulkan melalui survei terhadap 150 UMKM kuliner di Kabupaten Rembang, Jawa Tengah, menggunakan kuesioner terstruktur. Analisis data dilakukan dengan metode *Partial Least Squares Structural Equation Modeling* (PLS-SEM) menggunakan teknik bootstrapping untuk menguji hubungan antar variabel. Hasil penelitian menunjukkan bahwa kemampuan diversifikasi pendapatan berpengaruh positif dan signifikan terhadap stabilitas pendapatan dan keberlanjutan keuangan. Stabilitas pendapatan juga berpengaruh signifikan terhadap keberlanjutan keuangan serta memediasi secara parsial hubungan tersebut. Temuan ini menunjukkan bahwa diversifikasi meningkatkan keberlanjutan keuangan terutama melalui terciptanya pendapatan yang lebih stabil, serta memberikan implikasi praktis bagi UMKM dalam mengembangkan strategi yang mendukung pendapatan yang lebih berkelanjutan.

Kata Kunci: *Kemampuan Diversifikasi Pendapatan; Stabilitas Pendapatan; Keberlanjutan Keuangan; UMKM Kuliner.*

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a vital role in economic development, employment generation, and regional resilience, particularly in emerging economies. In Indonesia, MSMEs contribute significantly to national output and absorb a large proportion of the workforce (OECD, 2020). However, despite their economic importance, many MSMEs face persistent financial challenges, including unstable income streams, limited access to formal financing, and reliance on internal funding mechanisms, which constrain their long-term sustainability (Brixiová et al., 2020; Fitzsimons et al., 2025; Alhammadi, 2025).

Financial sustainability differs from short-term business performance as it reflects a firm's ability to maintain stable financial conditions, fulfill financial obligations, and ensure business continuity over time (Nastiti et al., 2025). Prior studies suggest that MSMEs often fail not due to lack of profitability, but due to unstable cash flows and weak financial structures that hinder effective planning and reinvestment (Kraus et al., 2020; Thi, 2022). In culinary MSMEs, this challenge is more pronounced due to demand volatility, fluctuating raw material prices, and intense competition (Fitriasari, 2020; Alifudin et al., 2024).

In response to these challenges, revenue diversification capability has been increasingly recognized as a strategic approach to enhancing business resilience. Revenue diversification capability refers to a firm's ability to generate income from multiple sources through product variation, market expansion, and the use of multiple sales channels (Wang, 2020; Suriani et al., 2024). From the perspective of the Resource-Based View (RBV), such capability enables firms to deploy internal resources effectively, reduce dependence on a single revenue stream, and mitigate business risk (Barney et al., 2021; Iliyas & Barca, 2025).

However, empirical findings on the relationship between revenue diversification and financial sustainability remain inconclusive, particularly in MSMEs in developing economies. While some studies report that diversification enhances performance and resilience, others argue that excessive diversification may increase operational complexity and inefficiency, especially in resource-constrained firms (Alhammadi, 2025; Iastremska et al., 2024; Sen et al., 2022). These inconsistencies suggest that the relationship between revenue diversification capability and financial sustainability may not be purely direct.

Despite the growing body of literature, three important gaps remain. First, prior studies predominantly focus on the direct effect of diversification on firm performance, with limited attention to the underlying mechanisms that explain how diversification contributes to financial sustainability (Kraus et al., 2020; Sen et al., 2022). Second, income stability defined as the consistency and predictability of income streams has largely been treated as an outcome variable rather than a mediating mechanism (Aljuboori et al., 2022; Suriani et al., 2024). Third, empirical evidence examining this mechanism in resource-constrained MSMEs, particularly in the culinary sector within emerging economies, remains limited.

Addressing these gaps, this study proposes that revenue diversification capability enhances financial sustainability primarily through its ability to stabilize income streams rather than merely increasing total revenue. Income stability plays a crucial role in enabling firms to manage cash flow, meet financial obligations, and withstand environmental uncertainty (Thi, 2022; Dayuni, 2024). By positioning income stability as a mediating variable, this research offers a more nuanced explanation of how strategic capabilities translate into sustainable financial outcomes. This argument extends the Resource-Based View by incorporating an income-stabilization mechanism, highlighting that the value of strategic capability lies not only in generating higher returns but also in reducing income volatility.

The context of culinary MSMEs in Rembang Regency provides a relevant empirical setting for this study. As a coastal region, Rembang is characterized by economic activities that are highly dependent on local demand, tourism flows, and fluctuating resource availability, which expose MSMEs to significant income uncertainty (Brixiová et al., 2020; Alhammadi, 2025). This context allows for a deeper understanding of how diversification capability operates under conditions of environmental and financial constraints.

Based on the above discussion, the main problem addressed in this study is how culinary MSMEs can achieve financial sustainability in the presence of high income volatility and limited access to formal financing. Specifically, it remains unclear whether revenue diversification capability directly improves financial sustainability or whether its effect operates through stabilizing income streams.

Accordingly, the objectives of this study are threefold: (1) to examine the effect of revenue diversification capability on financial sustainability, (2) to analyze the influence of revenue diversification capability on income stability, and (3) to investigate the mediating role of income stability in the relationship between revenue diversification capability and financial sustainability.

This study contributes to the literature in two main ways. First, it extends the Resource-Based View by integrating an income-stabilization perspective, offering a clearer explanation of the mechanism through which

strategic capabilities influence financial sustainability. Second, it provides empirical evidence from culinary MSMEs in an emerging economy context, which remains underexplored in prior research.

LITERATURE REVIEW

Resource-Based View and Capability Perspective

This study is grounded in the Resource-Based View (RBV), which posits that firm performance and long-term sustainability are determined by the effective utilization of valuable, rare, inimitable, and organizationally embedded (VRIO) resources and capabilities (Barney et al., 2021; Iliyas & Barca, 2025). Within the context of MSMEs, capabilities that enable firms to adapt to environmental uncertainty and manage risk are particularly critical for sustaining competitive advantage.

Revenue diversification capability can be conceptualized as a strategic capability that fulfills the VRIO criteria. It is valuable because it reduces dependence on a single income source and mitigates revenue volatility; rare because not all MSMEs possess the ability to simultaneously manage multiple revenue streams; inimitable due to its reliance on firm-specific knowledge, networks, and adaptive routines; and organizationally embedded as it is reflected in business processes such as product development, channel management, and customer segmentation. Therefore, revenue diversification should not be viewed merely as a tactical strategy, but as a dynamic capability that enhances organizational resilience under uncertainty.

Financial Resilience and Income Stability

In addition to RBV, this study incorporates the financial resilience perspective, which emphasizes the importance of stable and predictable income flows in sustaining business operations (Thi, 2022; Dayuni, 2024). Financial resilience literature suggests that firms are better able to survive and grow when they can maintain consistent cash flows, manage financial obligations, and absorb external shocks.

Income stability, defined as the consistency and predictability of income streams over time, plays a central role in this perspective. Stable income enables firms to plan expenditures, manage working capital, and make long-term investment decisions (Aljuboori et al., 2022). In MSMEs, where access to external finance is limited, income stability becomes even more critical as it directly affects liquidity and operational continuity. By integrating RBV and financial resilience, this study argues that strategic capabilities such as revenue diversification contribute to financial sustainability not only directly, but also indirectly through their effect on income stability. This integration provides a more comprehensive framework for understanding how internal capabilities translate into sustainable financial outcomes.

Revenue Diversification Capability and Financial Sustainability

Revenue diversification capability reflects a firm's ability to generate income from multiple sources through product variation, market expansion, and the utilization of diverse sales channels. From the perspective of the Resource-Based View (RBV), such capability represents a strategic asset that enhances organizational flexibility and adaptability in responding to environmental uncertainty (Barney et al., 2021; Iliyas & Barca, 2025). Firms that possess strong diversification capability are better able to reallocate resources, capture emerging opportunities, and reduce dependence on a single market or customer segment.

This capability contributes to financial sustainability by strengthening the firm's capacity to maintain stable financial performance over time. Diversified firms are less vulnerable to external shocks, such as demand fluctuations or supply disruptions, as they can rely on alternative revenue streams to sustain operations (Kraus et al., 2020; Sen et al., 2020). In the context of MSMEs, where resource constraints and market volatility are prevalent, diversification capability becomes particularly important in ensuring business continuity and long-term viability.

Furthermore, diversification allows firms to improve their revenue-generating potential by reaching broader customer segments and optimizing multiple income channels. This strategic flexibility enhances the firm's ability to meet financial obligations, maintain liquidity, and reinvest in business development, all of which are key elements of financial sustainability. Therefore, revenue diversification capability is expected to have a direct positive effect on financial sustainability.

H1: Revenue diversification capability has a positive effect on financial sustainability.

Revenue Diversification Capability and Income Stability

Revenue diversification capability also plays a critical role as a risk management mechanism that stabilizes income streams. By distributing revenue sources across multiple products, markets, and channels, firms reduce their dependence on a single source of income and minimize exposure to demand volatility. This aligns with the financial resilience perspective, which emphasizes the importance of maintaining stable and predictable income flows in uncertain environments (Thi, 2022; Dayuni, 2024).

Unlike the direct effect on financial sustainability, the influence of diversification on income stability operates through a smoothing mechanism. When one revenue stream declines, other streams can compensate for the loss, thereby reducing fluctuations in total income. This risk-spreading function enables firms to maintain more consistent cash inflows over time (Aljuboori et al., 2022). For MSMEs, which often face irregular demand patterns and limited financial buffers, income stability is essential for operational continuity. Stable income allows firms to better plan expenditures, manage working capital, and anticipate future financial conditions. Diversification capability thus enhances income predictability by creating a more balanced and resilient revenue structure. In this sense, revenue diversification capability does not only increase the level of income, but more importantly, it reduces income volatility and enhances income stability. Therefore, revenue diversification capability is expected to positively influence income stability.

H2: Revenue diversification capability has a positive effect on income stability.

Income Stability and Financial Sustainability

Income stability plays a crucial role in achieving financial sustainability, particularly for MSMEs operating under uncertainty. Stable income allows firms to maintain liquidity, meet financial obligations, and support long-term investment decisions (Aljuboori et al., 2022; Suriani et al., 2024).

Empirical evidence indicates that firms with stable income are less likely to experience financial distress and more capable of sustaining operations over time (Thi, 2022; Dayuni, 2024). In culinary MSMEs, where daily operations depend heavily on cash flow, income stability becomes a key determinant of survival and growth. Thus, income stability is expected to positively influence financial sustainability.

H3: Income stability has a positive effect on financial sustainability.

The Mediating Role of Income Stability

Although revenue diversification capability may directly influence financial sustainability, its effect is also likely to occur indirectly through income stability. Diversification reduces income volatility by spreading risk across multiple sources, which in turn enhances financial resilience and sustainability.

From a theoretical standpoint, mediation occurs when a strategic capability influences an intermediate outcome that subsequently affects the final outcome. In this case, income stability functions as a transmission mechanism linking revenue diversification capability and financial sustainability. Prior studies have highlighted the importance of intermediate financial mechanisms in explaining firm performance (Suriani et al., 2024), yet empirical research explicitly examining income stability as a mediator remains limited, particularly in MSMEs. Therefore, this study proposes that income stability mediates the relationship between revenue diversification capability and financial sustainability.

H4: Income stability mediates the relationship between revenue diversification capability and financial sustainability.

Research Framework

Based on the theoretical and empirical review, this study proposes a research framework in which revenue diversification capability influences financial sustainability both directly and indirectly through income stability. Income stability is positioned as a mediating variable that explains the mechanism through which diversified revenue sources contribute to long-term financial sustainability in culinary MSMEs.

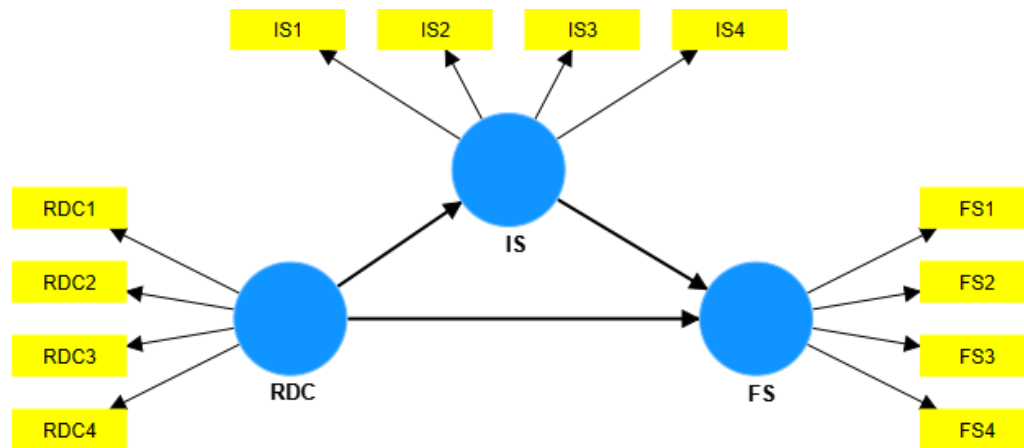


Figure 1. Conceptual Framework

Source: Output SmartPLS 4 (Data Processing), 2025

RESEARCH METHODS

This study employs a quantitative explanatory research design to examine the relationships among revenue diversification capability, income stability, and financial sustainability in culinary MSMEs. This approach is appropriate as the study aims to test theoretically derived hypotheses and explain the mechanism through which strategic capabilities influence financial outcomes.

The population of this study consists of culinary MSMEs operating in Rembang Regency, Central Java, Indonesia. This setting is particularly relevant due to the high level of income volatility, dependence on local demand, and limited access to formal financial institutions faced by MSMEs in coastal regions. A purposive sampling technique was applied based on the following criteria: (1) the MSME has been operating for at least one year, (2) the respondent is the owner or manager actively involved in business operations and decision-making, and (3) the enterprise operates in the culinary sector. These criteria ensure that respondents possess sufficient knowledge of their business strategies and financial conditions. A total of 150 valid responses were collected, which is considered adequate for PLS-SEM analysis based on the “10-times rule” and appropriate for models with moderate complexity (Hair et al, 2022).

All variables were measured using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) and were treated as reflective constructs. Revenue diversification capability (RDC) is conceptualized as a dynamic capability reflecting the firm’s ability to identify, develop, and manage multiple revenue streams. To capture its capability-based nature, RDC is operationalized through three key dimensions: sensing (identifying new market opportunities and income sources), seizing (exploiting opportunities through product diversification and multi-channel strategies), and reconfiguring (reorganizing resources to effectively integrate multiple revenue streams). Income stability (IS) is defined as the consistency and predictability of income over time, while financial sustainability (FS) refers to the firm’s ability to maintain financial performance, meet financial obligations, and ensure long-term business continuity. Due to the limited availability of standardized financial records among MSMEs, both constructs are measured using perceptual indicators, which are widely accepted in MSME and entrepreneurship research as reliable proxies when objective financial data are difficult to obtain (Hair et al, 2022). The operational definitions and measurement indicators of all variables are presented in Table 1.

Table 1. Operational Definition of Variables

Variable	Operational Definition	Indicators	Source
Revenue Diversification Capability (RDC)	The dynamic capability of MSMEs to identify, develop, and manage multiple revenue streams through continuous adaptation of products, markets, and channels.	RDC1: Ability to identify new market opportunities and potential income sources (sensing) RDC2: Ability to exploit identified opportunities through product, market, and channel expansion (seizing) RDC3: Ability to reconfigure resources to support multiple revenue streams (reconfiguring) RDC4: Ability to maintain and balance multiple income sources over time	Githaiga, 2022; Umar & Gorondutse, 2025
Income Stability (IS)	The degree to which MSMEs experience consistent, predictable, and low-fluctuation income over time.	IS1: Stability of monthly income IS2: Predictability of income trends IS3: Low variability of income IS4: Ability to anticipate future income levels	Adem, 2022; Shaferi, 2025
Financial Sustainability (FS)	The ability of MSMEs to maintain financial performance, meet financial obligations, and ensure long-term business continuity.	FS1: Ability to meet financial obligations FS2: Adequacy of cash flow FS3: Ability to sustain operations in the long term FS4: Ability to reinvest profits	Nastiti et al., 2025; Rasjid, 2022

Source: Data Processed, 2025

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. The use of PLS-SEM is justified for three main reasons. First, this study has a predictive orientation, aiming to explain financial sustainability rather than confirm a well-established theory. Second, the model involves multiple latent constructs and a mediating relationship, making PLS-SEM suitable for analyzing complex structural relationships. Third, the relatively small sample size ($n = 150$) aligns with the distribution-free assumptions of PLS-SEM (Hair et al, 2022).

The analysis was conducted in two stages. The first stage involved evaluation of the measurement model by assessing convergent validity through outer loadings greater than 0.70 and Average Variance Extracted (AVE) exceeding 0.50, as well as internal consistency reliability using Cronbach's alpha and Composite Reliability values above 0.70. Discriminant validity was examined using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. In addition, multicollinearity was assessed using Variance Inflation Factor (VIF), with values below 5 indicating no critical collinearity issues.

The second stage involved evaluation of the structural model by examining path coefficients (β), coefficient of determination (R^2), and effect size (f^2). A bootstrapping procedure with 5,000 resamples was conducted to test the statistical significance of both direct and indirect effects at the 5% significance level ($p < 0.05$). The mediating role of income stability was assessed through indirect effect analysis.

To minimize common method bias, several procedural remedies were implemented, including ensuring respondent anonymity, using clear and concise questionnaire items, and reducing ambiguity in measurement. Additionally, Harman's single-factor test was conducted, and the results indicate that no single factor dominates the variance, suggesting that common method bias is not a serious concern.

RESULTS AND DISCUSSION

Results

Validity Test

Convergent validity was assessed using outer loadings and Average Variance Extracted (AVE). All indicators show loadings above 0.70 and AVE values above 0.50, indicating adequate convergent validity (Hair et al, 2022).

Several indicators of Revenue Diversification Capability (RDC) exhibit high loadings (above 0.90). While this may indicate potential redundancy, multicollinearity testing using Variance Inflation Factor (VIF) shows values below 5, suggesting no serious collinearity issues. The high loadings are theoretically acceptable, as RDC is conceptualized as an integrated dynamic capability, where its dimensions are inherently interrelated.

Discriminant validity was confirmed using the Fornell-Larcker criterion and HTMT ratio, indicating that all constructs are empirically distinct. Overall, the measurement model satisfies the required validity criteria.

Table 2. Measurement Model Analysis

Variable	Item	Factor Loading	Cronbach's Alpha	Composite Reliability	AVE
Financial Sustainability (FS)	FS1	0.940	0.945	0.946	0.859
	FS2	0.926			
	FS3	0.917			
	FS4	0.924			
Revenue Diversification Capability (RDC)	RDC1	0.955	0.972	0.973	0.924
	RDC2	0.972			
	RDC3	0.975			
	RDC4	0.942			
Income Stability (IS)	IS1	0.889	0.848	0.866	0.687
	IS2	0.847			
	IS3	0.801			
	IS4	0.772			

Source: Output SmartPLS 4 (Data Processing), 2025

Reliability Test

A reliability assessment was performed to evaluate the internal consistency of the measurement items using Cronbach's alpha and Composite Reliability (CR). According to Hair et al. (2022), a construct is deemed reliable when both Cronbach's alpha and Composite Reliability values exceed 0.70, indicating that the indicators consistently represent the same latent variable.

Based on the SmartPLS output (Table 2), all constructs exhibited Cronbach's alpha values ranging from 0.848 to 0.972 and Composite Reliability values between 0.866 and 0.973, which surpass the recommended threshold. These results confirm that all measurement items possess strong internal consistency and that the constructs are sufficiently reliable for further structural model analysis.

Model Fit Test

The goodness of the structural model was assessed using the coefficient of determination (R^2), which measures the proportion of variance in the endogenous variables explained by their predictors. The R^2 value of 0.821 indicates substantial explanatory power.

As shown in Table 3, the Financial Sustainability (FS) construct obtained an R^2 value of 0.821, indicating that Revenue Diversification Capability (RDC) and Income Stability (IS) jointly explain 82.1% of the variance in financial sustainability. This result demonstrates a substantial explanatory power of the model for the main dependent variable.

Meanwhile, Income Stability (IS) recorded an R^2 value of 0.643, meaning that Revenue Diversification Capability (RDC) explains 64.3% of the variance in income stability. This value can be interpreted as moderate explanatory power, which is acceptable in MSME and behavioral research, suggesting that income stability is also influenced by other external and managerial factors not included in the current model.

Overall, the R^2 results indicate that the proposed model has adequate predictive capability, particularly in explaining financial sustainability among culinary MSMEs.

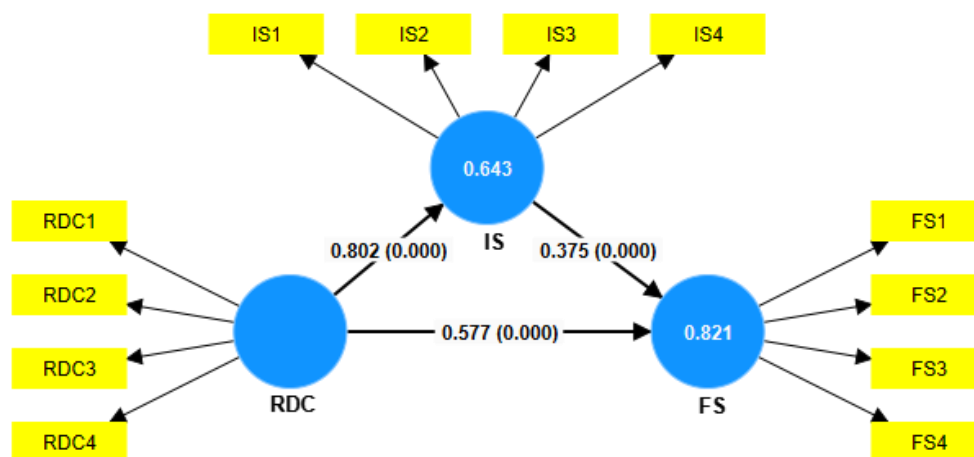


Figure 2. Hypothesis Testing Results

Source: Output SmartPLS 4 (Data Processing), 2025

Table 3. R-square Results

Endogenous Variable	R-square (R^2)	Interpretation
Financial Sustainability (FS)	0.821	Substantial
Income Stability (IS)	0.643	Moderate

Source: Output SmartPLS 4 (Data Processing), 2025

Hypothesis Testing

Hypothesis testing was performed to determine the statistical significance of the relationships between constructs in the structural model. This evaluation relied on path coefficients (β) and their associated p-values, using a significance threshold of $p < 0.05$ as the decision rule in the PLS-SEM framework (Hair et al, 2022). The outcomes of the hypothesis testing are summarized in Table 4.

Table 4. Hypothesis Testing Results

No.	Hypothesis	Path Coefficient (β)	P-value	Significance	Direction of Relationship
1	RDC $\rightarrow$ IS (Revenue Diversification Capability $\rightarrow$ Income Stability)	0.802	< 0.001	Significant	Positive
2	RDC $\rightarrow$ FS (Revenue Diversification Capability $\rightarrow$ Financial Sustainability)	0.577	< 0.001	Significant	Positive
3	IS $\rightarrow$ FS (Income Stability $\rightarrow$ Financial Sustainability)	0.375	< 0.001	Significant	Positive
4	RDC $\rightarrow$ IS $\rightarrow$ FS (Mediating Effect)	0.301	< 0.001	Significant	Positive

Source: Primary Data (Processed), 2025

Discussion

The Effect of Revenue Diversification Capability on Income Stability

The findings indicate that revenue diversification capability has a strong positive effect on income stability. This suggests that diversification primarily functions as a risk-spreading mechanism, where MSMEs reduce dependence on a single income source and mitigate income volatility. Firms that generate revenue from multiple sources are better able to maintain consistent and predictable income flows, particularly in uncertain environments (Wang, 2020; Aljuboori et al., 2022).

From the Resource-Based View (RBV), this finding implies that the value of a strategic capability lies not only in generating higher returns but also in stabilizing income streams. This extends RBV by highlighting income smoothing as an important pathway through which capabilities enhance firm resilience (Iliyas & Barca, 2025).

The Effect of Revenue Diversification Capability on Financial Sustainability

The results show that revenue diversification capability positively influences financial sustainability. MSMEs that are able to manage multiple revenue streams are better positioned to maintain long-term financial performance, meet financial obligations, and sustain business operations.

This finding is consistent with prior studies suggesting that diversification enhances firm resilience and adaptability in uncertain environments (Kraus et al., 2020; Sen et al., 2022). However, diversification alone may not guarantee sustainability unless it is supported by effective resource management and strategic integration. This highlights the importance of capability, rather than mere diversification, in achieving sustainable financial outcomes.

The Effect of Income Stability on Financial Sustainability

Income stability is found to have a significant positive effect on financial sustainability. Stable income enables MSMEs to manage cash flow more effectively, plan expenditures, and meet financial obligations, which are critical for long-term sustainability (Suriani et al., 2024).

This finding supports the financial resilience perspective, which emphasizes that predictable income streams are essential for sustaining business operations under uncertainty (Thi, 2022; Dayuni, 2024). In the context of culinary MSMEs, where daily operations depend heavily on cash flow, income stability becomes a key determinant of business survival and continuity.

The Mediating Role of Income Stability

The mediation analysis reveals that income stability partially mediates the relationship between revenue diversification capability and financial sustainability. This indicates that diversification contributes to sustainability both directly and indirectly through stabilizing income flows.

The partial mediation suggests that income stability is an important, but not the only, mechanism linking diversification capability and financial sustainability. Other potential mechanisms, such as improved market adaptability, operational efficiency, or customer retention, may also play a role. This finding reinforces the argument that strategic capabilities influence financial outcomes through multiple pathways (Suriani et al., 2024).

Model Implications and Critical Reflection

The relatively high explanatory power of the model ($R^2 = 0.821$) indicates that the proposed variables strongly explain financial sustainability. However, this result should be interpreted with caution, as high R^2 values in MSME research may also reflect omitted variables or contextual influences not captured in the model. Future research is therefore encouraged to incorporate additional variables such as financial literacy, access to credit, and managerial capability to provide a more comprehensive understanding of financial sustainability in MSMEs.

Theoretical Contribution

This study contributes to the literature by extending the Resource-Based View through the introduction of an income-stabilization mechanism. It demonstrates that the value of revenue diversification capability lies not only in increasing revenue but also in reducing income volatility. By positioning income stability as a mediating variable, this study provides a more nuanced explanation of how strategic capabilities translate into sustainable financial outcomes, particularly in resource-constrained MSMEs operating in uncertain environments.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that revenue diversification capability plays a significant role in enhancing financial sustainability among culinary MSMEs. The findings show that diversification capability positively influences both income stability and financial sustainability. In addition, income stability significantly affects financial sustainability and partially mediates the relationship between revenue diversification capability and financial sustainability. These results indicate that revenue diversification contributes to financial sustainability not only directly but also indirectly through stabilizing income streams.

From a theoretical perspective, this study extends the Resource-Based View (RBV) by introducing income stability as a mediating mechanism that explains how strategic capabilities translate into sustainable financial outcomes. The findings highlight that the value of revenue diversification capability lies not only in increasing revenue but also in reducing income volatility. This provides a more nuanced understanding of how capabilities contribute to firm resilience, particularly in resource-constrained MSMEs operating in uncertain environments.

From a practical perspective, MSME owners are encouraged to develop diversification strategies that emphasize income stability rather than merely expanding revenue sources. This can be achieved through balancing multiple income streams, utilizing diverse sales channels, and adapting products to different customer segments. Policymakers and MSME support institutions are also advised to design programs that strengthen diversification capabilities alongside financial management and planning skills to enhance income stability and long-term sustainability.

This study has several limitations. First, the use of cross-sectional data limits the ability to capture dynamic changes over time. Second, the reliance on perceptual measures may introduce potential bias, although this approach is commonly used in MSME research due to limited availability of objective financial data. Third, the study focuses on a specific sector and region, which may limit the generalizability of the findings.

Future research is recommended to employ longitudinal designs, incorporate objective financial indicators, and include additional variables such as financial literacy, access to credit, and managerial capability to provide a more comprehensive understanding of financial sustainability in MSMEs.

BIBLIOGRAPHY

- Adem, M. (2022). Impact of Income Diversification on Bank Stability: A Cross-Country Analysis. *Asian Journal of Accounting Research*, 8(2), 133–144. <https://doi.org/10.1108/AJAR-03-2022-0093>
- Alhammadi, S. (2025). Financial Bootstrapping: A Case of Women Entrepreneurs in The Digital Economy Context. *International Journal of Financial Studies*, 13(1), 1–21. <https://doi.org/10.3390/ijfs13010041>
- Alifudin, M., Mulyati, H., & Mahfudz, N. (2024). The Effect of Digital Technology Adoption on Industry 4.0 Readiness and Business Performance of Culinary MSMEs in Bogor Regency. *Jurnal Manajemen dan Organisasi*, 15(3), 255–267. <https://doi.org/10.29244/jmo.v15i3.56723>
- Aljuboori, Z. M., Singh, H., Haddad, H., Al-Ramahi, N. M., & Ali, M. A. (2022). Intellectual Capital and Firm Performance: The Mediating Role of Innovation Capability in Malaysian Manufacturing SMEs. *Sustainability*, 14(1), 154. <https://doi.org/10.3390/su14010154>
- Barney, J. B., Ketchen, D. J., & Wright, M. (2021). The Future of Resource-Based Theory: Revitalization or Decline? *Journal of Management*, 47(7), 1791–1805. <https://doi.org/10.1177/0149206321992057>
- Brixiová, Z., Kangoye, T., & Yogo, T. U. (2020). Access to Finance Among Small and Medium-Sized Enterprises and Job Creation in Africa. *Structural Change and Economic Dynamics*, 55, 177–189.

<https://doi.org/10.1016/j.strueco.2020.08.008>

- Dayuni. (2024). Entrepreneurial Resilience of Indonesian MSMEs During Global Economic Uncertainty. *Journal of Management, Economics, and Finance*, 2(3), 116–124. <https://doi.org/10.46799/jmef.v2i3.170>
- Fitriasari, F. (2020). How Do Small and Medium Enterprises Survive the COVID-19 Outbreak? *Jurnal Ilmu Keuangan dan Perbankan*, 5(2), 53–62. <https://doi.org/10.22219/jiko.v5i02.11838>
- Fitzsimons, M., Hogan, T., & Hayden, M. T. (2025). Tying the knot: Linking bootstrapping and Working Capital Management in Established Enterprises. *Journal of Applied Accounting Research*, 26(6), 183–204. <https://doi.org/10.1108/JAAR-03-2023-0078>
- Githaiga, P. N. (2022). Revenue Diversification and Financial Sustainability of Microfinance Institutions. *Asian Journal of Accounting Research*, 7(1), 31–43. <https://doi.org/10.1108/AJAR-11-2020-0122>
- Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2022). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)* (2nd ed.). Sage Publications.
- Iastremaska, O., Bielikova, N., Kozlova, I., & Herashchenko, I. (2024). Strategic Management of Innovative Development of Enterprises According to The Experience Economy Model: A review. *Futurity Economics & Law*, 4(3), 158–176. <https://doi.org/10.57125/FEL.2024.09.25.10>
- Iliyas, M., & Barca, M. (2025). A Chronological Review of Resource-Based Theory and Future Research Directions. *Journal of Management World*, 4, 41–53. <https://doi.org/10.53935/jomw.v2024i4.1153>
- Kraus, S., Clauss, T., Breier, M., Gast, J., & Zardini, A. (2020). The Economics of COVID-19: Initial Empirical Evidence on How Family Firms Cope With The Crisis. *International Journal of Entrepreneurial Behavior & Research*, 26(5), 1067–1092. <https://doi.org/10.1108/IJEBR-04-2020-0214>
- Nastiti, P. K. Y., Damayanti, T. W., & Rita, M. R. (2025). Role of Business Sustainability, Patriotism of Business Actors, and Digital Transformation in Increasing MSME Tax Compliance. *Cogent Business & Management*, 12(1), 1–18. <https://doi.org/10.1080/23311975.2025.2459328>
- OECD. (2020). *Financing SMEs and Entrepreneurs 2020*. OECD Publishing. <https://doi.org/10.1787/061fe03d-en>
- Rasjid, D. R. A. (2022). The Influence of Financial Literacy on MSME Performance and Sustainability During COVID-19. *Journal of Applied Managerial Accounting*, 6(1), 132–145. <https://doi.org/10.30871/jama.v6i1.3600>
- Sen, S., Savitskie, K., Mahto, R. V., Kumar, S., & Khanin, D. (2022). Strategic Flexibility in Small Firms. *Journal of Strategic Marketing*, 1–18. <https://doi.org/10.1080/0965254X.2022.2036223>
- Shaferi, I. (2025). Increasing MSME Income Through Industrial Networking and Demand Expansion. *Multidisciplinary Reviews*, 1–8. <https://doi.org/10.31893/multirev.2026322>
- Suriani, S., Nur, I., Fatmawati, & Baharuddin, S. M. (2024). Economic Growth and Financial Management for SMEs: Perspectives on Sustainability. *Atestasi: Jurnal Ilmiah Akuntansi*, 7(1), 704–728. <https://doi.org/10.57178/atestasi.v7i1.909>
- Thi, N. N. (2022). SMEs Survival in Emerging Economies: Evidence from Vietnam. *Heliyon*, 8(11), e11387. <https://doi.org/10.1016/j.heliyon.2022.e11387>
- Umar, K., & Gorondutse, A. H. (2025). Exploring Revenue Diversification Strategies for Financial Sustainability. *Journal of Accounting and Financial Management*, 11(4), 203–222. <https://doi.org/10.56201/jafm.vol.11.no4.2025.pg203.222>
- Wang, Y. (2020). Marketing Innovations During a Global Crisis: A Study of Firms' Response to COVID-19. *Journal of Business Research*, 116, 214–220. <https://doi.org/10.1016/j.jbusres.2020.05.029>