

# A Conceptual Framework on Business Strategy–Innovation and MSMEs’ Performance: Digital Business Ecosystem as Catalysts

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**Abstract**—This study aims to synthesize existing literature and develop a conceptual framework that explains the relationship between business strategy, innovation, and Micro, Small and Medium Enterprises (MSMEs) performance, as well as to examine the role of the digital business ecosystem in strengthening this relationship. This paper adopts content analysis and a review of multidisciplinary literature that primarily relate to MSMEs’ sector, digital business ecosystem, and financial performance. MSMEs performance is actualized through the integration of business strategy and innovation within a digital business ecosystem supported by digital technologies, enabling MSMEs to improve efficiency, market access, and competitiveness. In the future, digitally engaged MSMEs are likely to enhance their performance more effectively and sustainably. This study assists MSME owners, managers, and policymakers in better understanding the role of business strategy, innovation, and digital business ecosystems while recognizing performance improvement opportunities through digital engagement. To the best of the authors’ knowledge, this is the first paper to establish a conceptual framework integrating business strategy, innovation, and the digital business ecosystem to explain MSMEs performance, as this integrated perspective remains relatively new and underexplored in existing literature, thereby enriching the concept and providing directions for future research.

**Keywords**—Micro, Small and Medium Enterprises (MSMEs), business strategy, innovation, digital business ecosystem, financial performance

## I. INTRODUCTION

In the era of the Fourth Industrial Revolution and global digital transformation, SMEs are required to improve their competitiveness through the use of information and communication technology. In Indonesia, SMEs account for more than 99% of business units and employ more than 97% of the workforce, making them the main pillar of the national economy (Harsanto *et al.*, 2024). However, many SMEs still face challenges in adopting digital technology optimally. Digital transformation is not merely about utilizing software or hardware but also involves strategic readiness and innovative capabilities to navigate the increasingly competitive market dynamics.

One important aspect of digital transformation readiness is the digital strategy dimension. A digital strategy reflects the

extent to which an organization has a long-term direction and plan for leveraging technology in alignment with its business objectives (Farida & Setiawan, 2022). In the context of SMEs, a digital strategy is necessary to ensure that technology adoption is not done sporadically or reactively, but rather in a structured, integrated, and sustainable manner. SMEs with a clear digital strategy tend to be able to allocate resources more efficiently, determine relevant technology priorities, and build a digital innovation roadmap that supports business sustainability. Without a well-developed strategy, technology investments risk having no significant impact on business performance.

In addition to strategy, the second dimension of digital transformation readiness is innovation. Innovation in the context of SMEs is not limited to new product development but also includes process, service, and business model innovation. Digital innovation enables SMEs to adapt to changes in consumer needs and technological developments (Rahmat *et al.*, 2023). Research by Thohary *et al.* (2022) and Rahmat *et al.* (2023) shows that innovation has a positive influence on the operational efficiency and effectiveness of SMEs, which ultimately contributes to financial performance. The ability to innovate also reflects the flexibility and resilience of an organization in anticipating market challenges and disruptive crises, such as pandemics and global economic fluctuations.

However, the implementation of strategy and innovation alone is often insufficient to guarantee improved financial performance for Micro, Small and Medium Enterprises (MSMEs). These internal factors require external support from a strong and collaborative Digital Business Ecosystem (DBE). A DBE encompasses a network of businesses, technology providers, regulators, financing institutions, and educational bodies that are interconnected to facilitate information exchange, collaboration, and the acceleration of innovation (Aksoy, 2023). A mature ecosystem enables MSMEs to access digital solutions effectively, expand their business networks, increase operational efficiency, and build agile business models that are responsive to market dynamics (Abdurrahman, 2024). By strengthening connectivity and synergies among stakeholders, the DBE creates a more inclusive and competitive environment for MSMEs to thrive.

This study is grounded in prior research by Latifah *et al.* (2021) titled “*Business Strategy–MSMEs’ Performance Relationship: Innovation and Accounting Information System as Mediators*”. Their study explored how business strategy

affects MSME performance, with innovation and accounting information systems as mediators. Expanding on that framework, the current study focuses specifically on two core internal capabilities: strategy and innovation, which are essential for MSMEs to stay relevant in increasingly digital and dynamic markets. Strategy refers to the alignment of business direction with long-term objectives, while innovation represents the ability to develop or adopt new products, services, or processes that deliver competitive value. The mediating role of the DBE is a central focus in this research, bridging the influence of strategy and innovation on financial performance. The DBE represents the level of interconnectivity, collaboration, and co-creation between MSMEs and external actors such as digital platforms, service providers, regulators, and other business entities (Abdurrahman, 2024). While strategy and innovation serve as internal enablers, the DBE acts as a catalyst that enhances their impact on financial performance through improved resource access, technology sharing, and collective learning.

Titled “*A Conceptual Framework on Strategy–Innovation and MSMEs’ Performance: Digital Ecosystems as Catalysts*” this research responds to the limited number of empirical studies examining the simultaneous influence of strategic management and innovation on MSME performance, particularly in the presence of external mediating mechanisms like the DBE. Despite its increasing importance, the role of the digital ecosystem as a contextual enabler for MSMEs has received limited academic attention. This study aims to address that gap by presenting an integrative framework that highlights the interaction between internal capabilities and external ecosystem dynamics. The results are expected to contribute to the theoretical development of MSME performance models and offer practical recommendations for strengthening MSMEs through ecosystem-based digital collaboration.

## II. LITERATURE REVIEW

### A. Resource-Based View (RBV) Theory

The Resource-Based View (RBV) theory is a strategic approach that emphasizes the importance of utilizing internal organizational resources in building sustainable competitive advantage. RBV was first introduced by Wernerfelt (1984) and later developed more comprehensively by Barney (1991), who argued that long-term competitive advantage can be achieved if an organization possesses and manages resources that are Valuable, Rare, Inimitable, and Non-substitutable (VRIN) (Susanti *et al.*, 2023). This perspective positions internal resources as the primary foundation for developing organizational strategy.

RBV views digital transformation readiness as part of strategic resource development, including digital business strategies, technology-based innovation, and an organization’s ability to manage information. This means that SMEs’ ability to adopt digital technology is not merely a technical issue but a form of leveraging strategic assets that can create long-term value. Therefore, RBV positions digital transformation as an investment in building advantages that are difficult for competitors to replicate.

### B. Financial Performance

Financial performance is an important indicator in

assessing how well an organization, including SMEs, can manage resources efficiently to achieve economic goals. The indicators used typically include profitability, liquidity, solvency, and operational efficiency (Rima & Akhmadi, 2024). In this research framework, financial performance is the primary outcome influenced by digital strategy, innovation, and the mediating role of the digital business ecosystem.

In line with the RBV perspective, financial performance reflects the success of SMEs in managing and utilizing their internal resources, including digital and innovative capabilities. In the digital era, SMEs that are able to integrate technology into their business models demonstrate advantages in cost efficiency, market reach, and business productivity. This is as emphasized Chen & Wang (2024) that the use of digital technology can improve the operational effectiveness of SMEs.

### C. Business Strategy

A digital transformation strategy is a long-term plan designed to integrate technology into various business processes (Farida & Setiawan, 2022). This strategy includes identifying digital needs, developing infrastructure, and aligning the business vision with technological dynamics. In the context of MSMEs, a digital strategy is a key determinant in creating a structured direction for addressing the challenges of digitalization. Latifah *et al.* (2021) emphasize that the right strategy can drive value creation and competitive advantage.

Digital strategy in SMEs does not stand alone but must be rooted in internal capabilities and external opportunities. This includes the ability to assess human resource readiness, technological capital adequacy, and adaptability to market changes. Ladu *et al.* (2024) add that effective digital strategies involve data-driven approaches and cross-functional collaboration within organizations. Therefore, digital strategies form the foundation for driving innovation and achieving performance.

The importance of strategy in SME digital transformation is also related to the ability to build partnerships, expand access to digital markets, and adapt to the digital ecosystem. Strategic commitment from business leaders will determine the success of digital integration into business processes. A good strategy will provide direction for adaptive innovation and drive the achievement of financial and non-financial goals.

### D. Innovation

As a continuation of digital strategy, innovation is the tangible manifestation of the implementation of that strategy in the form of technology-based product, process, and business model development (Aksoy, 2023). Within the RBV framework, innovation is one form of unique resource that can become a competitive advantage for SMEs. Latifah *et al.* (2021) state that innovation serves as an important intermediary between strategy and performance achievement.

Innovation in the context of SMEs encompasses various aspects, from customer service digitalization, production process automation, to the utilization of e-commerce platforms and social media. Supriadi *et al.* (2023) highlight that innovation in SMEs helps improve service speed, enhance customer satisfaction, and create significant added

value. This innovation is particularly important in addressing the challenges and dynamics of the digital market.

### E. Digital Business Ecosystem (DBE)

The Digital Business Ecosystem (DBE) describes a collaborative network of various entities interconnected through digital technology to create shared value (Abdurrahman, 2024). Within this ecosystem, SMEs can interact with technology providers, financial institutions, governments, and customers more efficiently and productively. The DBE concept enables cross-sector collaboration that accelerates growth and innovation.

DBE provides SMEs with access to previously hard-to-reach resources, such as advanced technology, market information, and distribution networks. Research by Abdurrahman (2024) and Aksoy (2023) shows that active involvement in DBE strengthens innovative capacity and expands markets.

DBE is identified as a mediating variable that bridges the relationship between digital strategy, and innovation towards financial performance. DBE provides a collaborative space and infrastructure that strengthens synergies among business actors. The existence of DBE makes digital transformation more inclusive and enables MSMEs to thrive in an ecosystem that supports sustainable growth.

## III. MATERIAL AND METHODS

### A. Theoretical Framework

This study adopts the Resource-Based View (RBV) approach, which emphasizes the importance of internal resources such as business strategy and innovation in shaping the competitive advantage of MSMEs. These two variables are considered strategic assets that can enhance financial performance, particularly when supported by an enabling external environment. In this context, the DBE functions as a mediating variable that represents digital connectivity, collaboration, and synergy among business actors and technology service providers. The DBE enables MSMEs to optimize their internal potential by fostering an adaptive and

interconnected business environment that supports technology-driven growth. The conceptual framework of this study is presented in the following Fig. 1.

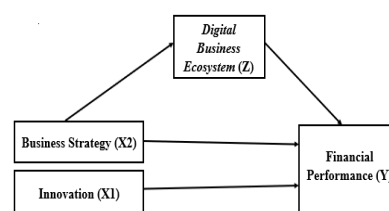


Fig. 1. Conceptual framework.

### B. Hypothesis Development

This study aims to test the influence of strategy and innovation on the financial performance of SMEs in Indonesia, with the mediating role of the DBE. Based on this objective, the hypotheses proposed in this study are as follows:

- **H1:** Business Strategy has a positive and significant effect on the financial performance of MSMEs.
- **H2:** Innovation has a positive and significant effect on the financial performance of MSMEs.
- **H3:** The Digital Business Ecosystem has a positive and significant effect on the financial performance of MSMEs.
- **H4:** Business Strategy has a positive and significant effect on the financial performance of MSMEs through the Digital Business Ecosystem as a mediating variable.
- **H5:** Innovation has a positive and significant effect on the financial performance of MSMEs through the Digital Business Ecosystem as a mediating variable.

### C. Sample

This study targets MSMEs in Indonesia that have adopted digitalization in their business operations and marketing activities. A purposive sampling technique was employed, with criteria specifying MSME owners or managers who have direct knowledge and experience using digital tools within their organizations. Data were collected using a structured questionnaire administered both online and offline.

Table 1. Operational definition of the variables

Constructs	Dimensions & Attributes	Refs.
Business Strategy	<ol style="list-style-type: none"> <li>1. Clear strategies to improve competitiveness.</li> <li>2. Strategy adjustment to technology and customer needs.</li> <li>3. Documented digital strategy.</li> <li>4. Use of indicators for digital monitoring.</li> <li>5. Clear task division and roadmap.</li> </ol>	Ladu <i>et al.</i> (2024)
Innovation	<ol style="list-style-type: none"> <li>1. Creation of value-added opportunities via innovation.</li> <li>2. Structured digital innovation strategy.</li> <li>3. Stakeholder involvement in innovation.</li> <li>4. Clear process for developing and applying ideas.</li> <li>5. Competitive advantage via innovation.</li> </ol>	Ladu <i>et al.</i> (2024)
Digital Business Ecosystem	<ol style="list-style-type: none"> <li>1. Partnership with digital platforms (e.g., Tokopedia, Shopee, GoFood).</li> <li>2. Benefit from ecosystem collaboration.</li> <li>3. Interoperability with other digital systems.</li> <li>4. Faster services and business efficiency.</li> <li>5. Use of infrastructure for innovation and growth.</li> <li>6. Trust in ecosystem support like QRIS and e-wallet.</li> </ol>	Abdurrahman (2024)
Financial Performance	<ol style="list-style-type: none"> <li>1. Increased revenue in recent years.</li> <li>2. Higher net profit through operational efficiency.</li> <li>3. Consistent asset growth.</li> <li>4. Stable cash flow.</li> <li>5. Timely financial obligations.</li> <li>6. Improved productivity and cost efficiency.</li> <li>7. Better performance than competitors.</li> <li>8. Adequate profit for reinvestment.</li> </ol>	Akhtar <i>et al.</i> (2025)

#### D. Measurement

This study employed a self-administered structured questionnaire to collect data from MSMEs in Indonesia. The questionnaire was designed to measure four main variables: Business Strategy, Innovation, DBE, and Financial Performance. All variables were measured using a five-point Likert scale ranging from (1) Strongly Disagree to (5) Strongly Agree.

The items used to measure each construct were adapted from validated instruments in previous studies and were refined to suit the context and characteristics of MSMEs in Indonesia. Table 1 Operational Definition of the Variables.

#### IV. CONCLUSION

This study confirms that strategy and innovation are strategic elements in enhancing the competitiveness and financial performance of MSMEs in Indonesia. Well-developed strategic planning and sustainable innovation enable MSMEs to adapt to dynamic market conditions and technological advancements. These internal capabilities serve as key drivers for growth, differentiation, and long-term resilience. However, to optimize the impact of strategy and innovation, support from an integrated and collaborative Digital Business Ecosystem (DBE) is essential. The DBE acts as a catalyst that reinforces connectivity, operational efficiency, and the scalability of MSMEs through digital platforms, partnerships, and shared resources. Given the conceptual nature of this study, further empirical research is needed to comprehensively test the relationships between the proposed variables. Such investigation is expected to provide a stronger foundation for evidence-based policymaking and the formulation of more effective SME development strategies in the digital economy era.

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