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### Factors Influencing Financial Performance And Sustainability Of SMES: Evidence From Indonesia

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#### ABSTRACT

*This study examines the impact of digital transformation, government support, human resource capacity, and innovation on the financial performance and sustainability of SMEs in the Soloraya region. The research method used is quantitative, with data collected through surveys using both Google Forms and paper questionnaires. A total of 137 respondents were analyzed using SEM-PLS in this study. The results indicate that digital transformation, human resource capacity, and innovation have a positive impact on financial performance. Additionally, government support, human resource capacity, innovation, and financial performance positively affect the sustainability of SMEs. However, digital transformation does not influence the sustainability of SMEs, and government support does not affect financial performance. These findings provide important insights for business practitioners and other stakeholders to enhance the performance and sustainability of SMEs in Indonesia.*

#### INTRODUCTION

Indonesia's economy largely depends on Micro, Small, and Medium Enterprises (MSMEs), which constitute about 90%-95% of companies in the country, according to the Central Statistics Agency (BPS). Data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM) in 2023 indicates that the number of MSMEs in Indonesia has reached 66 million business units. Indonesian MSMEs have created jobs for 117 million people, accounting for approximately 97% of the total workforce in Indonesia. Consequently, MSMEs contribute more than 61% to Indonesia's Gross Domestic Product (GDP).

The development of MSMEs in Indonesia requires business owners to remain resilient and ready to compete with other MSMEs (Fatimah & Azlina, 2021). This drive includes leveraging technology, innovating, and developing strategies to ensure business sustainability. However, according to data from Kemenkop UKM, 70.2% of MSME owners face challenges when transitioning to the digital technology era. These challenges include difficulties in obtaining capital, securing raw materials, and adopting digital technology. Yet, by implementing digitalization, MSMEs can save up to 50% in time and operational costs and have a 2.5 times greater chance of surviving in the market.

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In the current era of Industry 4.0, mastering technology has a positive impact on enhancing the sustainability performance of MSMEs amid increasing competition (Machin et al., 2023). Technological advancements are transforming MSME marketing strategies from conventional to digital, such as using social media and websites to promote products. By leveraging digital technology, 4,000 SMEs in Germany, China, India, and Brazil have created jobs nearly twice as fast as other SMEs. They are also more confident about the current and future business environment and have a higher likelihood of finding employment opportunities (Costa Melo et al., 2023).

Similar to the small and medium-sized enterprises (SMEs) in the Soloraya region, which have been increasing each year. The Soloraya region consists of seven districts/cities, including the City of Surakarta, Sragen Regency, Karanganyar Regency, Sukoharjo Regency, Wonogiri Regency, Boyolali Regency, and Klaten Regency. SME entrepreneurs must understand the importance of business performance to assess their ability to survive and compete in a competitive business environment. However, SMEs in Soloraya still face challenges from external factors such as government policies and internal factors such as a lack of managerial skills, lack of skills and experience, low entrepreneurial motivation, limited resources, and low technology adoption (Sefanya & Ie, 2024).

This study uses the Resource-Based View (RBV) theory to understand the financial performance and sustainability of SMEs. According to Penrose (1995), resources are physical items that a company buys, leases, or creates for its own use, as well as labor employed under specific conditions. According to RBV theory, SMEs with strong physical, financial, and human resources are superior to those with limited assets in achieving sustainable business performance (Barney, 1991). Additionally, the success or failure of a business is more often determined by internal strengths and weaknesses rather than external factors.

The financial performance and sustainability of SMEs in Soloraya are influenced by digital transformation. According to RBV theory, three factors affect the success of SME digital transformation: digital technology, digital skills, and digital transformation strategy (Teng et al., 2022). Research conducted by (Valdez-Juárez et al., 2024), (Mangifera & Mawardi, 2022), and (Ren & Li, 2023) indicates that digital transformation has a positive impact on SME performance. Further studies by (Hawa et al., 2023; Machin et al., 2023) state that digital transformation positively affects the sustainability of SMEs.

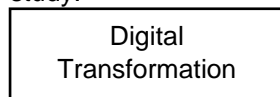
Another important factor is government support, which plays a crucial role in enhancing SME performance by providing resources, funding, and policies that encourage innovation and growth (Trieu et al., 2023). Therefore, government support has a positive impact on financial performance (Gligah & Zaidin, 2023; Sandra et al., 2023; Trieu et al., 2023). However, a study by (Jayeola et al., 2022) found that government support does not affect financial performance. Additionally, government support positively influences the sustainability of SMEs (Alkhtani et al., 2020; Ullah et al., 2021; Yani & Widya Hadi Saputra, 2023).

Human resource capacity is another factor that influences SME performance and is key to making SME operators more professional (Margaretha et al., 2023). Research by (Kerdipitak & Jermittiparsert, 2019), (Trieu et al., 2023), (Anam et al., 2024), and (Farhan et al., 2023) indicates that the quality of human resources has a positive and significant impact on financial performance. In contrast, a study by (Sunarti et al., 2023) suggests that human resource capacity does not affect financial performance. Furthermore, studies by (Hernita et al., 2021; Muñoz-Pascual et al., 2021) state that human resource capacity positively influences the sustainability of SMEs.

Another factor influencing the performance and sustainability of SMEs is innovation. Innovation in products, processes, organization, and creative marketing provides unique advantages for SME operators. This has the potential to increase consumer purchasing power, leading to higher sales, profits, and optimal performance (Joko et al., 2022). Research by (Alyahya'ei, N., Husin, N. A., & Supian, 2020), (Latifah et al., 2021), and (Valdez-Juárez et al., 2024) indicates that innovation positively impacts financial performance. However, a study by (Joko et al., 2022) found that innovation does not affect the financial performance of SMEs. Additionally, (Ullah et al., 2021) state that innovation influences the sustainability of SMEs.

Financial performance also affects the sustainability of SMEs. The performance of SMEs in financial reporting or production is crucial for their business continuity. Research by (Miswanto et al., 2024; Naufal & Purwanto, 2022; Yunus et al., 2022) indicates that financial performance positively influences the sustainability of SMEs. However, a study by (Purba et al., 2021) suggests that financial performance does not impact the sustainability of SMEs.

Based on the discussion above, the purpose of this study is to determine the impact of digital transformation, government support, human resource capacity, and innovation on the financial performance and sustainability of SMEs in Soloraya. The following is the conceptual framework for this study:



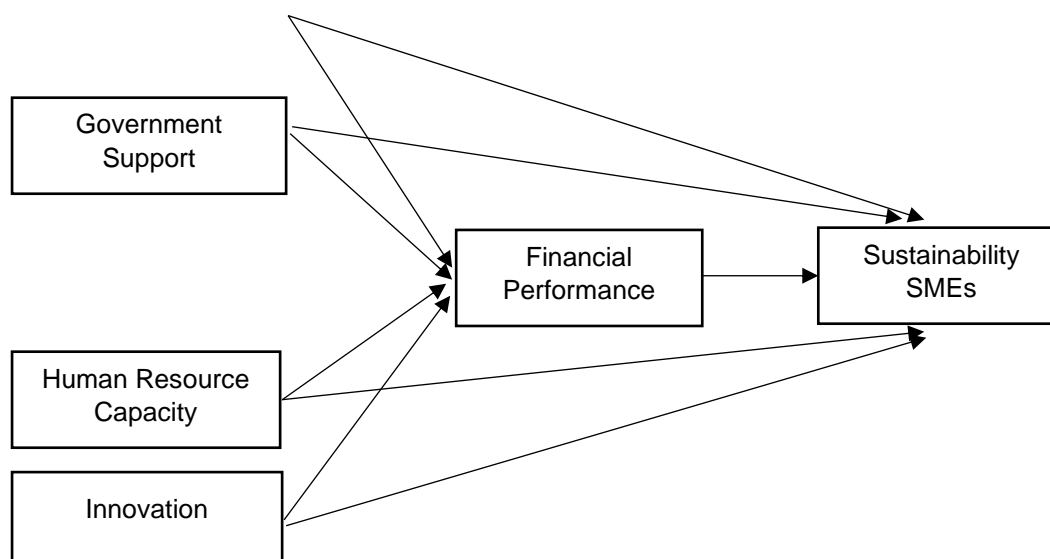


Figure 1. Conceptual Framework  
Source : Table created by the author, 2024

## Hypothesis Development

### Digital Transformation and Financial Performance

Digital transformation is a process aimed at improving business performance through a combination of information technology, computing, communication, and connectivity (Mangifera & Mawardi, 2022). Digital transformation is an effort to accelerate business using technology and has the right methods to help business processes reach a broader target market. This can occur if SMEs commit to promoting through social media, offering discounts, and so on. Research by (Winarsih & Haviv, 2024) indicates that digital transformation positively impacts financial performance. This is due to the use of technology, which can enhance customer service quality and facilitate data processing, thereby improving financial performance. These findings align with research conducted by (Mangifera & Mawardi, 2022; Valdez-Juárez et al., 2024; Yuliantari & Pramuki, 2022). Therefore, the hypothesis proposed in this study is as follows:

H1: Digital transformation has a positive impact on financial performance

### Digital Transformation and Sustainability of SMEs

Digital transformation is crucial for ensuring the sustainability and continuity of businesses. SMEs need to gain access to new markets and implement technology in meaningful and sustainable ways. By undergoing digital transformation, companies can increase efficiency, reduce costs, improve product or service quality, and enhance customer satisfaction. The better a company's digital transformation, the more sustainable its business will be (Hawa et al., 2023). This is consistent with research by (Kim & Ha, 2023; Machin et al., 2023), which indicates that digital transformation positively impacts the sustainability of SMEs. Therefore, this study proposes the following hypothesis:

H2: Digital transformation has a positive impact on the sustainability of SMEs

### Government Support and Financial Performance

The success of SMEs is closely tied to government support. The government assists SMEs by creating regulations, taxes, simplifying permits, providing market access, training, and mentoring (Ardiyani et al., 2021). Additionally, the government supports SMEs through business development services, such as training, guidance, and market information access, enabling SMEs to operate more efficiently and competitively. These services help SMEs enhance their sales abilities, product development, and marketing, ultimately increasing competitiveness and financial performance (Sandra et al., 2023). SMEs receiving government support perform better than those without it. Research by (Sandra et al., 2023; Trieu et al., 2023) indicates that government support has a positive and significant impact on financial performance. Therefore, the hypothesis proposed in this study is as follows:

H3: Government support has a positive impact on financial performance

### Government Support and Sustainability of SMEs

Government support is crucial for the operation and sustainability of SMEs. The more prepared government institutions are to provide relevant services to SMEs, the greater the chances of enhancing their sustainability. Therefore, to achieve this, the structure of government support must be improved. Research by (Alkahtani et al., 2020; Rulangaranga et al., 2020; Yani & Widya Hadi Saputra, 2023)

shows that government support has a significant impact on the sustainability of SMEs. Thus, this study proposes the following hypothesis:

H4: Government support has a positive impact on the sustainability of SMEs

#### **Human Resource Capacity and Financial Performance**

Human resource capacity encompasses the knowledge, skills, abilities, and personality traits of individuals that directly impact business performance (Maulatuzulfa & Rokhmania, 2022). According to the RBV theory, SMEs with strong physical assets, financial capital, and human resource capacity can achieve good financial performance. Trained and experienced employees can enhance a company's financial performance. Research by (Rain & Khawaja, 2023) indicates that human resource capacity has a positive and significant impact on financial performance. This finding aligns with studies by (Mangifera & Mawardi, 2022; Maulatuzulfa & Rokhmania, 2022; Wulandari et al., 2023; Yuliarmi et al., 2021). Therefore, this study formulates the following hypothesis:

H5: Human resource capacity has a positive impact on financial performance

#### **Human Resource Capacity and Sustainability of SMEs**

Human resources play a crucial role in driving economic growth and increasing the productivity of SMEs. A business needs competent human resource capacity to remain competitive in the market and support sustainable growth. Business sustainability is influenced by the education level of the owners and employees, business experience, and the management and marketing skills of everyone involved in the SME (Maulatuzulfa & Rokhmania, 2022). Research by (Hernita et al., 2021) indicates that human resource capacity has a positive and significant correlation with the sustainability of SMEs. Therefore, the proposed hypothesis is as follows:

H6: Human resource capacity has a positive impact on the sustainability of SMEs

#### **Innovation and Financial Performance**

Innovation involves the application of new concepts or actions to introduce new initiatives within an organization (Latifah et al., 2021). One way to enhance financial performance and remain competitive in the market is through innovation. Business operators can devise innovation plans such as product, process, and marketing innovations. Moreover, innovation isn't just about creating new products but also improving existing ones. Without innovation, businesses risk falling behind their competitors. Strong innovation capabilities enable SMEs to sustain themselves and capture a larger market share, thereby improving financial performance (Joko et al., 2022). Research conducted by (Alyahya'ei, N., Husin, N. A., & Supian, 2020; Fatimah & Azlina, 2021; Latifah et al., 2021) indicates that innovation has a positive and significant impact on financial performance. Therefore, the hypothesis proposed is as follows:

H7: Innovation has a positive impact on financial performance

#### **Innovation and Sustainability of SMEs**

Innovation is critically needed for businesses to survive and thrive in an ever-changing business environment. Innovation brings improvements to products and processes, leading to sustainable progress that helps businesses sustain and grow more efficiently and profitably than those that do not innovate. Research by (Hanaysha et al., 2019) indicates that innovation has a positive and significant impact on business sustainability. Innovation assists business operators in maintaining business sustainability and enhancing competitiveness. This aligns with research conducted by (Kurniawati et al., 2022) and (Heenkenda et al., 2022). Therefore, the hypothesis proposed in this study is as follows:

H8: Innovation has a positive impact on the sustainability of SMEs

#### **Financial Performance and Sustainability of SMEs**

Financial performance involves an analysis conducted by companies to assess the good and bad financial conditions of the company over a specific period (Miswanto et al., 2024). The RBV theory also explains that financial performance can be seen in how a business enhances its capabilities for business sustainability. Therefore, the financial performance of SMEs, in terms of financial reporting or production, is crucial for SME operators to effectively run their businesses. This indicates that the lower the financial performance of SMEs, the poorer their business sustainability (Yunus et al., 2022). Previous research by (Naufal & Purwanto, 2022) and (Yaniar et al., 2021) states that financial performance has a positive and significant impact on the sustainability of SMEs. Based on the discussion above, this study proposes the hypothesis:

H9: Financial performance has a positive impact on the sustainability of SMEs.

## **MATERIALS AND METHODS**

This research employed a quantitative approach conducted in the Soloraya region. The method utilized was a survey method conducted by distributing questionnaires directly on paper and online via Instagram and WhatsApp using Google Forms. The population in this study consisted of SME operators located in the Soloraya region. Sampling was done using purposive sampling, considering criteria such as (1) being a business operator in the Soloraya region and (2) utilizing digital technology in their business operations. A total of 151 questionnaires were distributed to potential respondents during the data collection process. However, only 137 responses were usable for the study. Subsequently, the data were analyzed using SEM-PLS.

## RESULTS AND DISCUSSION

### Descriptive Analysis

Table 1 presents the demographic data of respondents in this study. From the table results, it is observed that the number of female respondents (59%) is higher than male respondents (41%). In terms of age, the majority of respondents are aged 31-40 years (61%) and below 20 years (15%). Regarding educational attainment, the majority of respondents completed high school (63%) followed by bachelor's degree (27%). In terms of business type, the majority of respondents are in the culinary sector (44%) and fashion sector (29%). Based on the years of establishment, most businesses have been operating for less than 3 years (41%) and 3-5 years (23%). In terms of number of employees, the majority of respondents have 1-5 employees (85%) and 6-10 employees (9%). Regarding annual revenue, 74% of respondents have revenue less than 200 million per year and 23% have revenue between 300 million to 500 million per year. Based on the use of digital technology, 86% of respondents currently use digital technology, whereas 14% have used it in the past but no longer do. In terms of types of digital technology used, the majority of respondents use Social Media (32%) and Shopee (26%).

Table 1 Respondent Data

Characteristics	Category	Total	Percentages
Gender	Male	56	41%
	Female	81	59%
Age	< 20 Years	20	15%
	21 – 30 Years	15	11%
	31 – 40 Years	84	61%
	>40 Years	18	13%
Highest Education Attainment	Elementary School or Equivalent	4	3%
	Junior High School or Equivalent	6	4%
	Senior High School or Equivalent	86	63%
	Diploma	4	3%
Type of Business	Bachelor's Degree	37	27%
	Culinary	60	44%
	Fashion	39	29%
	Small Grocery Store	10	7%
	Crafts	15	11%
	Beauty Services	6	4%
Years in Operation	<3 Years	56	41%
	3 – 5 Years	32	23%
	5 – 10 Years	28	21%
	>10 Years	21	15%
Number of Employees	1 – 5 People	117	85%
	6 – 10 People	12	9%
	11 – 30 People	8	6%
	>30 People	0	0%
Annual Revenue	Less than 200 million per year	102	74%
	300 million to 500 million per year	31	23%
	500 million to 1 billion per year	3	2%
	More than 1 billion per year	1	1%
Use of Digital Technology	Currently using digital technology	118	86%
	Used to use but currently not using digital technology	19	14%

Types of Digital Technologies Used	Shopee	71	26%
	Tiktok	46	17%
	Tokopedia	6	2%
	Lazada	3	1%
	Social Media	85	32%
	Online Cashier	21	8%
	Gojek	16	6%
	Grab	22	8%

Source : Table created by the author, 2024

### Measurement Model Testing

The results of convergent and discriminant validity tests indicate that all items are valid and meet the criteria. As shown in Table 2, the cross-loading values for all items are above 0.7. Furthermore, reliability testing yielded Cronbach's Alpha values above 0.7 and AVE values above 0.6. Therefore, it can be concluded that the constructs in this study are reliable.

Table 2 Convergent Validity and Reliability

Variable	Indikator	Cross Loading	Cronbach's Alpha	Rho_A	Composite Reliability	AVE
Digital Transformation	DT1	0,776	0,870	0,877	0,901	0,604
	DT2	0,764				
	DT3	0,779				
	DT4	0,791				
	DT5	0,800				
Government Support	GS1	0,725	0,760	0,821	0,856	0,665
	GS2	0,856				
	GS3	0,859				
Human Resource Capacity	HRC1	0,822	0,850	0,856	0,893	0,627
	HRC2	0,817				
	HRC3	0,838				
	HRC4	0,717				
	HRC5	0,758				
Innovation	IN1	0,726	0,783	0,793	0,859	0,604
	IN2	0,809				
	IN3	0,783				
	IN4	0,789				
Financial Performance	FP1	0,879	0,932	0,941	0,947	0,748
	FP2	0,873				
	FP3	0,750				
	FP4	0,915				
	FP5	0,901				
	FP6	0,862				
Sustainability of SMEs	SS1	0,821	0,837	0,841	0,891	0,671
	SS2	0,842				
	SS3	0,809				
	SS4	0,804				

Source : Table created by the author, 2024

Table 3 presents the results of discriminant validity testing. These results indicate that all constructs meet the criteria, as the AVE values for each construct are higher than the correlations between other constructs. Therefore, it can be concluded that discriminant validity has been achieved.

Table 3 Discriminant Validity

Variable	DT	FP	GS	HRC	IN	SS
DT	0,777					
FP	0,433	0,865				
GS	0,444	0,285	0,816			
HRC	0,384	0,475	0,440	0,792		
IN	0,471	0,519	0,443	0,585	0,777	
SS	0,379	0,500	0,461	0,536	0,569	0,819

**Notes:** DT = Digital Transformation, FP = Financial Performance, GS = Government Support, HRC = Human Resource Capacity, IN = Innovation, SS = Sustainability of SMEs

Source: Table created by the author, 2024

### Structural Model Testing

Based on the hypothesis testing results, it is evident that 7 hypotheses are significantly supported. The hypotheses that were rejected are H2, which states that digital transformation does not affect sustainability of SMEs (t-statistic 0.014), and H3, which states that government support does not affect financial performance (t-statistic 0.613). According to Table 4, it is illustrated that digital transformation, human resource capacity, and innovation affect financial performance. Additionally, the variables government support, human resource capacity, innovation, and financial performance positively influence sustainability of SMEs.

Table 4. Hypothesis Testing

Hypothesis	Original Sample	T Statistics	P-values	Information
H1: DT → FP	0,224	2,655	0,008	Supported
H2: DT → SS	0,001	0,014	0,988	Not Supported
H3: GS → FP	-0,050	0,613	0,540	Not Supported
H4: GS → SS	0,200	2,240	0,026	Supported
H5: HRC → FP	0,238	2,507	0,013	Supported
H6: HRC → SS	0,197	2,274	0,023	Supported
H7: IN → FP	0,297	2,940	0,003	Supported
H8: IN → SS	0,252	2,900	0,004	Supported
H9: FP → SS	0,218	2,903	0,004	Supported

**Notes:** DT = Digital Transformation, FP = Financial Performance, GS = Government Support, HRC = Human Resource Capacity, IN = Innovation, SS = Sustainability of SMEs

**Source:** Table created by the author, 2024

This research examines the relationship between digital transformation, government support, human resource capacity, innovation, and the financial performance and sustainability of SMEs in Soloraya. Hypothesis 1 indicates that digital transformation has a positive effect on financial performance, with a p-value of 0.008. SMEs in Soloraya that have implemented product, process, and organization innovations based on information and technology believe that digital transformation can help their businesses provide more customization, enhance customer satisfaction, and reduce sales costs, thus improving their financial performance (Mubarak et al., 2019). Additionally, digital transformation offers SMEs benefits in terms of transforming and optimizing traditional businesses through digital technology, increasing production, and realizing value benefits such as improved efficiency, cost reduction, and quality enhancement (Teng et al., 2022). This aligns with research conducted by (Mangifera & Mawardi, 2022; Pramishella, 2013; Valdez-Juárez et al., 2024; Yuliantari & Pramuki, 2022) which also states that digital transformation positively impacts financial performance.

Hypothesis 2 shows a p-value of 0.988, indicating that digital transformation does not impact the sustainability of SMEs. Digital transformation can enhance business performance and promote sustainable economic and financial growth. Although digital transformation can improve efficiency and competitiveness, some SMEs in Soloraya face obstacles when transitioning to digital technology for business sustainability. Challenges for SMEs include limited infrastructure, lack of digital skills, security issues, and insufficient financing, which can hinder the adoption of digital technology (Rupeika-Apoga & Petrovska, 2022). As a result, not all SMEs immediately experience significant benefits from digital transformation in terms of business sustainability.

Hypothesis 3, with a p-value of 0.540, indicates that government support does not affect financial performance. Government support cannot directly improve the financial performance of SMEs (Jayeola et al., 2022). Although government initiatives such as financial incentives, infrastructure development, and regulatory reforms can provide assistance, some SMEs may not experience a direct impact on their financial performance, as seen with businesses in Soloraya. Obstacles such as bureaucracy, lack of information, and the inability to access or utilize the provided support can reduce the effectiveness of government efforts. Therefore, even though government support has significant potential, not all SMEs experience a notable improvement in financial performance. This finding aligns with the research conducted by (Pramishella, 2013).

Hypothesis 4, with a p-value of 0.026, indicates that government support positively impacts the sustainability of SMEs. Government support is crucial for the development of SMEs through various initiatives such as financial incentives, infrastructure development, regulatory reforms, and market access facilities for businesses in Soloraya. These measures create a supportive environment for SMEs to grow, innovate, and compete effectively in both domestic and international markets. Additionally, the government empowers SMEs through training, business diversification, digitalization, product promotion, and partnerships (Suryaningrum et al., 2024). This demonstrates that the more services the government offers to SMEs, the more they can enhance their business sustainability (Rulangaranga et al., 2020). This finding aligns with research conducted by (Alkahtani et al., 2020; Yani & Widya Hadi Saputra, 2023).

Hypothesis 5, with a p-value of 0.013, indicates that human resource capacity positively affects financial performance. Business owners in Soloraya have competent human resources, such as educated and experienced business owners and employees, which are crucial for business success (Purwanti & Yuliati, 2022). Enhancing human resource competencies impacts individual productivity in preparing administration and reports, which are vital for organizational strategic decisions (Larasdiputra & Suwitari, 2020). Access to competent human resources results in high-quality financial reports. This demonstrates that human resource capacity plays a significant role in financial management (Wulandari et al., 2023). This finding aligns with research conducted by (Maulatuzulfa & Rokhmania, 2022; Rain & Khawaja, 2023; Yuliarmi et al., 2021).

Hypothesis 6, with a p-value of 0.023, indicates that human resource capacity positively impacts the sustainability of SMEs. Human resources with knowledge, skills, and abilities that can synergize effectively play a strategic role in ensuring long-term business sustainability. This includes training, learning processes, and fair compensation provided by business owners. Through training and development, human resources can continuously enhance their competencies, enabling them to adapt to market and technological changes. Additionally, skilled human resources can offer better customer service, increasing customer satisfaction and loyalty, which ultimately supports long-term business sustainability (Suryaningrum et al., 2024). This finding aligns with research conducted by (Hernita et al., 2021).

Hypothesis 7, with a p-value of 0.003, indicates that innovation has a positive impact on financial performance. Due to intense competition, SMEs in Soloraya must innovate to demonstrate their superiority and competitiveness. Continuous growth and development of a business hinge on innovation. Without it, customers may grow weary of similar products. Therefore, innovation necessitates thorough planning and preparation to advance and flourish a business (Gusti, 2022). Consequently, SMEs can achieve profitability, including through customer loyalty and price sensitivity, as customers always take note of their innovation and product uniqueness (Latifah et al., 2021). This implies that effective innovation enhances business financial performance (Fatimah & Azlina, 2021).

Hypothesis 8, with a p-value of 0.004, indicates that innovation positively affects the sustainability of SMEs. Innovative management systems drive a business to create sustainable and environmentally friendly products and processes. Entrepreneurs in Soloraya have innovated by creating and developing products, leveraging technology, and forming partnerships with other businesses. Through innovation, entrepreneurs can increase revenue, enhance product quality, explore new market opportunities, and build a strong reputation (Ullah et al., 2021). Entrepreneurs seek innovation to improve performance that leads to environmental and business sustainability. Therefore, a business can sustain and thrive in a competitive business environment.

Hypothesis 9 shows a p-value of 0.004, indicating that financial performance positively influences the sustainability of SMEs. Business operators with high financial literacy are better at optimizing performance and exercising caution in their operations. Therefore, possessing good financial knowledge makes it easier to manage their businesses (Yunus et al., 2022). Management capability, business strategy, and market orientation are key factors in improving SMEs' financial performance. Management plays a role in setting the business direction and strategies to achieve goals. Effective strategies increase business revenue through regular sales, ultimately impacting financial performance reflected in profits. Business performance improves when market orientation is effectively applied through the creation and satisfaction of customer needs. This means that business operators who manage financial performance well can sustain their business, as shown in research by (Miswanto et al., 2024; Naufal & Purwanto, 2022; Yunus et al., 2022).

## **CONCLUSIONS AND SUGGESTIONS**

Based on the research conducted on the influence of digital transformation, government support, human resource capacity, and innovation on the financial performance and sustainability of SMEs in the Soloraya region, it can be concluded that these factors play a significant role in enhancing the financial performance and sustainability of SMEs. Digital transformation positively impacts the financial performance of SMEs by improving efficiency and service quality. Government support also plays a crucial role in enhancing SMEs' sustainability through regulations, taxes, and market access. Human resource capacity and innovation also contribute positively to both financial performance and sustainability of SMEs. Furthermore, financial performance can enhance SMEs' sustainability. Therefore, SME operators need to pay attention to and develop these factors to enhance competitiveness and sustainability in this digital era.

The implications of this research suggest that SMEs in the Soloraya region can use these findings as insights to design more efficient development strategies, particularly in digital transformation



investments, enhancing human resource competencies, and product innovation. Furthermore, governments can consider supporting SMEs through programs that encourage digital technology adoption, such as training programs for SME operators.

Limitations of this study include the sample size in terms of respondents and the limited geographical coverage, which may affect the generalization of the research findings to the entire population of SMEs. Furthermore, future research should consider adding other variables related to financial performance and sustainability of SMEs. By understanding these implications and limitations, researchers and stakeholders can take appropriate steps in interpreting and utilizing the findings of this research for the betterment of SME development in the future.

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## Appendix

Construct	Items	Measures	References
Digital Transformation	DT1	Since my business started using digital technology, my sales have increased.	(Teng et al., 2022)
	DT2	Since my business started using digital technology, my business processes have changed.	
	DT3	Since my business started using digital technology, customer satisfaction has improved.	
	DT4	Since my business started using digital technology, my innovation capabilities have increased.	
	DT5	Since my business started using digital technology, my business decisions have become more effective.	
	DT6	Since my business started using digital technology, I have been able to improve efficiency.	
Government Support	GS1	In my opinion, the government supports SMEs in using digital technology.	(Trieu et al., 2023)
	GS2	In my opinion, the government creates policies that encourage digital technology.	
	GS3	In my opinion, the government has enacted regulations related to the adoption of digital technology.	
Human Resource Capacity	HRC1	We provide professional training for employees.	(Tom, 2015)
	HRC2	Employees are encouraged to implement new things at work.	
	HRC3	We promote employees' leadership skills.	
	HRC4	We have established a competency-based reward/pay system.	
	HRC5	Our business culture encourages the dissemination and exchange of knowledge.	
Innovation	IN1	We continue to improve our products and processes.	(Alyahya'ei, N., Husin, N. A., & Supian, 2020)
	IN2	We actively research and exchange ideas on better methods to run our business.	
	IN3	We seek ways to add value to existing products/services to differentiate our business from competitors.	
	IN4	We are open to partnerships with other businesses to develop new products and services..	
Financial Performance	FP1	In the last 3 years, my business sales have increased.	(Teng et al., 2022)
	FP2	In the last 3 years, my business's profit margin has increased.	
	FP3	In the last 3 years, my business's gross profit has increased.	
	FP4	In the last 3 years, my business's net profit has increased.	
	FP5	In the last 3 years, my business's return on equity has increased.	
	FP6	In the last 3 years, my business's return on investment has increased.	
Sustainability of SMEs	SS1	My first business offers environmentally friendly products/services in the market.	(Ullah et al., 2021)

- SS2 Other competitors view us as a business that prioritizes environmental sustainability in the future.
- SS3 We develop and enhance new products/services that are considered beneficial for both society and the environment.
- SS4 Our reputation in sustainability is better than that of our competitors.