

Financial Technology Mediates the Impact of Business Strategy on MSME Financial Performance in West Nusa Tenggara, Indonesia

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DOI: [10.22178/pos.98-16](https://doi.org/10.22178/pos.98-16)

JEL Classification: L1

Received 30.10.2023

Accepted 28.11.2023

Published online 30.11.2023

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Abstract. This study aims to explore the business strategies that have been carried out by MSMEs so that results of MSME financial performance can be obtained in adopting digital financial service technology in Fintech. The method with accidental sampling is 100 respondents using questionnaires – data analysis with Structural Equation Modeling (SEM) using SmartPLS 3.0 software. The results show that business strategy positively and significantly affects the financial performance of MSME business actors in West Nusa Tenggara. Business strategy completely and significantly affects financial technology for MSME businesses in West Nusa Tenggara. Financial technology positively and significantly affects the financial performance of MSME business actors in West Nusa Tenggara. Financial technology can strengthen the influence of business strategy on the financial performance of MSMEs in West Nusa Tenggara. The research results show that all variable impacts are positive and significant, as well as the effect of mediation variables on independent variables on dependents. Therefore, in the future, MSME players must always consider preparing business strategies and applying technology because this affects their financial performance significantly and sustainably.

Keywords: Business Strategy; Financial Technology; Financial Performance.

INTRODUCTION

Community small businesses, or what we often call MSMEs, are a form of small enterprise whose establishment is based on someone's initiative, which provides new jobs so that it can reduce the unemployment rate and play a role in encouraging the pace of economic growth in Indonesia [1]. The number of MSMEs continues to increase yearly in almost all regions in Indonesia, including West Nusa Tenggara Province. Based on data from the West Nusa Tenggara Provincial Cooperatives and MSMEs Office, the number of MSMEs in the province in 2021 reached 103,284, an increase of 7.8% compared to 2020.

Factors affecting MSMEs' performance, namely marketing, technology, access to capital, the influence of access to information, social networks, legality, business plans, entrepreneurial readiness, and government support, significantly affect performance [2]. According to [3], the ability to compile financial statements also affects the

performance of MSMEs. Authors [4] stated that the ability to collect financial accounts owned by MSME players can produce good performance. MSME players can analyse and determine company strategies so that the financial performance obtained improves again. The economic performance of MSMEs is influenced by marketing, technology, access to capital, and entrepreneurial readiness [5].

The use of technology also occurs in MSMEs in NTB. Technology can facilitate every transaction made, one of which is through the presence of financial technology, defined as innovation in financial services [6]. With the emergence of Fintech, it is expected to improve people's welfare. It is estimated that there will be many changes, for example, in conducting financial transactions, utilising financial products and services, or finding funding sources for economic activities. For the financial industry, there is a demand to adapt and adjust its business process-

es as the industry dynamics change rapidly. Suppose these dynamics and transformations are not appropriately managed. In that case, it is fearful that they will disrupt our financial system and economy, including the impact on MSMEs that have difficulty obtaining capital assistance.

Business strategy is how a company does better, becomes different, or performs similar activities differently, so the company must determine the suitable strategy model in a comprehensive design [7]. In a comprehensive and integrated design directed to achieve company goals [8], namely improving financial performance and encouraging long-term profitability growth [9], the right strategy can help companies gain competitive advantage [10].

Research conducted by [11] shows that business strategy (cost leadership, differentiation, and focus) positively affects SME performance. Strategy excellence results from strategy implementation that utilises various resources business units own [12]. The emergence of business strategies is because 1) there are market demands, 2) there is competition, and 3) there are changes in various aspects of the business environment. These changes encourage companies to build advantages to compete and maximise profits [13, 14], which can drive long-term profitability growth as well as sustainable competitive advantage [9].

However, the fact shows that most MSMEs in Indonesia in general and West Nusa Tenggara in particular, are slow to adapt to digitalisation, which is due to owners' lack of awareness of the importance of digitalisation, knowledge of specific technologies relevant to their business, and limited usable resources such as capital and human resources. Digital technology can increase the influence of business strategies on the financial performance of MSMEs. For this reason, the *purpose of this study* is to conduct exploratory research to identify the Financial Technology process that has been carried out by MSMEs in West Nusa Tenggara, as well as analyse Financial Technology to mediate the impact of business strategies on the financial performance of MSMEs in West Nusa Tenggara Province.

METHOD

This research is associative research with a quantitative approach. This study aims to identify the digital financial transformation (Fintech) process

that has been carried out by MSMEs in West Nusa Tenggara Province, as well as examine how the influence of digital economic transformation (Fintech) on business strategies and financial performance of SMEs to develop. The number of samples in this study was 100 respondents. The analysis method used in this study is the PLS-SEM method with the help of SmartPLS Program version 3.0.

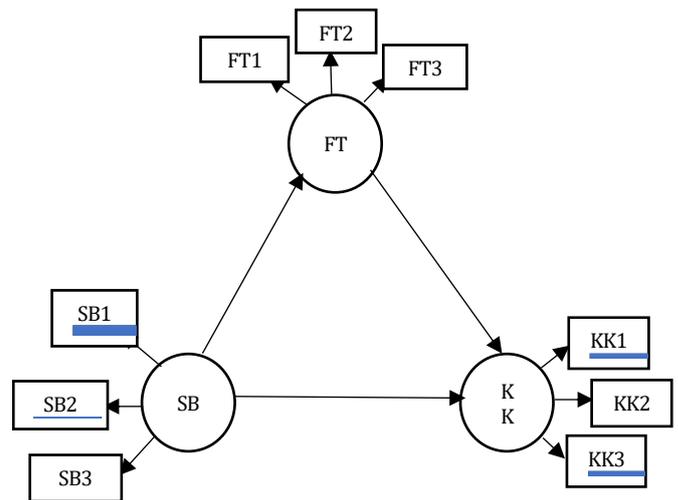


Figure 1 – Conceptual Framework

Table 1 – Characteristics of Respondents

No.	Characteristics	Sum	%	
1.	Gender	Pria	56	56
		Wanita	44	44
2.	Length of Business	One year	10	10
		Two years	23	23
		Three years	17	17
		Four years	20	20
		Five years	30	30
3.	Regional of Business	West Lombok	11	11
		North Lombok	13	13
		Mataram City	25	25
		Central Lombok	15	15
		East Lombok	10	10
		Sumbawa	4	4
		West Sumbawa	7	7
		Dompu	4	4
		Bima	5	5
Bima City	6	6		

Evaluation of the Measurement Model (Outer Model). Outer loading describes how well the item reflects/illustrates the measurement variable.

Table 2 – Outer Loadings

No	Variable	Item	Outer Loading	AVE	Description
1	Business Strategy	X1.1	0,595	0,562	Valid
		X1.2	0,810		Valid
		X1.3	0,767		Valid
		X1.4	0,747		Valid
		X1.5	0,753		Valid
		X1.6	0,548		Valid
		X1.7	0,838		Valid
		X1.8	0,802		Valid
		X1.9	0,775		Valid
		X1.10	0,803		Valid
		X1.11	0,698		Valid
		X1.12	0,803		Valid
2	Financial Technology	Z1	0,771	0,513	Valid
		Z2	0,722		Valid
		Z3	0,506		Valid
		Z4	0,713		Valid
		Z5	0,812		Valid
		Z6	0,693		Valid
		Z7	0,663		Valid
		Z8	0,800		Valid
3	Financial Performance	Y1	0,579	0,518	Valid
		Y2	0,810		Valid
		Y3	0,794		Valid
		Y4	0,715		Valid
		Y5	0,744		Valid
		Y6	0,783		Valid
		Y7	0,541		Valid

Based on the table above, it can be seen that all measurement items on each variable, both business strategy variables, financial technology, and financial performance, show an outer loading value of > 0.5, so it can be said that all indicators used are valid with the lowest value in the financial technology variable indicator which is still above 0.5, which is 0.502. The highest outer loading value in the model is in the business strategy variable indicator, which is 0.836. Meanwhile, the AVE value of all research variables is more than 0.5, which means that the magnitude of variation in all items contained by this research variable meets the requirements for good convergent validity.

Composite Reliability. Composite Reliability is a measure to show how far the reliability of the variable is. Based on the following table, the composite reliability value of all research variables is more than 0.7, which shows that the level of reliability is acceptable. Overall, items that measure variables of business strategy, financial

performance, and financial technology are consistent in measuring these variables.

Table 3 – Composite Reliability

	Composite reliability (Rho_c)
Business Strategy	0,938
Financial Performance	0,878
Fintech	0,905

RESULTS AND DISCUSSIONS

Structural model evaluation or hypothesis testing is done through a bootstrapping process (percentile method). The statistical test used in this method is the t-test. The test result from the t-values for the two-tailed test is 1.96 (significant level = 5%). The criterion for testing with a t-test is that if the statistical value > t-table or the significance value < 0.05, then it can be said that the hypothesis is accepted.

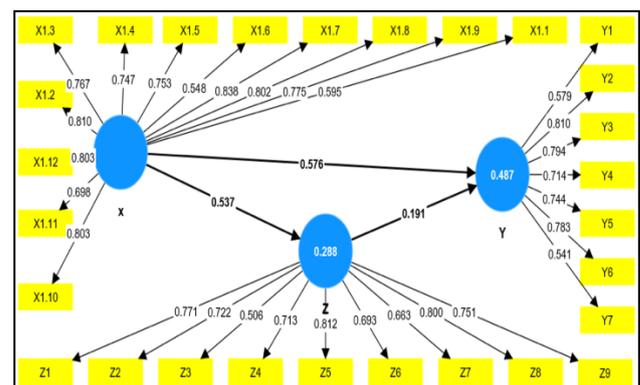


Figure 2 – Path Coefficient

Table 4 – Path Coefficient (Inner Model)

	Path Coefficient	T-stat	P-values	Description
Business Strategy -> Financial Performance	0,576	9,285	0,000	Positive and Significant
Business Strategy -> FinTech	0,537	6,745	0,000	Positive and Significant
FinTech -> Financial Performance	0,191	6,745	0,022	Positive and Significant
Business Strategy -> FinTech -> Financial Performance	0,288	2,040	0,041	Positive and Significant

In the inner model, the R²-value is also seen, which describes the overall influence of exogenous or endogenous variables on other endogenous variables in the model. Here is a table of R²-values in this study:

Table 5 – R²-Value

	R ²	R ² adjusted
Financial Performance	0,487	0,476
FinTech	0,288	0,281

The table above shows that the magnitude of the influence of business and fintech strategies on financial performance is 48.7 %, which is included in the medium category. Meanwhile, the impact of business strategy on Fintech is 28.98 %, which is contained in the low category.

The Effect of Business Strategy on Financial Performance. The results of this study show that business strategies have a positive and significant effect on the financial performance of MSME business actors in West Nusa Tenggara, so the first hypothesis (H1) is accepted. This means that the higher the implementation of business strategies on MSME players in West Nusa Tenggara, the better their financial performance will be. So, by implementing an effective business strategy, MSME players can increase their competitiveness in the market. This can include developing a unique product or service, improving quality, meeting customer needs, or adjusting competitive prices. By increasing competitiveness, MSME players can attract more customers, increase market share, and directly impact their financial performance.

This study's results align with the Resource Based View (RBV) theory. RBV argues that MSME players in West Nusa Tenggara can develop competitive advantages and improve financial performance by utilising unique resources. These resources can be physical assets, human capital, network relations, knowledge, technology, or brands owned by MSMEs. By implementing an effective business strategy, MSMEs can optimise these resources to create significant added value in their products, services, or operations, positively impacting financial performance successfully owned by MSME players in NTB. A successful business strategy for MSMEs in West Nusa Tenggara involves developing valuable capabilities, such as efficient management, specialised

skills, innovation, innovative marketing, or operational excellence.

The Influence of Business Strategy on Financial Technology. The results of this study show that business strategies have a positive and significant effect on financial technology in MSME business actors in West Nusa Tenggara, so the second hypothesis (H2) is accepted. This means that the higher the implementation of business strategies carried out on MSME players in West Nusa Tenggara, the more the use and utilisation of technology in the finances of a business will increase. So, business strategies that utilise Fintech can help improve the company's operational efficiency. Financial technology can automate business processes, reduce manual labour, and increase speed and accuracy in processing financial transactions.

For example, using digital payment applications allows for faster and easier transactions, reducing the time and costs required for financial administration. Most MSME players in West Nusa Tenggara have utilised financial technology when they want or when carrying out business strategies. A clear example of the use of Fintech that is mushrooming today is the use of QRIS for payment methods used by micro to medium enterprises, regardless of the nominal payment amount. This is one of the sellers' strategies to facilitate consumers in the payment process, and this has shown that business actors apply Fintech well in their business strategies. Therefore, business strategies influence financial technology for MSME players in West Nusa Tenggara.

Resource-based View (RBV) theory can explain why business strategies positively and significantly affect financial technology (Fintech) in MSME players in NTB. Through utilising unique resources, access to markets and financing, a combination of resources, and competitive differentiation, Fintech-focused business strategies can improve the financial performance of MSMEs and provide a competitive advantage in an increasingly digitally growing market. For example, using Fintech, MSMEs can provide their customers with safe, fast, and accessible digital payment services. This sets them apart from competitors who still rely on traditional payment methods. With this differentiation, MSMEs can increase business attractiveness, attract new customers, and improve financial performance.

Financial Technology Affects Financial Performance. The results showed that financial tech-

nology positively and significantly affected the financial performance of MSME business actors in West Nusa Tenggara, so the third hypothesis (H3) was accepted. This means that the higher use of financial technology will improve the financial performance of MSMEs. So, Fintech allows MSMEs to conduct financial transactions more efficiently. With the adoption of digital payments, such as e-wallets or online payment systems, MSMEs can reduce the cost and time required for manual processing of transactions. In addition, Fintech also provides convenience in recording and tracking transactions, allowing MSMEs to have better visibility into their cash flow and expenses. With improved transaction efficiency, MSMEs can optimise their financial resources and improve overall financial performance. Fintech also allows MSMEs to access a broader market through digital platforms.

Fintech also influences the development of organisational capabilities in MSMEs. From the RBV theory perspective, solid and adaptive organisational capabilities are critical to achieving good financial performance. Fintech provides opportunities for MSMEs to develop new capabilities in digital financial management, financial data analysis, or technology-based marketing strategies. By developing these capabilities, MSMEs can improve their competitiveness, respond to market changes faster, and significantly improve economic performance.

Financial Technology Strengthens the Influence of Business Strategy on Financial Performance. The results showed that financial technology strengthened the influence of the relationship between business strategies and the economic performance of MSMEs in West Nusa Tenggara, so the fourth hypothesis (H4) was accepted. The West Nusa Tenggara region has great potential in tourism and local handicrafts. Fintech is essential

in expanding the market reach of MSMEs in the area. Through e-commerce platforms and online marketplaces, MSMEs in West Nusa Tenggara can promote and sell their products or services to customers throughout Indonesia and even globally. By using business strategies supported by Fintech, MSMEs can reach more customers, increase sales, and improve their financial performance. Fintech also enhances the operational efficiency of MSMEs in the West Nusa Tenggara area. MSMEs can automate business processes such as payments, inventory management, and shipping through digital technology and related applications. This helps MSMEs increase efficiency and reduce operational costs, which in turn can have a positive impact on their financial performance. Using a business strategy integrating Fintech to improve operational efficiency, MSMEs in NTB can allocate resources more effectively and increase their business productivity.

CONCLUSIONS

Based on the research and discussion described above, it can be concluded that business strategies and financial technology positively and significantly affect the financial performance of MSME players in West Nusa Tenggara. This means that the higher the business strategy activities and the use of financial technology in the business, the more it will improve the financial performance of MSMEs. In addition, it can also be concluded that financial technology strengthens the influence of business strategy on the financial performance of MSMEs in West Nusa Tenggara. This means that every application of financial technology in implementing business strategies in this digitalisation era dramatically affects the performance of MSMEs in West Nusa Tenggara.

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