


IMPROVING THE PERFORMANCE OF MSMEs THROUGH INNOVATION, FINANCIAL LITERACY, AND DIGITALIZATION



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Desmiyawati ¹, Susilatri², Sinta Ramaiyanti³, Nur Azlina⁴

^{1,2,3,4}Department of Accounting, Faculty of Economics and Business, Universitas Riau, Indonesia

Corresponding Author: desmiyanti@lecturer.unri.ac.id ¹

Kampus Bina Widya KM. 12.5, Simpang Baru, Pekanbaru City, Riau, Indonesia

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Abstract

The Covid pandemic has had a significant impact on MSMEs in Indonesia. Surveys conducted during this period showed a decline in the performance of MSMEs, although some studies showed inconsistent results. The study aims at examining the impact of innovation, financial literacy, and digitalization on the performance of MSMEs in the Riau Region. The samples used in this study were MSMEs located in Riau Province. Data obtained through the distribution of questionnaires and interviews were analyzed using multiple linear regression. Then, test findings showed that digitalisation and innovation had a significant impact on performance. Meanwhile, financial literacy did not affect the performance of MSMEs. The implications of this research for MSMEs were the use of technology and innovation, especially product marketing that can reach a broader market so that it can improve MSME performance. As for researchers, it can be a reference for the development of subsequent research.

INTRODUCTION

MSMEs have an important role in the Indonesian economy. Apart from being a source of economic strength for the nation, MSMEs also provide a lot of workplaces. MSMEs are business activities that can expand employment and provide broad economic services to the community. MSMEs also play an important role in the process of equitable distribution of community income and support national development (Hastuti et al., 2020).

The COVID-19 pandemic has had a severe impact on the long-term viability of Indonesia's Micro, Small, and Medium Enterprises (MSMEs). MSMEs' economic crisis poses a significant threat to the nation's economy, given that MSMEs have been the driver of the domestic economy and the main provider of workplaces in recent decades. According to a Rapid Study made by The Indonesian Institute of Sciences (LIPI) on the Impact of the COVID-19 Pandemic on the Performance of Indonesian MSMEs, 94.69% of Indonesian MSMEs witnessed a decrease in sales during the pandemic. The COVID-19 pandemic caused a significant decrease in operating profits due to increased production costs and a decrease in sales. As presented in Table 1, the percentage of MSMEs had experienced a decline in sales based on the business scale, while Table 2 presented the percentage of MSMEs that had experienced a decline in sales based on the length of business.

Table 1. The Decline In Sales Based On The Business Scale

Type	Sales Decline
Ultra Micro	49,01%
Micro	43,3%
Small	40%
Medium	45,83%

Source: LPII Seurvey, 2020

Table 2. The Decline In Sales Based On The Length Of Business

Age	Sales Decline
0 - 5 years	23,27%
6 - 10 years	10,9%
>10 years	8,84%

Source: LPII Survey, 2020

Based on the data above, it can be seen that the biggest decline in sales was in the ultra-micro and Medium business scale. Meanwhile, based on the age of the business, it can be seen that the greater the age of the business, the smaller the decline in sales. This showed that the higher the age of the business, the greater the possibility of survival.

The Indonesian Minister of Cooperation and SMEs (Kemenkopukm) expressed that 67,051 Micro, Small, and Medium undertaking entertainers in Indonesia were impacted by the Coronavirus pandemic (Prayoga, 2020). The information resulted from reports of the Common, Locale, and City Workplaces on June 20, 2020. It is realized that five types of MSMEs have been most impacted by the Coronavirus pandemic. Table 3 showed the decline in sales based on the kind of MSMEs.

Table 3. The Decline In Sales Based On The Kind of MSMEs

Type	Sales Decline
Food and Beverage accommodation provider	35,88%
Wholesale & retail trade	25,33%
Processing industry	17,83%
Service	11,69%
Agriculture, forestry and fishing	5,6%

Source: LPII Survey, 2020

As presented in Table 3, it can be seen that the accommodation, food sectors, wholesalers and retailers MSMEs are affected by changes in customer behaviour. The implementation of Community Activities Restrictions Enforcement (PPKM) in Indonesia has disrupted economic activities, including MSMEs. The implementation of PPKM had many impacts on the economy, such as layoffs, declines in sales volume and turnover, decreased number of MSME buyers, and increased prices of basic commodities. Several markets were also closed due to this implementation and MSMEs were threatened with bankruptcy.

According to a report made by the Organisation for Economic Co-operation and Development (OECD), the Coronavirus pandemic has impacted the economy from both organic market sides. On the stock side, organizations lessened unfortunate inventory of unrefined components and work and diminished supply chains that were likewise encountering imperatives. In the meantime, from the interest side, to be specific the absence of interest and diminished purchaser trust in an item. With the decrease in individuals' buying power during the Coronavirus pandemic, this would significantly influence the manageability of MSME business (OECD, 2020).

Performance can be defined as the result of the efforts made by the owners and managers of the company. There are many factors affect MSME performance, including product innovation (Rezaei & Ortt, 2018; Cho and Lee, 2018; Dahlan et al., 2023; Le et al., 2023a; Yaskun et al., 2023), financial literacy (Rumain et al., 2021; Rosliyati & Iskandar, 2022; Rahadjeng et al., 2023; Rofiqoh et al., 2023; Saskia et al., 2023) and technology utilization (Shettima & Sharma, 2012; Turais, 2020; Susilatri et al., 2022; Teng et al., 2022; Alsedrah, 2023; Haq & Huo, 2023).

Innovation is the creation of new products and services that are of value to customers in a way that is supported by a sustainable and profitable business model (Prayoga, 2020). As the post-COVID-19 era progressed, competition was certainly getting tighter. Intense competition forced business actors indirectly to maintain their business with continuous innovation because competitors would try to imitate innovations from other business actors (Sunandar & Effendi, 2018). Without innovation, it would be challenging to make items that can make markets, and make leap forwards that give business benefits. Moreover, Innovation can be created by lowering production costs yet still maintaining the product quality, or making basic yet powerful advertising or deals methodologies. Innovation isn't simply restricted to business procedure; but also the physical form of the product itself (Entrepreneur Journal, 2020).

According to Le et al., (2023b), innovative SMEs outperform the non-innovative SMEs. More specifically, the findings indicated the positive effect of innovation on firm performance. This study supported the notion that innovative organizations did better in the market because they were much better at accommodating changing client expectations and requirements (Lee et al., 2019; Radicic and Djalilov, 2019; Rajapathirana and Hui, 2018; Restrepo-Morales et al., 2019) Some research also showed that innovation affected the performance of MSMEs, specifically Exploration by Rezaei & Ortt (2018) in the Netherlands, Cho and Lee (2018) in Korea and Tanjung et al (2019) in Bengkalis - Riau. Meanwhile, the research conducted by Mamun and Fazal (2018) in Kelantan-Malaysia and Desmiyawati et al. (2022) in Pelalawan Regime, showed that innovation did not affect MSMEs performance.

Another factor that could affect the performance of MSMEs is financial literacy. MSME players also need to have basic abilities and skills on how to calculate interest, investment returns, costs, and risks to understand that all financial products and services not only provide benefits but also have risks and costs that must be borne by consumers. Financial literacy is needed so that people can manage their finances better and increase income by not spending on consumptive things but on productive investments. Risnaningsih (2017) said that financial management is one of the problems that is often overlooked by micro-business actors, especially related to the application of correct financial management and accounting principles. Financial literacy is considered one of the success factors and a source of competitive advantage for MSMEs because it improves performance and profitability by allowing managers to know their financial position. (Abad-Segura and González-Zamar, 2019; Anwar et al., 2020; Asante and Affum-Osei, 2019; Buchdadi et al., 2020; Mabula and Han, 2018; Teh et al., 2018; Hussain et al., 2018; Kulathunga et al., 2020; Rahmajati and Kusuma, 2023). In addition, research by Romain, et al. (2021) and Rosliyati & Iskandar (2022) stated that financial literacy affected the performance of MSMEs, while Prisca (2016) and Naufal & Purwanto (2022) also said that financial literacy did not affect the performance of MSMEs.

Digitalization is another technique for increasing MSME performance. With the support of greater corporatization, capability, and funding, Digitalization allows MSMEs to adapt and evolve, to survive, develop, and grow. Thanks to digitalization, MSMEs now have the same opportunity to offer their products as large corporations. By being on the same platform as a large company, such as an e-commerce marketplace, they would have the same opportunities to promote and sell things. At the moment, MSME onboarding on digital platforms has reached 16.4 million from 8 million, up to 100 per cent. On the digital platform, MSMEs not only survived but also grew (Tempo, 2021). Research by Shettima & Sharma (2012), Turais (2020) and Kawira et al. (2019) stated that technology affected the performance of MSMEs, while the results of research done by Kagnev Abebaw (2018) and Ifeoma & Chikwado (2019) showed that technology did not affect the performance of MSMEs.

The research aims at examining the impact of innovation, financial literacy, and digitization on the performance of SMEs in the Riau Region. This research was significant because numerous MSME goods in Riau had tremendous potential to be developed further to assist the development of the MSME sectors, such as weaving and Malay Songket, Riau batik, and local cuisines. Furthermore, there were still gaps in past research. The following research problems are formulated in light of the preceding context: Would innovation, financial literacy, and digitalization improve MSMEs' performance in the context of economic recovery in the New Normal Era? This research problem was significant since many MSMEs have seen a drop in sales and profitability, and some have even gone out of business.

METHODS

This research is focused on MSMEs in the Riau Province in 2022, while the research was taken place within the same year. The population in this research are MSME actors located in Riau, amounting to 341,695 MSMEs (Riau MSME Data, 2022). The sample of the research was 400 SMEs with the Slovin formula used to determine this with purposive sampling utilizing the accompanying standards:

Table 4. Sample Criteria

No	Sample Criteria
1.	MSMEs registered with the riau regional cooperative and MSMEs Office (Indragiri Hilir, Indragiri Hulu and Bengkalis Regencies)
2.	SMEs that produce local wisdom from Bumi Melayu, such as malay weaving and songket, riau batik, and calunary
3.	Using digital technology in marketing its product

The type of data used was primary data obtained through questionnaires and interviews with MSME parties. The source of information was obtained from questionnaires that have been filled out by the respondents).

Table 5. Functional Definitions and Estimation of Factors

No	Variable	Operational	Measuring Tool	Measure Result
1.	MSME Performance	An Individual, group, or corporate entity's performance is the result of ideal work performance.	Questionnaire	The indicators used in this research (Cho and Lee 2018): 1. Revenue Growth 2. Sales Growth 3. Loyalty 4. Competitive 5. stability 6. Customer
2.	Innovation	Innovation is an excellent service or idea that some people view as new, regardless of how long it has been (Kodler & Kaller, 2012).	Questionnaire	The indicators used likert in this research (Lucas and Farrel, 2000): 1. Product line expansion 2. Imitation product 3. New products
3.	Financial Literacy	Financial literacy about the extent to which someone understands financial literacy is about the extent to which someone understands financial concepts and management (Hung et al., 2011)	Questionnaire	the indicators used in the adoption of (Hung et al., 2011) are as follows: 1. Financial Knowledge 2. Credit management 3. Management of saving and investments 4. Risk management
4.	Digitalization	Digitalization is the application of digital technologies to a business model to generate additional revenue and value.	Questionnaire	The indicators used in the adoption of (Shettima & Sharma, 2012) are as follows: 1. Hardware technology used such as computers, laptops, and smartphones, etc 2. Software used in technology such as e-commerce.

Source: Previous research

In this review, different relapse was utilized to decide the precision of the connection between innovation, financial literacy, and digitalization on performance. Acceptance or assessment of the hypothesis is determined < 0.05 . To test the hypothesis, the following equation is used:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \dots\dots\dots(1)$$

Where Y represents MSMEs Performance as the reliant variable, α represents the constant, while β_1 - β_3 addressed the relapse coefficient. X_1 , X_2 , and X_3 were independent variables consisting of innovation, financial literacy and digitalization. In conclusion, e alludes to the standard blunder.

RESULTS

This exploration aims at finding the impact of innovation, financial literacy, and digitalization on the exhibition of MSMEs in the Riau area. This study involved a poll for information assortment. The information assortment process was completed in 2022 and was distributed by the authors to MSME actors in Riau. The population in this study was 341,695 MSMEs (Riau MSME Information 2022). To decide the number of tests

involved the Slovin equation and the rules for SMEs enlisted with the Cooperatives and SMEs Office in the Riau area (Indragiri Hilir, Indragiri Hulu, and Bengkalis regions), SMEs produced neighbourhood shrewdness from Bumi Melayu, for example, Malay weaving and Songket, Riau batik, and culinary, as well as MSMEs involved in digital innovation for promoting their items. Using these rules, the number of tests in the review was 400 respondents. From the 400 surveys sent, 317 were returned and finished up and 311 could be handled.

Table 6. Respondent Demographics

Description	Frequency	Percentage
Gender:		
a. Man	133	42,7%
b. Women	178	57,3%
Amount	311	100%
Age:		
a. 21-30 years	62	19,9%
b. 31-40 years	99	31,8%
c. >40 years	150	48,3%
Amount	311	100%
Education		
a. Elementary School	53	17%
b. junior High School	61	19,6%
c. Senior High School	127	40,8%
d. Bachelor	70	22,6%
Amount	311	100%
Business Length:		
a. 1-2 years	54	17%
b. 3-5 years	154	149,5%
c. >5 years	103	33,1%
Amount	311	100%
Type of Business:		
a. Trader	169	54,3%
b. Industry	76	24,4%
c. Service	66	21,3%
Amount	311	100%

Source: Processed Data, 2022

According to the table above, women account for up to 57.3% of respondents. With a percentage of 48.3%, the majority of responders were over 40 years old. From 40.8% of respondents, most have a high school diploma or equivalent. With a percentage of 49.5%, the maximum period of business is 3-5 years. Traders account for up to 54.3% of all businesses. To give an overview of the collected data from the respondents, the following descriptive analyses were made, as shown in Table 7.

Table 7. Descriptive Statistical Results

	N	Minimum	Maximum	Mean	Std. Deviation
Performance	311	12.00	60.00	45.3537	7.01360
Digitalization	311	12.00	40.00	31.1672	5.90388
Innovation	311	18.00	45.00	32.5884	5.50639
Financial	311	8.00	40.00	30.1190	5.68603
Literacy Valid (listwise)					

Source: Output SPSS 25.0

As per distinct measurable table 7, the MSME Performance variable (Y) had the littlest (least) value of 12 and the most elevated (greatest) value of 60, with a typical value (mean) of 45.35 demonstrating that most of the respondents finished up the choices concurred and unequivocally settle on the MSME Execution survey. Since the standard deviation was not exactly the normal value, the standard deviation of 7.013 proposed that the information dissemination was not excessively enormous.

The innovation variable had a base value of 18 and a most extreme value of 45. The typical value (mean) of 32.58 likewise showed that the typical responder finished up the charming decision on the innovation poll with a standard deviation of 5.506, it was not excessively enormous to demonstrate the information circulation since the standard deviation value was not exactly the mean value.

The financial literacy variable had a base value of 8 and a greatest value of 40. The normal (mean) value of 30.11 likewise showed that the typical respondent finished the pleasing decision on the financial literacy poll with a standard deviation of 5.686, demonstrating that the information circulation was not excessively enormous because the standard deviation value was not exactly the mean value.

The digitalization variable had a base value of 12 and a most extreme value of 40. The typical value (mean) of 31.16 showed that the commonplace responder finished up the poll choices concurred unequivocally, and the standard deviation of 5.903 demonstrated that the information dispersion was not excessively wide since the standard deviation was not exactly the mean value.

Table 8. Validity Test Result

Code	Indicator	R Count	R Table	Conclusion
Performance (Y)				
Y ₁	The Profit of this business increases from time to time	0,433		Valid
Y ₂	Production increases so sales increases	0,334		Valid
Y ₃	Sustainable sales growth as a support in improving business performance	0,419		Valid
Y ₄	Stable business revenue growth is supported by improving business performance.	0,448		Valid
Y ₅	This business has good business prospects	0,413		Valid
Y ₆	This business has fairly good business growth compared to competitors.	0,430		Valid
Y ₇	This Business can compete to become a market leader with competitors	0,371	0,093	Valid
Y ₈	Growth in the number of workers as a support in improving business performance.	0,410		Valid
Y ₉	My product/service are more in demand by consumers than competitors products.	0,419		Valid
Y ₁₀	My business products/service are liked by customers	0,414		Valid
Y ₁₁	Building communication with customers can make me know customers satisfaction.	0,415		Valid
Y ₁₂	Customer satisfaction in one of the main goals of the business so that customers are loyal to this business	0,377		Valid
Inovation (X ₁)				
X _{1,1}	As a business owner, I always create products according to the wishes of consumers	0,329		Valid
X _{1,2}	As a business owner, I always include product line expansion in my work plan.	0,369		Valid
X _{1,3}	As a business owner, I always develop products that are the mainstay of my business	0,405		Valid
X _{1,4}	Counterfeit products created to increase sales are preferred by customers.	0,369		Valid
X _{1,5}	Counterfeit products are often produced because consumers need the same product but consumers cannot the product easily.	0,380	0,093	Valid
X _{1,6}	Counterfeit products that are created are not better than exiting products but can increase sales.	0,388		Valid
X _{1,7}	New Products that I create always adjust to the trend of time	0,414		Valid
X _{1,8}	The new product that I created does not leave the characteristics of the existing flagship products	0,408		Valid
X _{1,9}	In my compaby, new products are always being created	0,302		Valid
Financial Literacy (X ₂)				
X _{2,1}	Our SMEs have learned how to calculate interest rates.	0,478		Valid
X _{2,2}	Before borrowing, we check how much profit and wheter we can afford to pay it.	0,473		Valid
X _{2,3}	My company recruits skilled employees to advise on loans.	0,438		Valid
X _{2,4}	We calculate the risk before requesting a loan from a financial institution.	0,438		Valid
X _{2,5}	We consider many thhings at which financial institutions should apply for a loan.	0,451	0,093	Valid
X _{2,6}	These MSMEs have employes with budget expertise.	0,470		Valid
X _{2,7}	Our MSMEs regularly prepare budget actives.	0,453		Valid
X _{2,8}	Our MSMEs engage and enable employes to paticipate in the budget procces.	0,413		Valid

Digitalization (X ₃)			
X _{3,1}	Digital technology is a means to improve the quality of service for users in general	0,503	Valid
X _{3,2}	Digital technology is used to process data, including processing, obtaining, compiling, storing, and manipulating data in various ways to produce quality information	0,433	Valid
X _{3,3}	Digital technology in the form of computers/laptops, cellphones, etc. can assist in obtaining internal information or external information.	0,499	Valid
X _{3,4}	Digital technology in the form of computers/laptops, mobile phones, etc. can assist and managing data	0,526	Valid
X _{3,5}	Digital technology in the form computers/laptops, mobile phones, etc. can help simplify the process of buying and selling transaction.	0,502	0,093 Valid
X _{3,6}	Digital technology in the form of computers/laptops, mobile phone, etc. can help develop business by utilizing social networks.	0,504	Valid
X _{3,7}	Using applications such as open stalls, shopee, lazada, and toko pedia is very helpful in increasing the number of sales.	0,478	Valid
X _{3,8}	The use of technology such as the use of whatsapp, facebook and instagram makes it easier to sell products to customers.	0,416	Valid

Source: Output Data SPSS 25.0

Table 8 presented that legitimacy testing showed the accuracy and inaccuracy of the polls given to respondents. To evaluate the legitimacy of every variable's assertion, the r count is contrasted with the r table, which can be created utilizing $df = N - 2$. Since there were 311 respondents in this example, $df = 311 - 2 = 309$, and $r(0.05 ; 309) = 0.093$. The assertion is supposed to be substantial if $r_{count} > r_{table}$.

The test of validity has findings revealed that all statements for each variable in the questionnaire are valid. The value of Corrected Item-Total Correlation > 0.093 demonstrated this. The goal of the validity test is to determine how much the statement's ability to know the respondent's answers. As a result, it is possible to conclude that all statements provided by researchers in the questionnaire issued to respondents can be used as a suitable measurement instrument as $r_{count} > r_{table}$, at which point the statement is considered to be legitimate.

Reliability testing determined how much an instrument can be relied on as a data collection tool. The Alpha Cronbach technique was employed. If the alpha value of a research instrument is more than 0.60, it is deemed to be dependable. Based on the results of the reliability test, it is clear that all of the variables used in this research be utilized as a data-gathering method. The stronger the instrument's reliability, the more dependable the measurement results are. Table 9 presented the results of reliability testing:

Table 9. Reliability Test Results

Variable	Alpha Coefficient	Description
Performance	0,884 > 0,60	Reliable
Innovation	0,829 > 0,60	Reliable
Financial Literacy	0,885 > 0,60	Reliable
Digitization	0,904 > 0,60	Reliable

Source: Output Data SPSS 25 .0

As presented in Table 10, the result of the multicollinearity test on the variables in this research. Multicollinearity is a condition described by a straight connection between free factors in a relapse model. The Fluctuation Expansion Variable (VIF) is one way to find the presence of multicollinearity. As shown in Table 10, There is no multicollinearity found on the variables, assuming that the resistance value is 0.10 and the VIF value is 10.

Table 10. Multicollinearity Test

Model	Collinearity		Description
	Tolerance	VIF	
1. (Constant)			
Digitization	0,470	2.126	No Multicollinearity
Innovation	0,611	1.636	No Multicollinearity
Financial Literacy	0,475	2.103	No Multicollinearity

Source: Output Data SPSS 25.0

Scatterplot graphs are used to recognize heteroscedasticity. The experimental results showed that heteroscedasticity did not occur. Multiple linear regression was used with SPSS 25,0 to assess the effect of innovation, financial literacy, and digitalization on MSME performance. Table 11 presented the result of multiple linear regression tests on the variables in this research.

Table 11. Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Standardized coefficient	t	Sig.
	B	Std. Error	Beta		
Contant	22.166	2.137		10.373	0.000
Innovation	0.150	0.076	0.118	1.978	0.049
Financial	-0.041	0.083	-0.033	-.495	0.621
Literacy Digitalization	0.627	0.081	0.528	7.781	0.000

Source: Output Data SPSS 25.0

Based on Table 11, the equation for multiple linear regression is as follows:

$$Y = 22.166 + 0.150 X_1 + (-0,041) X_2 + 0,627 X_3 + e \dots\dots\dots(2)$$

Table 12. Test Results of the Coefficient of Determination (R2)

Model	R	R Square	Adjust R Square	Std. Error of the estimate
1	.580 ^a	.336	.330	5.74129

Source: Output Data SPSS 25.0

Given the coefficient of assurance results, the changed R square value is 0.330, showing that 33.6% of the exhibition of MSMEs in the exploration test is impacted by digitalization, development, and monetary proficiency, while the leftover 66.4% is affected by different factors not examined in this review.

Tabel 13. F Score Count ANOVA

Model	Sum Squares	Df	Men Square	F	Sig.
1 Regression	5129.631	3	1709.877	51.874	.000b
Residual	10119.463	307	32.962		
Total	15249.093	310			

Source: Output Data SPSS 25.0

Following the results of the Test F assessment, which was served by the SPSS program, an F count value of 51.874 was achieved. Fcount has a greater value than Ftable, which has a value of 2.64. The value of significance obtained is 0.000, the value of this significance is smaller than α which is 0.05. Hence, H0 was dismissed while Ha was supported, suggesting that the bound factors were affected by the free factors of innovation (X_1), financial literacy (X_2), and digitalization (X_3). Riau Area MSME Performance (Y).

DISCUSSION

The test results of testing on the hypothesis were shown explaining that the innovation has a positive regression coefficient of 0.150, meaning that if there is an increase in the value of the variable innovation, by 1 point, there would be an increase in the value of performance by 0.150. The test results showed that there was a significant relationship between innovation and MSME performance. The more the company innovates, the better the performance of SMEs is. This result is in line with past research made by Cho & Lee (2018) and Hariadi et al., (2022). MSME parties can implement innovation well by making product variations according to developments, making products in new ways, making attractive packaging and keeping up with changes by doing digital marketing. During the Coronavirus time, Innovation was very much needed because without innovation MSME would not be able to last long. This is because of changing client needs and demands. Dynamic Capability Theory is a concept in strategic management that refers to

an organization's ability to integrate, rebuild, and manage its internal resources continuously to deal with changes in the external environment. In the context of Dynamic Capability theory, innovation is considered a form of dynamic capability that helps MSMEs to adapt, develop and produce better performance in the face of constant changes in the business environment. MSMEs that successfully integrate innovation into their business strategy have greater opportunities to survive and grow in a changing market. MSMEs have dynamic capabilities and tend to be more sensitive to market changes, consumer trends, and their business environment. Innovation helps MSMEs identify these changes more quickly and provide an effective response, such as developing new products or services following new demands. Innovation allows MSMEs to continue to adapt and develop themselves in the face of changes in competition or technology. Moreover, MSMEs can change their business model or introduce new products based on market changes can maintain and improve their performance.

The results of the test on the relationship between financial literacy and performance have a negative regression coefficient of -0.041, meaning that if there is an increase in the value of financial literacy by 1 point, there will be a decrease in the value of performance by 0.041. However, the test results are not significant, which means financial literacy does not affect performance. The results of this study are not in line with research conducted by Romain et al. (2021) and Rosliyati & Iskandar (2022) which demonstrate that financial literacy has an impact on the success of MSMEs. This is due to the findings of interviews with different MSME players, the majority of whom are unaware of the importance of financial literacy and they have not gained a sufficient understanding that financial literacy can assist business actors in developing MSMEs because they can understand the basic concepts of financial products, good financial planning and management, as well as protect themselves in the future from fraud and unethical financial market behaviour.

The results of the regression test on the relationship between digitalization and performance have a positive regression coefficient of 0.627, meaning that if there is an increase in the value of digitalization by 1 point, there will be an increase in performance of 0.627. The test results showed that there was a significant relationship between digitalization and performance. This showed that digitalization considerably affected MSMEs' prosperity. The results of this study are in line with the research of Desmiyawati et al., (2019) and Susilatri et al., (2022) who proved that digital technology affected the performance of MSMEs. In Dynamic Capability theory, digitization is considered a form of dynamic capability that can help MSMEs to adapt and innovate continuously. MSMEs that make good use of digitalization will have a competitive advantage, be better prepared to face change and be able to improve their performance in the long term. Digitalization helps MSMEs understand changes in consumer behaviour, market trends, and the business environment more quickly and precisely. MSMEs can reach a wider range of customers, even outside their geographic area, by using online stores, social media or digital marketplaces.

CONCLUSIONS

The study aims at examining the effect of innovation, financial literacy and digitalization on MSMEs' performance in Riau. The test results showed that innovation and digitalization influenced the performance of MSMEs. Meanwhile, financial literacy did not affect the performance of MSMEs. This is because MSMEs must innovate on the products they sell. Utilizing web media would make it more straightforward for MSMEs to promote their items, permitting items and showcasing to contact a more extensive crowd. Innovation and technology are factors that can improve the performance of MSMEs. Innovation and the use of technology make MSME products quickly recognized and sales can reach a wider area that can improve performance.

This research is limited to the MSME actors in the Bengkalis, Indragiri Hulu, and Indragiri Hilir regencies. Future research should look at other MSMEs in the Riau Region so that further findings can be made. Also, this research only used digitalization, innovation, and financial literacy as the variables that might affect the MSMEs' performance. Other variables that can influence the exhibition of MSMEs, such as upper hand, market orientation, HR competency, education level, and so on, should be included in future studies.

This research has some implications: For better performance of MSME actors, it is necessary to innovate and use technology, especially in marketing their products. With the use of digital technology, the reach of product marketing can be wider. Financial literacy is also an important thing for MSME parties to understand so that MSME financial management can be carried out properly for MSME business development. For writers, this research can become a reference for the development of similar research in the future taking into account that MSMEs are the mainstays of the public economy.

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