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Improving the Escalation of Micro, Small, and Medium Enterprises (MSME) Based on Digital Economy Acceleration and Capability Through Value Creation on West Java SME Enterpriser

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Abstract: MSME acceleration in Indonesia has an essential role in enhancing the national economy and contributing significantly to Indonesia's GDP. However, in its implementation, there are still several obstacles, including limited connections to digital technology, digital skills, and management. This research investigates the influence of the digital economy and capabilities on business performance through value creation on West Java MSME business actors or enterprises. The research implemented quantitative methods through descriptive and verification analysis, with partial least squares-structural equation modeling (PLS-SEM) analysis techniques. The number of samples used was 127 respondents consisting of experts and practitioners (expert judgment). The sampling technique uses the online sampling method. The research results show that digital economic variables have a significant positive influence on MSME value creation, capability variables hold a direct positive influence on value creation, and also direct and indirect influences on MSME business performance. Value creation variables have a direct influence on business performance. The results of this research can be used to improve digital business in a way that is more appropriate for West Java MSME business actors.
Keywords: Business Performance; Capability; Digital Economy; Value Creation

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector has contributed 61% to GDP or the equivalent of IDR 8,573 trillion and absorbed 97% of the total national workforce. Accelerating digitalization from up to the downstream (city to the village) denotes the key to efforts to accelerate recovery and increase the competitiveness of the national economy, including increasing the productivity and performance of MSMEs (Kementerian Komunikasi Dan Informatika, 2023). One of the priorities is to increase MSMEs to class through digital economic literacy because it is a countershaft of economic growth in Indonesia, projected to grow 20% from 2021 to USD 146 billion in 2025.

The MSME sector may contribute up to USD 140 billion to GDP by the condition of its ability to maximize the use of technology and receive sufficient assistance in running its business. Furthermore, only around 17.5 million MSME agents have entered the digital ecosystem and utilized e-commerce McKinsey (Sijabat, 2022). The implementation of digital literacy currently still has several obstacles, including economic growth, which is still uneven, yet there are still gaps in access, human resources, and usage. In West Java, the target is 4,000 micro, small, and medium enterprises (MSMEs) to collaborate in the digital ecosystem, but until 2021, merely 3,500 MSMEs have been achieved. MSMEs in West Java also still have many limitations, including lack of capital to develop their business, minimal access to permits and access to product marketing, and not optimal use of information technology such as e-commerce (Abdussalam, 2021). The purpose of this research is to get an overview of the digital economy, capabilities, value creation, and performance, as well as to investigate the influence of digital economic literacy and capabilities through value creation on the performance of MSMEs in West Java.

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Digital Economy refers to the integration of how Information and communication technology shapes markets, business, and innovation or an economy based on information and communication technology such as the internet, smartphones, cellular and wireless networks, optical networks, Internet of Things (IoT), cloud storage and computing cloud, sharing services, applications, and crypto-currency (Øverby & Audestad, 2021). The digital economy is generally realized as economic activities related to the production, sale, and consumption of goods and services using digital technology and the use of e-commerce, the web, and the Internet economy (Kushatov & Haydarov, 2021). Research by Matarazzo et al. (2021) showed that digital instruments contribute to business model innovation, creating new distribution channels and new ways to create and deliver value to customer segments. Research by (Nadeem et al., 2020) stated that the sharing economy or digital economy platforms influence the creation of shared value through social support and ethical perceptions, including consumer trust, satisfaction, and commitment. The research results of Acquire et al. (2019), which are slightly different from other research, state that the development of digital economic or sharing economy business model configurations can create certain value creation, scalability problems, sustainability impacts, and the potential for controversy. Research Results of Reinartz et al. (2019) conducted digitalization breaks down retail's monopoly ownership of customer interfaces and shifts traditional retail functions to other players. However, digitalization is also giving rise to new sources of value creation, which can meet long-term customer needs more effectively than before. The research results of Ozdemir et al. (2023) strengthen other researchers who stated that digitalization could create value for hotel and tourism industry stakeholders because digitalization finds more areas of application, in contrast to previous review studies, which only focused on the use of new technology and operations.

Skare et al. (2023) research strengthened other researchers who focused more on technology adoption, innovation, and the creation of new value. The research results state that digital transformation strengthens the ability and flexibility of SMEs to overcome key business problems. It shows that SMEs that transform digitally have fewer concerns about access to new and traditional customers, changes in competition, access to financing, rising input costs, external shocks, and regulatory changes. Ghosh et al. (2023) research, complementing limited previous research in the American Healthcare industry, has not considered value to patients. The results of the study indicate the need for patient-focused value creation to improve care coordination, which is influenced by the ability to integrate data and reconfigure processes as well as to implement the digitalization of health services.

Capability refers to a company's ability to exploit its resources, which consist of business processes and routines that regulate interactions between resources to convert inputs into outputs. Capabilities are dynamic because they are constantly being changed and reconfigured to be more adaptive to uncertain environments (Purwanti et al., 2022). The research results of Abdullah et al. (2019) found that dynamic capabilities play an important role in developing value creation. Study implications Study how to significantly enrich value creation through dynamic capabilities that increase competitiveness in the industry, accountability and sustainability, and secure long-term performance. Research by Chekfoung et al. (2020), complementing previous research, revealed that the digital business ecosystem includes business and digital layers, business actors, and digital infrastructure that evolve together and share information and knowledge to increase competitiveness. It further states that business actors must understand and assess their capabilities, including capabilities, networks, collaboration, strategy, and digital, before implementing a digital business ecosystem. The research results of Garrido-Moreno et al. (2020), in contrast to other researchers, show that the use of social media as a digital

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media landscape capability does not have a significant direct impact on organizational performance. Still, the capabilities of Social CRM and Customer Engagement as mediation impact the value-creation process. The research results of Matarazzo et al. (2021) described that digital instruments contribute to innovation in SME business models as well as creating new distribution channels and new ways to create and provide value to customer segments. The research results of Dyduch et al. (2021) showed a relationship between identified dynamic capabilities and value creation, and are indicated to be able to retain employees and production levels, as well as value capture, to maintain cash flow and income.

Value creation is used to improve business activities by applying strategies at the corporate and business levels Lauterman, 2013 (Abdullah & Rosliyati, 2020). Business performance is directed at the level of achievement of the company in a certain period. The performance of a company is very decisive in its development of the company. The company's objectives, which consist of surviving, gaining profit, and growth, can be achieved if the company has good performance. The company's performance can be seen from the level of sales, profit levels, return on capital, turnover rates, and the market share it achieves (Niode, 2022).

Perdana et al. (2022) Research revealed that the quality of information and systems is a catalyst for the business value of data analysis. In contrast, a lack of understanding and concerns about data security and privacy are the most prominent predictors that can prevent SMEs from realizing the business value and improving company performance. Leppänen et al. (2023) Research with different variables reveals that novelty combined effectively with other value drivers such as efficiency and differentiation can improve performance. Abdollahi et al. (2023) Research reveals that blockchain may overcome current business challenges, make operations more efficient, encourage innovation, and create shared value with stakeholders to improve company performance.

Research by Sayed & Mansour (2023) showed that digital transformation has an effect on the profitability and liquidity of banks in Egypt, which, by implication, creates strong digital economic development. Research by Shah et al. (2023) stated that digital capability, digital orientation, and digital transformation have a positive and significant effect on digital innovation and company performance. Chen (2020) revealed that digital technology and the Internet have greatly changed the way the market functions, including reducing the costs of search, transportation, and reproduction, as well as offering extraordinary new opportunities for higher market efficiency and improving company performance.

Peng & Tao (2022) stated that digital transformation significantly improves company performance, stimulates company innovation momentum, reduces costs, increases revenue, increases efficiency, and encourages innovation. Research Niode (2022) on SME business actors in the Gorontalo food sector stated that management skills can improve business performance mediated by business strategy.

Purwanti et al. (2022) According to research conducted on MSME business actors in Lamongan, digital marketing capabilities will have a stronger influence on business performance in a dynamic business environment than in a low business environment. Kamalrulzaman et al. (2021) Research conducted on SME business actors in the agricultural sector in Malaysia stated that innovation ability has a positive effect on SME performance.

Research by Rianti et al. (2023) on Bugis silk weaving SMEs in Bone Regency states that joint value creation mediates the influence of sustainable physical resources on marketing performance. Value creation also has a direct effect on marketing performance. Abdullah & Rosliyati's (2020) research conducted on the West Answered

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BPR unit stated that value creation has a greater influence on marketing performance than other variables, namely product marketing strategy and competitive advantage.

Simanjuntak et al. (2022) state that the excellence and superior performance of MSMEs can be achieved when unique value creation can be obtained from e-business and e-platforms. Appropriate and effective commerce. The results of empirical research reveal that the creation of shared value in e-commerce influences the business performance of MSMEs. The research conducted on MSMEs assisted by PT ASDP Indonesia Ferry in the fields of culinary, entertainment, accommodation, transportation, and tourism

Jie et al. (2023) research found that the capabilities of entrepreneurs who undertake early internationalization are very relevant to company performance, considering the large impact these companies have on the economy.

The results of previous research investigations revealed that there were still controversies, differences in research models, differences in dimensions, and still limited SEM analysis techniques. Hence, the author strengthened them by adding new dimensions and using SEM analysis techniques.

METHODS

This research applies descriptive and confirmative methods. The descriptive method is used to provide a clear portrait of MSMEs in West Java based on business performance variables, increasing value of digital economic acceleration, and capabilities. The verification method is intended to test research hypotheses on the influence of the digital economy and capabilities on MSME business performance, either directly or through value creation. The population in this study consisted of all MSMEs in West Java, with a total sample of 127 MSMEs.

This research applies the online sampling method via the web, which is a data collection method that involves receiving responses from respondents online via a web platform or the internet. This research involves two endogenous variables with two exogenous variables with the operationalization of the research variables as follows in Table 1:

Table 1. Variable Operationalization

Variable	Dimension	Item
Digital Economy	Infrastructure	2
	Digital ecosystem	2
	E-commerce	2
Capability	Digital skill	2
	Investment	3
	Marketing	3
Value creation	Value networking	1
	Business model	1
	Coopetition	1
	Digital innovation	1
Business Performance	Profit Growth	1
	Productivity growth	1
	Revenue growth	1

Source: Processed data (2023)

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Hypothesis
This research hypothesis can be depicted in the following path diagram:

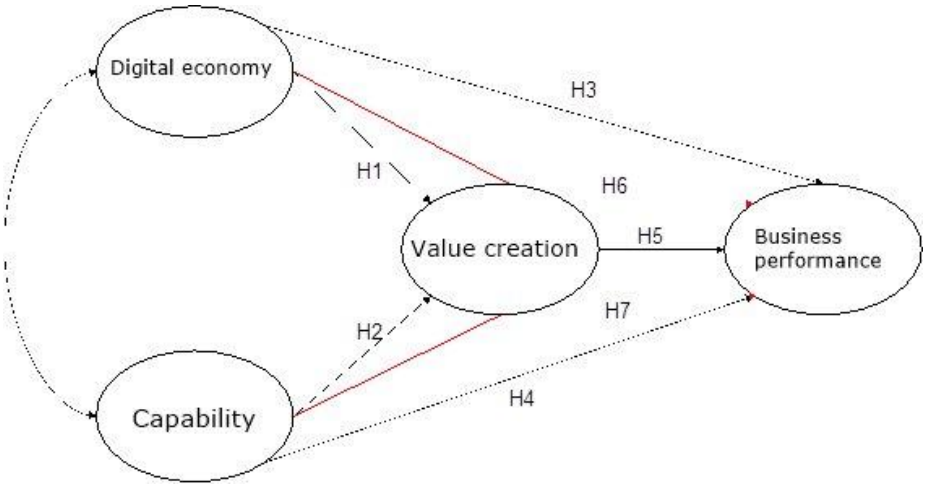

Figure 1. Research Hypothesis
Source: Processed data (2023)

The research paradigm is shown in Figure 1 states that:

H1 : The direct influence of the digital economy on value creation
H2 : The direct influence of capability on value creation
H3 : The direct influence of the digital economy on business performance
H4 : The direct influence of capability on business performance
H5 : The direct influence of value creation on business performance
H6 : Influence of the digital economy on business performance through value creation
H7 : Influence of capability on business performance through value creation

Structural Equation Modeling (SEM) refers to a multivariate analysis method used to simultaneously describe the linear relationship between observed variables (indicators) and variables that cannot be measured directly (latent variables). Latent variables refer to variables that cannot be observed or measured directly but must be estimated through several indicators. In SEM, there are two types of latent variables, namely endogenous variables (ξ) and exogenous variables (η). Partial Least Squares (PLS) have become a very powerful analytical method due to their independence on measurement scales (such as interval or ratio scales), sample size, and distribution of residuals (Hair Jr et al., 2021). Indicators in PLS can be formed in a reflexive or formative type format.

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RESULTS AND DISCUSSION

Descriptive Analysis

Table 2. Digital Economy Variables

Item	Alternative Answers					Mean	SD
	STS	TS	CS	S	SS		
Infrastructure							
1. The expansion of the Internet network has been evenly distributed throughout Indonesia.	1	33	32	50	11	3.29	0.98
2. Internet speed is currently adequate and makes it easier for business people to access e-commerce	2	16	30	62	17	3.60	0.93
Digital Ecosystem							
1. The digital ecosystem is now well established. It can support MSME business agents in adopting technology more quickly, building an integrated business environment, and managing systems and operational costs.	1	11	37	61	17	3.65	0.85
2. Financial inclusion is currently still low, as can be seen from those who have accounts at financial institutions, and those who make online purchases are still limited.	4	22	35	59	7	3.34	0.94
E-commerce							
1. E-commerce is currently growing rapidly, but those who have utilized digital technology by selling on various e-commerce platforms are still low.	3	24	30	52	18	3.46	1.03
2. Local e-commerce players are currently experiencing difficulties selling their products; the obstacles most commonly faced include low demand, lack of capital, and shortage of skilled labor, limited internet access, limited delivery services, fraud in the buying and selling process.	0	15	22	72	18	3.73	0.85
Average						3.51	0.93

Source: Processed data (2023)

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Table 3. Capability Variables

Item	Alternative Answers					Mean	SD
	STS	TS	CS	S	SS		
Digital Skill							
1. Limited digital skills are one of the obstacles to digital acceleration in the development of the digital economy in Indonesia, especially in West Java	1	9	23	63	31	3.90	0.88
2. The areas of digital expertise that Indonesian MSME business actors must have in applying the digital economy include digital technology, data science, and digital marketing.	0	2	14	60	51	4.26	0.72
Investment							
1. MSME agents can invest in production facilities	0	14	39	63	11	3.56	0.80
2. MSME agents can invest through alliances and cooperation	1	6	23	78	19	3.85	0.76
3. MSME agents can invest in risk mitigation mapping	0	22	50	42	13	3.36	0.89
Marketing							
1. MSME agents can develop a customer database	1	26	31	51	18	3.46	1.00
2. MSME agents can determine customer segmentation to provide the right value according to their segment	1	19	33	56	18	3.56	0.94
3. MSME agents can develop a strong brand	3	26	27	50	21	3.47	1.07
Average						3.68	0.88

Source: Processed data (2023)

Table 4. Value Creation Variables

Item	Alternative Answers					Mean	SD
	STS	TS	CS	S	SS		
Value Networking							
1. The deep value network in implementing the digital economy has provided good benefits to MSME agents	0	4	19	82	22	3.96	0.67
Business model							
1. MSME agents have a digital business model to provide the best service while growing performance	1	16	26	70	14	3.63	0.87
Coopetition							
1. Through the implementation of the digital economy, MSME agents gain benefits by collaborating with competitors in the same business layer	0	10	21	76	20	3.83	0.78
Digital innovation							
1. The digital economy can trigger MSME agents to innovate and create new products/services/services	0	4	7	72	44	4.23	0.69
Average						3.91	0.78

Source: Processed data (2023)

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Table 5. Business Performance Variable

Item	Alternative Answers					Mean	SD
	STS	TS	CS	S	SS		
Profit growth							
1. Through the implementation of the digital economy, MSME agents have succeeded in achieving targeted profit growth	1	7	37	70	12	3.67	0.76
Productivity growth							
1. Through the implementation of the digital economy, MSME agents have succeeded in increasing productivity (achieving the expected targets efficiently and effectively)	1	9	32	70	15	3.70	0.80
Revenue growth							
1. Through the implementation of the digital economy, MSME agents have succeeded in achieving targeted income growth.	0	9	33	70	15	3.72	0.77
Average						3.70	0.77

Source: Processed data (2023)

The results of the descriptive analysis (Tables 2 to 5) show that all items or elements in this research have an average value greater than 3.5. This indicates that, overall, MSMEs have a positive assessment of each variable measured, namely, the digital economy, capabilities, increased value, and business performance. An average greater than 3.5 reflects that respondents or MSMEs tend to have positive perceptions regarding these variables. In this context, the digital economy variable reflects that MSMEs see benefits in adopting digital technology in their business. The capability variable indicates that MSMEs feel confident in managing and developing their business. The value improvement variable may reflect MSME's efforts to improve their products or services continuously.

Measurement Model

Before carrying out hypothesis testing to predict the relationship between latent variables in the structural model, the initial step is to evaluate the measurement model to verify the indicators and latent variables that will be tested further. One of the important metrics in this evaluation is "*Indicator Reliability*". It measures how well the variability in indicators can be explained by the latent variables they represent. In the context of reflective indicators, an indicator should be considered for removal from the measurement model if the loading value (λ) of the indicator is less than 0.4. The results of this loading value are used to evaluate the reliability of the indicator. Indicators with a loading value of less than 0.4 need to be examined further and, if possible, may need to be removed from the measurement model. This aims to ensure that the indicators used in the model are representative and reliable in measuring the appropriate latent variables. Evaluation of the measurement model is a critical step in structural analysis because it ensures that the indicators used have adequate validity and reliability in representing complex latent variables. The next step is to proceed to hypothesis testing to understand the relationships between latent variables in the structural model in more detail. The following are the results of the loading value (λ) obtained in Figure 2.

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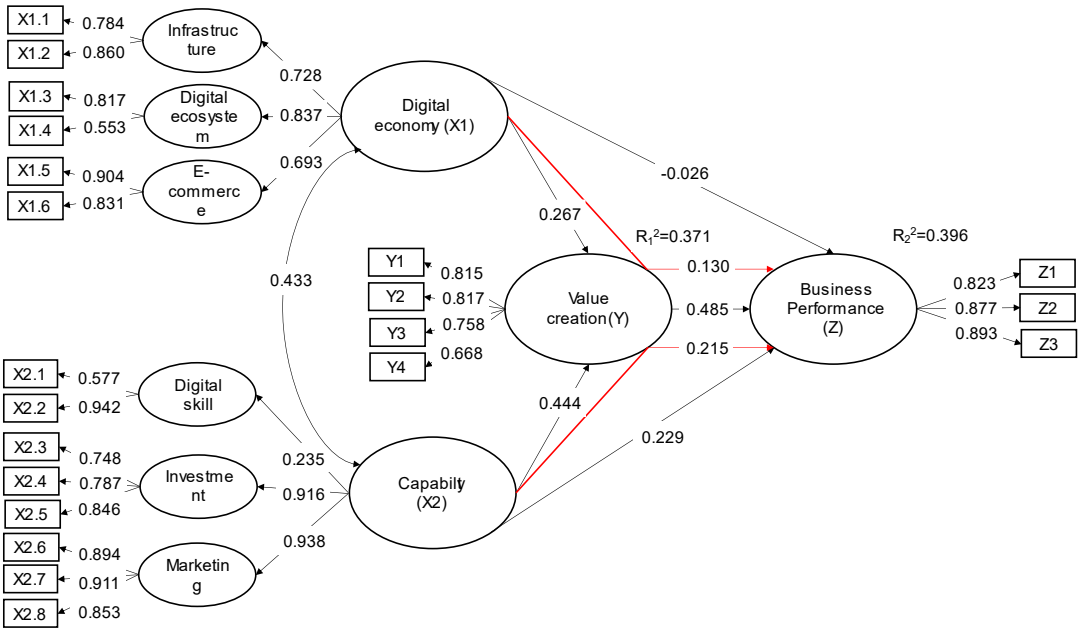

Figure 2. Model Influence of the Digital Economy and Capabilities on Business Performance through Value Creation
Source: Processed data (2023)

Table 6. Analysis of the Validity of Digital Economic Variables

Item	Code	Validity	t-value	p-Values
1. The expansion of the internet network has been evenly distributed throughout Indonesia.	X1.1	0.784	3.669	0.000
2. Internet speed is currently adequate and makes it easier for business people to access e-commerce	X1.2	0.860	3.291	0.001
1. The digital ecosystem is now well established. It can support MSME agents in adopting technology more quickly, building an integrated business environment, and managing systems and operational costs.	X1.3	0.817	3.129	0.002
2. Financial inclusion is currently still low, as can be seen from those who have accounts at financial institutions, and those who make online purchases are still limited.	X1.4	0.553	1.483	0.139
1. E-commerce is currently growing rapidly, but those who have utilized digital technology by selling on various e-commerce platforms are still low.	X1.5	0.904	2.765	0.006
2. Local e-commerce players are currently experiencing difficulties selling their products; the obstacles most commonly faced include low demand, lack of capital, and shortage of skilled labor, limited internet access, limited delivery services, fraud in the buying and selling process.	X1.6	0.831	2.342	0.020

Source: Processed data (2023)

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The results of the validity analysis (table 6) for the digital economy variable found that all indicators used to measure this variable had a validity coefficient greater than 0.400; in conclusion, it could be inferred as valid.

Table 7. Analysis of the Validity of the Capability Variable

Item	Code	Validity	t-value	p-Values
1. Limited digital skills are one of the obstacles to digital acceleration in the development of the digital economy in Indonesia, especially in West Java	X2.1	0.577	1.238	0.216
2. The areas of digital expertise that Indonesian MSME agents must have in applying the digital economy include digital technology, data science, and digital marketing.	X2.2	0.942	3.713	0.000
1. MSME agents can invest in production facilities	X2.3	0.748	13.182	0.000
2. MSME agents can invest through alliances and cooperation	X2.4	0.787	19.686	0.000
3. MSME agents can invest in risk mitigation mapping	X2.5	0.846	28.904	0.000
1. MSME agents can develop a customer database	X2.6	0.894	42.155	0.000
2. MSME agents can determine customer segmentation to provide the right value according to their segment	X2.7	0.911	53.415	0.000
3. MSME agents can develop a strong brand (Strong Brand)	X2.8	0.853	31.143	0.000

Source: Processed data (2023)

The results of the validity analysis for the capability variable (table 7) found that all indicators used to measure this variable had a validity coefficient greater than 0.400, so it could be concluded as valid.

Table 8. Validity Analysis of Value Creation Variables

Item	Code	Validity	t-value	p-Values
1. The deep value network in implementing the digital economy has provided good benefits to MSME agents	Y1	0.815	22.909	0.000
1. MSME agents have a digital business model to provide the best service while growing performance	Y2	0.817	23.699	0.000
1. Through the implementation of the digital economy, MSME agents gain benefits by collaborating with competitors in the same business layer	Y3	0.758	12.943	0.000
1. Through the digital economy, it can trigger MSME agents to innovate to create new products/services/services	Y4	0.668	8.308	0.000

Source: Processed data (2023)

The results of the validity analysis for the value creation variable (table 8) found that all indicators used to measure this variable had a validity coefficient greater than 0.400; it can be concluded that the measurement is valid.

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Table 9. Analysis of the Validity of Business Performance Variables

Item	Code	Validity	t-value	p-Values
1. Through the implementation of the digital economy, MSME agents have succeeded in achieving targeted profit growth	Z1	0.823	17.071	0.000
1. Through the implementation of the digital economy, MSME agents have succeeded in increasing productivity (achieving the expected targets efficiently and effectively)	Z2	0.877	31.192	0.000
1. Through the implementation of the digital economy, MSME agents have succeeded in achieving targeted revenue growth.	Z3	0.893	45.196	0.000

Source: Processed data (2023)

The results of the validity analysis for the business performance variable (table 9) found that all indicators used to measure this variable had a validity coefficient greater than 0.400; in conclusion, it could be inferred as valid.

Table 10. Reliability Analysis

Variables / Dimensions	Composite Reliability	Average Variance Extracted (AVE)
Business Performance	0.899	0.748
Value Creation	0.850	0.588
Digital economy	0.762	0.353
Infrastructure	0.807	0.677
Digital ecosystem	0.647	0.487
E-commerce	0.859	0.754
Capability	0.854	0.466
Digital Skills	0.747	0.610
Investment	0.837	0.631
Marketing	0.916	0.785

Source: Processed data (2023)

The results of the analysis indicate that all variables or dimensions in this study have significant Composite Reliability (CR) values, with CR values greater than 0.700 (table 10). Apart from that, in general, the Average Variance Extracted (AVE) value also exceeds the 0.500 threshold. This indicates that all indicators used to measure each research variable have a high level of reliability. The conclusion from these findings is that the indicators used to measure the digital economy, capabilities, increased value, and business performance can all be considered valid and reliable.

Structural Model

A structural model (inner model) refers to a construction in research that proposes to describe and analyze the relationship between latent variables. In the evaluation process, this model uses several important metrics such as path coefficient, R-squared (R2), effect size (f2), and Q2 value to measure how well this model fits the existing data. The results of this structural model analysis, including path coefficient values and t-statistics, were obtained through a bootstrapping process using 127 samples and repeated 5000 times (table 11).

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Table 11. Testing the Influence Hypothesis

		Hypothesis	Influence	f^2	t-value	Decision
H1	:	There is an influence of the digital economy on value creation	0.267	0.092	2.230	Accept the Hypothesis
H2	:	There is an influence of capability on value creation	0.444	0.255	4.892	Accept the Hypothesis
H3	:	There is the influence of the Digital Economy on business performance	-0.026	0.001	0.287	Accept the Hypothesis
H4	:	There is an influence of capability on business performance	0.229	0.056	4.688	Accept the Hypothesis
H5	:	There is an influence of value creation on business performance	0.485	0.245	6.064	Accept the Hypothesis
H6	:	There is an influence of the digital economy on business performance through value creation	0.130	-	2.050	Accept the Hypothesis
H7	:	There is an influence of capability on business performance through value creation	0.215	-	3.705	Accept the Hypothesis

Source: Processed data (2023)

The results of calculations and analysis of the research hypothesis reveal significant findings related to the relationship between digital economic variables, capabilities, increasing value, and business performance in Micro, Small, and Medium Enterprises (MSME) in West Java. Of the six research hypotheses proposed, one hypothesis was rejected, namely hypothesis H3, which reads: *"There is an influence of the digital economy on business performance."* The other five hypotheses show significant results and are relevant to the context of this research. The results of hypothesis testing can be explained in more detail below: (1) Digital economic variables have a significant influence on increasing the value of MSME in West Java, with a large influence of 0.276 standard deviations with $f^2 = 0.092$ in the weak category. Even though this influence is in the weak category, it shows that the adoption of the digital economy in MSME operations has a positive impact on increasing the value generated by these MSMEs; (2) The capability variable has a significant direct influence on increasing the value of MSMEs in the region. The magnitude of the effect is 0.444 standard deviation, with f2 = 0.255 in the moderate category. This shows that the ability of MSMEs to manage resources, innovate, and have business competence plays an important role in increasing the value produced; (3) However, digital economic variables do not have a significant direct influence on the business performance of MSME in West Java, with a large influence approaching zero. Likewise, the f^2 value is also close to zero, indicating that this influence is negligible in the context of MSME business performance; (4) On the other hand, the capability variable has a positive and significant influence on the business performance of MSMEs in the region, although the influence is in the weak category ($f^2 = 0.056$). The magnitude of the effect is 0.229 standard deviation; (5) The variable increasing the value of MSME has the greatest influence on business performance, with a large influence reaching 0.485 standard deviations. This is in the

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moderate category (f^2 = 0.245) and shows that MSMEs that can create added value for customers and the market have better business performance; (6) Apart from that, the digital economy variable has an indirect influence of 0.130 standard deviations on business performance through increasing value; (7) The capability variable also has a significant indirect influence on business performance through increasing value, with a large influence of 0.215 standard deviations.

The analysis results also reveal the R12 value of 0.371 and R22 of 0.395. This indicates that around 37.1% of the diversity of the value increase variable can be explained by the digital economy and capability variables, and 39.5% of the diversity of the business performance variable can be explained by the digital economy, capability, and value increase variables. With a Q2 value of 0.620, this research model is considered quite fit, with a value greater than 0.500, indicating that this model has good capabilities in explaining the relationship between the variables studied in the context of MSMEs in West Java. These findings provide valuable insights for the development and improvement of MSME performance in the region as well as important implications for relevant stakeholders.

CONCLUSION

The results of the analysis established several important findings in the context of the influence of digital economic variables, capabilities, value creation, and business performance on Micro, Small, and Medium Enterprises (MSME) in West Java. First, digital economic variables are proven to have a significant positive influence on MSME value creation in West Java. This shows that the adoption of digital and online technology in MSME operations plays a role in increasing the value generated by these MSMEs. However, interestingly, digital economic variables do not have a direct influence on the business performance of MSMEs in West Java. However, this does not mean that the impact is ignored. Digital economic variables continue to play an important role in improving MSME business performance through value creation. Second, the capability variable plays a key role in the development of MSME in West Java. This variable has a direct positive influence on value creation and also has a direct and indirect influence on the business performance of MSMEs in the region. This indicates that MSMEs' ability to manage resources, innovation, and business competence contribute significantly to their business performance results. Third, the value creation variable also has a direct influence on the business performance of MSMEs in West Java. This variable shows that MSMEs that can create added value for customers and the market have better business performance. Overall, these findings emphasize the importance of value creation in improving the business performance of MSMEs in West Java. Even though digital economic variables do not have a direct influence, they still play a role in supporting value creation. It is hoped that the results of this research will provide implications for regulators to carry out policy literacy to increase the competency of MSME business actors, especially in the digital economy, because empirically, it has an impact on performance through value creation.

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