THE IMPLICATION OF BUSINESS DIGITALIZATION, ORGANIZATIONAL LEARNING, AND INNOVATION CAPABILITIES ON THE FIRM PERFORMANCE OF MSMEs.

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Abstract
Background – *In recent years, more businesses have been adopting digital technologies to streamline processes, enhance customer experiences, and stay competitive. The COVID-19 pandemic has accelerated this digital transformation, creating opportunities and challenges for MSMEs in Bandung, Indonesia. As MSMEs contribute significantly to employment and economic growth, they face obstacles in adapting to changing conditions in the technological and disrupted market landscape.*

Aim – *This study examines the implications of Business Digitalization, Organizational Learning, and Innovation Capabilities on the Firm Performance of micro in Small, and Medium Enterprises (MSMEs).*

Design/ Methodology/ Approach – *This research study was conducted in the City of Bandung, Indonesia, and collected survey data from 129 MSMEs that have undergone digital transformation. Non-probability sampling was employed in the study. The relationship between business digitalization, organizational learning, innovation capabilities, and firm performance was analyzed using SPSS software through multiple regression analysis.*

Findings – *The findings reveal that business digitalization significantly enhances firm performance by facilitating knowledge creation, collaboration, and operational efficiency for MSMEs. Organizational learning has a considerable positive influence on firm performance, improving decision-making, promoting innovation, and enabling successful adaptation. Similarly, innovation capabilities positively influence firm performance by driving the development of new products, cost-cutting measures, and differentiation.*

Conclusion *- MSMEs in developing their businesses are advised to use digital bases and develop innovative innovations*

Research implication – *this research contributes to the field of management studies by shedding light on the interconnectedness of business digitalization, organizational learning, innovation capabilities, and firm performance in the context of MSMEs. The findings provide actionable insights that can guide MSMEs towards improved strategies for success in a rapidly evolving business landscape*

Limitations – *This study focuses on MSMEs that have digitized their business and have undertaken organizational learning and innovation capabilities. From the time of the pandemic 2019 until 2023, without excluding other potential factors that may affect firm performance among MSMEs, such as market competition and external environmental factors.*

Keyword: *Digitalization, business, Organizational, Learning, Innovation, Performance.*

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Abstrak

Latar Belakang - Dalam beberapa tahun terakhir, semakin banyak bisnis yang mengadopsi teknologi digital untuk menyederhanakan proses, meningkatkan pengalaman pelanggan, dan agar tetap kompetitif. Pandemi COVID-19 telah mempercepat transformasi digital yakni dalam menciptakan peluang dan tantangan bagi UMKM di Bandung, Indonesia. Karena UMKM berkontribusi secara signifikan terhadap lapangan kerja dan pertumbuhan ekonomi, mereka menghadapi kendala dalam beradaptasi dengan perubahan kondisi dalam lanskap teknologi dan pasar yang terganggu.

Tujuan - Penelitian ini menginvestigasi implikasi digitalisasi bisnis, pembelajaran organisasi, dan kapabilitas inovasi terhadap kinerja perusahaan usaha mikro, kecil, dan menengah (UMKM).

Desain/ Metodologi/ Pendekatan - Penelitian ini dilakukan di Kota Bandung, Indonesia, dengan mengumpulkan data survei dari 129 UMKM yang telah mengalami transformasi digital. Pengambilan sampel non-probabilitas digunakan dalam penelitian ini. Hubungan antara digitalisasi bisnis, pembelajaran organisasi, kapabilitas inovasi, dan kinerja perusahaan dianalisis menggunakan perangkat lunak SPSS melalui analisis regresi berganda.

Temuan - Temuan penelitian ini menunjukkan bahwa digitalisasi bisnis secara signifikan meningkatkan kinerja perusahaan dengan memfasilitasi penciptaan pengetahuan, kolaborasi, dan efisiensi operasional bagi UMKM. Pembelajaran organisasi juga memiliki dampak positif yang signifikan terhadap kinerja perusahaan, meningkatkan pengambilan keputusan, mendorong inovasi, dan memungkinkan adaptasi yang sukses. Begitu pula, kapabilitas inovasi berpengaruh positif terhadap kinerja perusahaan dengan mendorong pengembangan produk baru, upaya pengurangan biaya, dan diferensiasi.

Kesimpulan – Pelaku UMKM dalam mengembangkan usahanya disarankan untuk menggunakan basis digital dan mengembangkan inovasi inovatif

Implikasi Penelitian - Penelitian ini berkontribusi pada bidang studi manajemen dengan menjelaskan keterkaitan antara digitalisasi bisnis, pembelajaran organisasi, kapabilitas inovasi, dan kinerja perusahaan dalam konteks UMKM. Temuan ini memberikan wawasan yang dapat ditindaklanjuti yang dapat memandu UMKM menuju strategi yang lebih baik untuk sukses dalam lanskap bisnis yang berkembang pesat.

Batasan Penelitian - Studi ini berfokus pada UMKM yang telah melakukan digitalisasi bisnis dan telah melakukan pembelajaran organisasi, dan kapabilitas inovasi. Dari semenjak pandemi 2019 hingga tahun 2023, tanpa mengesampingkan faktor-faktor potensial lainnya yang dapat memengaruhi kinerja perusahaan di kalangan UMKM, seperti persaingan pasar dan faktor lingkungan eksternal.

Kata Kunci : Digitalisasi, Bisnis, Pembelajaran, Organisasi, Inovasi, Kinerja

INTRODUCTION

In an era of accelerating digitalization and globalization, businesses mus;;t develop their abilities to thrive (Alam et al., 2022). In order to prevent losses and create digital technologies that can boost performance, businesses in crisis need to be attentive and prepare their strategies and innovations well in advance (Salamzadeh et al., 2022). New technologies for entrepreneurs are being created with the goal of properly adjusting both strategies to new market needs and market stimuli (Caputo et al., 2021). By lowering costs and enhancing connection, flexibility, and adaptability in complex and competitive situation, digital transformation in business offers considerable benefits to firms (Drnevich & Croson, 2013).

The Ministry of Communication and Information estimates 2022. It is estimated that 64.2 million MSMEs comprise 60% of Indonesia's GDP. However, only around 34.10% of MSMEs 0.90 % of exporting and importing businesses and 0.64% of importing businesses have undergone digital transformation. According to the findings of

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a statistical survey conducted in 2022, only around 7.64% of businesses have offered training on the use information technology for marketing, and only relating to 39.91% of MSMEs claimed to have received training from governmental organizations (Central Bureau of Statistics, 2022).

With the help of digital capabilities, enterprise managers can increase operational efficiency, find opportunities, and integrate digital resources, which positively impact firm performance (Levallet & Chan, 2018). Additionally, the business model has undergone both incremental and disruptive changes as drives the improvement of firm's performance. Depending on the industry, market circumstances, and certain organizational contexts, the effect of business model innovation on a firm's performance can differ (Kianpour et al., 2021). Nevertheless, a well-implemented and innovative company's strategy can make a considerable difference in terms of financial performance, market positioning, and long-term success (Oloveze et al., 2022).

Digital transformation entails fundamental changes to the Micro, Small, and Medium Enterprises (MSMEs) business model in addition to internal process optimization and the use of new technologies (Loebbecke & Picot, 2015). In order to meet consumer expectations and provide solutions, digital transformation may present new opportunities (Meskhi et

al., 2020). For firms to maintain success and competitive advantage, knowledge and learning have also been regarded as essential resources (Weldy, 2009). Organizational learning is a concept which emphasizes that organizations must foster learning in order to increase a firm's performance (Hooi, 2019). Additionally, the knowledge-based view (KBV) theory asserts that a firm's capacity to produce and utilize knowledge is a critical factor in performance growth (Grant, 1996).

According to Sijabat (2022), business digitalization has a large and positive impact on the performance of Indonesian MSMEs and digital transformation can help MSMEs become more successful. The role of organizational learning also contributes to the performance of MSMEs. Where the organizational age factor moderates the relationship between organizational capabilities and financial performance (Hindasah & Nuryakin 2020). Innovation is a skill that reduces the negative impact of increasing intellectual capital on the performance of manufacturing companies. It has been confirmed that in the MSME manufacturing industry, a high level of innovation capability leads to improved firm performance (Aljuboori et al., 2021).

This study focuses on micro, small, and medium enterprises (MSMEs) and makes an empirical contribution by investigating the links between digitalization, organizational learning, and innovation capability, on the

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firm performance of MSMEs. With the help of digital capabilities, enterprise managers can increase operational efficiency, find opportunities, and integrate digital resources, which positively impact firm performance (Levallet & Chan, 2018). Additionally, the business model has undergone both incremental and disruptive changes as drives the improvement of the firm's performance. Depending on the industry, market circumstances, and certain organizational contexts, the effect of business model innovation on a firm's performance can differ (Kianpour et al., 2021). Nevertheless, a well-implemented and innovative company's strategy can make a considerable difference in terms of financial performance, market positioning, and long-term success (Oloveze et al., 2022).

Despite significant advancements in digitalization and globalization, the research on Micro, Small, and Medium Enterprises (MSMEs) reveals several critical gaps that this study aims to address. A substantial portion of Indonesian MSMEs have yet to embrace digital technologies fully, with only 34.10% having undergone digital transformation and a mere 7.64% receiving IT marketing training. Additionally, while the benefits of digital transformation, organizational learning, and innovation are well-documented individually, there is a lack of comprehensive research exploring their interconnected effects on MSME performance. Moreover, the impact of

business model innovation varies by industry, market conditions, and organizational context, necessitating more empirical evidence specifically focused on MSMEs. The moderating role of organizational age on the relationship between capabilities and financial performance is also underexplored in the MSME context. Furthermore, the complex relationship between innovation, intellectual capital, and firm performance, particularly how innovation mitigates the negative impacts of intellectual capital, requires more nuanced research.

By addressing these gaps, This study aims to focus on micro, small, and medium enterprises (MSMEs) and makes an empirical contribution by investigating the links between digitalization, organizational learning, and innovation capability on firm performance, aiming to provide empirical evidence and practical insights to help MSMEs navigate digital transformation, enhance learning capabilities, and foster innovation to improve overall performance, thereby contributing to a deeper understanding of how MSMEs can thrive in an increasingly digital and globalized business environment.

Hypothesis

The resource-based theory has been expanded further by the dynamic capability (DC) theory (Horng et al. 2022). According to this viewpoint, strategic resources, without effective management techniques, are

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insufficient to guarantee a sustainable competitive advantage (Zheng, et al., 2011). The DC view can be used in combination with other theories to explain the competitive advantage of each industry (Wamba, et al., 2017). In this study, we integrate DC with the KBV to support our research model as the focus of this study is the significance of the business digitalization phenomenon.

The KBV recognizes organizations as knowledge-bearing units with the goal of using knowledge to create business value (Donate & Sánchez de Pablo, 2015). It also considers organizations as a key strategic resource that can help organizations gain a competitive advantage (Shamim, et al., 2019). Ability to acquire, produce, and construct information perceive, investigate and resolve environmental dynamics is described as a knowledge-based dynamic capability (KBDC) view, by merging the KBV and DC (Mikalef et al., 2018). Foundation of KBDC is the idea that managers can provide new value by fusing together existing knowledge (Zheng et al., 2011).

The knowledge management process in KBV appears as an effective source for determining strategic directions and developing competitive advantages from the exploration and exploitation of data and information in Gaviria-Marin et al. (2019) research to explain the revolutionary influence of digital transformation on businesses. Business digitalization (BD)

helps increase firms' performance where a higher level of business digitalization is likely to result in better performance by the firm, in line with previous research from Martínez-Caro, et al. (2020), Li, et al. (2022), and Kuang et al. (2023). Therefore, the proposed hypothesis is as follows.

H₁. Business digitalization (BD) has a positive and significant effect on firm performance (FP).

Researchers in DC also examine the contextual effects of organizational learning capability in a sample of business from a transition economy, exploring how they impact competitive advantage and firm's performance (Ferreira, et al. 2021). The ability of an organization to implement the proper management practices, structure, procedures, and policies that facilitate and foster learning is referred to as organizational learning (OGL) (Goh, 2003). Organizations develop this competence by putting in place elements that encourage organizational learning or enable learning within an organization. In order to improve a firm's performance, organizational learning should be able to develop, acquire, transfer, and integrate new knowledge as well as change existing behaviour to reflect new knowledge (Jerez-Gómez et al. 2005).

Rather than concentrating on specific forms of knowledge, organizational learning can help create and enhance a wide range of organizational capacities, propelling businesses toward continual development

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(Goh, 2003). Organizational learning has a positive significant effect on firm performance, in line with research from Mohammad (2019), Hooi (2019), and Rau et al. (2021). Thus, the proposed hypothesis is as follows:

H₂. Organizational learning (OGL) has a positive and significant effect on firm performance (FP)

DC has developed into and remained as a theory on both knowledge and innovation (Ferreira et al. 2020). Thompson (1965) constitutes innovation as the generation, acceptance, and implementation of new ideas, processes, products, or services. The most crucial factor influencing a firm's performance according to Calantone et al. (2002); Hult et al (2004); Isobe et al. (2004)

is innovation capabilities (INC). Since it increases competitive advantage and firm's performance, innovation capabilities are viewed as a strategic asset (Kalmuk & Acar, 2016). In highly competitive workplaces, innovation capabilities are frequently seen as key tools for achieving higher performance (Lyon & Ferrier, 2002). The firm's performance is positively and significantly impacted by innovation capabilities. This is in line with research from Bahta et al. (2020), Ferreira, et al (2020), and Aljuboori et al. (2021). Therefore, the proposed hypothesis is as follows:

H₃. Innovation capabilities (INC) has a positive and significant effect on firm performance (FP).
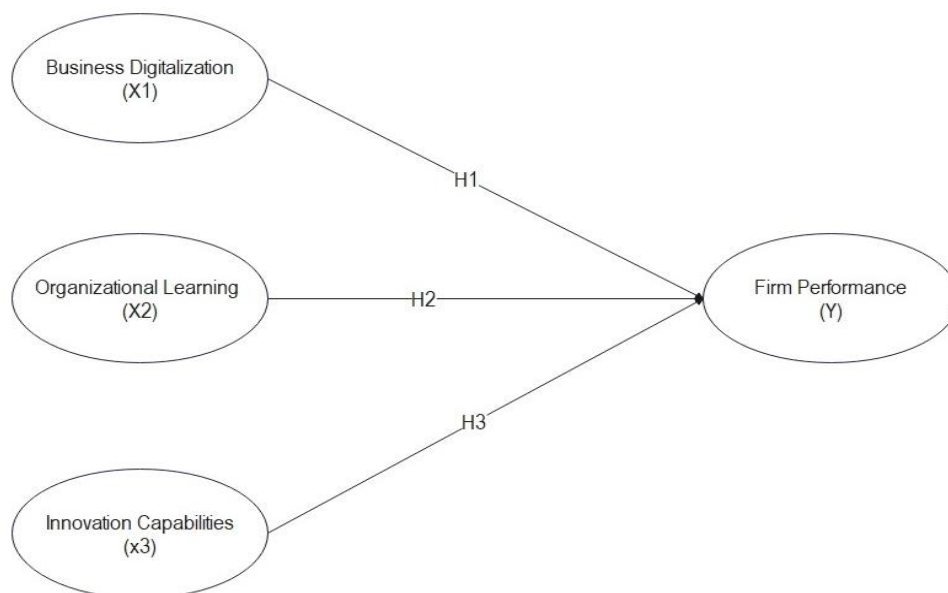

Figure 1. Research Model.

RESEARCH METHODOLOGY

This study uses a quantitative method with a survey data collection technique. Non-

probability sampling is used in this study, which means that the samples are not chosen at random. In order to get samples

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with the necessary qualities, purposive sampling technique is used, in which samples are collected in accordance with predetermined criteria (Cooper & Schindler, 2014). A sample of 129 respondents is gathered for this study through an online questionnaire, Google Forms. It also uses primary data as the data type. Women and men who met the requirements for the study's respondents 15-40 years old, business owners or managers of MSMEs in the city of Bandung, West Java, Indonesia, have employees in their business and have digitalized their business.

This study uses explanatory analysis which focuses on estimating associations between variables and determining whether these correlations can be interpreted as relationships (Aneshensel, 2013). An explanatory analysis is used to investigate relationships, figure out how business digitalization, organizational learning, and innovation capabilities affect firm performance, and draw conclusions regarding the causation. Using statistical tools, including multiple regression analysis, we analyzed all the data gathered from the respondents using the SPSS software system to determine how closely related the independent and dependent variables in this study.

Business digitalization is measured by the adaptation from Abou-foul et al. (2021). The four items of business digitalization focus on how information systems in the

organization produce data in real time to understand the clients, make better operational decisions, increase the value of products or services, and introduce the business model. Information acquisition, distribution, interpretation, integration, and memory are the five sub-processes of organizational learning that we used. It is previously published by Flores et al. (2012) and is also used by Rau et al. (2021).

The instrument used to measure innovation capabilities was adapted from Akman & Yilmaz (2008) which is also used in the research of Bahta et al. (2020). Six questions were constructed which included the key traits of innovation capabilities, including innovative organizational culture, characteristics of internal processes (knowledge sharing, rapid coordination, and encouragement of innovation among employers), understanding the capability of the external environment by reflecting innovations and implementing innovations by suggestions from the environment to the internal processes. The firm performance measurements are adapted as four items from Kusa et al. (2022); Suder et al. (2022), which consist of performance in sales, market share, revenue, and profit.

RESULT AND DISCUSSION

The questionnaires we distributed, only 129 respondents answered as managers or owners of MSMEs in the city of Bandung.

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Table 1 shows that most respondents are more likely to face women, but most are professional business executives and business owners, depending on their occupation in MSMEs. Most of These respondents (48%) are around 21-25 years old and work as business managers or are business owners. Approximately 41% of the total respondents work and own a business in the food and beverage sector and 8% in the business sector of Trade and Distribution. The respondent data taken are those directly involved in the management of MSMEs business units in the city of Bandung. It shows that MSMEs in the city of Bandung have implemented digitalization, their learning organization and innovation capability, especially for business owners, who need to pay attention to innovation and increase their productivity.

Based on the model summary of Table 1, it is found that the R Square value is 0.577. This indicates that business digitalization, organizational learning, and innovation capabilities influence firm performance by around 58%. About 42% is influenced by other variables outside of business digitalization, organizational learning, and firm performance. This value provides an estimate of how well this model can explain variations in firm performance.

Based on the result of multiple regression in Table 3, an analysis can be formed regression of the equation as follows

$$Y = -3.878 + 0.481X1 + 0.367X2 + 0.181X3 + \varepsilon$$

Notes:
Y = Firm Performance
α = Constant
X1 = Business digitalization
X2 = Organizational Learning
X3 = Innovation capabilities
ε = error term

Table 1
Demographic Profile of Respondent

Description	Total	Persentase (%)
*Respondent by gender		
Female	66	51%
Male	63	49%
*Respondent By Age		
15-20 years	13	10%
21-25 years	62	48%
26-30 years	28	22%
31-35 years	26	20%
36-40 years	-	
>40 years	-	
*Respondent by Profession		
Business Owner	64	50%
Business Manager	53	41%
Other	12	9%
*Respondent by Business Unit		
Food and beverage	52	41%
Fashion and Design	8	6%

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Description	Total	Persentase (%)
Agriculture, Fishery, and Animal Husbandry	4	3%
Manufacture	4	3%
Trade and Distribution	10	8%
Construction and Property	4	3%
Transportation and Logistics	1	1%
Tourism and Hospitality	1	1%
Information and Communication Technology (ICT)	9	7%
Consulting and Professional Services	4	3%
Health and Pharmacy	1	1%
education and training	1	1%
Entertainment and Media	9	7%
Retail and Wholesale	4	3%
Automotive	4	3%
Retail and E-commerce	3	2%
Garments and Textiles	4	3%
Others	4	3%

Source : Research analysis, 2023

Table 2.
Model Summary of Regression Analysis

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.759[a]	0.577	0.566	0.913

Source : Research analysis, 2023

Table 3.
Result of Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-3.878	1.946		-1.992	0.049
	BD	0.481	0.055	0.555	8.773	0.000
	OGL	0.367	0.101	0.297	3.649	0.000
	INC	0.181	0.080	0.176	2.251	0.026

Source : Research analysis, 2023

The coefficient value of business digitalization on firm performance is 0,481 with a significance value of $0.000 \le 0.05$. H_1 which states that business digitalization has a positive and significant effect on firm performance is accepted under 5% significance level. According to knowledge management in KBV, there are three ways in which business digitalization can enhance firm performance. First, business digitalization can aid businesses in knowledge creation. Digitalization makes it possible for networks to be established and scaled quickly and easily, which has led to the emergence of platforms and the creation of knowledge-based business ecosystems (Adner & Kapoor, 2010). Firms might employe digital technology to gather and analyze data in order to come up with new insights and concepts.

Second, firms can benefit from the knowledge of external sources that can be found through business digitalization. Due to their generative nature, digital

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technologies enable ongoing innovation, which is frequently driven by external parties, including customers or developers (Parker et al, 2017). Business digitalization can be used by firms to collaborate with other firms, access internet information, and engage in online communities. Third, digital technologies can assist businesses in making better use of knowledge. The investments made in technologies and data offer the fundamental building blocks to leverage the expertise held by the firm as well as other resources to increase value for customers. For instance, big data from customer journey data, as a digital asset, can be used to tailor services and offerings by a firm's data analytical capabilities (Verhoef et al. 2021).

Business digitalization creates wider market access, where MSMEs can reach a larger market through online platforms, online stores, social media, and electronic markets to overseas. This allows them to attract new customers and increase sales. As well as operational efficiency resulting from the use of business digitalization which enables MSMEs to automate business processes, reduce operational costs, and increase efficiency. For example, the use of inventory management systems, e-payments, and delivery tracking applications can help MSMEs improve their operational efficiency.

In addition, this finding is in line with the results of previous research, namely according to research from (Hautala-Kankaanpää, 2022) showing that companies with a high level of digital culture are companies that use digital platforms or are positively related to operational performance, while companies with a low level of digital culture tend to report a negative relationship between digital platforms and operational performance. The coefficient value of organizational learning on firm performance is 0,367 with a significance value of 0,000 ≤ 0,05. Based on this, H_2 which states that organizational learning has a positive effect on firm performance is accepted under a 5% significance level. There are three ways organizational learning can enhance a firm's performance according to DC. First, a firm can enhance its capacity to make better decisions from prior experiences. While firms only grow as a result of the experiences and acts of individuals, there is no such thing as individual organizational learning (Antunes & Pinheiro, 2020). With previous experiences, a firm will be more aware of the factors that affect its performance as well as the risks and opportunities it faces.

Second, organizational learning can boost innovation by assisting firms in seeing new opportunities and creating new products and services. The improvement of employees' learning aptitude and commitment promotes the development of knowledge-based resources. Effective use of

these resources can result in product and service offers that are more innovative and of higher quality (Wan Hooi & Sing Ngui, 2014). Third, organizational learning can assist firms in successfully adjusting to change. To succeed over extended periods and significant changes in the market, a firm must be ambidextrous enough to undertake both gradual and revolutionary changes (O'Reilly & Tushman, 2008). As a result, ambidextrous firms are able to strike a balance between the exploitation of their current intellectual capital and the discovery of new knowledge.

Efficiency improvements applied to MSMEs as learning organizations can improve their operational efficiency by identifying and eliminating unnecessary data. It is known that MSMEs adopt good work methods, improve internal processes, and increase the use of resources, MSMEs can quickly adapt to changes in the market, technology, and business environment. They are able to absorb and process new information to identify opportunities and overcome challenges thereby reducing losses and expenses and can improve firm performance in MSMEs. In addition to that, according to Rafiki et al. (2021), the results that organizational learning is significantly related to firm performance.

The coefficient value of innovation capabilities on firm performance is 0,181 with a significance value of 0,026 ≤ 0,05. This means that innovation capabilities are positively related to firm performance under the 5% significance value. Therefore, H_3 which states innovation capabilities have a positive effect on firm performance is accepted. There are three ways that innovative capabilities can enhance the firm performance according to DC. Firstly, having innovation capabilities can aid firms in developing new products and services that cater to consumer demands. Innovation capabilities result in product or service differentiation, such as cheaper prices, improved quality, or the ability for businesses to obtain a competitive advantage in the market, ultimately increasing company value (Li et al., 2020). Firms with a high level of innovation can adapt quickly to a changing market while maintaining a competitive advantage, enhancing the firm's value over time.

Secondly, innovation capabilities can aid businesses in cost-cutting. The innovation capabilities of a firm can influence changes in areas like cost reduction, productivity, process enhancement, inventory control, production and delivery quality, value creation and flexibility, price, and service (Fernando et al., 2019). This can be accomplished by creating new, more effective methods, or technology. Thirdly, having innovation capabilities can help firms to differentiate themselves from their competitors. Salunke et al. (2013), a firm can set itself apart from its competitors by providing higher value by utilizing its

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innovation capabilities. Additionally, the capability to innovate contributes to higher profit margins and customer satisfaction (Oliva & Kallenberg, 2003).

Innovation can help MSMEs increase customer value by offering products or services that are better, more innovative, or at better prices. This can result in higher customer satisfaction and increased customer loyalty. Innovation Capabilities also increase operational efficiency and can help MSMEs identify and implement improvements to their operations, such as adopting new technologies or optimizing business processes, which in turn can improve firm performance. Responsiveness to market changes where qualified innovation capabilities enable MSMEs to be more responsive to market changes, trends and customer demands. Strong innovation capabilities enable MSMEs to anticipate and respond to market changes, consumer trends, and new customer needs. This allows MSMEs to remain relevant and survive in a dynamic environment.

CONCLUSIONS

The findings of this study indicate that business digitalization has a significant positive effect on firm performance (H_1). Business digitalization facilitates knowledge creation, enabling networks to be established and scaled easily, leading to the emergence of knowledge-based business ecosystems. Firms can leverage digital

technology to gather and analyze data, generating new insights and concepts. Digital technologies enable collaboration with external sources and ongoing innovation, enhancing a firm's performance.

Organizational learning also demonstrates a significant positive impact on firm performance (H_2). The study highlights three ways in which organizational learning enhances performance. Firstly, firms can make better decisions based on prior experiences, improving their understanding of factors affecting performance and identifying risks and opportunities. Secondly, organizational learning fosters innovation by facilitating the development of knowledge-based resources, resulting in more innovative products and services. Firms that embrace organizational learning can effectively adapt to market changes, striking a balance between exploiting existing intellectual capital and discovering new knowledge.

Furthermore, the study reveals that innovation capabilities positively influence firm performance (H_3). Innovative firms can develop new products and services that cater to consumer demands, differentiating themselves in the market and increasing their value over time. Innovation capabilities also contribute to cost-cutting measures and enable firms to differentiate themselves from competitors, leading to higher profit margins and customer satisfaction.

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RESEARCH IMPLICATIONS

The implications of these findings for MSMEs are significant. Business digitalization allows MSMEs to access wider markets, improve operational efficiency, and reduce costs. Organizational learning empowers MSMEs to adapt quickly to changes, identify opportunities, and overcome challenges. Innovation capabilities enable MSMEs to offer better products or services, increase customer value, and enhance operational efficiency, ultimately contributing to their competitive advantage and success in dynamic market environments. It is important to note that these conclusions are based on the specific context and research conducted. Further studies and analyses are recommended to validate and expand upon these findings.

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