The Influence of Digital Business Strategy and Digital Capabilities on Financial Performance

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Abstract
Purpose: Analyze the influence of digital business strategy and digital capabilities on financial performance.
Methodology: This study uses a quantitative approach; data collection is carried out through a survey using a questionnaire instrument. The research population includes SME entrepreneurs in the food and beverage sector in Jepara Regency. The research sample amounted to 163 respondents, taken using the non-probability sampling method. The data analysis technique uses Partial Least Squares (PLS).
Results/findings: The results of the study showed that all variations, including managerial capability, operational capability, human capability, and innovation capability, had a significant positive effect on financial performance.
Limitations: This study only focuses on the variables of managerial capability and operational capability for digital business strategy as well as human capability and innovation capability for digital-related capability, without considering other relevant variables.
Contribution: This study enriches the literature on digital business strategies and their influence on improving financial performance in the SME sector, especially the food and beverage sector.
Novelty: Previous research was limited in the context of large companies, while specifically on SMEs is still relatively limited. The results of previous studies also obtained inconsistent results.

Keywords: managerial capability, operational capability, human capability, and innovation capability.

1. Introduction

Small and Medium Enterprises (SMEs) play an important role in the Indonesian economy, especially in Jepara Regency, which is known for its diversity of handicraft products and creative industries. SMEs are not only a source of income for their owners but also create jobs and support local economic growth. Therefore, the financial performance of SMEs is very relevant and an important indicator in assessing the sustainability of SMEs' businesses.

Along with the development of digital technology, it has an impact on changes in consumer behavior, so the ability of SMEs to adapt to today's dynamic business environment is very important. The adoption of digital business strategies and the development of digital capabilities are important components for business development. Although research on the influence of digital business strategy and digital capabilities on the financial performance of companies has been widely carried out in the context of large companies, especially in the SME sector, it is still relatively limited.

The importance of understanding digital business strategies and digital capabilities is a topic of current and increasing research attention, especially in the fields of management and economics. However, in the rapidly changing context of digital business, there is still room for further research that can provide in-depth insights into the factors affecting the financial performance of SMEs.

Digital business strategy includes managerial capability and operational capability *capability* (Ukko et al., 2019). Organizational management is a series of managerial activities carried out by managers. These activities include planning, organizing, actuating, and controlling. In addition to managerial skills, SME entrepreneurs are also required to have managerial skills, including intellectual strength, emotional skills, physical qualities, spiritual energy, and applied technology skills to achieve organizational goals as determined (Rusyida, 2022). Managerial capability in SMEs is very important

because it helps in strategic planning, resource management, and efficient decision-making. However, in many cases, SME entrepreneurs may have limitations in their managerial capabilities.

Operational capabilities include efficiency in running daily operations, inventory management, cost control, and other factors related to operational efficiency. Strong operational capabilities can help SMEs reduce waste, increase productivity, and achieve better profitability. Important operational capabilities to be improved include operational capabilities in data processing and financial reporting. This is because financial reporting is one of the most important performance measurement tools. Financial reports show the success or failure of a business. For SMEs that do not make proper accounting records and financial reporting, it will certainly be difficult to assess their business performance (Zarefar, A., Oktari, V., & Zarefar, 2016).

Another factor that supports SME performance is digital-related capability (Nasiri et al., 2020), including human capability and innovation capability. The human resource capability in question is the ability and expertise possessed by employees in carrying out their work, especially the ability of employees to transform to digital technology. Transforming to the digital era has been proven to support the work process to be more timely and get better results (Siregar, 2019).

Innovation capability is a comprehensive capacity of a business or organization that is used to support a technology innovation strategy (products and processes) (Salsabila & Solovida, 2023). Innovation capability is also relevant, especially in a rapidly changing business environment. SMEs that are able to create new products or services and innovate may be better able to compete and grow.

Previous studies may have investigated these factors, but few studies have focused on the SME sector. Therefore, this study aims to fill this knowledge gap and provide deeper insights into how these factors may affect the financial performance of SMEs.

2. Literature review and hypothesis/es development

2.1 Digital Business Strategy

Digital Business Strategy (DBS) is an approach that integrates digital technology into all business aspects to create added value and innovation. This strategy is increasingly important in a fast-changing business environment, especially for SMEs that often have limited resources and face the challenges of digital transformation. The adoption of DBS allows SMEs to improve performance, competitiveness, and sustainability by applying technologies such as social media, *cloud computing*, and *big data*.

Previous studies have shown that the adoption of digital technology can create economic and social value for SMEs. Vrontis et al. (2022 emphasized that digital transformation helps SMEs adapt to external crises, improve financial sustainability, and create social value in local communities where SMEs operate. In addition, another study by Rozak et al. (2023) showed that digital engagement through social media and a strategic digitalization plan can improve organizational agility and overall SME performance. This organizational agility allows SMEs to be more responsive to changes in the dynamic business environment.

Furthermore, digital innovation is also associated with increasing the competitive advantage of SMEs. Farida & Sutopo (2023) highlighted that digital innovation technology has a positive impact on competitive advantage in the construction and real estate sectors, especially when combined with a targeted business strategy. This is in line with the findings of Yuen (2023), which show that digital business models can help SMEs adopt technology to achieve sustainable business performance in an unpredictable business environment.

Digital business strategy affects financial performance through managerial, operational, human resource, and innovation capabilities. These variables play an important role in facilitating the implementation of DBS, which directly and indirectly affects the financial performance of companies, especially in the SME sector. Strengthening these capabilities through DBS can be the key to increasing the competitiveness and financial sustainability of companies.

Managerial capability is very important in DBS implementation because strong managerial capability can increase the effectiveness of digital technology adoption. Research shows that managerial capability acts as a moderator that strengthens the relationship between DBS and financial performance.

In this case, companies with good managerial capability can utilize DBS to improve their financial performance (Ukko et al., 2019)

The operational capability is crucial for the success of implementing DBS. Studies show that DBS has the potential to improve operational processes by reducing production costs and enhancing business process efficiency. However, in some instances, adopting DBS may encounter challenges in optimizing operational performance, depending on the company's sustainability strategy (Ukko et al., 2019).

Human resource capabilities play a crucial role in supporting businesses. Developing digital skills in the workforce allows companies to make the most of digital technologies, which can ultimately enhance the company's financial performance. Research indicates that human capabilities, like managerial and organizational skills, have a notable impact on digital brand performance in small and medium-sized enterprises (SMEs) (Tamin & Adis, 2019)

Innovation capability is closely related to DBS and plays a significant role in driving a company's financial performance. Product and process innovation driven by digital technology can increase sales and reduce costs, which ultimately have a positive impact on a company's financial performance (Exposito & Sanchis-Llopis, 2018). In addition, other studies have shown that innovation strategies also contribute significantly to financial performance, especially in the SME sector that adopts digital-based innovative business models (Roongchirarote & Zhao, 2017)

2.2 Managerial Capability

Managerial capability plays an important role in improving a company's financial performance. This capability includes the manager's skills in managing resources, making strategic decisions, and leading organizational change. Research shows that managers with high capability tend to have a positive impact on a company's financial performance.

Managerial capability helps companies optimize investments and make better decisions during times of crisis. For example, research conducted by Andreou et al. (2017) found that companies with more capable managers tend to perform better during the global financial crisis. Managers who can utilize resources efficiently can reduce information asymmetry, increase profitability, and reduce the risk of underinvestment.

In addition, managerial capability has also been shown to mediate the relationship between innovation capability and financial performance. Research by (Qin et al., 2024) shows that managerial capability strengthens the impact of investment in research and development (R&D) on the financial performance of high-tech SMEs. This effect is more visible in environments with better digital economic development.

Managerial capability also has a significant influence on improving the quality of financial reporting. Research by García-Sánchez & García-Meca (2017) shows that more capable managers produce more accurate and conservative financial reports, thereby improving the quality of financial reporting. Overall, high managerial capability can improve financial performance through better strategic decisions, resource optimization, and more transparent financial reporting.

H1: Managerial capability influences financial performance.

2.3 Operational Capability

Operational capability has a significant impact on a firm’s financial performance, mainly through various mechanisms that improve efficiency and productivity. In this context, several studies have shown that operational capability, which includes capabilities in product design, quality management, and just-in-time (JIT), directly improves firm performance, including financial performance (Tan et al., 2007). In addition, other studies have highlighted that operational capability mediates the relationship between marketing capability and financial performance. That is, operational capability plays a key role in improving retail efficiency and overall financial performance (Yu et al., 2014).

Operational capability plays an important role in improving a company's financial performance through efficiency and optimal resource management. This capability includes various aspects such as

quality management, JIT, and efficient product design and development. Research by Tan et al. (2007) shows that strong operational capability has a direct positive impact on company performance. This capability, including new product design, JIT, and quality management, improves operational efficiency, which leads to improvements in the company's financial performance.

Furthermore, Hirunyawipada & Xiong (2018) revealed that operational capability can significantly increase company value, especially when combined with corporate environmental commitment. This study found that companies with strong operational capabilities are able to maximize the positive impact of environmental commitment on the company's financial performance.

In addition, research by Yu et al. (2014) shows that operational capability has a strong relationship with retail efficiency and overall financial performance. Operational capability plays a role as a mediator connecting marketing capability and financial performance, which shows the importance of this capability in supporting competitive advantage. Operational capability makes a significant contribution to improving financial performance either through increasing efficiency and productivity or by taking advantage of opportunities in a dynamic environment.

H2: Operational capability affects financial performance.

2.4 Digital-Related Capability

Digital capabilities have become essential for enhancing business performance during the era of digital transformation. This capability involves companies' ability to adopt and integrate digital technologies into their business processes, enabling better operational efficiency, innovation, and competitive advantage.

Several previous studies have shown the positive impact of digital capability on company performance. A study by Joensuu-Salo & Matalamäki (2023) highlighted that digital capability is closely related to the growth and performance of companies in the SME sector. This study shows that digital capability enables SMEs to create opportunities and maintain the sustainability of their businesses amidst fierce competition.

In addition, Wang et al. (2022) highlighted how digital capability in the manufacturing sector positively affects firm performance. They found that digital innovation and value co-creation are the main mechanisms that bridge the relationship between digital capability and firm performance. Furthermore, Zhu (2023) showed that digital capability contributes to improving firm innovation performance. This study highlights how digital capability can encourage the exploration and utilization of organizational capabilities, which ultimately enhances the firm's innovation capability.

Digital capability also plays an important role in developing innovative business models. Wang et al. (2022) highlighted that innovation in business models, mediated by digital capability, contributes to company performance. This innovation includes the development of new products and services that are more relevant to market needs, as well as optimizing more efficient operations. Digital capability is a crucial foundation for helping companies stay competitive in the digital era. With strong digital capability, companies can innovate, improve operational efficiency, and maintain competitiveness in a dynamic market.

2.5 Human Capability

Human Resource (HR) capability plays a vital role in improving a company's financial performance through various mechanisms. Research shows that the effectiveness of strategic HR management directly impacts a company's financial performance, including productivity and market value (Huselid et al., 1997). In addition, HR capability is also closely related to sustainable competitive advantage, especially in global organizations, where high HR capability contributes significantly to overall organizational performance (Khandekar & Sharma, 2005).

HR capabilities not only affect direct financial performance but also strengthen organizational learning capabilities, which in turn have a positive impact on company performance, both financially and non-financially (Jerez-Gómez et al., 2019). Another study in the pharmaceutical industry in Thailand found that HR capabilities involving innovative training and HR commitment were able to

improve the financial performance of companies in developing countries (Kerdpitak & Jermsittiparsert, 2019).

Research by Alipour (2012) and Weqar et al. (2021) shows that human capital efficiency has a significant positive relationship with company profitability. Investment in human capital, such as employee training and development, contributes to increased productivity and profitability of the company, including efficiency in the use of assets. Other studies also found that human capital is one of the important components of intellectual capital that significantly affects the company's financial performance in terms of profitability and operational efficiency. In the context of SMEs, strong human capital is associated with better competitive strategies, which in turn improve financial performance, such as industrial asset growth (Savitri & Syahza, 2019). Overall, good HR capabilities can serve as a determining factor in improving financial performance through increased productivity, innovation, and long-term competitive advantage

H3: Human capability influences financial performance

2.6 Innovation Capability

Innovation capability has a significant influence on a company's financial performance through various mechanisms. Research shows that innovation capability can improve financial performance indirectly by improving operational performance and product quality in manufacturing companies, although its direct impact on financial performance is weaker (Kafetzopoulos & Psomas, 2015).. In addition, in service companies, innovation capability not only affects non-financial performance but also supports the achievement of sustainable competitive advantage, thus improving the company's overall financial performance (Al-kalouti et al., 2020).

Other studies highlight that innovation capability involving the development of ideas and organizational structures, participative leadership culture, and skills development significantly influence financial performance, especially in SMEs (Saunila, 2014). Other research indicates that the capability for innovation also moderates the relationship between logistics strategy and company performance. This is especially true in enhancing service flexibility and reliability, both of which positively impact financial performance (Yang, 2012).

In general, innovation capability is an important factor in improving a company's financial performance by facilitating more effective strategy implementation and creating a competitive advantage

H4: Innovation capability affects financial performance.

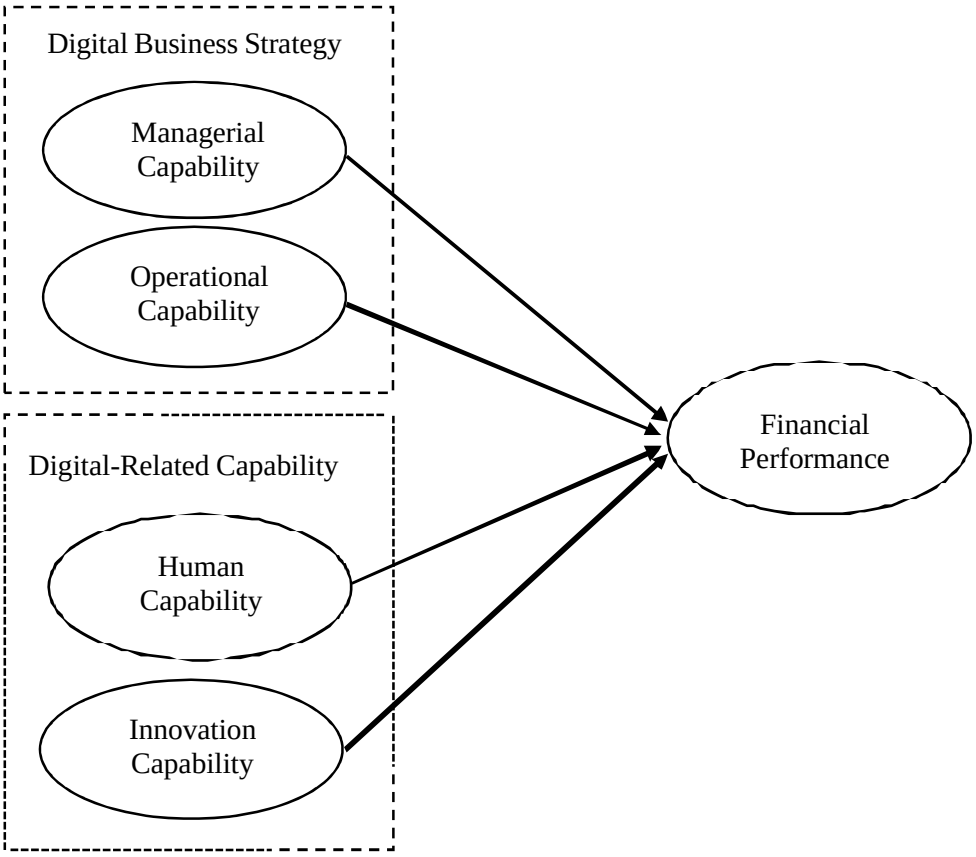

Figure 1: Theoretical Framework of Thought
Source: Ukko et al. (2019), Nasiri et al. (2020)

3. Methodology

This study uses a quantitative approach, examining the influence of managerial capability, operational capability, human capability, and innovation capability on the financial performance of SME entrepreneurs in the food and beverage sector in Jepara Regency. The data collection technique uses a questionnaire through a Likert scale. The sampling method used is non-probability sampling with a purposive sampling type. The study's population comprises SME entrepreneurs in the food and beverage sector in Jepara Regency, with a sample size of 163 respondents.

Data analysis, including validity tests, reliability tests, r-square, f-square, path coefficient, goodness of fit, and hypothesis testing with bootstrapping, is done using a structural model and the partial least path modeling (PLS-PM) approach. The research variables include managerial capability, operational capability, human capability, and innovation capability as exogenous variables and financial performance as endogenous variables

Measurement of managerial capability variables adopts Ukko et al. (2019) and includes the following indicators: company management is familiar with digital tools; company management has a clear vision to utilize digital in the future; company management supports the use of digital in the company. Operational capability adopts Ukko et al. (2019) with indicators: utilization of digitality in internal business/company processes; digitality is a natural part of business/company; digitality can improve company business. Human capability incorporates Nasiri et al. (2020) with indicators: expanding the concept of business strategy to include digital aspects, providing training for employees on the use of digital tools, and ensuring that employees readily accept the digital nature of the operating environment. Innovation capability adopts Nasiri et al. (2020) and includes the following indicators: digitality can enable innovation and ideas for companies; digitality forces companies to develop new

solutions; digitality helps in producing new products and services. Financial performance adopts Calderon (2011) with indicators: increased ROA; increased profit; and increased total revenue.

4. Results and discussion

4.1. Results

The following is a summary of respondents based on information obtained from the survey results. In this study, the characteristics of respondents are described to explain the background of the respondents.

Table 1. Respondent Characteristics

No	Description	Presentation
A	**Gender**	
	1. Woman	51 %
	2. Man	49 %
		100 %
B	**Education**	
	1. Elementary School	11,7 %
	2. Middle School	23,5 %
	3. High School	43,8 %
	4. Undergraduate	12,3 %
	5. Postgraduate	4,3 %
	6. Doctorate	4,3 %
		100 %
C	**Umur**	
	1. 17-27 years	34,6 %
	2. 28-38 years	33,3 %
	3. 30-49 years	19,8 %
	4. 50-60 years	10,5 %
	5. Over 60 years	1,9 %
		100 %
B	**Lama Usaha**	
	1. Less than 1 years	35,2 %
	2. 1-5 years	39,5 %
	3. 6-10 years	21 %
	4. Above 10 years	4,3 %
		100 %

Source: Results of data processing using PLS (2024)

Based on table 1, the majority of food and beverage sector entrepreneurs in Jepara Regency who were respondents were women, namely 82 (51%). Regarding education level, most respondents had a vocational high school/high school education, 71 (43%). Based on the age of the respondents, most respondents were aged 17-27, amounting to 34.6%, and 28-38, amounting to 33.3%. This shows that the majority of food and beverage sector entrepreneurs are of productive age. Based on the length of their business, the majority of respondents have a business length of around 1-5 years, amounting to 64 (39.5%) respondents.

To determine the validity of an indicator, a validity test is carried out using the loading factor approach with a value limit of at least 0.70. The correlation between the indicator value and the construct value is known as the loading factor. In convergent validity testing, an AVE value of at least 0.70 is quite accurate in describing the extent of convergence validity. In other words, the latent variable is

able to describe an average of more than half of the variance in the indicator. This value is valid because the score of each variable in table 2 has an AVE score > 0.70.

Table 2. Validity and Reliability

	Cronbach's Alpha	Composite Reliability	AVE
Financial performance	0,757	0,861	0,674
Manajerial capability	0,612	0,788	0,558
Operational capability	0,628	0,802	0,575
Human capability	0,741	0,852	0,658
Innovation capability	0,706	0,836	0,629

Source: Results of data processing using PLS (2024)

Based on Table 2, the next test is the validity and reliability test using the provisions of Cronbach Alpha (> 0.7), composite reliability (> 0.7), and AVE (> 0.5). In Table 2, it can be seen from the Cronbach Alpha value, composite reliability, that it can be concluded that all constructs/variables used in the research model have a good level of reliability because they have composite reliability, Cronbach Alpha values that exceed 0.7. AVE testing is useful for assessing convergence and divergent validity. The results of the AVE test reflect each latent factor in the reflective model. An AVE value greater than 0.5 means that all variables can be said to be valid..

Table 3. R-Square

	R Square	R Square Adjusted
Financial performance	0,692	0,684

Source: Results of data processing using PLS (2024)

Based on Table 3, it shows the R-square value of 0.692; this shows that the financial performance variable (Y) is influenced by the managerial capability, operational capability, human capability, and innovation capability variables as independent variables of 69.2%, while the rest is not included in this study or is explained by other variables.

Table 4. F-Square

	Kinerja Keuangan
Manajerial capability	0,076
Operational capability	0,061
Human capability	0,043
Innovation capability	0,140

Source: Results of data processing using PLS (2024)

In Table 4. F-Square is a metric used to evaluate the measured influence of influencing variables (exogenous) on endogenous variables (affected). Measurement of F2 (f-square) can also be called the transformation effect. F2 means the change in the R2 value when a certain exogenous variable is removed from the model; then it can be used to assume whether the removed variable has a substantive influence on the endogenous construct. Based on table 5, the F-Square output managerial capability is 0.076, operational capability is 0.061, human capability is 0.043, and innovation capability is 0.140, which can be concluded that the moderate effect of exogenous variables on endogenous variables.

The goodness of fit (GoF) of this model is used to validate the overall model between the measurement model and the structural model. To obtain the GoF value, it can be searched using the following formula:

$$GoF = \sqrt{AVE}\ x \sqrt{R^2}$$

The GoF (Goodness of Fit) value in this study shows 0.678, which can be concluded that the GoF value is in the high category because it is close to 1, and it is stated that the results of the observations that have been carried out are in accordance with the model used or good fit.

Table 5. Path Coefficient

	Original Sample (O)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Manajerial capability -> Financial performance	0,232	0,091	2,561	0,011
Operational capability -> Financial performance	0,208	0,087	2,394	0,017
Human capability -> Financial performance	0,181	0,092	1,964	0,050
Innovation capability -> Financial performance	0,331	0,083	4,002	0,000

Source: Results of data processing using PLS (2024)

In Table 5, the path coefficient shows the hypothesis testing of this study. Table 5 is used to ensure the truth of a hypothesis. The path coefficient requirement is 5%. The T table value = 1.654; if the T statistic > 1.654 and p value <0.05, then the hypothesis has a significant effect.

The results of hypothesis testing with the partial least squares structural equation model are shown in Figure 1.

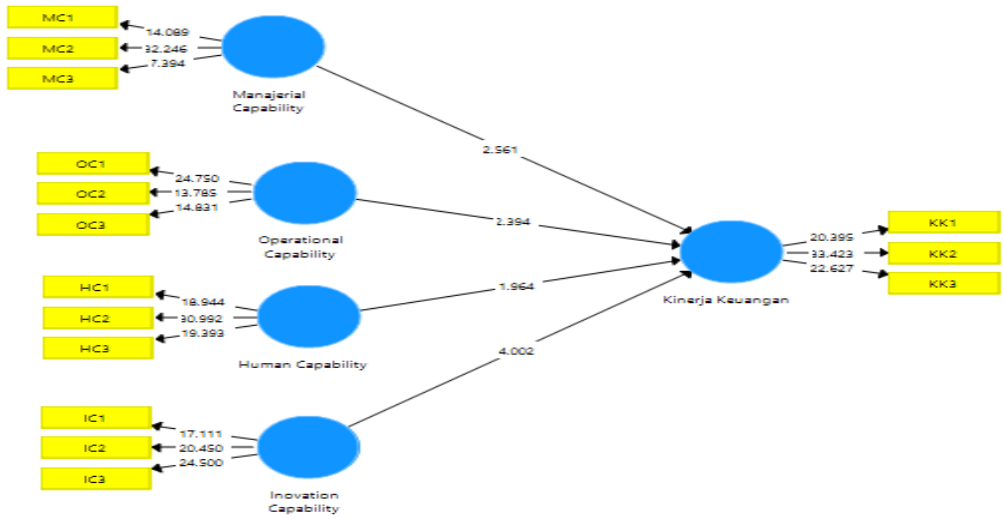

Figure 1. PLS Bootstrapping Output Results
Source: Results of data processing using PLS (2024)

In hypothesis testing, the managerial capability variable (X1) on financial performance (Y) shows a T-statistic value of 2.561 > 1.654, while the p-value has a value of 0.011 < 0.05, meaning that the managerial capability variable (X1) has a significant positive effect on financial performance (Y).

In addition, for the operational capability variable (X2) on financial performance (Y), the T-statistic value obtained was 2.394 > 1.654, while the p-value had a value of 0.017 < 0.05, meaning that the operational capability variable (X2) had a significant positive effect on financial performance (Y).

Meanwhile, the human capability variable (X3) on financial performance (Y) has a T-statistic value of 1.964 > 1.654, while the p-value has a value of 0.050 ≤ 0.05, meaning that the human capability variable (X3) has a significant positive effect on financial performance (Y).

The innovation capability variable (X4) on financial performance (Y) shows a T-statistic of 4.002 > 1.654, while the p-value has a value of 0.000 < 0.05, meaning that the innovation capability variable (X4) has a significant positive effect on financial performance (Y).

4.2. Discussion

Based on research conducted on SMEs in the food and beverage sector in Jepara Regency, it was found that managerial capability, operational capability, human capability, and innovation capability have a significant positive effect on financial performance. Managerial capability plays an important role in directing strategic decisions and human resource development, which ultimately contributes to operational efficiency and innovation that are relevant to business sustainability in a competitive market (Ali et al., 2017). Managerial capability, which includes decision-making, management style, and human resource development, contributes greatly to organizational innovation and efficiency in responding to rapid market changes (Ali et al., 2019)

In addition, operational capabilities, which include quality management and production process efficiency, have been shown to strengthen a company's competitiveness through reduced production costs and improved product performance Tan et al. (2007). Operational capabilities, such as new product design and quality management, have been shown to improve performance through reduced production costs and improved service quality. These capabilities are directly related to financial performance because they provide a competitive advantage in a highly competitive market.

Human capability has also been shown to be a key factor in improving financial performance, with relevant skills, knowledge, and experience in developing innovations that the market requires (Selivanovskikh, 2023). Finally, innovation capability plays a vital role in introducing new products and adopting new technologies that support the long-term success of SMEs (Dai et al., 2020). Strong innovation capability enables SMEs to develop new products and better respond to changing market demands, which significantly improves the financial performance of the company. Factors such as innovation culture and innovation strategy are key drivers in improving the performance of SMEs in the food and beverage sector (Dai et al., 2020). Overall, these four capabilities complement each other in driving the financial performance of SMEs, where each capability makes an important contribution to facing competitive challenges and maintaining business growth.

5. Conclusion

5.1. Conclusion

Based on the results of research on food and beverage sector SMEs in Jepara Regency, it was concluded that managerial capability, operational capability, human capability, and innovation capability have a significant positive influence on financial performance. Managerial capability plays an important role in effective strategic management and decision-making so as to increase business efficiency and profitability. On the other hand, operational capability contributes to optimizing production and distribution processes, reducing operational costs, and increasing overall efficiency, which has a positive impact on financial performance.

Human capability, including human resource skills and competencies, has been proven to enhance productivity and product quality, ultimately strengthening the financial position of SMEs. In addition, innovation capability encourages SMEs to innovate in their products and business processes, thereby increasing competitiveness in the market and contributing significantly to increased profitability. Thus, these four capabilities synergistically affect the financial performance of SMEs, making them a key factor in the growth and sustainability of businesses in the food and beverage sector in Jepara Regency.

5.2. Limitation

Sample and location limitations. This study was only conducted on SMEs in the food and beverage sector in Jepara Regency. Thus, the results of this study may not be generalizable to other sectors or regions that have different business and economic characteristics. Variations among other geographic regions and industry sectors may produce different findings.

Limited focus on capability variables. This study focuses on four capabilities (managerial, operational, human, and innovation), while other factors such as technological capabilities, business environment, or government regulations that may affect SME financial performance are not discussed in depth. These external factors can significantly influence performance outcomes beyond internal capabilities alone.

Using quantitative data only. If the study only used a quantitative approach (such as a survey), this could limit the depth of understanding regarding the dynamics and nuances in the relationship between capabilities and financial performance. Qualitative methods such as in-depth interviews with business actors can provide additional insights into how these capabilities are applied in everyday practice.

Time constraints of the study. Studies conducted over a limited period may not be able to capture the long-term impact of capability enhancement on financial performance. For example, the effects of increased innovation capability often take longer to be realized in the form of improved financial performance.

Possible respondent bias. In survey-based research, there is a possibility of respondent bias, especially when they provide information about their company performance or managerial capabilities. Respondents may tend to give more positive answers than the actual situation.

The influence of external factors. This study may not directly consider external factors such as macroeconomic conditions, changes in government policies, or fluctuations in raw material prices, which can have a significant impact on the financial performance of SMEs.

Recognizing these limitations, further research can expand the scope of the area, include external variables, use mixed methods (quantitative and qualitative), and conduct longitudinal analysis to obtain more comprehensive and generalizable results.

5.3. Suggestion

Based on the limitations that have been identified, here are some suggestions for further research that can improve the quality and generalization of the findings. Expand the geographical and sector coverage. Further research should involve SMEs from various sectors other than food and beverages and involve wider locations outside Jepara Regency. By involving a more diverse sample, research can provide more generalizable and relevant findings for various industrial sectors and geographic areas.

Consider incorporating external variables in future research to gain a deeper understanding of the factors impacting SME financial performance. These external variables could include macroeconomic conditions, government policies, and market dynamics. This approach will help in recognizing how internal capabilities interact with the external environment to affect financial performance.

Further research can utilize a mixed methods approach, incorporating both quantitative and qualitative methods to gain deeper insights. In addition to conducting quantitative surveys, researchers can also conduct in-depth interviews with business professionals or perform case study analyses to obtain a more comprehensive understanding of how managerial, operational, human, and innovation capabilities are applied in daily practice.

Conducting longitudinal research: Since the impact of capabilities on financial performance often takes time to manifest, future research could benefit from using a longitudinal research design. By tracking changes in capabilities and financial performance over an extended period, researchers could gain insights into the long-term effects of capability improvements.

Measuring indirect impacts: Future research could delve deeper into the indirect effects of these capabilities on financial performance. For example, this could involve studying the role of innovation

as a mediator, as well as other factors like customer engagement or operational efficiency that contribute to financial performance.

Using more complex statistical methods. To obtain more accurate results and understand the complex relationships between variables, future research can use more complex statistical methods, such as structural equation modeling (SEM). This method can help in examining causal relationships and interactions between variables in more depth.

Considering technological and digitalization factors. Given the importance of technology and digitalization in improving business capabilities today, future research can explore how technological capabilities, such as the adoption of digital technologies and e-commerce, interact with managerial, operational, human, and innovation capabilities in improving SME financial performance.

By implementing these suggestions, further research can provide broader and deeper insights and help business actors and policymakers improve the financial performance of SMEs in various sectors.

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