

## Digital Financial Services and Financial Inclusion as Drivers of SME Performance: The Moderating Effect of Dynamic Capabilities

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### Abstract

This study aims to analyze the impact of Digital Financial Services (DFS) and Financial Inclusion on the performance of Micro, Small, and Medium Enterprises (MSMEs), as well as the moderating role of Dynamic Capability in this relationship. The study uses a quantitative approach with a survey design and a sample of 135 MSMEs across various industry sectors. Data was collected through a questionnaire using a Likert scale to measure respondents' perceptions of each variable. Data analysis was conducted using Structural Equation Modeling (SEM) to examine the direct relationships between Digital Financial Services and Performance, Financial Inclusion and Performance, as well as the interaction between Dynamic Capability with both of these variables and Performance. The results of the study show that Digital Financial Services and Financial Inclusion have a significant impact on MSME performance. However, the interaction between Dynamic Capability and Financial Inclusion, as well as between Dynamic Capability and Digital Financial Services, did not show a significant effect on performance. This research provides valuable insights into the factors influencing MSME performance and the need for policies that support the development of digital financial services and financial inclusion to enhance business performance.

**Keywords:** Digital Financial Services, Financial Inclusion, Dynamic Capability, Performance.

### Abstrak

Penelitian ini bertujuan untuk menganalisis dampak Layanan Keuangan Digital (LKD) dan Inklusi Keuangan terhadap kinerja Usaha Mikro, Kecil, dan Menengah (UMKM), serta peran moderasi Kapabilitas Dinamis dalam hubungan tersebut. Penelitian ini menggunakan pendekatan kuantitatif dengan desain survei dan sampel sebanyak 135 UMKM di berbagai sektor industri. Data dikumpulkan melalui kuesioner dengan skala Likert untuk mengukur persepsi responden terhadap masing-masing variabel. Analisis data dilakukan dengan menggunakan Structural Equation Modeling (SEM) untuk menguji hubungan langsung antara Layanan Keuangan Digital dengan Kinerja, Inklusi Keuangan dengan Kinerja, serta interaksi antara Kapabilitas Dinamis dengan kedua variabel tersebut dan Kinerja. Hasil penelitian menunjukkan bahwa Layanan Keuangan Digital dan Inklusi Keuangan memiliki dampak yang signifikan terhadap kinerja UMKM. Namun, interaksi antara Kapabilitas Dinamis dengan Inklusi Keuangan, serta antara Kapabilitas Dinamis dengan Layanan Keuangan Digital, tidak menunjukkan pengaruh yang signifikan terhadap kinerja. Penelitian ini memberikan wawasan berharga mengenai faktor-faktor yang memengaruhi kinerja UMKM dan perlunya kebijakan yang mendukung pengembangan layanan keuangan digital dan inklusi keuangan untuk meningkatkan kinerja bisnis.

**Kata kunci:** Layanan Keuangan Digital, Inklusi Keuangan, Kemampuan Dinamis, Kinerja.

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## INTRODUCTION

In today's digital era, digital financial services and financial inclusion have become crucial elements in driving the performance of Small and Medium Enterprises (SMEs) in many developing countries, including Indonesia. Digital financial services provide easier and faster access to various financial products, such as loans, digital payments, and savings, which were previously difficult for SMEs to access, especially in areas that are underserved by traditional financial institutions. Financial

inclusion, which focuses on providing access to financial services for individuals and businesses that are not reached by the formal financial system, is vital in the context of economic growth and the empowerment of SMEs.

Particularly in Surabaya, one of Indonesia's largest economic hubs, many SMEs are beginning to adopt financial technology to improve their access to financing and enhance their competitiveness in the market. However, despite the significant opportunities, challenges related to low digital literacy and unequal access to financial services remain. Therefore, this research aims to examine how digital financial services and financial inclusion affect the performance of SMEs.

Digital financial services are one of the key variables in this study because they provide SMEs with easier and more affordable access to financial services, which is essential for improving their performance. Previous research has shown that digital financial services can enhance SME performance through improved operational efficiency, reduced financing costs, and better access to capital. For example, Bakashaba et al. (2024) found that access to digital financial services is positively correlated with SME performance, emphasizing that access to financing is critical for operational efficiency and business growth. Yu et al. (2023) also revealed that businesses in regions with better digital financial inclusion report better financial performance, driven by reduced financing costs, the ability to take on more risk, and greater investment in innovation.

On the other hand, financial inclusion plays an important role in improving SMEs' access to the financial products and services needed for growth and innovation. Financial inclusion opens the door for SMEs to obtain loans, insurance, and other financial products that can reduce the financing barriers they face. Research indicates that increased financial inclusion is directly linked to improved SME performance, as better access to financing enables them to be more innovative and competitive (Purwanti & Fatmawati, 2023). In Surabaya, for example, the implementation of digital payment systems such as QRIS (Quick Response Code Indonesian Standard) has proven effective in promoting financial inclusion by simplifying the payment process for SMEs, which in turn supports their business growth (Muditomo & Setyawati, 2022).

Furthermore, dynamic capability is an important moderating factor in this study. Dynamic capability refers to SMEs' ability to adapt, respond to, and develop their resources and competencies to cope with rapidly changing environments. Research by Omeke et al. (2021) shows that SMEs with better dynamic capabilities are more able to effectively capitalize on the opportunities provided by digital financial services and financial inclusion, which in turn enhances their performance. With high dynamic capabilities, SMEs can adapt more quickly to new technologies and leverage access to digital financial services for sustainable growth.

While much research has been done on the impact of digital financial services and financial inclusion on SME performance, there is still a gap in the literature that needs to be addressed, particularly in the context of developing countries like Indonesia. Many studies separate digital financial services from financial inclusion without considering the synergistic relationship between

the two in improving SME performance. Additionally, while the concept of dynamic capabilities has been widely discussed in the literature, few studies have explored how dynamic capabilities can moderate the relationship between digital financial services, financial inclusion, and SME performance, especially in areas with financial infrastructure challenges like Surabaya.

Moreover, previous research tends to focus on the technological aspects or financial inclusion separately, without integrating dynamic capabilities into their analysis. For example, although digital financial services and financial inclusion have a significant impact on SME performance, many SMEs are unable to optimize these potentials due to a lack of ability to adapt to technological and market changes. Therefore, there is a need to further investigate how dynamic capabilities can enhance or diminish the impact of digital financial services and financial inclusion on SME performance in Surabaya.

To address this research gap, this study proposes a model that integrates digital financial services and financial inclusion as two variables that affect SME performance, with dynamic capability as a moderating factor. By using this model, the study aims to test whether SMEs with higher dynamic capabilities can more effectively leverage digital financial services and financial inclusion to improve their performance. Dynamic capabilities enable SMEs to adapt more quickly to technological changes and market conditions, which in turn affects how they access and use digital financial services.

This model is expected to provide new insights into how SMEs in Surabaya can optimize the benefits of digital financial services and financial inclusion by developing their dynamic capabilities. Dynamic capabilities, which include the ability to innovate, adapt to new technologies, and manage external changes, will play a key role in explaining why some SMEs are more successful in using financial technology to improve their performance than others. Thus, this study aims to provide practical guidance for policymakers, financial service providers, and SME owners in designing strategies that can enhance business performance through the use of digital financial services and financial inclusion.

The study will be conducted in Surabaya, one of Indonesia's major economic centers, with a large population and rapidly growing economy. Surabaya hosts many SMEs across various sectors, particularly in trade, manufacturing, and services, which are integral parts of the local economy. However, challenges in accessing financial services are still significant, especially for SMEs operating in areas less accessible by traditional banking systems. With the rapid adoption of technology in Surabaya, this study focuses on understanding how digital financial services and financial inclusion affect the performance of SMEs in the city and how dynamic capabilities can moderate this effect.

The primary goal of this study is to examine the impact of digital financial services and financial inclusion on SME performance in Surabaya, as well as to explore how dynamic capabilities can moderate this relationship. The study also aims to provide a deeper understanding of how SMEs

with higher dynamic capabilities can more effectively use digital financial services and financial inclusion to improve their performance. The main contribution of this research is to provide valuable insights for policymakers, financial service providers, and SME owners in designing policies and strategies that can maximize the potential of financial technology and financial inclusion to drive growth and sustainability for SMEs in Surabaya.

### ***Digital Financial Services On Performance***

The relationship between variables in the context of Digital Financial Services (DFS) and the performance of Small and Medium Enterprises (SMEs) can be seen through the interconnectedness of financing access, digital financial literacy, and financial management. Easier access to digital financial services plays a key role in improving operational efficiency, reducing financing costs, and expanding investment opportunities for SMEs. Research by Bakashaba et al. (2024) and Yu et al. (2023) shows that SMEs with access to DFS tend to experience improvements in financial performance and innovation capacity, leading to faster business growth. Access to credit through digital platforms helps SMEs obtain the working capital needed for business expansion, especially for those hindered by the limitations of traditional financial systems.

Moreover, digital financial literacy serves as an important moderating factor in how SME owners utilize financial technology to enhance their business performance. Hamid et al. (2024) and Angeles (2022) argue that SME owners with a better understanding of how to use digital financial services are more efficient in managing their finances, reducing financial risks, and increasing profitability. Digital financial literacy allows entrepreneurs to make more informed financial decisions, thereby maximizing the potential offered by DFS. Therefore, the relationship between financial literacy and SME performance is greatly influenced by how well entrepreneurs understand and apply digital financial services in their daily operations.

Another challenge that arises is the dependence on adequate digital infrastructure and government policy support to address access and literacy gaps. While DFS offers significant potential to improve SME performance, gaps in access to technology and varying levels of digital literacy across different regions can limit these positive effects. Flaminiano & Francisco (2021) and Zeng (2023) show that in remote areas, limited digital infrastructure can prevent SMEs from fully leveraging the benefits of DFS. Therefore, public policies supporting digital infrastructure development and financial literacy programs are crucial to ensure that DFS can have a maximum impact on SME performance. Government involvement in providing more equitable access to technology and training resources will be a decisive factor in enhancing the successful implementation of DFS in SMEs.

### ***Financial inclusion on performance***

Financial inclusion, defined as access to essential financial products and services, plays a key role in meeting the financial needs of SMEs, especially those in underserved regions. An important aspect of financial inclusion is financial literacy, which has been shown to improve the managerial

abilities of SME owners. Research indicates that SME owners with higher financial literacy are better equipped to make informed decisions regarding funding, investment, and risk management (Rahmajati & Kusuma, 2023). Tailored financial literacy programs for SMEs, combined with financial inclusion initiatives, can lead to more effective financial management, helping businesses optimize resources and increase profitability (Togun et al., 2023). Therefore, the relationship between financial literacy and SME performance is crucial for understanding how financial inclusion initiatives can be more effective when paired with educational programs that empower SME owners with the skills to manage their finances efficiently.

Furthermore, the integration of digital financial services increasingly enhances the benefits of financial inclusion by addressing financing barriers often faced by many SMEs, particularly in developing countries. Digital financial platforms, such as mobile banking and digital payment systems, facilitate easier access to capital and enhance financial transactions. This reduces traditional barriers, such as geographical limitations and high transaction costs, that previously hindered SMEs from accessing financing. The success of digital initiatives like the Quick Response Code Indonesian Standard (QRIS) demonstrates how digital platforms can streamline payment processes for SMEs, improve cash flow, and enhance business operations (Muditomo & Setyawati, 2022). Additionally, microfinance initiatives and mobile banking continue to play a significant role in expanding financial inclusion by providing tailored financial products, especially in rural areas where traditional banking services are limited (Ajinaja & Odeyale, 2017; Ouncho et al., 2023). As a result, financial inclusion through both traditional and digital channels drives economic growth and stability, contributing to job creation, increased productivity, and financial stability in the broader economy (Ghassibe et al., 2019; Morgan & Pontines, 2018).

### ***Digital financial services on performance moderated Dynamic Capability***

Digital Financial Services (DFS) have emerged as a transformational force for Small and Medium Enterprises (SMEs), significantly enhancing their performance with the moderation of dynamic capabilities. The integration of digital technology into financial services facilitates easier access to various financing options, which is crucial in overcoming the financial constraints that SMEs often face. Research shows a direct positive impact of digital financial services on SME performance. For instance, Mwakio et al. (2024) demonstrate that digital financial services, especially digital money platforms, significantly improve SMEs' access to essential financial resources, thereby enhancing operational efficiency and growth potential. This is further supported by Sun and Jie (2024), who explain that digital financial inclusion is key to supporting the development of micro and small businesses by reducing financing limitations and fostering innovation. Satria et al. (2024) add that the effective implementation of digital financial services can strengthen SME resilience and performance, especially in the face of economic uncertainty.

The role of dynamic capabilities becomes crucial in moderating the relationship between digital financial services and SME performance. Dynamic capabilities refer to a company's ability to quickly

adapt, integrate, and reconfigure both internal and external competencies in response to market changes, which can enhance the benefits derived from digital financial services. Sebhatu (2021) emphasizes that managerial capabilities, such as networking and innovation, are essential for improving SME performance in dynamic market environments. This concept is supported by research from Hernández- Linares et al. (2020), who found that several dimensions of dynamic capabilities significantly influence SME performance, particularly when coupled with a market orientation. These studies indicate that dynamic capabilities not only accelerate adaptation to market changes but also optimize the utilization of digital financial services.

Moreover, research shows that improving dynamic capabilities can further optimize the benefits provided by digital financial services. Martins (2022) reveals that digital transformation acts as a crucial moderator in the relationship between dynamic capabilities and SME performance, suggesting that digitalization initiatives can amplify the impact of a company's adaptation capabilities. Liu et al. (2024) also argue that dynamic capabilities drive business model innovation, positively affecting SME performance in response to digital transformation. Jeyaranjan and Thavakumar (2020) highlight that understanding the interaction between dynamic capabilities and performance allows SMEs to effectively leverage digital financial services, overcoming constraints imposed by rigid organizational structures. By facilitating operational agility, SMEs can better seize opportunities presented by digital financial services, which is critical for their survival and success in today's fast-paced business environment.

### ***Financial Inclusion On Performance Moderated Dynamic Capability***

Financial inclusion plays a crucial role in enhancing the performance of Small and Medium Enterprises (SMEs), especially when moderated by dynamic capabilities. Financial inclusion enables SMEs to access essential financial services, facilitating investment and innovation, which in turn improves operational performance and business sustainability. This relationship has been supported by various studies. Halimatusyadiah et al. (2025) state that increased financial inclusion is essential for improving SMEs' contribution to economic growth, particularly in areas like Bengkulu City, where low financial inclusion limits the sector's impact. The same findings were also observed by Togun et al. (2023), who show that financial literacy mediates the relationship between financial inclusion and SME performance, suggesting that better access to financial resources is positively related to business success. Purwanti and Fatmawati (2023) also confirm that the increase in financial inclusion in Bekasi corresponds with improved performance of small businesses, such as angkringan (street food stalls), further validating the positive impact of financial inclusion on SMEs.

The moderating role of dynamic capabilities becomes crucial in strengthening the benefits of financial inclusion for SMEs. Dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure both internal and external competencies to face a rapidly changing environment. In the context of SMEs, dynamic capabilities allow businesses to adapt to new financial landscapes and optimize resources effectively. Omeke et al. (2021) emphasize that dynamic

capabilities significantly influence company growth and facilitate innovation and competitive advantage. This is also supported by Loo (2021), who explains how dynamic capabilities enhance the relationship between business strategy and performance in fast-growing markets, underscoring their importance in leveraging available financial resources.

Furthermore, social capital acts as a moderating factor alongside dynamic capabilities, strengthening the relationship between financial behavior and financial inclusion, as shown by Onodugo et al. (2021). Their findings suggest that building social networks can bridge gaps in access to financial resources, creating a more inclusive environment for SMEs. Jaya (2022) also illustrates that external factors, including support from local financial institutions, significantly impact the dynamic capabilities of SMEs, which in turn affects their financial inclusion strategies. This strengthens the view that external pressures and support mechanisms can enhance SMEs' operational effectiveness, enabling them to maximize the use of available financial services.

## **METHOD**

This research uses a quantitative approach with a survey design to analyze the relationships between Digital Financial Services, Financial Inclusion, and Dynamic Capability on SME Performance. The sample consists of 135 SMEs operating across various industry sectors. Data collection was carried out using a questionnaire designed based on a 1-5 Likert scale to measure respondents' perceptions of each variable in the research model. The questionnaire includes four main constructs: Digital Financial Services, Financial Inclusion, Dynamic Capability, and Performance, as assessed by SME owners or managers. Data analysis was performed using Structural Equation Modeling (SEM) to test the direct relationships and interactions between variables, including the moderating effect of Dynamic Capability on the relationship between Financial Inclusion and Digital Financial Services with Performance.

## **RESULTS AND DISCUSSION**

Table 1. Measurement items and Constructs

<b>Variables</b>	<b>Items</b>	<b>Loading</b>	<b>Cronbach's alpha</b>	<b>Composite reliability</b>	<b>Average variance extracted</b>
Dynamic _Capability	M.1	0,950	0,989	0,847	0,928
	M.2	0,998			
	M.3	0,941			
Digital _Financial Services	X1.1	0,959	0,984	0,984	0,940
	X1.2	0,984			
	X1.3	0,961			
	X1.4	0,978			
	X1.5	0,965			
Financial _Inclusion	X2.1	0,968	0,983	0,983	0,953
	X2.2	0,985			
	X2.3	0,966			
	X2.4	0,985			
Performance	Y1.1	0,951	0,948	0,949	0,906

	Y1.2	0,963		
	Y1.3	0,941		
	R-square	R-square adjusted		
Performance	0,443	0,421		

The table presented illustrates the measurement results of several variables in the research model used to assess Dynamic Capability, Digital Financial Services, Financial Inclusion, and Performance. The factor loadings indicate the strength of the relationship between each item and the construct being measured, with high values such as the Dynamic Capability variable, which has a loading of 0.998 for item M.2, signifying a very strong correlation with the construct. This high factor loading indicates that these items are highly relevant in representing the intended latent variable.

Regarding measurement reliability, the Cronbach's Alpha and Composite Reliability (CR) values for each construct show excellent results, with all values exceeding 0.9. The high Cronbach's Alpha values indicate that the measurement scale has very good internal consistency, while the high CR values, such as for Dynamic Capability (0.989), suggest that the construct is highly reliable overall. This reliability is crucial to ensure that the measurement results are consistent and trustworthy in the research.

Additionally, the Average Variance Extracted (AVE) values greater than 0.7 for each variable indicate that the constructs being measured have a very good ability to explain the variance in the items. This shows that the items within each construct effectively represent the latent construct. As for the R-Square and Adjusted R-Square values for the Performance variable, 44.3% of the variability in Performance is explained by other constructs in the model, with a slight decrease in the adjusted R-square value (0.421), indicating that the model still provides a good explanatory quality even after adjusting for the number of variables. Overall, these measurement results suggest that the research model has excellent validity and reliability, making it suitable for further analysis.

Table 2. Hypotheses Testing

	<b>Original sample</b>	<b>T statistics</b>	<b>P values</b>
Digital _Financial Services -> Performance	0,395	4,779	0,000
Financial _Inclusion -> Performance	0,445	5,284	0,000
Dynamic _Capability x Financial _Inclusion -> Performance	0,082	1,050	0,294
Dynamic _Capability x Digital _Financial Services -> Performance	0,130	1,758	0,079

In this study, the relationship between Digital Financial Services (DFS) and Performance showed statistically significant results, with a coefficient value of 0.395 and high T statistics (4.779). This indicates that improvements in DFS positively contribute to enhanced performance. The very small p-value (0.000) confirms that this relationship is not only statistically significant but also has a substantial impact on the performance measured in the study.

Similarly, the relationship between Financial Inclusion and Performance also showed significant results, with a coefficient of 0.445 and T statistics of 5.284. This indicates that financial inclusion plays a crucial role in improving performance. The small p-value (0.000) shows that Financial Inclusion has a strong and significant impact on Performance, signaling that the more inclusive financial services are, the better the performance achieved.

However, the interactions between Dynamic Capability and Financial Inclusion, as well as between Dynamic Capability and Digital Financial Services on Performance, did not show significant results. With p-values greater than 0.05, both interactions did not contribute meaningfully to Performance. This suggests that while Dynamic Capability may influence performance, its interaction with other factors does not have a significant impact in this model.

The discussion regarding the effect of Digital Financial Services (DFS) on Performance highlights that as digital financial services develop, performance improves. Easier and faster access to digital financial services allows for greater efficiency in transactions and financial management, which in turn increases productivity and outcomes. Research by Bakashaba et al. (2024) and Yu et al. (2023) supports this finding, showing that SMEs with access to DFS tend to experience improvements in financial performance and innovation capacity, leading to faster business growth. This indicates that digital financial services have great potential in driving performance, both at the individual and organizational levels. Access to credit through digital platforms makes it easier for SMEs to obtain the working capital needed for business expansion, which was previously hindered by limitations in traditional financial systems.

Additionally, the Financial Inclusion factor has also been shown to have a positive impact on Performance. Financial inclusion enables more individuals or groups to access financial services, reducing economic disparities and increasing purchasing power. Rahmajati & Kusuma (2023) state that SME owners with higher financial literacy are better able to make informed decisions regarding funding, investment, and risk management. This supports the idea that broader financial inclusion provides more opportunities for people to participate in economic activities, ultimately contributing to improved overall economic performance. Moreover, initiatives such as QRIS and mobile banking that simplify transactions for SMEs also play a key role in expanding financial inclusion, as found by Muditomo & Setyawati (2022).

However, the interactions between Dynamic Capability and Financial Inclusion, as well as Dynamic Capability and Digital Financial Services, did not show a significant effect on Performance. While Dynamic Capability is important in helping organizations adapt to change, its interactions with these factors were not strong enough to directly boost performance. Sebhatu (2021) stated that dynamic capabilities are crucial in improving SME performance in dynamic market environments. However, the effect of Dynamic Capability on performance is more complex and may be influenced by other factors, such as organizational strategies or deeper market conditions. Therefore, further research is needed to explore other conditions or variables that may moderate or strengthen this

relationship, as suggested by Hernández- Linares et al. (2020), who found that several dimensions of dynamic capabilities significantly affect SME performance, especially when combined with market orientation.

## **CONCLUSION**

This study shows that Digital Financial Services (DFS) and Financial Inclusion have a significant positive impact on Performance. Increased access to and use of digital financial services greatly contribute to improving operational efficiency and innovation capacity, which, in turn, drive growth and better performance. Similarly, financial inclusion, which broadens access to financial services for more individuals and groups, directly contributes to the performance achieved. These findings emphasize the importance of expanding access to digital financial services as an effort to enhance productivity and business performance, especially in the context of SMEs.

However, the interactions between Dynamic Capability and Financial Inclusion, as well as between Dynamic Capability and Digital Financial Services, did not show a significant effect on Performance. This indicates that while Dynamic Capability plays a role in helping organizations adapt to market changes, its direct impact on performance is more complex and influenced by other factors, such as organizational strategy or deeper market conditions. Therefore, even though Dynamic Capability is important, these interactions were not strong enough to produce a significant impact in the model used in this study.

This study has limitations, particularly regarding the model used and the cross-sectional nature of the data. The insignificant results in the interactions between Dynamic Capability and other variables may be influenced by external variables that were not accounted for, as well as limitations in the sample selection. Future research is recommended to expand the model by including additional variables that could moderate or strengthen the existing relationships, as well as conducting longitudinal research to understand the long-term impact. Further exploration of the role of Dynamic Capability in optimizing new technologies is also important to gain deeper insights into how internal factors can strengthen the external influence on business performance.

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