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DIGITAL TRANSFORMATION, MARKETING, BUSINESS SIZE, FINANCIAL LITERATION ON SMES' COMPETITIVE ADVANTAGE

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Abstract
This study investigates the influence of digital transformation, marketing strategies, and business size on competitive advantage and performance in Indonesian SMEs. With a sample of 100 SMEs, the research reveals that digital transformation alone does not directly impact competitive advantage or performance. However, when mediated by financial literacy, digital transformation becomes a significant factor affecting both competitive advantage and company performance. Marketing strategies directly influence competitive advantage but not firm performance. Business size has a direct impact on both competitive advantage and performance. Financial literacy plays a crucial moderating role in shaping the relationships between digital transformation, competitive advantage, and firm performance. The findings suggest potential avenues for future research, emphasizing the need for broader sample sizes and additional variables to enhance the understanding of these dynamics in similar contexts.

Keywords: *digital transformation; marketing strategy; business size; competitive advantage; firm performance*

INTRODUCTION

The Small and Medium Enterprises (SMEs) are currently facing difficult situation in the midst of an increasingly complex business environment. Competition has also become tighter along with the swift flow of free trade which automatically makes competition come from all directions, both domestically, regionally, and globally (Ragimun & Sri Widodo, 2019). Moreover, entering the era of industry 4.0, threats also come from the way they adapt to increasingly digital technology (Moeuf et al., 2018). SMEs must think of ways so that the products they have can still be accepted by the community and there is no economic downturn(Saleem et al., 2021). Moreover, considering that SMEs are an important part of the economy of a country or a region, Indonesia is no exception (Herlinawati & Machmud, 2020). The development of MSME sector is often interpreted as an indicator of the success of development, especially for countries with low per capita incomes (Hadi Putra & Santoso, 2020). As an illustration in 2011-2012, although its contribution to national output (GDP) was only 57.94 percent, MSMEs contributed 99.9 percent to the number of business entities in Indonesia and had a 97.24 percent share in the absorption of the workforce. www.depkop.go.id). A large role of MSMEs provides an explanation that MSMEs must be improved even better. Nine percents in the number of business entities in Indonesia and has a share of 97.24 percent in employment.

In responding to these challenges, competitive advantage becomes an important and demanding thing that SMEs can maintain (Distanont & Khongmalai, 2020). It has to be able to explain and instil business value to consumers, thus, it can form its own perceptions toward consumers (Juanamasta et al., 2019). It means that businesses must convince consumers to will in spending their time and money to gain benefits and value commensurate. Competitive advantage is unique because each SME has different advantages (Knudsen et al., 2021). The SMEs performance must be improved in order to maintain competitive advantage. Every company has many potential sources in it so that the opportunity to develop competitive advantage is very large (Haseeb et al., 2019).

Measurement of competitive advantage and good performance of SMEs can be influenced by many factors. In the industrial revolution 4.0 era, digital transformation is a factor that should be taken into account to be able to influence the competitive advantage and performance of SMEs (Garzoni et al., 2020). The concept of digital transformation has an understanding of utilizing new digital technology as a model for activities and transactions so that the Internet and other information technology industries emerge (Matarazzo et al., 2021). The wave of digital system transformation is a common element that encourages every activity to utilize digital media as its main means so that digital transformation becomes a pillar of industrial policy in several countries (Ulas, 2019). In a business with digital transformation, provide convenience for customers to order products or place orders about various other things easily and cheaply (Fernández-Rovira et al., 2021). No longer do all have to transact directly, but online this transaction can be done using various information technology media, ranging from ordering, payment, confirmation to the process of checking the delivery of goods all done digitally (Fernández-Rovira et al., 2021). The effect continues to the price of the product which will be cheaper, this is because the marketing and administration process does not require large costs. Finally, those who do business traditionally will reap the losses due to the shift of customers to digital transactions that are easy, cheap, fast and efficient. starting from ordering, payment, confirmation to the process of checking the delivery of goods all done digitally (Botello Velasto & González-Bueno, 2019).

This convenience then encourages the existence of a developing marketing strategy. The marketing strategy factor is also a determinant of the advantages and performance of SMEs(Malesev & Cherry, 2021). Marketing strategy can be in the form of brand image or positive perception which is the main capital to gain public trust (Iglesias et al., 2019). While other marketing aspects, such as advertising, location, facilities, study programs are supporting strategies. Marketing strategy is also related to the size of SMEs (Sanaei & Sobhani, 2018). Marketing strategy is a very important and influential thing for a business. Therefore, every company carries out various marketing strategies in order to escalate its sales volume. With the escalation in sales volume, the enterprises will also get the desired profit (D'Arconte, 2018). The better the marketing strategy used, the greater opportunity for the enterprises to expand market share(Keränen et al., 2020).

The size factor of SMEs also cannot be ignored considering the strength of competitive advantage and also the performance of SMEs is affected by this(Arsawan et al., 2022). The size of the business cannot be ignored because it includes the total of employees used to run the business, the number of assets owned, and the total sales achieved(Mabenge et al., 2022). Company size is companies' scope seen from the companies' total assets at the end of the year (Hirdinis, 2019). Small-scale companies are considered to carry out more earnings management practices than large-scale companies (Aguilar-Fernández & Otegi-Olaso, 2018). This is because small companies tend to want to show the condition of companies that always perform well (generate large profits), thus, investors are interested to consider investing their capital in those small companies.

In practice, financial literacy is an important factor in determining success level and economic sustainability for wider community of a country in order to improve their welfare, especially for business actors in Indonesia such as MSMEs (Raharja & Kostini, 2021). Financial literacy has become a hotly discussed issue in recent years in Indonesia. The issues that arise cannot be separated from various polemics that occur, starting from the Asean Economic Community (MEA). (Cardoni et al., 2020) states that MSMEs are one of the largest drivers of the informal sector in Indonesia which has a significant contribution to the economic system(Sulila & Usman, 2022). Based on the description above, this study aims to determine the effect of digital transformation, strategy of marketing, business size on competitive advantage and firm performance moderated by financial literacy in small medium enterprises in Indonesia.

METHODS

The approach utilized in this research is quantitative. Quantitative research method aims to test the established hypotheses. Quantitative method in this study is in a form of numbers derived from measurements using a scale on the variables in the study. Respondents in this study are 100 SMEs in Indonesia selected by simple random sampling.The data analysis used a structural approach to the Equation Model (SEM) assisted by 'smart PLS' application. The outer model is analysed to ensure whether the measurement is appropriate to use as the measurement (valid and reliable). The analysis of this model specifies the relationship between latent variables and indicators. Convergent Validity: the indicator assessed according to the correlation between the item/component score with the construct score, which can be perceived from the standardized loading factor describing the magnitude of the correlation between each measurement item (indicator) and the construct. Individual reflexive measures are said to be high if the correlation is >0.7. Discriminant Validity: a measurement model with reflexive indicators assessed according to the cross-loading of measurements with constructs discriminant validity, which is to compare the value of the square-root of average variance extracted (AVE).

Composite reliability: an indicator to measure a construct seen in the view of latent variable coefficients. In this measurement, if the value achieves >0.7, it is concluded that the construct has high reliability. Cronbach's Alpha: a reliability test in order to strengthen the result of composite reliability. A variable is considered to be reliable if it has Cronbach's alpha value of > 0.7.

The analysis of inner model is evaluated by using R-square of the dependent construct. The changes in the value of the R-square are utilized to assess the effect of certain independent latent variables toward dependent latent variable whether it has a substantive effect. The hypothesis in this research is tested from t-statistics and probability values. Testing the hypothesis utilizes statistical value in which for alpha of 5%. Based on the calculations carried out, it was found that all items of the instrument were reliable with all variables having a Cronbach Alpha score > 0.6 and Composite Reliability > 0.7.

RESULTS

Table 1. R-Square Score

	R-square	R-square Adjusted
Competitive Advantage Y_1	0.684	0.660
Firm Performance Y_2	0.665	0.640

The score obtained in the Table 1 describes that the Competitive Advantage (Y) variable is explained by digital transformation, marketing strategy, business size and financial literacy by 66.6%. Firm performances variable (Y_2) is influenced by digital transformation, marketing strategy, business size and financial literacy by 64%. Table 2 shown the results of hypothesis testing.

Table 2. Hypothesis Testing

	Original Sample(O)	T-statistics (|O/STDEV|)	P-value
The Effect of Digital Transformation toward Competitive Advantage	0.116	0.659	0.510
The Effect of Digital Transformation toward Company Performance	0.089	0.475	0.635
The Effect of Digital Transformation toward Competitive Advantage Mediated by Financial Literacy	0.312	2.285	0.023
The Effect of Digital Transformation toward Company Performance Mediated by Financial Literacy	0.354	2.188	0.029
The Effect of Marketing Strategy toward Competitive Advantage	0.347	2,327	0.020
The Effect of Marketing Strategy toward Company Performance	0.335	2,094	0.037
The effect of Marketing Strategy toward Competitive Advantage Mediated by Financial Literacy	-0.141	1.119	0.264
The Effect of Marketing Strategy toward Company Performance Mediated by Financial Literacy	-0.152	1.115	0.265
The Effect of Firm Size toward Competitive Advantage	0.269	2.102	0.036
The Effect of Company Size toward Company Performance	0.285	2,100	0.036
The Effect of Firm Size toward Competitive Advantage Mediated by Financial Literacy	-0.126	0.992	0.321
The Effect of Firm Size toward Firm Performance Mediated by Financial Literacy	-0.164	1,102	0.271

DISCUSSIONS

The test result showed that digital transformation does not affect the SMEs competitive advantage. In the face of increasingly fierce business competition triggered by increasingly sophisticated company information technology equipment, the search and application of new business concepts and strategies has become something that is commonly done. These efforts need to be continuously implemented so that a business organization is able to win the competition or maintain a comparative advantage or competitive advantage over its competitors. Unfortunately, not all companies can adapt to existing technological developments. Other than that (Ulas, 2019) view that competitive advantage in SME businesses is more of a tool for survival than a tool for growth. This is similar to what Jones said in(Nguyen et al., 2021). that small companies should focus on adding value in the production process and service innovation as a benchmark for their competitive advantage compared to profits or market share. In order to maintain growth and competitiveness, investment through the media costs a lot of company funds (Juanamasta et al., 2019).

Digital transformation cannot affect the company's performance. SMEs are considered necessary to adopt digitalization to maintain productivity and maintain their income. One of the challenges that hinder MSMEs from going digital is:their limited ability and knowledge in utilizing technology and digital platforms. MSME actors generally do not know how to download applications to sell, upload information and photos related to their products on e-commerce sites, and maximize the variety of features presented by online sites. Often businesses are confused about which platform they should use in order to reach more consumers. However, before determining which digital platform to use, business actors must first determine their target consumers. This is often referred to as finding the right persona (profile persona) to target. Digital marketing strategy or digital marketing is also one of the challenges that must be faced by MSMEs in their transformation journey. This misconception is what drives Small and Medium Enterprises (SMEs) to think that the enterprises only need to focus on products and prices, but, what really happens is that global brands are forced to invest money in the media. This process makes customers feel closer to global brands than local or small brands that are physically closer to them(Farhikhteh et al., 2020).

Financial literacy is able to fully mediate the effect digital transformation toward competitive advantage. Financial literacy affects the way a person thinks about financial conditions and influences strategic decision making in term of finance and better management for business owners. The financial literacy is not only related to knowledge about finance, but also the ability to manage finances and make relatively appropriate financial decisions for the benefit of the future. When business actors have a good level of financial literacy, MSMEs tend to be able to manage their business finances better, and are able to recognize and access financial resources, thus, they are expected to be able to maintain their business sustainability (Nohong et al., 2019). Financial management is intended as a way of managing money (funds) that are currently obtained or owned, to meet current needs and at the same time be able to prepare for future needs. Business financial management that is not based on financial management standards tends not to run effectively. Without effective business financial management, business decision making becomes ineffective as well. This will have an impact on business continuity

Financial literacy can fully mediate the effect of digital transformation on company performance.In order to maintain business sustainability, business actors must have the knowledge and ability to manage finances, plan business finances, and make business decisions. (Tuffour et al., 2022) state that companies with good financial literacy will certainly be able to utilize knowledge in the financial sector in making the right decisions in improving their business performance. (Nolan & Doorley, 2019) also stated that good knowledge affects the condition and performance of the company's business which has implications for decision making for the company. (Kulathunga et al., 2020) also stated that there was a relationship between the financial literacy and the performance of company. In addition, (Tuffour et al., 2022) business actors who have good financial literacy will also have an impact on the company's ability to manage the recording of transactions of financial posts properly. This is found in the research of (Zada et al., 2021) which also states that good financial literacy will greatly help MSMEs improve their financial performance, one of which is the rate of return on MSME loans. Furthermore, (Sari et al., 2023) suggest that the financial literacy level in MSMEs has a significant effect on their ability to pay credit. This research is also supported by (Yakob et al., 2021) which shows that the higher the level of financial literacy, the lower the percentage of bad loans from companies or SMEs.

Marketing strategies can affect the competitive advantage of SMEs.Competitive advantage will be achieved if the company is able to create Superior Customer Value. In order for a service company to maintain a competitive advantage, a Sustainable Competitive Advantage is required. (Khan et al., 2019) suggests Source Of Sustainable competitive advantage, I namely unique or different, brand equity, customer relationship, low inseparability, service package, and information technology. These seven sources must be used as the basis for market placement. Good marketing is able to act as a strategy to respond to market diversity and support competitive advantage. The marketing program is a directed program of activities. The benefits of a marketing strategy for companies, namely in the business world, strategies or tactics are absolutely necessary to support the progress of the company. These strategies can cover many things, for example production strategies to minimize company costs or expenses, or also marketing strategies. Another benefit of a marketing strategy is that companies can coordinate marketing more effectively and purposefully, because if something doesn't have a goal or strategy it will definitely run in a mess so that with a marketing strategy it will make team coordination much better and more focused (Mahdi & Nassar, 2021).

The marketing strategy affects company's performance. Managers or company owners create strategies to bring the company closer to its performance goals. Marketing strategy is one of the important strategies to help increase the company competitiveness in facing the globalization and liberalization era (Park, 2020). With marketing strategy developed, managers or company owners can carry out tactics and other activities to improve company goals. In formulating and implementing strategies, it can be done by combining several strategies together so as to produce more optimal performance(Alves et al., 2020). Every company has an interest in knowing its achievements as a reflection of the success of its business in market competition(Hutahayan, 2020).

Marketing strategies can affect competitive advantage mediated by financial literacy. (Manzoor et al., 2019) and (Agyei, 2018) found that MSMEs experience various difficulties in increasing their business, especially those that include tax costs. Another finding in the study is that financial literacy is a major untapped organizational resource that can improve MSME performance through sustainable competitive advantage. In general, men have higher financial literacy than women(Hamid & Loke, 2021). Tax literacy includes the public's understanding of tax payments. Tax compliance is influenced by several factors, including tax sanctions, tax officials, tax understanding, and taxpayer morale. Research (Inasius, 2019) explains that bad tax morale has an effect on the difficulty of MSMEs to comply with taxes. The ignorance of MSMEs about taxes can hinder the progress of their business. Creative MSME management is still personal, carried out by the owner. If the size of the company increases, it will be overwhelmed in managing the business and result in obstacles in achieving competitive advantage. The large size of MSMEs does not guarantee good performance due to MSME's inability to manage resources in effective and efficient quality(Winarti et al., 2019).

There was no effectmarketing strategy on company performance is mediated by financial literacy. According to (Raja et al., 2020) every company requires a control system for the company's strategy that is applied. The control system implemented is the key for the company to achieve optimal company performance. Company performance can also be achieved by controlling employees as a form of inter-company relationship (Crosno et al., 2021). A quality strategy can increase business partners' acceptance of the company's performance. The frequency of effective inter-company relationships can also result in optimal performance. The implementation of strategies that are implemented effectively by the company in the distribution process can achieve optimal company performance(Jain, 2019).

Porter's strategy requires different organizational arrangements, control procedures, and intensive systems. Large firms with greater access to resources usually compete on the basis of cost advantage or differentiation, whereas small firms often compete on the basis of focus. Company size is a reflection of the company's financial condition in a period (Hendar et al., 2020). The scale or size of the company is stated to have two categories, namely large-scale and small-scale companies. Different company sizes lead to different business risks faced by companies(Feng et al., 2020). In funding activities, usually small companies have less capacity to fund, while large companies have a higher capacity to raise funds(Chandra et al., 2019). This is similar to what (Hamid & Loke, 2021), that small companies should focus on adding value in the production process and service innovation as a benchmark for their competitive advantage compared to profits or market share.

Company size has an effect on company performance. Company size is one of the important variables in company management. Company size reflects how big the total assets owned by the company (Octavus & Adiputra, 2020; Stephanie et al., 2018). A larger company size will attract the attention of the public, so that a large company will be more careful in carrying out earnings management. Research on firm size and leverage on the company's financial performance has been carried out by (Shamsadini et al., 2022) found the results of the study that simultaneously the test showed the results that the variables of commissioners, independent commissioners, directors, audit committees, corporate size, and leverage which has a positive and significant effect on changes in the dependent variable of company performance. Firm size is the size of the company that can be seen from the total assets owned by the company and from the number of sales (sales). Large companies usually have large assets and with large assets will get large results or sales and vice versa, small companies will have small assets and with small assets, will also get small results or sales (Makhdalena, 2018). Meanwhile, large companies have a wider stakeholder base, so that the policies of large companies will have a greater impact on the public interest than small companies. Firm size affects the company's financial performance because large companies have large assets. By having large assets, the company will earn a large income as as (Makhdalena, 2018). Several previous researchers conducted by Makhdalena (2018); Stephanie et al., (2018), concluded that firm size had an effect on strong financial performance. ultimately can affect the company's performance.

Financial literacy cannot mediate the effect of firm size on competitive advantage. (Kaiser & Obermaier, 2020) states that competitive advantage is basically something dynamic and cannot be maintained. It is because today's competition in the future must be seen with high dynamics and not something static, thus, it requires the right strategy. Based on research conducted by (Indrayani, 2020) MSMEs in the creative industry tend to have a short-term orientation in making decisions in their business. It can be seen from the absence of the concept of continuous innovation and inconsistent core business activities. At last, the development of the long-term performance of MSMEs engaged in the creative industry tends to be stagnant and not well-directed. Research by (Murdiansyah et al., 2020) describes that company size does not affect agency costs as with a large size and does not have financial difficulties, companies have a tendency to be careless in issuing discretionary expenses.

Financial literacy cannot mediate the effect of firm size on firm performance. Furthermore, (Usama & Yusoff, 2019) in their study reviewed the influence of financial literacy on the performance of SMEs in Nigeria. The results of this study confirm that financial awareness and knowledge will help company owners obtain good business performance. The result of the study confirms the importance of financial literacy for SME owners in running their business. High financial literacy such as good basic financial management will have the ability to access financial resources that can be managed optimally to create performance. In addition, an understanding of savings and investment will be able to help entrepreneurs manage their finances better and encourage increased performance. So far, MSMEs do not have financial reports that are standard and in accordance with generally accepted regulations. Financial records are rarely carried out, some even do not do it at all. Some MSMEs that carry out financial records are also limited to cash flows of receipts and expenditures. In addition, the problem related to financial records carried out by MSMEs is that business entities have not been separated from private entities. Overall MSMEs are still too difficult to identify personal and business assets that have an impact on financial records which cannot describe the actual business conditions in the end.

CONCLUSIONS

The result of this research indicates that digital transformation does not affect the competitive advantage, digital transformation does not affect company performance, digital transformation affects competitive advantage mediated by financial literacy, digital transformation affects company performance mediated by financial literacy, marketing strategy affects competitive advantage, marketing strategy does not affect company performance, marketing strategy does not affect competitive advantage mediated by financial literacy, marketing strategy does not affect company performance mediated by financial literacy, company size affects competitive advantage, company size affects company performance, company size does not affect competitive advantage mediated by financial literacy, firm size does not affect firm performance mediated by lite financial constellation. For researchers who want to examine the same object can use a wider sample with more variables.

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