



Digital Business Strategy and Financial Performance of Tourism Sector Micro-SMEs in Bali

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Abstract— *This study empirically examines the role of sustainability strategies in the relationship between digital business strategies and corporate financial performance in the Tourism Sector MSMEs in Bali. By classifying the two Capabilities (managerial ability and operational capability) required to realize a digital business strategy, this study suggests that sustainability strategy serves as a promoter in the relationship between managerial capability and financial performance but hinders the relationship between operational capability and financial performance. Using a structured survey questionnaire, data were collected from 100 micro, small and medium enterprises (MSMEs), operating in the tourism sector in Bali. The four hypotheses developed were tested using correlation analysis to find the relationship between digital business strategy, sustainability strategy and financial performance. The four hypotheses developed were tested using regression analysis to find the relationship between digital business strategy, sustainability strategy and financial performance. The findings suggest that the sustainability strategy serves as a promoter in the relationship between managerial ability and financial performance but inhibits the relationship between operational capability and financial performance.*

Keywords— *sustainability strategy, digital business strategy, financial performance, tourism MSMEs.*

I. INTRODUCTION

Digitalization requires a business to be able to create a new strategy [1] and forces all business activities from the operational level to management to be able to use digital [2]; [3]. This situation results in increased awareness of companies in maintaining their business reputation [4]. This awareness raising raises the concept of a sustainability strategy in many business lines, including micro, small and medium enterprises (MSMEs).

Based on the effect it has on digital transformation, managers who are active and up-to-date in the digital world, can engage the potential of new technologies and encourage their introduction, which acts as a prerequisite for entry into digital business strategies [5, 6]. Several studies have shown

that in digital transformation, businesses that obtain comprehensive information about the sustainability of their business and use that information to reshape their strategy [7]; [8] can succeed in digital business.

Based on data from the Bali Province Cooperatives and MSMEs Service, the number of MSMEs in Bali is recorded at 326 thousand spread across all regencies and cities in Bali, namely Gianyar 75,412 businesses, Bangli 44,068 businesses, Tabanan 41,459 businesses, Karangasem 39,589 businesses, Buleleng 34,552 businesses, Denpasar 31,826 businesses, Jembrana 27,654 businesses, Badung 19,688 businesses and Klungkung 11,761 businesses. The Indonesian Micro, Small and Medium Enterprises Association (Akumindo) in 2019 recorded that the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reached 65 percent or around Rp. 2,394.5 trillion.

Data from Bank Indonesia for the Province of Bali shows that MSMEs make a large contribution to the national and Balinese economy, as reflected in the large number of MSMEs, which reach 99 percent of the total number of national and Bali businesses and the large workforce working in MSME businesses (97.05 percent nationally).

The current pandemic situation causes business conditions to worsen compared to before the pandemic. The KIC survey shows that 56.8 percent of MSMEs are in very bad business conditions and only 14.1 percent of respondents claim that their business conditions are good. KIC also found that 62.6 percent of MSMEs could still survive after March 2021. However, around 18.5 percent of SMEs admitted that they could only survive in the next six months, and 6 percent of MSMEs stated that they could only survive for less than three months, if conditions persist. If the situation improves, then closing the business will be the last option.

Most MSMEs have transformed into a digital ecosystem and can even combine online and offline marketing. This digital transformation does not always run smoothly, because not all MSMEs are ready to do business digitally. In the "Digital Readiness Index" compiled by KIC, it is known that

the digitization of MSMEs is strongly influenced by the optimism and ability to use the Internet by MSME actors themselves. In addition, the level of comfort and safety is also not too high. The greater the turnover generated, the more MSME actors will be ready to carry out digital transformation. This can be proven by the greater the turnover generated, the higher the index value. MSMEs do not rule out the possibility of not doing their job well in digital transformation. MSME actors face many obstacles when switching to digital platforms, for example, 34 percent of consumers cannot use the Internet, 18.4 percent complain that the telecommunications infrastructure they use is not good. Meanwhile, internally, the main obstacle is the understanding of online business reaching 23.8 percent, while less than 19.9 percent of workers are ready to go digital.

This study aims to determine the effect of managerial ability and operational capability moderated by sustainability strategy on financial performance in micro, small and medium enterprises

II. LITERATURE REVIEW

In recent decades, how to improve financial performance has always been an important area of research. Researchers examine the financial's performance from various angles. We review the financial's performance indicators considered in the classic industrial financial management citations and follow-up literature. We provide perspectives on emerging performance considerations such as supply chain finance and risk management [9].

Financial performance can be improved by implementing digitalization, because companies can have goals to improve financial performance that can be achieved, for example by changing old business processes and changing to automated processes, or replacing human labor with automated machines [10].

Boston Consulting Group conducted a survey of IT adoption by more than 4,000 MSMEs in Germany, China, India, and Brazil. They found that leaders who adopt technology can create nearly twice as many jobs as MSMEs that don't, and their annual income grows faster than firms with low technology adoption rates. [11] states that digital transformation in business businesses can be transformed into competitive advantages and can improve financial performance, for example by utilizing digitalization of business applications that enable better operational implementation.

[12] on SMEs with the title promoting digitally enabled growth in SMEs: a framework proposal. This research finds that their framework is familiar to MSME owners, or managers, and contributes to a comprehensive understanding of digital challenges and potentials. The overall maturity level of the 52 companies analyzed is moderate. Companies are better at "feeling" than "taking advantage" of digital-driven growth opportunities.

[13] conducted an empirical study on 321 MSMEs in Europe who actively use social media and information technology to innovate their business models. This study uses the resources used for business model experiments and the

implementation of strategic business model practices on overall business performance. This study also uses innovation and experimental business model practices as the mediator variable.

A. Effect of Managerial Ability on Financial Performance

[14] argue that to make the right decisions in this digital era business, managers must be familiar with existing digital tools, applications, and solutions, need to have a clear vision of utilizing digitalization in business now and in the future, and the need to create a management culture that supports the use of digitalization in a business.

Previous studies have used the managerial ability variable on financial performance and found a significant positive effect [15, 16, 14, 17]; and [18]. Another study found that there was an insignificant effect on managerial ability on financial performance [19].

H1 = Managerial capability has a significant positive effect on financial performance

B. Effect of Operational Capability on Financial Performance

As digitization increases, digitalization must become a major part of a business [20] and digital business operations must be integrated with business strategies [1].

Research that found a positive influence on operational capability on firm performance [21, 22, 10, 23, 24, 25, 16, 26, 27, 14, 28]. In an age in which process execution matters, it is generally accepted that companies' operational capabilities can provide strategic advantages [30]. In digitalizing operational environments, these operational capabilities are companies' proficiency in adopting and implementing digital tools and solutions and using them as a natural part of the business processes to achieve higher performance [31, 32]. In digitalizing business environments, operational capabilities are also needed to utilize digitality in internal processes to produce solutions and service, with quality and at the lowest possible cost. Operational capabilities are responsible for executing the products and processes and can be considered by production planning, the quality system, and the objectives of reducing production costs [33]. In other words, operational capabilities in digitalized business environments reflect the planned ability to effectively execute substantive daily operations, such as manufacturing, logistics, and sales [30], leading to higher financial performance.

From a different point of view, [31] argue that in digitalized business environments operational competence has a positive effect on companies' profitability and financial performance. The authors also contend that as companies can develop terms different proficiencies, for example, in managing product margins, this operational capability can generate differences in companies' benefits and financial performance. Thus, in line with the considerations above, the following hypothesis is proposed:

H2 = Operational capability has a significant positive effect on financial performance.

C. Effect of Sustainability Strategy on Financial Performance

Sustainability in digital transformation includes central transitions in business processes and strategies [34] business capabilities [35], and operational routines [36]. Technological expertise and competence are important resources in the digital innovation process [37].

In the study of [18] shows that sustainability strategy does moderate the relationship between business digital strategy and financial performance. Other studies use sustainability strategy as a variable that is influenced by several independent variables [38, 39], and [40].

H_{3a} = Sustainability strategy positively moderates the relationship between managerial ability and financial performance

H_{3b} = Sustainability strategy positively moderates the relationship between operational capability and financial performance

D. Research Model

The research model in this study refers to the research conducted by [18], and therefore the author made a replica of the research model. The research model is described as follows:

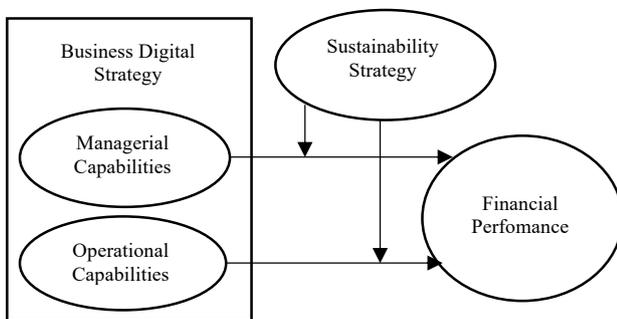


Fig. 1. Digital Business Model and Financial Performance

III. METODOLOGY

Statistical procedures are used as a method of data analysis in this study, so that the focus of theoretical assessment with an assessment of each variable has a quantitative nature. This research is basic research that can solve problems using theory and has no direct impact on decision making, it refers to the purpose of this research [41].

This research can be called comparative causal research, because based on the type of characteristics of the problems that exist in this study is as a liaison of variables that have a causal relationship [41]. This study has the intent and purpose to determine the effect of managerial ability, operational capability and sustainability strategy on financial performance.

Based on the research design, the perpetrators of Micro, Small and Medium Enterprises (hereinafter will be abbreviated as MSMEs) located in Bali, are the objects of this research.

Based on data from the Online Data System (ODS) at the Indonesian Ministry of Cooperatives and Small and Medium Enterprises (SMEs), there are 326 thousand MSMEs in Bali. Determination of the sample also uses purposive sampling method by selecting samples based on certain criteria. The operational age of MSMEs is one of the criteria for determining the sample this time, where businesses with a minimum operational period of 1 year.

A. Dependent Variable

Dependent variable describes or shows the relationship that occurs with the independent variable, as well as the impact of this relationship [42]. The financial's performance variable is used as the dependent variable. The financial's performance variable in this study was measured using 2 questions adopted from the research of [18]. This question has 5 answer options ranging from more than average to irrelevant.

B. Independent Variables

Independent variables can affect the dependent variable, and have a positive or negative impact [42]. Managerial capacity and operational capacity are independent variables used in this study.

Managers' ability to use digital technology is considered a major problem in the current digitalization era [1]. No matter how good and how much technology has been used, the use of this technology still needs to be managed effectively and efficiently [43]. To be able to move businesses towards digital use, there is a need for managers to support the development and implementation of digitality that can create and direct business businesses into the digitalization era [44].

The measurement of this variable was adopted from [18] that there are 10 questions about measuring managerial ability. There are 5 answer choices, starting from 1 for strongly disagree to 5 for strongly agree.

Operational capabilities are used to manage certain problems [45, 46], so their role is very important in the era of digitality. In this context, operational capability refers to the business's ability to integrate digitality into the business as a whole and within the business strategy of the business itself [44].

The measurement of this variable is adopted from [18], namely there are 8 questions about measuring operational capacity. There are 5 answer choices, starting from 1 for strongly disagree to 5 for strongly agree.

C. Moderator Variables

The measurement of this variable was adopted from research conducted by [47] namely there are 3 main points of questions regarding the measurement of sustainability strategy which are measured in terms of rules, economic performance, and economics reporting. There are 5 answer choices, starting from 1 for strongly disagree to 5 for strongly agree.

D. Data Collection Techniques and Analysis Methods

The data collection method that is often used in this research is the survey method, which is a technique of

collecting and analyzing data in the form of opinions from the subjects studied (respondents) through question and answer. The survey method used in this research is a questionnaire (direct questions). Questionnaires can be directly communicated to and collected from respondents (individually) or can also be communicated and collected by post [41]. Questionnaires were distributed to MSME actors in Bali who have been operating for more than one year.

This study uses primary data which is the source of research data obtained directly from the original source (not through intermediary media) [41]. The questionnaire will be made in the form of a google form which is then distributed to the relevant MSME actors.

This study uses multiple regression data analysis method (multiple regression analysis). Multiple regression analysis is an analytical method used to test the effect of two or more independent variables on the dependent variable in a linear equation [41].

The data were analyzed by means of descriptive statistical test, data quality test (outlier test, validity test, and reliability test), and hypothesis test (F test, t test, and coefficient of determination test).

IV. RESULT AND DISCUSSION

The primary data used in this study is the result of questionnaire data that has been distributed to SMEs in Bali, which are engaged in services, trade, and other businesses that support tourism. The number of questionnaires that have been distributed in this study amounted to 100 data and the data that were successfully used as samples in this study amounted to 100 MSMEs.

TABLE I. DESCRIPTION OF THE GENERAL CHARACTERISTICS OF RESPONDENTS

Respondent Demographics	Frequency	Percentage
Business Age		
<2 years	44	44.0
2-5 years	34	34.0
5-10 years	15	15.0
>10 years	7	7.0
Type of Business		
Trading Business	59	59.0
Service Business	27	27.0
Other Business	14	14.0
Number of employees		
0 (The owner runs his own business)	20	20.0
<10	50	50.0
11-20	21	21.0
21-50	7	7.0
>50	2	2.0
n = 100 data		

TABLE II. DESCRIPTIVE STATISTICS TEST RESULTS OF RESEARCH VARIABLES

	N	Min	Max	Mean	Deviation Std.
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MC	100	1.000	5.000	4.383	0.808
OC	100	1.000	5.000	4.014	0.916
SS	100	1.000	5.000	3.224	1.083
FP	100	1.000	5.000	3.942	0.835
Valid N	100				

Table 2. shows that the managerial ability variable studied in this study shows an average value of 4.383 and has a standard deviation value of 0.808 (81.56 percent smaller than the average value). The value indicated by the standard deviation explains that the level of variation of the managerial ability variable is very small. The highest value of this variable is 5,000 while 1,000 is the smallest value.

The lowest value of the operational capability variable is 1,000 and the highest value is 5,000. This operational capability variable has an average value of 4.014 and shows a value of 0.916 as the standard deviation. This value explains that the operational capability variable has a data variation rate of 77.17 percent lower than the average value.

The maximum value of the sustainability strategy variable is 5,000 while this variable has a minimum value of 1,000. The standard deviation value of the sustainability strategy variable is 1.083 while the average value of this variable is 3.224 (68.9 percent higher than the average value).

The financial performance variable has a standard deviation value of 0.835 and the average value of this variable is 3.942 (the average value is 78.8 percent higher than the standard deviation value). The standard deviation value shown explains that this variable has a very low level of variation. The financial's performance variable has a minimum value of 1,000 while the maximum value for this variable is 5,000.

A. Validity Test Results

The validity test has a function to determine the level of accuracy of the questions used in this study. Table 3. shows the conclusion that the managerial ability variable shows validity results which state that all questions are valid. The operational capability variable does not indicate an invalid question indicator. Sustainability strategy variable shows that all question indicators are valid. The financial's performance variable does not show any indicators of invalid questions. All question indicators that show valid results from the variables of managerial capacity, operational capacity, sustainability strategy, and financial performance are valid, therefore they can be continued for the next testing process, this is because the data has a factor loading value above 0.5. According to [48], it is stated that a question that has a factor loading value above 0.5 is a valid question and can be continued for the next test.

TABLE III. VALIDITY TEST RESULTS

Variable		Loading Factor	Result
Managerial Capabilities	MC1	0.672	Valid
	MC2	0.817	Valid
	MC3	0.825	Valid
Operational Capabilities	OC1	0.851	Valid
	OC2	0.881	Valid
	OC3	0.846	Valid
Sustainability Strategy	SS1	0.871	Valid
Financial Performance	FP1	0.937	Valid

TABLE IV. DIRECT EFFECT TEST RESULTS

Track (X → Y)	T-Statistics	P-Values	Hypothesis
Managerial Capabilities → Financial Performance	2.971	0.003	Significantly Positive
Operational Capabilities → Financial Performance	1.175	0.241	Not significant

The results of direct testing of managerial ability variables show a significant positive effect on financial performance. The results of this test are in line with the results of research conducted by several previous studies which found a significant positive effect [49, 16, 14] and [17]. Several previous studies that are not in harmony with the results of this study are [19]. The test results which show a significant positive effect prove that hypothesis 1 is proven.

The result of the next test is the operational capability variable on the financial's performance. According to [25] in general, the financial's operational capabilities emerge from explicit elements, such as human resources and practices, as well as from tacit elements, namely expertise and leadership. The results of the test of this variable do not show a significant effect on the financial's performance. This study is not in line with research conducted by previous researchers who found a significant positive effect [51, 21, 22, 10, 23, 24, 25, 16, 28, 26, 27, 14] The results of the study that did not find any significant effect in previous studies were [29]. The test results on this variable indicate that hypothesis 2 in this study is not proven.

TABLE V. INDIRECT EFFECT TEST RESULTS

Track (X → Z → Y)	T-Statistics	P-Values	Hipotesis
Moderating effect 1 → Financial Performance	1.615	0.107	Not Significant
Moderating effect 3 → Financial Performance	1.942	0.053	Not Significant

The results of the managerial ability variable test moderated by the sustainability strategy variable did not show a significant effect on the financial's performance variable. The results of this study are in line with research conducted by previous researchers who did not find a significant effect between the two variables [50, 39] and [40]. Digital transformation in

companies can be turned into competitive advantages and can improve financial performance, for example by utilizing digitalization of business applications that enable better operational implementation [31].

The test results of the moderating effect of the sustainability strategy variable on the capability variable operational shows no significant effect. This research is not in line with research that has been done by previous researchers conducted by [14] who found a significant positive effect between variables. This study is in line with research that has been done by previous researchers who did not find a significant effect on [50, 39] and [40].

A. Coefficient of Determination Test Results

The results of the coefficient of determination test can describe the extent to which the independent variables contained in the research model can explain the dependent variable. The results of the coefficient of determination test can be seen in the following table:

TABLE VI. DETERMINATION TEST RESULTS

Dependent Variable	Adjusted R-Squared
Financial Performance	0.193

In Table 5, the results of the coefficient of determination test state that the adjusted R-squared value is 0.193, where this value means that managerial capacity, operational capacity, and sustainability strategy can explain the financial's performance variable by 19.3 percent while other factors that can explaining the financial's performance variables and not contained in this research model is 80.7 percent.

V. CONCLUSION

The results of this study explain that the managerial ability variable which is tested directly has a significant positive effect on the dependent variable, namely financial performance. The results of the direct test of operational capability on financial performance show results that are not in line with the managerial ability variable. Operational capabilities that were tested directly on the financial's performance were not found to have a significant effect. The test results on the managerial ability and operational capability variables moderated by the sustainability strategy variable did not show a significant effect on the two variables on the financial's performance variable.

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