



Digital Transformation and MSMEs Performance: Mediation of Innovation and Competitive Advantage

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Abstract. Digital transformation has become an essential strategy for micro, small, and medium enterprises (MSMEs) to remain competitive in an increasingly digitalized economy. However, empirical studies exploring how digital transformation drives performance through innovation and competitive advantage particularly among local MSMEs in the food sector remain limited. This study aims to address this gap by examining the effect of digital transformation on the performance of local fried chicken MSMEs in West Jakarta, with innovation and competitive advantage as mediating variables. Purposive sampling technique is used, data were collected from 80 owners or managers who have adopted digital technologies in their business operations. Tools of data analysis is SmartPLS version 4.0. Findings, found that digital transformation has a positive contribution towards performance, innovation, and competitive advantage. Moreover, both innovation and competitive advantage significantly enhance business performance also has mediation effect on digital transformation towards performance. These findings provide new empirical evidence on how digitalization supports MSME competitiveness in the local food industry and offer practical implications for entrepreneurs and policymakers seeking to strengthen MSME resilience in the digital era.

Keywords: Digital Transformation, Innovation, Competitive Advantage, Performance

1 Introduction

1.1 Background

Digital transformation has become a critical determinant of business competitiveness and performance, including among Micro, Small, and Medium Enterprises (MSMEs) [1]. According to Indonesia's Ministry of Cooperatives and SMEs (2024), MSMEs account for approximately 61% of the national GDP and employ around 97% of the total workforce, yet only about 30% have adopted digital technologies to support their operations. This digital gap illustrates the urgent need for MSMEs, particularly in the fast-food sector, to strengthen their technological capabilities to sustain growth and competitiveness. In the local fried chicken industry, the adoption of digital platforms has facilitated operational efficiency, stimulated innovation, and reinforced competitive

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advantage. Prominent local brands such as Sabana, D'Besto, and D'Kriuk have leveraged social media marketing and online delivery applications to expand market reach and enhance customer engagement.

Digital transformation in the fast-food business encompasses diverse aspects such as digital marketing, online ordering systems, digital payments, and data-driven supply chain management. For local fried chicken MSMEs, digital adoption is no longer a mere trend but a survival mechanism amid intensifying competition from both domestic brands and international franchises like KFC and McDonald's. However, many MSMEs still encounter barriers such as limited financial resources, inadequate digital literacy, and resistance to organizational change. These challenges often hinder the full realization of digital transformation's potential benefits.

Business performance remains a key indicator of organizational success, encompassing both financial metrics such as profitability, cost efficiency, and market growth and non-financial indicators, including innovation capability, customer satisfaction, and employee productivity [2]. Quantitative measurement of performance is particularly crucial for MSMEs, which must operate efficiently under resource constraints while facing market pressure from larger competitors.

Innovation serves as a fundamental driver for enhancing competitiveness and sustaining business growth [3]. It may involve product diversification, service improvement, or marketing adaptation to changing consumer behavior. Nonetheless, numerous MSMEs still rely on traditional business practices and short-term strategies, leading to stagnation in innovation performance. Consequently, understanding how digital transformation stimulates innovation is vital for strengthening MSME competitiveness and resilience in a dynamic business environment.

Competitive advantage is equally essential for MSMEs to survive in a saturated market. In the local fried chicken segment, competitive advantage can arise from affordable pricing, locally preferred flavors, and community-based marketing approaches. Within the framework of digital transformation, firms can achieve such advantage through superior customer experiences, integrated online services, and efficient digital promotions [4]. The use of social media analytics, digital branding, and data-based decision-making enables businesses to differentiate themselves from competitors that still rely on conventional marketing strategies [5].

Despite the growing literature on digital transformation and business performance, empirical evidence examining these relationships in the context of local food MSMEs remains scarce. The past studies mainly focused on manufacturing or women-led MSMEs [6][7], with limited attention to how innovation and competitive advantage jointly mediate the impact of digital transformation on performance. This gap underscores the necessity of investigating these interrelationships within a specific and highly competitive subsector—namely, local fried chicken MSMEs in urban areas.

Accordingly, The present study endeavors to assess the implications of digital transformation on the performance of local fried chicken MSMEs in West Jakarta, with innovation and competitive advantage as mediating variables. Theoretically, this research contributes by extending the understanding of digital transformation models through the integration of innovation and competitive advantage into a comprehensive performance framework. Practically, the findings are expected to assist MSME owners,

policymakers, and practitioners in formulating strategies that leverage digital technologies to strengthen innovation capacity and sustain competitive advantage in Indonesia's rapidly digitalizing economy.

1.2 Theoretical Studies

Drawing upon the Resource-Based View (RBV), this study is anchored in the notion that enduring competitive advantage is achieved when firms possess resources characterized by value, rarity, inimitability, and non-substitutability [30]. Within the context of MSMEs, such resources may include digital capabilities, managerial knowledge, technological readiness, and innovation capacity that cannot be easily replicated by competitors. According to this perspective, digital transformation serves as an enabling resource that allows firms to leverage technology and information strategically to build superior capabilities. When digital transformation is effectively integrated into business operations, it enhances innovation, improves efficiency, and strengthens competitive advantage ultimately leading to superior performance outcomes. Therefore, RBV provides a robust theoretical lens to understand how MSMEs can convert digital capabilities into tangible business performance through innovation and competitive advantage [29].

Digital Transformation. The concept of digital transformation encompasses the systematic adoption of digital tools within organizational processes to optimize performance, expand market opportunities, and sustain a competitive position in the industry [8]. Digital transformation includes the use of online accounts and websites for marketing, the use of digital media in business coordination and sustainability, automated data storage, technology-based financial record-keeping, and integration with digital ecosystems to support business transactions and data-driven decision-making [7]. Digital transformation is a process of fundamental change in business that utilizes digital technology to improve operations, marketing strategies, and customer interactions [9]. In the context of MSMEs, digital transformation relates not only to the use of digital software and systems, but also to changes in mindset, business culture, and technological readiness used to increase competitiveness [10]. Based on these opinions, digital transformation is the process of comprehensively integrating digital technology into business operations. This includes not only the use of digital tools such as online accounts, websites, and technology-based record-keeping systems, but also encompasses changes in mindset, organizational culture, and business strategy.

Innovation. Innovation is the process of creating or updating products, services, methods, or ideas with the aim of providing added value and increasing effectiveness or efficiency in a specific field [7]. Innovation is the application of new and creative ideas that result in significant changes in work methods, business strategies, or product outcomes to meet market needs and win the competition [11]. Innovation aims to increase efficiency, competitiveness, and customer satisfaction by presenting new, better solutions than before in various areas of life [12]. Innovation is the modification

of products and services, becoming a crucial element in attracting customer attention and increasing sales [13]. Based on these opinions, innovation is a crucial process in business development that involves the creation or updating of products, services, methods, and strategies to provide added value and increase efficiency.

Competitive Advantage. Competitive advantage is a company's ability to create greater value for its customers compared to competitors, through product uniqueness, lower costs, or difficult-to-imitate differentiation [7]. Competitive advantage is a company's ability to compete better than its competitors, achieved by offering greater value to customers, either through lower prices or by providing more benefits at a higher price [4]. Competitive advantage is a company's strengths that make it superior in meeting consumer needs compared to competitors, whether through product quality, service innovation, distribution, or a strong brand image [14]. In conclusion, competitive advantage is a company's strategic ability to create greater value for customers compared to competitors through uniqueness, cost efficiency, or product and service differentiation.

Company Performance. Company performance is a measure of the effectiveness of micro, small, and medium enterprises (MSMEs) in achieving their business goals, both financially and operationally, and in terms of market reputation [7]. Company performance refers to how effectively a company achieves its established short- and long-term goals, including financial, operational, and marketing aspects [15]. This performance can be measured through indicators such as sales, profit, and customer satisfaction [16]. Company performance is the level of success in using existing resources (such as labor, capital, and technology) efficiently and effectively to produce products and services that are valuable to customers and stakeholders, while simultaneously achieving company goals [17]. Measuring company performance is generally an evaluation process carried out to assess the extent to which a company achieves its stated goals, both financially and non-financially [18]. From these opinions, company performance is an evaluation process carried out to assess the extent to which the company has achieved its stated goals.

1.3 Framework for Thought and Hypothesis

Digital transformation has become a crucial element in the Industry 4.0 era, as the adoption of information and communication technology drives efficiency, accelerates business processes, and expands the market reach of MSMEs. Beyond its direct impact on performance, digital transformation also fosters innovation in products, processes, and business models. These innovations, in turn, play a key role in strengthening the competitiveness of MSMEs in an increasingly dynamic market. Competitive advantage reflects the ability of MSMEs to deliver unique value, superior quality, or cost efficiency, thereby attracting and retaining customers. This framework demonstrates that digital transformation functions as a key driver that not only directly improves

MSME performance but also indirectly influences it through the mediating roles of innovation and competitive advantage, ultimately enhancing their market position.

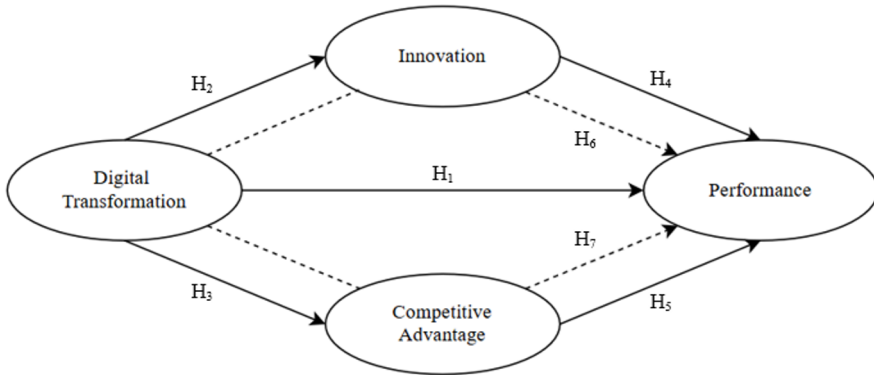


Fig. 1. Research Model

Based on the image presented in Fig. 1 of the research model, the hypothesis formulation in this research is as follows:

H1: Digital transformation positively influence toward performance.

H2: Digital transformation positively influence towards innovation.

H3: Digital transformation positively influence towards competitive advantage.

H4: Innovation positively influence towards performance.

H5: Competitive advantage positively influence towards performance.

H6: Innovation positively mediates the influence between digital transformation toward performance.

H7: Competitive advantage positively mediates the influence between digital transformation toward performance

2 Research Model

The research was structured using a descriptive quantitative methodology to systematically analyze the observed phenomena. The population of this study comprised all local fried chicken MSMEs in West Jakarta that have integrated digitalization into their business operations such as the use of social media platforms, online marketplaces, and food delivery applications. A non-probability sampling technique with a purposive sampling approach was employed to select respondents. The sample consisted of 80 owners or managers of MSMEs that had already implemented digital technologies in their operational processes.

To assess participants' responses, the study utilized a five-point Likert scale instrument, which measured the level of agreement with the statements in the questionnaire. As explained by [31], the Likert scale is designed to evaluate the extent to which respondents agree or disagree with given statements, ranging from 1 (strongly

disagree) to 5 (strongly agree), each representing a distinct level of response. The collected data were then analyzed using SmartPLS version 4.0.

Furthermore, here is tables 1 to 4 present the operationalization of the variables that employed in this study, as follows.

Table 1. Operationalization of the Digital Transformation Variable

Variable	Statement	Code	Measurement Scale
Digital Transformation Source: [7]; [32]	I maintain an online account dedicated to promoting my products.	DT1	Ordinal
	My business operates a website equipped with comprehensive features.	DT2	
	Digital media are utilized within my business to coordinate product or service sales.	DT3	
	My enterprise leverages digital platforms to sustain operations during challenging periods.	DT4	
	My business employs technology to manage and record financial transactions.	DT5	
	Business transactions in my enterprise are conducted through digital platforms.	DT6	
	The adoption of technology in my business facilitates the monitoring of activities.	DT7	
	My enterprise implements technological tools to enhance the quality of business management.	DT8	

Table 2. Operationalization of The Innovation Variable

Variable	Statement	Code	Measurement Scale
Innovation Source: [7]; [27]	My business produces goods with an emphasis on operational cost efficiency.	IN1	Ordinal
	The products offered by my business are tailored to meet customer needs.	IN2	
	My enterprise consistently delivers products of higher quality compared to its competitors.	IN3	
	Customer orders are fulfilled and delivered by my business in a timely manner.	IN4	
	My business demonstrates flexibility in its production processes.	IN5	

Table 3. Operationalization of the Competitive Advantage Variable

Variable	Statement	Code	Measurement Scale
Competitive Advantage Source: [5]; [7]	My business develops new products that are easily recognizable to customers.	CA1	Ordinal
	The enterprise actively updates its products to align with current market trends.	CA2	
	My business continuously innovates in promoting and marketing its products or ser-vices.	CA3	
	The organization employs a team that operates in a professional and competent manner.	CA4	
	My business offers products that are distinct from those of its competitors.	CA5	

Table 4. Operationalization of the Performance Variable

Variable	Statement	Code	Measurement Scale
Performance Source: [7]; [33]	My business has experienced a significant increase in sales performance.	P1	Ordinal
	The enterprise has recorded growth in production levels over the past year.	P2	
	My business has successfully reduced its production costs.	P3	
	The number of customers served by my business continues to increase annually.	P4	
	My business is well accepted by its customers.	P5	
	The enterprise maintains a strong reputation, which facilitates access to financial capital.	P6	
	Customers of my business tend to make re-peat purchases.	P7	

3 Result and Discussion

3.1 Validity Test

The validity test in this study was conducted using convergent validity. Convergent validity is assessed by examining the outer loading value, which represents the coefficient indicating how strongly an indicator influences the construct. Indicators with an outer loading value ≥ 0.7 are considered ideal, as they demonstrate that the indicator is both relevant and reliable in representing the measured construct [19]. In addition, convergent validity is also reflected by an Average Variance Extracted (AVE) value > 0.5 , which indicates that the indicators within a single variable are highly correlated. The AVE is calculated for each construct, and the resulting value must exceed 0.5. The final outer loading results and Average Variance Extracted (AVE) results are presented in Table 5.

Table 5. Outer Loadings and Average Variance Extracted (AVE) Analysis Results

Digital Transformation		Innovation		Competitive Advantage		Performance	
DT1	0,805	IN1	0,854	CA1	0,824	P1	0,732
DT3	0,819	IN2	0,803	CA2	0,781	P2	0,827
DT8	0,748	IN4	0,762	CA3	0,768	P5	0,731
		IN5	0,771	CA4	0,736	P6	0,786
				CA5	0,715	P7	0,787
AVE (0,626)		AVE (0,637)		AVE (0,586)		AVE (0,598)	

The final outer loading analysis and the Average Variance Extracted (AVE) assessment (Table 5) reveal that each indicator achieved an outer loading value above 0.7 and an AVE value exceeding 0.5. These outcomes validate the measurement constructs of digital transformation, innovation, competitive advantage, and performance. Therefore, all indicators were deemed valid and fulfilled the convergent validity criteria.

3.2 Reliability Test

Reliability evaluation involved analyzing both Cronbach's alpha and composite reliability metrics. According to Hair et al. (2022), Cronbach's alpha values surpassing 0.6 signify acceptable reliability, while those at or above 0.7 and 0.8 denote good and excellent internal consistency, respectively. Likewise, composite reliability should exceed 0.6, with values of 0.7 or higher reflecting satisfactory construct reliability [20].

Table 6. Cronbach's Alpha and Composite Reliability Analysis Results

Variable	Cronbach's Alpha	Composite Reliability
Digital Transformation	0,701	0,707
Performance	0,831	0,833
Innovation	0,810	0,813
Competitive Advantage	0,828	0,842

The reliability assessment summarized in Table 2 shows that all latent variables satisfy the required criteria. Each construct falls within the acceptable benchmark ranges, signifying sound measurement quality. The Cronbach’s alpha coefficients for every variable are above 0.7, reflecting strong internal consistency across the items. Likewise, the composite reliability (CR) values—digital transformation (0.707), innovation (0.813), competitive advantage (0.842), and performance (0.833)—surpass the minimum recommended level of 0.7, demonstrating that each construct attains adequate composite reliability. Furthermore, the rho_A coefficients, which serve as an additional reliability metric, also exceed the >0.7 threshold, reinforcing the overall reliability of the measurement model.

3.3 Coefficient of Determination (R²)

Following [21], the coefficient of determination (R²) quantifies the model’s predictive capacity by assessing the extent to which exogenous variables account for variations in endogenous constructs. The R² value ranges between 0 and 1, where a value of 1 represents complete predictive accuracy. Specifically, values from 1 to 0.75 indicate a strong effect, those between 0.7499 and 0.50 reflect a moderate effect, and values from 0.499 to 0.25 represent a weak effect. The corresponding results of the R² evaluation are displayed in Table 7.

Table 7. Coefficient of Determination (R²) Analysis Results

Variable	R Square	R Square Adjusted
Innovation	0,393	0,385
Competitive Advantage	0,509	0,503
Performance	0,792	0,784

The R² coefficient represents the extent to which the independent variables clarify changes in the dependent constructs within the model. An R² value of 0.393 for innovation indicates that 39.3% of its variance is influenced by digital transformation, whereas the residual variance is driven by other variables beyond the current model’s scope. This value is considered moderate. Meanwhile, competitive advantage has an R Square value of 0.509, indicating that 50.9% of its variation is explained by digital transformation while the rest is explained by variables outside this study, which is considered strong. The most significant is the performance variable, with an R Square of 0.792, meaning 79.2% while the rest is explained by variables outside this study. Performance variation can be explained by a combination of innovation, competitive advantage, and digital transformation.

3.4 Effect Size (f²)

Cohen’s is used to calculate the effect size of the path model by examining the f² value. The assessment criteria are as follows: a value of 0.02 indicates a small effect, a value of 0.15 indicates a medium effect, and a value of 0.35 indicates a large effect. Meanwhile, a value below 0.02 indicates no effect [22].

Table 8. Effect Size (f^2) Analysis Results

Variable	f^2
Digital Transformation → Performance	0,122
Digital Transformation → Innovation	0,647
Digital Transformation → Competitive Advantage	1,037
Innovation → Performance	0,558
Competitive Advantage → Performance	0,070

The f^2 analysis illustrates the extent to which each independent construct contributes to the dependent variable. An f^2 value exceeding 0.35 indicates a substantial effect. The findings reveal that digital transformation exerts notable influence on all related constructs—performance (0.122), innovation (0.647), and most prominently competitive advantage (1.037). These results highlight digital transformation as the most dominant predictor within the model. Innovation also demonstrates a strong contribution to performance (0.558), while competitive advantage shows a smaller yet meaningful effect on performance (0.122). Collectively, these outcomes indicate that the model possesses robust explanatory and predictive capabilities, with digital transformation emerging as the key factor enhancing performance.

3.5 Hypothesis Testing

In hypothesis testing, the primary aim is to assess whether the proposed hypotheses are empirically supported. This evaluation is carried out by analyzing the path coefficients and corresponding t-statistics. A path coefficient approaching 1 signifies a strong and positive association between the constructs, whereas a coefficient nearing 0 suggests a weak linkage within the model. Additionally, the t-statistic serves to determine the statistical significance of these relationships based on a specified margin of error. To ensure that the influence between variables is significant, the p-value must be below 0.05. Meanwhile, the hypothesis can be declared accepted if the t-statistic value is greater than 1.96. The following are the results of the bootstrapping analysis for the hypothesis test in Table 9.

Table 9. Bootstrapping Analysis Results for Hypothesis Testing

Variable	Original Sample (O)	T Statistics (O/STDEV)	P Values	Effect
Digital Transformation → Performance	0,231	3,153	0,002	Positive and significant
Digital Transformation → Innovation	0,627	3,760	0,000	Positive and significant
Digital Transformation → Competitive Advantage	0,714	6,215	0,000	Positive and significant
Innovation → Performance	0,540	6,726	0,000	Positive and significant

Competitive Advantage → Performance	0,213	2,219	0,022	Positive and significant
Digital Transformation → Innovation → Performance	0,338	3,263	0,001	Positive and significant
Digital Transformation → Competitive Advantage → Performance	0,512	2,187	0,029	Positive and significant

3.6 Discussion

The first hypothesis (H1), namely the effect of digital transformation on the performance of local fried chicken MSMEs in West Jakarta, is proven to have a positive and significant influence. The findings of this study are consistent with those reported by [10] and [6] state that the higher the level of digital transformation implemented by MSMEs, the more likely their business performance will improve. The use of QRIS systems and various other non-cash payment methods contributes significantly to improving efficiency and accuracy in MSME transaction processes. The implementation of digital payment systems also reduces the potential for human error and fraud in cash management, while simultaneously lowering operational costs associated with handling cash. The adoption of technologies such as QRIS and other non-cash payment methods also expands the market reach of MSMEs, particularly in attracting consumers from younger generations who increasingly prefer cashless transactions. The implementation of digital payment systems through QRIS and similar platforms not only enhances service quality but also strengthens the overall financial and operational performance of MSMEs.

The second hypothesis (H2), which states that digital transformation has a positive and significant effect on innovation among local fried chicken MSMEs in West Jakarta, also receives strong support. This finding is consistent with the study by [7]; [32], which argues that digitalization can act as a catalyst for innovation by providing access to information, enabling online collaboration, and increasing efficiency in the process of developing new products. This indicates that MSMEs capable of appropriately adopting digital technologies will gain a higher level of competitiveness compared to their rivals, particularly in terms of service, product differentiation, and market responsiveness. One of the transmission mechanisms through which digital transformation influences innovation can be identified in the use of digital payment technologies such as QRIS and other non-cash systems. The integration of digital payment systems enables MSMEs to implement various service innovations, such as online pre-order systems, app-based loyalty programs, and queue-less ordering systems. These innovations not only provide added value to consumers but also enhance service efficiency. Furthermore, transaction data generated from digital payment systems can serve as the foundation for data-driven innovation. Information such as consumer purchasing patterns, peak transaction times, and product preferences can be analyzed to support more targeted product development and service strategies.

The third hypothesis (H3) regarding the effect of digital transformation on competitive advantage in local fried chicken MSMEs in West Jakarta also proved significant. The findings of this study are consistent with those reported by [6]; [23] state that competitive advantage can be achieved when a company is able to carry out its activities more efficiently or more uniquely than its competitors. In the context of digitalization, Porter stated that digital technology can be a strategic tool for creating cost advantages and differentiation. This indicates that the influence of digital transformation on MSME company performance is proven significant. Competitive advantage acts as a strengthening relationship, where the higher the level of competitive advantage possessed by MSMEs, the greater the positive impact of digital transformation on improving business performance. The implementation of digital technology, particularly through the use of QRIS and other non-cash payment systems, is a strategic instrument in increasing operational efficiency and providing a more optimal customer experience. The adoption of digital payment systems allows MSMEs to differentiate their services, such as providing self-payment options, integration with online ordering platforms and delivery services, and utilizing cashback or discount-based promotional programs from e-wallet partners. This approach makes MSMEs more responsive to changing consumer preferences, especially in the highly dynamic digital era. Therefore, technology can be used as a strategic tool to build competitive advantage, both through cost reduction and unique value creation. MSMEs that are able to comprehensively integrate digital technology have a greater opportunity to achieve and maintain competitive advantage in a competitive business environment.

The fourth hypothesis (H4) states that innovation has a positive and significant effect on the performance of local fried chicken MSMEs in West Jakarta. Test results indicate that innovation has a positive and significant effect on performance. The findings of this study are consistent with those reported by [34]; [35] state that one form of innovation enabled by digital transformation is the implementation of digital payment systems such as QRIS and other non-cash payment instruments. This mechanism not only revolutionizes the way consumers conduct transactions but also serves as a strategic aspect in transmitting innovative values within MSME business models. Digital payment systems can also help MSMEs develop technology-based services such as online ordering (pre-ordering), digital queuing systems, and app-based loyalty programs. Such innovation not only increases efficiency but also creates more modern and engaging interactions with customers. Digital transformation through QRIS and non-cash payment systems acts as a primary transmission mechanism in driving innovation, which impacts MSME performance improvement. Innovation driven by digitalization is not limited to product aspects but also includes processes and services that are more efficient, adaptive, and oriented to market needs. Therefore, in today's digital economy era, MSMEs that are able to utilize payment technology strategically will have an advantage in creating sustainable innovations that contribute to business competitiveness and growth.

The results of the fifth hypothesis test (H5) indicate that competitive advantage has a positive and significant influence on the performance of local fried chicken MSMEs in West Jakarta. This result is statistically significant, and the direction of this positive influence suggests that the competitive advantage built linearly towards performance

improvement may be due to the strategy implemented not being aligned with market needs or being ineffective. These results also align with the findings of [7]; [24] which state that competitive advantage without clear differentiation or product uniqueness can lead to performance stagnation and even become a burden in competition. Therefore, competitive advantage strategies must be designed by considering market dynamics, consumer needs, and the internal capabilities of MSMEs for continuous innovation. The use of digital payment systems also enables MSMEs to create more personalized and responsive services, such as digital loyalty programs, integration with delivery services, and app-based promotions. This makes MSMEs more adaptive to changing consumer preferences and able to differentiate themselves from competitors that are not yet digitalized. Effective competitive advantage in today's digital era requires an integration of innovative strategies, technology utilization, and market understanding. MSMEs that are able to create unique technology-based value will be better prepared to face competitive challenges while achieving optimal business performance.

The sixth hypothesis (H6) states that digital transformation has a positive and significant impact on the performance of local fried chicken MSMEs in West Jakarta through innovation. The results of this study can be considered partial mediation. The results of this test indicate that the higher the use of digital technology by MSMEs, the greater the drive to increase innovation. Furthermore, this increase in innovation has an impact on improving business performance, both in terms of sales, operational efficiency, and customer satisfaction. According to [25], innovation in an organization is influenced by the application of technology and digitalization processes, which in turn increases the company's competitiveness and performance. In the context of MSMEs, innovation is not only limited to products but also includes more efficient services and business processes. In today's digital era, MSMEs that use technology and continue to innovate have a greater chance of survival and growth. Digitalization allows businesses to understand market needs more quickly, and innovation is the main key to responding to these changes in an adaptive manner. One concrete form of digital innovation is the implementation of QRIS as an integrated non-cash payment method. Essentially, this innovation will improve transaction convenience, speed up the payment process, and reduce queues, ultimately boosting customer satisfaction and daily transaction turnover. In addition to QRIS, digital innovation also includes integration with delivery services, online ordering, and app-based stock management systems, enabling this digital transformation to drive relevant innovations that directly impact business performance.

The seventh hypothesis (H7) states that digital transformation has a positive and significant effect on the performance of local fried chicken MSMEs in West Jakarta through competitive advantage. The results of this study can be considered partial mediation. Digital transformation encourages local fried chicken MSMEs in West Jakarta to have a stronger competitive advantage. According to [23], the use of technology can help MSMEs run operations more efficiently, reach a wider range of customers through digital platforms, and offer faster and more responsive services. These advantages make MSMEs superior to competitors that have not yet implemented digitalization. MSMEs that are able to differentiate themselves through price, service quality, or product uniqueness will more easily attract and retain customers, thus

driving increased sales, cost efficiency, and customer satisfaction. Digital transformation contributes to improving MSME performance by creating a competitive advantage. MSMEs that integrate digital cash registers (POS systems), online ordering platforms, and application-based sales analytics are able to respond to consumer demand more accurately and quickly. The implementation of digital technologies such as QRIS not only improves operational efficiency but also strengthens the differentiation and positioning of MSMEs in the eyes of customers. This can create a sustainable competitive advantage and have a direct impact on improving business performance.

4 Conclusion, Limitation and Suggestion

4.1 Conclusion

This study consists of several hypothesis tests. First, it aims to examine the effects of digital transformation on performance, innovation, and competitive advantage of fried chicken MSMEs. Next, it examines the effect of innovation and competitive advantage on the performance of fried chicken MSMEs. Finally, it examines the effect of digital transformation on performance, with innovation and competitive advantage as mediators.

The results of all hypothesis tests revealed that digital transformation has a positive and significant effect on performance, innovation, and competitive advantage. Innovation and competitive advantage have a positive and significant effect on performance. Finally, innovation and competitive advantage mediate the effect of digital transformation on the performance of fried chicken MSMEs.

4.2 Limitation

This study is not without its limitations. First, the research scope was confined to local fried chicken MSMEs operating in West Jakarta, which may restrict the generalizability of the findings to other regions or business sectors. Second, the study focused solely on a limited set of variables, namely digital transformation, innovation, competitive advantage, and business performance, thereby excluding other potential factors that might also influence enterprise success. Third, the sample size comprised only 80 respondents, which may not fully represent the entire population of similar businesses. Future research is therefore encouraged to expand the sample coverage and include additional variables to provide a more comprehensive understanding of the factors affecting MSME performance.

4.3 Suggestion

Based on the research findings, several recommendations can be offered to both local fried chicken MSMEs and for further research:

1. Local fried chicken MSMEs are advised to be more proactive in utilizing digital technology in their daily operations. Technologies such as digital cashier systems, online ordering services, and social media marketing can help improve efficiency and expand market reach. Furthermore, businesses are expected to continue innovating, particularly in product delivery, to ensure faster, more timely distribution and customer satisfaction. Other innovations that need to be developed include creating unique products, both in terms of taste, packaging, and additional services, to differentiate themselves from competitors and create a competitive advantage. Therefore, continuous efforts are needed to improve overall business performance, including product quality, customer service, and marketing strategies, to maintain their presence and win in an increasingly competitive market.
2. Future studies are recommended to broaden the geographical coverage of the research beyond West Jakarta to include MSMEs operating in other regions or cities. Expanding the study area would allow for a more diverse representation of business characteristics, market dynamics, and digital adoption patterns across different local contexts. Such an approach could improve the external validity and generalizability of the findings, enabling researchers to draw more comprehensive conclusions regarding the impact of digital transformation and innovation on MSME performance throughout Indonesia.
3. Further research is also encouraged to incorporate other influential variables that may contribute to MSME performance. Potential factors worth exploring include the role of government support programs, the level of digital literacy and competence among business owners, and the effectiveness of digital marketing strategies in enhancing competitiveness and market reach. Considering these additional dimensions would offer deeper insights into how various external and internal factors interact to influence business growth and sustainability in an increasingly digitalized business environment.

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