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The Role of Government Support, Digital Business Strategy, and Financial Literacy on The Performance and Sustainability of MSMEs

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ABSTRACT

In Surakarta City, the development of MSMEs shows a positive trend, but they still face challenges in business sustainability, particularly related to adaptability to digital transformation and business financial management, as well as consistent government support. This study aims to analyze the role of digital business strategy, government support, and financial literacy on MSME sustainability, with MSME performance as a mediating variable. This study uses a quantitative approach with a survey method. Primary data were collected through questionnaires distributed to 388 MSMEs in Surakarta City. The sampling technique used purposive sampling with the criteria of active MSMEs registered with the Surakarta City Cooperatives, Small and Medium Enterprises and Industry Office and having utilized or potentially utilizing digital technology in their business activities. Data were collected through questionnaires and analyzed using multiple linear regression and the Sobel test to test the mediation effect. The results show that digital business strategy, government support, financial literacy, and MSME performance have a positive and significant effect on MSME sustainability. However, MSME performance was not proven to mediate the relationship between digital business strategy, government support, and financial literacy on MSME sustainability, because all t-values from the Sobel test results were smaller than the t-table value (1.96).

INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) play a strategic role in the structure of the Indonesian economy, both as absorbers of labor and as drivers of the local economy. In Surakarta City, MSMEs have grown rapidly along with the growth of the trade, culinary, and creative economy sectors. The number of micro, small, and medium enterprises in Surakarta City is recorded to have increased to 13,203 MSMEs in 2023, absorbing 16,348 workers (Wibowo, 2025). However, the increase in the number of MSMEs has not been fully accompanied by an improvement in business quality and sustainability. Many MSMEs face classic problems such as limited financial management, low utilization of digital technology, and suboptimal business performance (Hamdani & Amalia, 2022).

The development of the digital economy requires MSMEs to implement digital business strategies in order to survive and compete. Digital business strategy does not only cover the use of social media or marketplaces, but also the integration of digital technology into marketing, operational, and business decision-making processes (Sugiarto et al., 2025). If MSMEs are able to strategically adopt and utilize technology, opportunities to expand market reach, improve operational efficiency, and create sustainable product innovation will increasingly open up, thereby directly contributing to MSME sustainability (Díaz-Pelaez et al., 2025).

On the other hand, financial literacy is an important foundation for MSME actors in managing cash flow, capital, and rational and sustainable financial decision-making (Kristiawati & Afifah, 2024; Destrin, 2024; Amalia & Hamdani, 2022). When business actors have an adequate level of financial literacy, they tend to be better able to manage their business finances effectively, as well as have the ability to recognize and take advantage of various opportunities, thereby being able to maintain business sustainability in the long term (Pratiwi & Nurulrahmatiah, 2024).

Government support can be interpreted as the capacity of regional leaders to provide approval and facilitation in the form of convenience and assistance, realized through guidance and direction from the government, either in the form of financial support, tax policy, or simplification of administrative procedures related to improving MSME performance (Khan et al., 2021; Prasannath et al., 2024). In this regard, efforts to maintain the resilience and stability of MSME businesses can be carried out, among other things, through financial support provided by the government. In addition to financial assistance (Ramadhona et al., 2023), government support in the aspect of business licensing also plays a very important role for MSMEs. Business legality — which includes business licensing, trademark registration, product certification, operational permits, and various other licenses — remains a distinct challenge for MSMEs in developing and expanding their businesses (Arjawa et al., 2025; Fitriana et al., 2024).

MSME performance can be understood as the achievement of individual work results in carrying out duties and responsibilities within the MSME environment over a certain period, which is assessed based on the standards or performance indicators applicable to the business (Malikhah et al., 2024; Tingal & Situmorang, 2024). Optimal performance in all aspects of the business — whether financial, production, distribution, or marketing — is a primary prerequisite for MSMEs to be able to survive and grow. Through good performance, MSMEs are expected to become an increasingly strong pillar of the economy and to play an increasingly strategic role in supporting the national economy.

Various previous studies have shown that digital business strategy, government support, and financial literacy influence both the performance and sustainability of MSMEs, although the results remain varied and context-dependent. In addition, the role of MSME performance as a mediating mechanism between digital business strategy and financial literacy on MSME sustainability remains relatively limited, particularly in the context of MSMEs in Surakarta City.

METHODS

This study applies a quantitative method with a descriptive research design to systematically describe the phenomenon under study. The research population covers all Small and Medium Enterprise (SME) actors operating in Surakarta City. Based on data from the Surakarta City Statistics Agency (BPS), the number of MSMEs in Surakarta City reached 13,203 in 2023. The sample size was determined using the Slovin formula (5% margin of error), resulting in 388 respondents as the research sample.

Primary data were collected by distributing questionnaires to respondents, both face-to-face and online using the Google Forms platform. The collected data were then analyzed using multiple linear regression techniques with the assistance of SPSS version 25 software. To test and confirm the existence of an indirect effect through the mediating variable, this study also employed the Sobel test. An explanation of the operationalization of the research variables, measurement indicators, and reference sources used in developing the research instrument is presented in the following table.

RESULT AND DISCUSSION

Research Results

Results of Validity and Reliability Test Analysis

The results of the factor validity test using the Pearson correlation method show that all statements in this study's questionnaire are valid, as they have a significance value (Sig) $\leq \alpha$ (0.05). Meanwhile, the reliability test was carried out using the Cronbach's Alpha calculation technique, in which a variable is considered reliable if its Cronbach's Alpha value is greater than 0.60 (Kurnia et al., 2015). In this study, the digital business strategy variable has a Cronbach's Alpha of 0.912, government support 0.896, financial literacy 0.949, MSME performance 0.890, and MSME sustainability 0.903. It can therefore be concluded that all statements in the research questionnaire are reliable.

Results of Hypothesis Testing

Based on the results of hypothesis testing using multiple linear regression, the following results were obtained:

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Table 1. Results of Hypothesis Testing

Variable	Regression Coefficient (B)	t-count	Sig.	Description
Constant	-0.211	-0.256	0.798	-
Government Support	0.044	4.405	0.00	Accepted
Digital Business Strategy	0.054	4.133	0.01	Accepted
Financial Literacy	0.047	5.773	0.00	Accepted
MSME Performance	0.053	4.235	0.04	Accepted

F count = 595.5
Sig F = 0.00
Adjusted R2 = 0.859

The Effect of Government Support on MSME Sustainability

Government Support has a positive and significant effect on MSME Sustainability in Surakarta. This is shown by a coefficient value of 0.054 with a significance level of 0.001 < 0.05. This finding indicates that the higher the support provided by the government to MSME actors, the higher the level of business sustainability that can be achieved. Such support may take the form of training, business mentoring, facilitation of financing access, provision of market information, MSME digitalization, and licensing convenience, all of which can improve MSMEs' ability to survive and grow in the long term.

This finding is consistent with research conducted by Idris & Kusumawati (2025), Rahayu & Day (2017), and Tambunan (2019), who found that government support has a positive and significant effect on MSME sustainability. These studies explain that government intervention through policy, coaching, access to capital, and business capacity strengthening can improve the resilience, competitiveness, and operational continuity of MSMEs.

From the perspective of Institutional Theory developed by Scott (2013), it is understood that the continuity of an organization or business is determined not only by internal capability, but also by the surrounding institutional environment. The government is one of the key institutions that shapes regulations, norms, and resource support for business actors. When the government provides a conducive policy environment, access to financing programs, training, and ongoing mentoring, MSMEs will find it easier to adapt to changes in the business environment and increase their opportunities for business sustainability.

The Effect of Digital Business Strategy on MSME Sustainability

Digital Business Strategy has a positive and significant effect on MSME Sustainability in Surakarta City. This finding is shown by a path coefficient value of 0.044 with a significance level of 0.000, which is smaller than 0.05. These results indicate that the better the implementation of digital business strategy by MSME actors, the higher the business's ability to survive, grow, and maintain business sustainability in the long term. The use of digital technology enables MSMEs to expand market access, improve operational efficiency, strengthen customer relationships, and enhance the ability to adapt to an increasingly dynamic business environment. Digital business strategy is thus one of the important factors supporting business sustainability in the digital economy era.

This finding is consistent with research conducted by Mandasari & Irawati (2026), who found that business strategy and digital transformation have a positive and significant effect on MSME business sustainability. Similar results were also found by Mulyadi (2024), who concluded that digital transformation strategy is able to improve business sustainability and MSME competitive advantage. In addition, a literature review conducted by Septiani et al. (2026) shows that digital transformation is a strategic factor that plays a role in improving competitiveness while maintaining the business sustainability of MSMEs in Indonesia. These findings reinforce the argument that digitalization is no longer merely an option, but a strategic necessity for MSMEs to maintain their existence amid a changing business environment.

Theoretically, these results can be explained through Dynamic Capabilities Theory (Teece, 2007). This theory explains that organizations capable of identifying opportunities, utilizing resources, and continuously transforming will have a better ability to adapt to environmental change. In the MSME context, digital business strategy represents a form of dynamic capability that enables business actors to integrate technology into marketing, operational, and customer service activities, thereby improving business resilience and creating sustainable value. The implementation of digital strategy also enables MSMEs to respond to changes in consumer behavior more quickly than competitors that still rely on conventional methods.

The Effect of Financial Literacy on MSME Sustainability

Financial literacy has a positive and significant effect on MSME sustainability in Surakarta City. This is shown by a coefficient value of 0.047 with a significance level of $0.000 < 0.05$. This finding indicates that the higher the level of financial literacy possessed by MSME actors, the higher the business's ability to maintain operational continuity, manage business risk, and achieve sustainable growth. A good understanding of financial management, budget planning, transaction recording, cash flow management, and investment decision-making enables MSME actors to allocate resources more effectively, thereby increasing business resilience in facing business environment uncertainty.

This finding is consistent with research conducted by Lusardi & Mitchell (2014), Ye & Kulathunga (2019), Eniola & Entebang (2017), and Idris & Kusumawati (2025), who found that financial literacy has a positive and significant effect on both MSME sustainability and performance. These studies explain that business actors with good financial knowledge and capability tend to be better able to manage working capital, develop financial strategies, control risk, and make business decisions that support long-term business sustainability.

These findings have managerial implications, suggesting that improving financial literacy needs to be a primary concern for both MSME actors and local government. MSME actors need to enhance their capacity in financial management through training, mentoring, and the use of digital financial technology. On the other hand, the government and MSME support institutions need to expand financial education programs that focus not only on access to financing, but also on improving business financial management capability. With a better level of financial literacy, MSMEs in Surakarta City will have a stronger ability to survive, grow, and achieve long-term business sustainability.

The Effect of MSME Performance on MSME Sustainability

The MSME Performance variable has a positive and significant effect on MSME Sustainability in Surakarta City. This is shown by a coefficient value of 0.053 with a significance level of $0.04 < 0.05$. This finding indicates that the better the performance achieved by an MSME, the higher the level of business sustainability that can be realized. MSME performance, reflected in increased sales, profitability, operational efficiency, customer satisfaction, and business competitiveness, is an important factor that determines the business's ability to survive and grow in the long term. MSMEs with good performance tend to have more adequate resources to face changes in the business environment, innovate, and maintain their competitive advantage in the market.

This finding is consistent with research conducted by Pratono et al. (2019), Sarfiah et al. (2019), and Idris & Kusumawati (2025), who found that business performance has a positive and significant effect on MSME sustainability. These studies show that MSMEs able to achieve good financial and non-financial performance have a greater chance of maintaining business continuity compared to businesses with lower performance levels. Good performance enables business actors to expand markets, increase production capacity, strengthen customer relationships, and build a more sustainable business foundation.

The Mediating Effect of MSME Performance on the Relationship between Digital Business Strategy, Government Support, and Financial Literacy on MSME Sustainability

The first mediation test was conducted to determine the role of financial literacy in mediating the relationship between Digital Business Strategy and MSME Sustainability. Based on the analysis using the Sobel Test Calculator, a t-count value of 0.64 was obtained, which is smaller than the t-table value of 1.96. This finding indicates that MSME performance does not function as a mediating variable in the relationship between Digital Business Strategy and MSME Sustainability. Next, in the second mediation test examining the relationship between Government Support and MSME Sustainability through MSME performance, a t-count value of 0.719 was obtained. Because this value is also below the critical threshold of 1.96, performance is considered unable to mediate the effect of government support on MSME Sustainability. Similar results were found in the third mediation test, where the t-count value of 0.658 was still lower than the t-table value of 1.96. Thus, performance was not proven to be a mediator in the relationship between financial literacy and MSME Sustainability.

In addition, the coefficient of determination analysis shows that the first model has an R^2 value of 0.859. This value indicates that 85% of the variation in MSME performance can be explained by digital business strategy, government support, and financial literacy, while the remaining 15% is influenced by other factors not included in the research model. In the second model, an R^2 value of 0.861 was obtained, indicating that the combination of digital business strategy, government support, financial literacy, and performance variables is able to explain 86% of the variation in MSME sustainability.

CONCLUSION

Based on the research results, it can be concluded that digital business strategy, government support, financial literacy, and MSME performance are proven to have a positive and significant effect on MSME sustainability in Surakarta City. This finding shows that the higher the MSME's ability to implement digital business strategy, utilize government support, improve financial literacy, and generate good business performance, the higher the level of business sustainability that can be achieved. Digital business strategy contributes to expanding market access and improving business efficiency, while government support plays a role in strengthening MSME capacity and competitiveness through various coaching, financing, and business facilitation programs. Financial literacy helps MSME actors make more effective and sustainable financial decisions, while MSME performance is an important factor reflecting business success in maintaining business continuity.

On the other hand, the research results show that MSME performance is unable to mediate the relationship between digital business strategy, government support, and financial literacy on MSME sustainability. This indicates that the three independent variables have a more dominant direct effect on MSME sustainability than through the mechanism of improved business performance. Thus, efforts to improve MSME sustainability in Surakarta City can be carried out directly through strengthening business digitalization, optimizing government support programs, and improving the financial literacy of business actors. Future research is recommended to develop the model by adding other variables such as business innovation, entrepreneurial orientation, business resilience, or competitive advantage as mediating or moderating variables, in order to gain a more comprehensive understanding of the factors influencing MSME sustainability.

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