



THE ROLE OF ENVIRONMENTAL DYNAMISM AS A MEDIATOR OF THE RELATIONSHIP BETWEEN FINANCIAL TECHNOLOGY AND MSME INCOME

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ABSTRACT

MSMEs, as the most important sector in GDP, still experience obstacles in their development, including limited skills and digital literacy capabilities for MSME actors that hinder business operational aspects. Second, many MSMEs have not been able to prepare financial statements digitally, reducing accountability and weakening their position in obtaining capital loans. Third, MSME actors have difficulty meeting product standards for digital-based exports, despite the great potential of the digital economy. This is the reason for the need to improve financial literacy, digital marketing, financial technology and financial inclusion. This study aims to examine more deeply the influence of digital marketing, financial literacy, financial technology, and financial inclusion on increasing MSME income in Salatiga City. And how the role of environment dynamics in strengthening independent variables against dependent variables. This study uses a two-analysis approach, namely multiple linear regression and *Moderated Regression Analysis (MRA)* with a total of 400 respondents from MSME actors in Salatiga City. The sampling technique uses *the probability sampling technique*. Data was obtained through the distribution of questionnaires with a likert scale. Based on the findings of previous research, the factors that affect the increase in MSME income include financial literacy, digital marketing, financial technology and financial inclusion.

Keywords: digital marketing, environment dynamic, financial technology, financial literacy, MSMEs



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Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy, contributing significantly to the Gross Domestic Product (GDP) and creating jobs for millions of people. Despite facing various challenges such as access to capital, limited human resources, and market access, support from the government and various parties continues to increase. Initiatives such as training, access to financing, and the use of digital technology are expected to encourage the growth and sustainability of MSMEs, ensuring that they can continue to contribute optimally to Indonesia's economic development. (Yustikarini et al. 2023).

The phenomenon of changing consumer behavior has had a significant impact on MSMEs throughout Indonesia, especially in Salatiga City. In recent years, especially after the pandemic, consumers have increasingly turned to digital platforms to meet their needs. However, limited capital remains a challenge for business actors. Therefore, innovation and adaptation in MSME business strategies are the key to surviving and recovering in the midst of increasingly complex economic uncertainty (Cahyani 2021).

One of them that happened in Salatiga City is that MSMEs play an important role in the economy. MSMEs have an impact on economic growth in Salatiga City. In 2019, the economic growth of Salatiga City was 5.88 percent, higher than Indonesia itself which was only 5.02 percent (BPS, 2020). Therefore, MSMEs have great potential for the economy if they can be developed and managed optimally. (Sudrartono et al. 2022).

The digitalization of MSMEs has become a major focus in increasing competitiveness and efficiency, given their vital role in the national economy. Platform *e-commerce*, social media, and fintech applications have enabled MSMEs to reach consumers more effectively and obtain financing more easily. The Government of Indonesia, through various initiatives and programs, continues to



encourage the digitalization of MSMEs to increase financial inclusion and empower small and medium enterprises. (Amelia and Miftahurrohmah 2020).

The use of Information and Communication Technology (ICT) is the key to the success of MSMEs in facing global competition. From previous research, the application of technology can increase the productivity, efficiency, and competitiveness of MSMEs, as well as have a positive impact on their income. However, there are still few MSME actors who use ICT, especially in online marketing and sales through *E-Commerce* (Sophian and Wi 2022). One of the important factors for the success of MSMEs is the availability of a wide market (Muhammad and Manan 2017). Previous research also found a gap that Digital marketing does not affect the sustainability of MSME businesses because business actors do not have adequate digital marketing capabilities. Several factors cause it, including business actors who do not have a clear vision, lack of courage to face risks in running their business, lack of development of promotional concepts, and lack of response to opportunities and threats in running their business (Agus et al., 2023).

Another case from previous research found differences in results, that MSME actors often experience conventional problems that are not resolved, such as financing, marketing, and various other problems that are directly related when MSMEs are managing their businesses (Rahayu & Musdholifah, 2017).

The most business actors in Indonesia are MSME actors, making it possible for MSMEs to enter the world *Fintech*. The low public literacy about Islamic economics and finance is a phenomenon that needs to be solved through the hard work of various parties, both through education, socialization, and collaboration of many parties. A Bank Indonesia survey in 2022 stated that the national Islamic economic and financial literacy index only reached 23.3 percent (Saptati 2023).

Fintech play a key role in advancing financial inclusion by offering technology solutions that make financial services more accessible, affordable, and relevant to the wider community. While financial inclusion focuses on ensuring that



everyone has access to formal financial services, *Fintech* provide the tools and innovations that enable this to happen effectively. Therefore, *Fintech* and financial inclusion go hand in hand in driving more inclusive and sustainable economic development (Martono and Febriyanti 2023). In addition, financial education and literacy are also important concerns in ensuring the safe and beneficial use of financial technology for all levels of society. (Lestari, Purnamasari, and Setiawan 2020).

In particular, the role of environmental dynamism has not been widely discussed by previous researchers. Environmental dynamism is defined as the degree to which competition, customer preferences, and technology change in an industry (Wilhelm, Schlömer, and Maurer 2015). Companies operating in highly dynamic environments face substantial fluctuations in competitors, changes in competitive behavior, changing customer demands and technological updates. To improve routine operational performance, companies need to capitalize on opportunities in a competitive environment by adapting their operating routines to deal with shifting customer trends. Previous research has provided inconsistent results on the influence of environmental dynamism on the performance of MSMEs. For example, research Wilhelm et al., (2015) Put forward the effect of moderation of environmental dynamism. Instead, research Lafayette, (2011) found no moderation effect on the environmental dynamism variable

Previous researchers have identified the following research gaps based on data collected through a survey of MSME owners in various sectors, where they were asked to assess the ease of use, trust, and risk perception related to fintech services. Preliminary results show that ease of access and transaction efficiency are the main reasons for MSMEs to adopt fintech. However, there are still significant obstacles such as a lack of understanding of this technology and concerns about data security. (Anisyah, Pinem, and Hidayati 2021). The study underscores the importance of education and safety enhancement in driving adoption *Fintech* broader, as well as the great potential of fintech in improving financial inclusion and



operational efficiency of MSMEs (Ika et al. 2021). Previous researchers also found problems with financial literacy that MSME financial literacy is due to the lack of people who care about recording so that business income continues to increase (Sudarmanto et al. 2022).

Literature Review

Theoretical Framework

1. (Grand theory) Capability Theory (1970)

Capability Theory (Capability Theory) is an approach in the field of economics and welfare developed by Amartya Sen (1970). This theory focuses on the ability of individuals or entities to achieve the various functions and goals they consider important in their lives, not just on material measurements such as income or wealth. This theory offers a framework for assessing human well-being and development more comprehensively (Diandra and Syahputra 2021).

a. Key Concepts in Capability Theory

1) Capabilities

Capability refers to the ability of a person or group to perform various activities that are considered valuable. It covers a wide range of real opportunities that individuals have to achieve the life they consider good.

2) Fungsi (*Functionings*)

Function is the actual result or achievement that can be seen from a person's capabilities. This function can include everything from meeting basic needs, such as food and shelter, to achieving more complex goals, such as participation in social and political life.

3) Freedom

Freedom in the theory of capability is not only the freedom to choose, but also the freedom to act and be something. Freedom is



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central to well-being in this theory, where well-being is determined not only by the resources owned, but also by the ability to transform those resources into valuable functions.

b. Application in the Context of MSMEs

In the context of increasing MSME income, capability theory can be used to understand how various factors such as digital marketing, financial literacy, financial technology (fintech), and financial inclusion affect the ability of MSME owners or managers to achieve certain functions that contribute to their well-being.

1) Digital Marketing

Improving the capabilities of MSMEs in reaching a wider market, interacting with customers, and increasing sales. It's not just about having access to digital technology, but how it can be used effectively to achieve business goals.

2) Financial Literacy

Providing MSME owners with capabilities to better manage their finances, make more informed decisions, and increase business stability and growth.

3) Financial Technology (*Fintech*)

Expanding MSMEs' capabilities in accessing financial services that may have been difficult to reach previously, such as digital payments, microloans, and automated financial management.

4) Financial Inclusion

Refers to the accessibility of financial services for all levels of society, especially those in the MSME segment. Financial inclusion improves the capabilities of MSMEs to utilize banking services, obtain financing, and manage financial risks.



Using this approach, research can offer deeper insights into how digital marketing, financial literacy, fintech, and financial inclusion can improve MSMEs' income and their overall well-being (Adon, Jeraman, and Andrianto 2023).

2. MSME Income

a. Definition of MSMEs

MSMEs are businesses owned by individuals or business entities that have met the criteria as a business. The Central Statistics Agency (BPS) groups MSMEs based on the number of workers. Parmono & Zahriyah, (2021) In principle, the distinction between Micro Enterprises (UMi), Small Enterprises (UK), Medium Enterprises (UM) and Large Enterprises (UB) is generally based on the value of the initial assets (excluding land and buildings), the average annual turnover or the number of permanent employees. However, the definition of MSMEs based on these three measuring tools is different in each country.

b. MSME Income Indicators:

According to Hadi & Zakiah, (2021) About MSME indicators, namely:

1) Total Pendapatan (*Gross Revenue*)

The total amount of revenue received by MSMEs from the sale of products or services over a certain period of time. The benefits provide an overview of the size and scale of MSME operations.

2) Net Revenue

Total revenue is deducted by returns, discounts, and other deductions. Benefits to assess the income actually received after deductions.

3) Revenue per Product or Service



Revenue generated from each product or service sold.
Benefits to understand the contribution of each product or service to total revenue.

4) Revenue Growth

The percentage change in revenue from one period to another. Benefits for measuring revenue increases or decreases and assessing growth trends.

3. Digital Marketing

a. Definition of Digital Marketing

The term digital economy was introduced by Don Tapscott in 1995 through his book titled *The Digital Economy: Promise and Peril in the Age of Networked Intelligence*. Digital economy is an economic activity based on internet digital technology. *E-commerce (Elektronik Commerce)* or in Indonesian Electronic Trade is the activity of disseminating, selling, purchasing, marketing products (goods and services), by utilizing telecommunication networks such as the internet, television, or other computer networks. (Wijoyo et al. 2020)

Digital Marketing is an activity, ethics, and method that uses digital technology to create, communicate, and convey value to consumers and related parties. The benefits for entrepreneurs include connecting them with consumers, saving on marketing costs, and increasing turnover compared to non-digital marketing methods. In addition to its benefits, digital marketing also involves strategies, including efforts to improve business interaction through the use of technology with customers and create attraction through the internet with in-depth analysis and planning so that customers feel interested and loyal (Krisnahadi 2020).

b. Digital Marketing indicator

According to Krisnahadi, (2020) that digital marketing indicators:

1) Accessibility



Accessibility is the ability of users to access information and services provided online, including in advertising. The term accessibility is generally related to how users can access social media sites.

2) Interactivity

Interactivity refers to the level of two-way communication that involves the ability to be responsive in communication between advertisers and consumers, as well as responses to feedback received.

3) Informative (*Informativeness*)

The ability of advertising to provide information to consumers is at the heart of an effective advertisement. In addition, advertising must also provide an accurate picture of the product so that it can provide economic benefits to consumers.

4. Financial Literacy

a. Definition of Financial Literacy

According to the OJK in 2017, financial literacy can be interpreted as the level of knowledge, skills, and confidence. This level of knowledge will influence behavior so as to improve the quality of decision-making and financial management so as to achieve welfare.

According to Hadi & Zakiah, (2021). There are several theoretical approaches used to understand financial literacy and how individuals develop financial understanding and behavior. Some relevant theories include:

1) Consumer Behavior Theory

This theory describes how individuals make consumption and investment decisions based on preferences, needs, and resource limitations. In the context of financial literacy,



consumer behavior theory can be used to understand the factors that influence an individual's financial decisions, such as risk preferences, financial bias, and social influences.

2) Social Learning Theory

This theory emphasizes the importance of social interaction in the formation of knowledge, attitudes, and behaviors. In the context of financial literacy, social learning theory recognizes the important role of family, friends, and community in shaping understanding and attitudes toward finance.

3) Social Evaluation Theory

This theory describes how individuals compare themselves to others in order to evaluate themselves and regulate their behavior. In financial literacy, social assessment theory can explain how individuals are influenced by social norms around financial management and how their perception of their financial status affects their financial behavior.

4) Rational Choice Theory

This theory assumes that individuals make rational decisions by considering the available information and maximizing their satisfaction or profits. In the context of financial literacy, rational choice theory highlights the importance of education and access to quality financial information to help individuals make better financial decisions.

5) Moral Reasoning Theory

This theory explains how individuals make moral decisions based on their moral principles. In financial literacy, moral reasoning theory can be used to understand how individuals consider ethics and social responsibility in their financial



decisions, such as debt management, social investment, or donations.

b. Financial Literacy Indicators:

According to Amelia, (2022) that the Financial Literacy Indicators:

1) Financial Recording and Reporting

The ability of MSMEs to record and report financial accurately and on time. Benefits for assessing the impact of good recording and reporting on revenue management and financial performance.

2) Cash Flow Management

The ability of MSMEs to manage cash flow to ensure the availability of sufficient funds for operations and growth. Benefits to assess the impact of effective cash flow management on financial stability and revenue.

3) Financial Analysis Skills

The ability of MSMEs to analyze financial statements to make informational decisions. Benefits to assess how financial analysis skills contribute to decisions that increase revenue.

5. Financial Technology

a. Definition of Financial Technology

According to the Financial Services Authority, *Fintech* is an abbreviation of the word *Financial Technology*, which can be interpreted in Indonesian as financial technology. In simple terms, Fintech can be interpreted as the use of information technology developments to improve services in the financial industry. Financial inclusion.(Silaswaty Faried and Dewi 2020).

b. Financial Technology Indicators:

According to Raharjo et al., (2022) there are several Indicators about Financial Technology:



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1) Increased Revenue through *E-Commerce Platforms*

Measure the extent to which the use of e-commerce platforms affects MSME income. Benefits to assess the impact of using *e-commerce* in increasing sales volume and revenue.

2) Digital Payment Transaction Efficiency,

The ability of MSMEs to increase the speed and efficiency of transactions through digital payment methods. Benefits for assessing the impact of digital payments in accelerating cash flow and improving customer satisfaction.

3) Cash Flow Management with *Fintech Tools*

The ability of fintech technology to help MSMEs manage cash flow more effectively. Benefits to assess how fintech tools contribute to financial stability and revenue.

4) Customer Data Analysis for Sales Strategy

Utilization of customer data analytics to develop more effective sales strategies. Benefits to assess how customer data analytics improve sales and revenue.

6. Financial Inclusion

a. Definition of Financial Inclusion

The World Bank explains financial inclusion as access to financial products and services that can be useful and affordable in meeting the needs of people and their businesses such as transactions, payments, savings, and insurance that are used responsibly and sustainably (Krisdayanti 2020).

According to Indonesia's National Strategy for Financial Literacy 2021–2025, financial inclusion in Indonesia is focused on three pillars of strategic programs: improving financial literacy, developing financial infrastructure, and strengthening consumer protection. This approach is expected to increase public understanding of financial products,



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expand access to financial services, and ensure security and convenience in transactions. Financial inclusion also plays an important role in empowering MSMEs. Wider access to financial services allows MSMEs to obtain working capital, manage finances more efficiently, and grow their businesses (Septiani and Wuryani 2020). The lack of financial literacy among the public is an obstacle to achieving maximum financial inclusion. Therefore, cooperation between governments, financial institutions, and fintech service providers is needed to overcome these barriers and ensure comprehensive financial inclusion (Kusuma et al, 2021).

b. Budget Inclusion Indicators:

According to Septiani & Wuryani, (2020) There are several indicators on Financial Inclusion:

1) Access to Banking Services

The level of MSMEs' access to banking services such as savings accounts, loans, and credit facilities Benefits to assess how access to banking services contributes to MSMEs' ability to manage income and obtain financing.

2) Use of Credit and Formal Financing

The extent to which MSMEs use credit and financing from formal financial institutions compared to informal financing sources. Benefits to Measure the impact of using formal credit in supporting MSME revenue growth and operations.

3) Electronic Payment Acceptance

The ability of MSMEs to accept payments through electronic methods such as credit cards, debits, or online payments.

How to Measure: The percentage of transactions made through electronic payments compared to cash transactions. Benefits Assess



how the acceptance of electronic payments increases sales volume and revenue.

4) Use of Cash Flow Management Tools

The use of cash flow management tools or software to manage MSME income and expenses. Benefits to value how the use of cash flow management tools contributes to better cash flow and revenue management.

7. Moderation Variable: *Dynamic Environment (DE)*

Environmental dynamism can be defined as the frequency, magnitude and irregularity of changes in terms of competition, customer preferences and technology (Mushi 2024). Companies operating in environments with high levels of dynamism are faced with the challenge of adjusting, updating and reconfiguring their operating routines to respond to changing environmental conditions (Lafayette 2011).

The concept of environmental dynamism refers to the degree of unpredictable fluctuations in the external environment of a company. Terms such as uncertainty and volatility are widely used in research to describe the idea of unpredictable change. Many studies have explained how environmental dynamism affects the relationship between MSMEs. The impact of the business environment on the operational results of MSMEs provides concrete evidence in the scientific literature (Ripoll 2024).

Several studies have researched Dynamic Capability, including Teece, (2014) posits a conceptualization of DC with three main dimensions: (a) the organization's ability to identify, develop, and assess technology opportunities that can meet customer and business needs (b) the organization's ability to mobilize the necessary resources to meet consumer needs and business opportunities (Wilhelm et al. 2015).

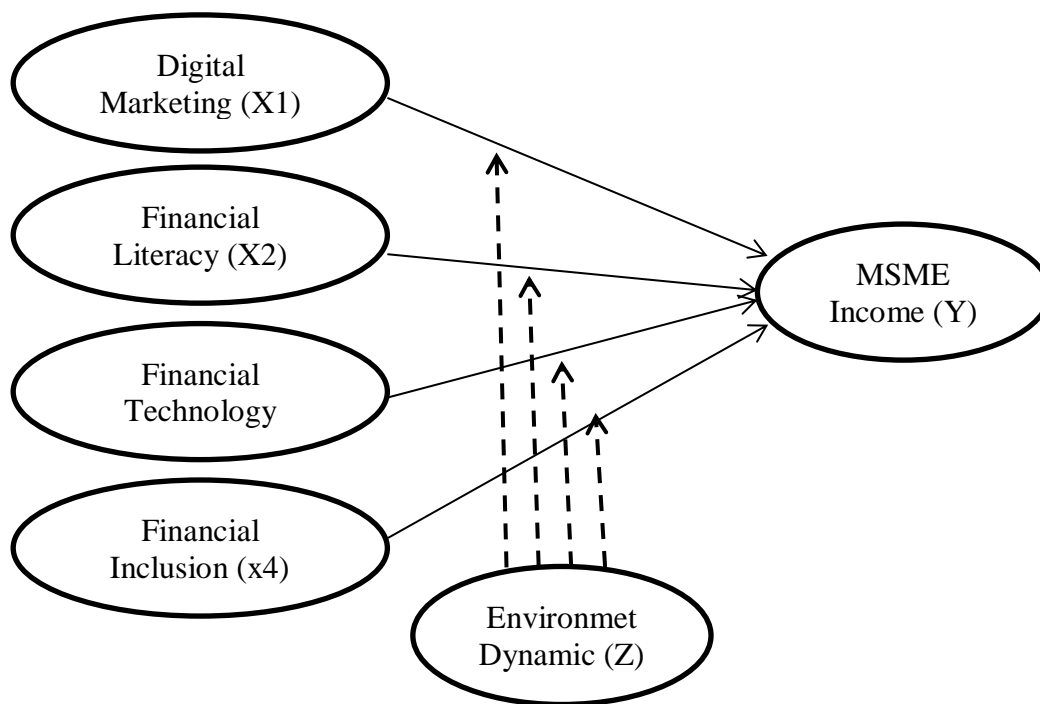


Figure 2.1. Research Framework

Hipotesis

1. The Influence of Digital Marketing on MSME Income

With the good use of the latest technology, MSME players can increase their wide market reach through digital platforms, as well as more efficient digital payments. This can increase profits for MSME actors (Krisnahadi, 2020).

In *Capability Theory*, it is in line with this hypothesis that the increased use of digital marketing by MSMEs significantly increases the capabilities of business owners to access a wider market and manage their business more efficiently, which ultimately contributes positively to the increase in MSME income

In a study conducted by Hadi & Zakiah, (2021) The increase in sales can be seen from the intensification of marketing through social media and platforms *marketplace* which is effective in attracting the attention of



consumers. To return their revenues to pre-COVID-19 levels, MSME players must focus on digital marketing. Important aspects of digital marketing for MSMEs include the use of social media and *platform marketplace*, content marketing strategy, mobile marketing, and digital integration (Bambang and Abdur 2019)

H1: Digital Marketing has a significant positive effect on the income level of MSMEs in Salatiga City.

2. The Effect of Financial Literacy on MSME Income

Financial literacy plays a key role in the growth of a business, as good financial management is a necessary foundation for its success (Pinem & Mardiatmi, 2021).

In *Capability Theory*, it is in line with this hypothesis that the increase in financial literacy among MSME owners is significantly related to the increase in MSME income, through increasing their capabilities in managing business finances effectively, which allows them to make better financial decisions and make optimal use of business opportunities.

Based on research Amelia, (2022) and (Joko et al. 2022) They also stated that by providing training and socialization on financial literacy, MSME actors will have a better understanding of financial management, including budget planning, cash flow recording, and strategic financial decision-making, which in turn will improve their operational efficiency and business profitability

H2: Financial literacy has a significant positive effect on the income level of MSMEs in Salatiga City.

3. The Influence of Digital Financial Services on MSME Income

With advances in Payment Gateway technology, MSME players will be able to offer safer, faster, and more diverse payment methods to their customers. This will not only increase customer trust and satisfaction, but it will also open up opportunities for business expansion and the creation



of new jobs. As a result, MSME sales revenue is projected to experience a significant increase (Lestari et al., 2020).

In *Capability Theory*, it is in line with this hypothesis that increasing the capabilities of MSMEs in utilizing financial technology significantly increases the income of MSMEs. In other words, the ability of MSMEs to access and use financial technology effectively expands their capabilities in managing finances, expanding markets, and optimizing business operations, ultimately contributing to increased revenue.

The provision of services by sharia financial technology to support the growth of MSMEs shows that the modern financial system has positive potential in empowering MSMEs. The responsibility to address these risks is shared between financial technology users and the government in implementing policies (Ika et al., 2021). The level of adoption of financial technology (fintech) by MSMEs is positively influenced by the relative profitability, compatibility, and observability of fintech, which in turn improves the financial performance and operational efficiency of MSMEs (Raharjo et al. 2022)

H3: Financial technology has a significant positive effect on the income level of MSMEs in Salatiga City.

4. The Effect of Financial Inclusion on MSME Income.

Islamic bank service offices remain an important need to expand access to sharia-based financing in Indonesia, especially for capital in the MSME sector. In *Capability Theory*, it is in line with this hypothesis that financial inclusion expands the capabilities of MSMEs by allowing them to access financial products and services that can strengthen their business operations and development. Thus, more financially inclusive MSMEs will have more opportunities to increase operational capacity, better manage risk, and invest in business development, which can ultimately increase revenue.



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The role of Islamic financial institutions, such as BPRS, in providing financing is still very important for MSMEs. Overall, this study confirms that BPRS has a significant involvement in implementing inclusive finance, especially in the funding of the MSME sector, which is supported by a consistent focus on this sector and a good financial ratio (Rifa'i & Achmad, 2017).

According to Septiani & Wuryani, (2020) that The level of financial inclusion by MSMEs is positively influenced by the relative profitability, compatibility, and complexity of financial inclusion services, which in turn improves access to financial resources and the financial performance of MSMEs.

H4: Financial Inclusion has a significant positive effect on the income level of MSMEs in Salatiga City.

5. *Environment Dynamic* as a mediating variable of digital marketing, financial literacy, financial technology, and financial inclusion to increase MSME income

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy, contributing significantly to the Gross Domestic Product (GDP) and labor absorption. However, in recent years, especially after 2020, MSMEs have been faced with various environmental dynamics that affect their performance and income. These dynamics include global economic changes, technological developments, and pandemic situations that bring new challenges and opportunities. Changes in the external environment, such as global economic fluctuations and technological developments, require MSMEs to be more adaptive. According to Permana et al, (2017; Maulana (2021); Okeyo (2014) they argue that changes in consumer preferences, innovation, and technology can encourage MSMEs to improve their performance.



By utilizing digital marketing, MSMEs can respond to market changes more quickly and efficiently. Studies conducted by Rainfall (2021) stated that dynamic ability does not have a significant effect on the performance of MSMEs. However, with the integration of digital marketing strategies, MSMEs can improve their adaptability to environmental changes.

High environmental dynamics require MSMEs to not only be adaptive but also have good financial literacy. With a strong financial understanding, MSMEs can respond to changes in the environment with the right financial strategy, thereby minimizing risk and maximizing opportunities to increase revenue. Maushufi and Wilasittha (2024) emphasized that financial literacy plays a mediator in the relationship between environmental dynamics and the performance of MSMEs.

H5: *Environment dynamics* are able to mediate the relationship between digital marketing and MSME income

H6: *Environment dynamics* are able to mediate the relationship between financial literacy and MSME income

H7: *Environment dynamics* are able to mediate the relationship between financial technology and MSME income

H8: *Environment dynamics* are able to mediate the relationship between financial inclusion and MSME income

Methods

Population and Sample

The population in this study includes MSME entrepreneurs as a whole in Salatiga City reaching 23,622 MSMEs registered with the Cooperatives and SMEs Office. The sampling techniques in this study are *Purposive Sampling*. According to Marija Sihwahjoeni (2021), *Purposive Sampling* It is a method that is based on certain criteria to obtain a sample that is logically representative of the actual population.



Meanwhile, what is meant by the criteria in taking examples in this research are as follows:

- a. MSMEs listed in the data of the Salatiga City Cooperatives and SMEs Office in 2025.
- b. Businesses taken by all types of MSMEs in Salatiga City.
- c. Respondents who are Muslim.
- d. Respondents who have a banking account.
- e. Respondents who have digital transaction accounts.

Based on these criteria, the researcher took a sample of 400 MSMEs in Salatiga City using the Krejcie & Morgan (1970) formula approach:

$$n = \frac{x^2 N(1 - P)}{(e)^2 N - 1 + x^2 P(1 - P)}$$

Where:

n = Sample size

N = Population size

X² = Chi Value Square

d = Estimation error

P = Proportion of population

The respondent population is all MSME entrepreneurs in Salatiga totaling 23,622 people, so the sample we take as a study if we use the Krejcie & Morgan formula with a confidence level of 95%, and an error rate of 5% is:

$$n = \frac{x^2 N(1 - P)}{(e)^2 N - 1 + x^2 P(1 - P)}$$

$$n = \frac{3,841 \times N(0,5 \times 0,5)}{(N - 1)0,05^2 - 3,841(0,5 \times 0,5)}$$

$$n = \frac{3,841 \times N(0,25)}{(N - 1)0,0025 - 3,841(0,25)}$$

$$n = \frac{3,841 \times 23.622(0,25)}{(23.622 - 1)0,0025 - 3,841(0,25)}$$



$$n = \frac{3,841 \times 23.622(0,25)}{((23.622 - 1)0,0025) - (3,841(0,25))}$$

$$n = 390,4656043$$

If rounded up, the minimum sample number of 23,622 population with a margin of error of 5% is 390 people.

$$n = 391 \text{ people}$$

So the research sample for 23,622 people from the 95% confidence level was 390 people and rounded up to 400 respondents (Amin, Garancang, and Abunawas 2023).

Data Collection Techniques

The data used in this study is primary data obtained directly from the research subjects. The data source used is a questionnaire that has been distributed to the targeted respondents. The scale used in the research questionnaire is an ordinal scale or likert scale that has been used by many researchers to measure a person's behavior desired by the researcher. This study uses an odd likert scale by giving a score of 1 which shows very disagree to 5 which shows very agree.

Tabel 1.Statement Score for Assessment

Answer Type	Score
Strongly Agree (SS)	5
Agree (S)	4
Doubtful/Neutral (N)	3
Disagree (TS)	2
Strongly Disagree (STS)	1

Research Variables and Indicators

Tabel 2. Variable Concept Definition

Yes	Variabel	Definition	Indicator	Reference
	Variable Dependency			



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1.	MSME Income (Y)	Measuring Business Performance, Financial Planning and Management, Evaluating Business Strategies, Attracting Investment and Credit, and Increasing Profitability.	<ul style="list-style-type: none"> • Total Pendapatan (<i>Gross Revenue</i>) • Net Revenue. • Revenue per Product or Service: • Revenue Growth 	(Hadi and Zakiah 2021)
Independent Variables				
2.	Digital Marketing (X1)	Promotional activities for a brand or product that uses electronic (digital) media	<ul style="list-style-type: none"> • Accessibility • Interactivity • Informative 	(Krisnahadi, 2020)
3.	Financial Literacy (X2)	Improving Financial Management, Optimizing Revenue, Reducing Financial Risks, Facilitating Better Decision-	<ul style="list-style-type: none"> • Financial Recording and Reporting • Cash Flow Management • Financial Analysis Skills 	(Amelia, 2022)

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		Making and Improving the Financial Health of MSMEs		
4.	Financial Technology (X3)	Improving Operational Efficiency, Optimizing Revenue Management, Facilitating Access to Financing, Improving Business Decisions and Increasing Customer Satisfaction	<ul style="list-style-type: none"> • Increased Revenue through E-Commerce Platforms • Digital Payment Transaction Efficiency, • Cash Flow Management with Fintech Tools • Customer Data Analysis for Sales Strategy 	(Raharjo et al., 2022)
5.	Financial Inclusion (x4)	Improving Access and Use of Financial Services, Optimizing Financial Management,	<ul style="list-style-type: none"> • Access to Banking Services • Use of Credit and Formal Financing 	(Septiani and Wuryani 2020)

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		Facilitating Access to Financing, Increasing Business Stability, Improving Operational Efficiency and Improving Operational Efficiency.	<ul style="list-style-type: none"> • Electronic Payment Acceptance • Use of Cash Flow Management Tools 	
Moderation Variables				
6	Environment Dynamic	Environmental Dynamism is a rapid and unpredictable rate of external change, such as changes in technology, markets, and fierce competition	<ul style="list-style-type: none"> • Product/Service Features that customers want • Product/Service Features provided by competitors • Product Technology in Industry • Government Policies on Industry 	(Permana et al, 2017)



Research Instrument Test Equipment

In this study, the data was tested using a structural equation modeling technique or known as Structural Equation Modeling (SEM), using the Least Square (PLS) application. SEM is a statistical method that examines complex and unsolvable relationships with linear regression equations. PLS is a method to overcome the weaknesses of the SEM approach. SEM with PLS consists of a measurement model (outer model) and a structural model (inner model) which aims to test the relationship between constructs by looking at the influence and relationship between the constructs.

1. Outer Model Review

In the analysis, the outer model will show that the measurement used in the study is feasible to be used as a variable measurement tool (valid and reliable). In this outer model, there are several stages in the test that will be carried out, namely through convergent validity, discriminant validity and composite reliability tests

a) Convergent Validity Test

The convergent validity test is a measurement using a value reflective approach based on the correlation between the item score and the component score calculated using PLS (partial least square). The parameter used in this convergent validity test, namely the loading factor with an expected value of > 0.7 , can be said to be valid for the indicator that measures the construct.

b) Discriminating Validity Test

The discriminant validity test uses the measurement of reflective value indicators which are assessed using cross loading. In this study, each variable was required to show a value higher than 0.07. When the correlation between the construct and the indicator is greater than the correlation with the construct, it shows better



predictability for the indicators in the block compared to the other blocks.

c) Uji *Composite Reability*

The purpose of this composite dependency test is to determine the consistency, accuracy, and precision of the instrument in measuring constructs through the use of reflection indicators, namely *Cronbach Alpha* and *Composite Reliability*. In confirmatory studies, it is generally considered desirable that *Cronbach Alpha* and *Composite Reliability* exceed the threshold of 0.7. On the other hand, values ranging from 0.6 to 0.7 are considered acceptable for exploratory research.

2. Model Struktural (Inner Model)

The structural model in *this inner model* aims to estimate the cause-and-effect relationship between latent variables that are late formed based on subtheories. In conducting the inner model, what is used is the bootstrapping method through the use of the SmartPLS application. Here's an explanation of the *inner model*:

a. Uji R-Square

The purpose of the R-square test is to determine whether the model used in the analysis can convey the weights of endogenous variables. The values at the R-square of 0.67, 0.33, 0.19 for the endogenous latent variables in the structural model indicate that the model can be labeled "good", "moderate" and "weak"

b. Uji F-Square

In addition to evaluating the existence of significant relationships between variables, it is important for a researcher to evaluate the extent of the influence between these variables by using *Effect Size* atau F-square (Ghozali 2018). F-Square values are 0.02 "weak", 0.15



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"medium" and 0.35 "strong". A value of less than 0.02 can be ignored or considered to have no effect

d) Uji Hypothesis

In hypothesis testing, it will be carried out using the bootstrapping method on the sample to be tested. The results of the hypothesis test can be determined from the t-statistical value and the profitability value. In this test, the basis of the t-table value with a significance of 5 % is equivalent to 1.96. The criteria for accepting or rejecting the hypothesis are: H_a (alternative hypothesis) is acceptable if the t-value is calculated as 1.98.

Data Analysis Tools

This research is a quantitative research, because in this study the data obtained is in the form of *numeric* or numbers. So the analysis tool used is SmartPLS. SmartPLS is an easy-to-use and easy-to-understand Partial Least Square (PLS)-based application.

Result and Discussion

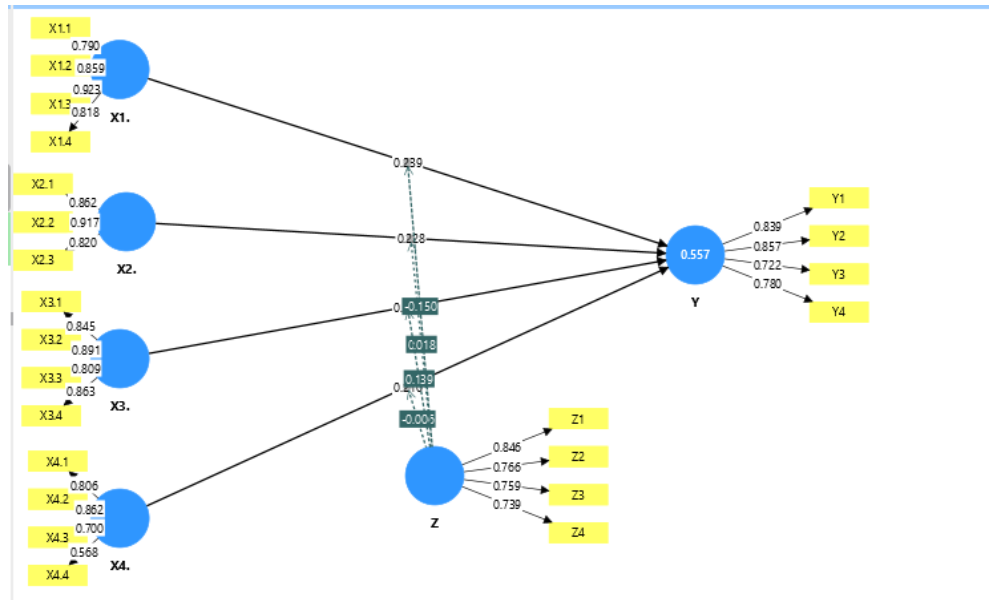
Evaluation of Measurement Model Results (Outer Model)

The assessment of the measurement model or outer model is carried out based on the tests of convergent validity, discriminant validity and reliability.

1. Convergent Validity Test



Gambar 1. Outerloading Output



Source: SmartPLS Output, 2025

An indicator is considered reliable if its factor load is greater than 0.7. Indicators with values below 0.7 are considered inadequate and excluded from the model, and their factor loading is reestimated. The above results show that the variable indicators used have a convergent validity value of >0.7 , which means that the indicators used in this study contribute significantly to the constructed measured. The relatively high value of AVE indicates that the construct can be explained by its indicators.

2. Discriminating Validity Test

The validity of the discriminator is determined to ensure uniqueness in the research. The method to check the validity of the discriminator is to check the cross-loading value, i.e. a factor loading score greater than 0.70 for each variable or a score higher than the latent variable measured.



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Tabel 3. Discriminating Validity Test

	X1.	X2.	X3.	X4.	And	With	Z x X2.	Z x X3.	Z x X4.	Z x X1.
X1.1	0.790	0.589	0.535	0.520	0.507	0.686	-0.438	-0.434	-0.432	-0.432
X1.2	0.859	0.621	0.581	0.526	0.542	0.634	-0.400	-0.397	-0.322	-0.397
X1.3	0.923	0.677	0.536	0.458	0.606	0.580	-0.344	-0.359	-0.271	-0.399
X1.4	0.818	0.654	0.507	0.444	0.621	0.476	-0.316	-0.335	-0.249	-0.353
X2.1	0.684	0.862	0.582	0.544	0.574	0.586	-0.423	-0.475	-0.435	-0.403
X2.2	0.651	0.917	0.537	0.450	0.584	0.455	-0.392	-0.391	-0.364	-0.374
X2.3	0.617	0.820	0.609	0.507	0.470	0.439	-0.388	-0.406	-0.350	-0.372
X3.1	0.564	0.620	0.845	0.566	0.483	0.427	-0.363	-0.387	-0.327	-0.350
X3.2	0.538	0.510	0.891	0.596	0.479	0.536	-0.479	-0.503	-0.474	-0.463
X3.3	0.443	0.483	0.809	0.516	0.374	0.514	-0.343	-0.339	-0.349	-0.305
X3.4	0.596	0.619	0.863	0.520	0.515	0.629	-0.406	-0.408	-0.361	-0.347
X4.1	0.545	0.557	0.545	0.806	0.512	0.546	-0.334	-0.378	-0.441	-0.305
X4.2	0.442	0.479	0.555	0.862	0.538	0.535	-0.388	-0.381	-0.458	-0.337
X4.3	0.400	0.329	0.416	0.700	0.414	0.634	-0.272	-0.275	-0.321	-0.222
X4.4	0.245	0.288	0.373	0.568	0.224	0.427	0.046	0.044	-0.055	0.104
Y1	0.634	0.587	0.490	0.549	0.839	0.579	-0.320	-0.305	-0.304	-0.326
Y2	0.659	0.557	0.484	0.459	0.857	0.565	-0.351	-0.375	-0.338	-0.400
Y3	0.373	0.376	0.351	0.397	0.722	0.360	-0.128	-0.144	-0.162	-0.088
Y4	0.431	0.458	0.409	0.499	0.780	0.490	-0.375	-0.361	-0.384	-0.338
Z1	0.631	0.535	0.584	0.592	0.566	0.846	-0.364	-0.375	-0.389	-0.339
Z2	0.572	0.400	0.496	0.571	0.461	0.766	-0.266	-0.270	-0.301	-0.260
Z3	0.517	0.442	0.485	0.518	0.377	0.759	-0.345	-0.342	-0.293	-0.308
Z4	0.433	0.395	0.364	0.541	0.534	0.739	-0.361	-0.383	-0.451	-0.369
Z x X1.	-0.463	-0.441	-0.432	-0.314	-0.378	-0.413	0.969	0.959	0.887	1.000
Z x X2.	-0.436	-0.462	-0.469	-0.373	-0.378	-0.431	1.000	0.969	0.911	0.969
Z x X3.	-0.445	-0.489	-0.483	-0.389	-0.381	-0.443	0.969	1.000	0.922	0.959



Z x	-0.368	-0.443	-0.443	-0.477	-0.378	-0.470	0.911	0.922	1.000	0.887
X4.										

Source: SmartPLS Output, 2025

The discriminant validity test determines the extent to which constructs based on empirical standards are completely different from each other. This is evidenced by the measurement value of each indicator construct whose value is greater than the value of the other indicators, which can be seen from its loading factor, which is more than 0.70. To see the discriminant validity test, the cross-loading value must be greater than 0.70 for each variable. Based on the results obtained, there are several indicator variables that show a value of <0.7, but overall the cross-loading value of each variable is greater than the value of the indicator and judging from its loading factor of >0.70 so that the indicator can be said to be valid.

3. Reliability Test

The reliability test is measured by the reliability of the composite and the Cronbach alpha, the construct is declared reliable if the reliability value of the composite is above 0.70 and the Cronbach alpha is 0.60.

Table 4 . Reliability Test

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
X1.	0.870	0.876	0.911	0.721
X2.	0.835	0.847	0.901	0.752
X3.	0.875	0.885	0.914	0.727
X4.	0.730	0.778	0.828	0.551
And	0.817	0.838	0.877	0.642
With	0.784	0.796	0.860	0.606

Source: SmartPLS Output, 2025

Based on the table above, the results of all the reliability test values show that Cronbach's alpha values and composite reliability on constructs (X1) are



0.870 and 0.911, (X2) are 0.835 and 0.901 respectively (X3) are 0.875 and 914, (X4) are 0.730 and 0.828 respectively, (Y) are 0.817 and 0.877 respectively and (Z) are 0.784 and 0.860 respectively. All constructs have Cronbach alpha values and composite reliability of >0.60 and 0.70 respectively so it can be said to be good in terms of consistency and reliability.

Evaluation of Structural Models (Inner Model)

R-square Test

Table 5. R-Square Review

	R-square	R-square adjusted
And	0.557	0.513

Source: SmartPLS Output, 2025

Overall, all constructs, including digital marketing, financial literacy, financial technology, financial inclusion, and the moderation variable, namely *Environment Dynamic*, had a significant impact on MSME income with a score of 0.557, or 55.7%, while the remaining 44.3% were influenced by variables outside this study. The R-Square value of 0557 percent is considered strong.

Hypothesis Testing

F-square Test

Table 5. of R-square Test Results

	X1.	X2.	X3.	X4.	And	With	Z x X2.	Z x X3.	Z x X4.	Z x X1.
X1.					0.032					
X2.					0.040					
X3.					0.000					
X4.					0.032					
And										



With					0.029				
Z x X2.					0.000				
Z x X3.					0.008				
Z x X4.					0.000				
Z x X1.					0.010				

Source: SmartPLS Output, 2025

The value of X1 to Y has a moderate influence with an F-squared score of 0.032. The value of X2 with a strong influence on Y is 0.040. The influence of X3 on Y is weak with a score of 0.000 and X4 has a moderate influence on Y, which is equal to 0,032

Path Coefficient Value

The hypothesis testing process was carried out using the bootstrapping method, which had gone through the previous measurement stage. Bootstrapping aims to assess the direction of a variable's relationship and its significance. Results are taken by examining the original samples; if the value is positive, the relationship is positive, and vice versa. The p-value used is: if the p-value is <0.05, the variable is considered to have a significant influence.

Table 6. of Path Coefficient Test Results

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
X1. -> Y	0.239	0.228	0.195	1.224	0.221
X2. -> Y	0.228	0.228	0.143	1.595	0.111
X3. -> Y	0.007	0.017	0.136	0.048	0.962
X4. -> Y	0.210	0.192	0.143	1.463	0.144
Z -> Y	0.191	0.208	0.132	1.449	0.147



Z x X1. - > Y	-0.150	-0.119	0.203	0.740	0.459
Z x X2. - > Y	0.018	0.049	0.182	0.097	0.923
Z x X3. - > Y	0.139	0.119	0.198	0.702	0.483
Z x X4. - > Y	-0.006	-0.008	0.135	0.046	0.963

Source : SmartPLS Output, 2025

Digital Marketing has a positive influence that is not significant on MSME Income. This is evidenced by an initial sample of 0.239 with a positive value, with a p0 value, > 0.05. As the business environment changes rapidly, adaptability through digital marketing strengthens competitiveness. Digital marketing has a positive effect on increasing MSME income. Business actors who actively utilize social media, e-commerce, and digital content are able to expand market reach and increase sales volume. This is also in line with *Capability Theory*, where digital marketing expands the capabilities of MSMEs to compete in a wider market.

Financial Literacy has a positive influence that is not significant on MSME Income. This is evidenced by the initial sample value of 0.228 with a positive value, and a p value of 0.111 > 0.05. MSMEs with good financial literacy skills are able to manage cash flow, record transactions, and plan investments effectively. The value of the financial literacy effect is the largest compared to other variables, showing that the ability to manage finances is the main foundation of business sustainability.

Financial Technology has a positive influence that is not significant on MSME Income. This is evidenced by the initial sample value of 0.007 with a positive value, and a p value of 0.962 > 0.05. The use of fintech has not made a significant contribution to increasing revenue. The low significance shows that the adoption of financial technology is still low among Salatiga MSMEs. Many actors have not understood or



taken advantage of fintech features such as *payment gateways*, *peer-to-peer lending*, or *digital bookkeeping*.

Financial Inclusion has a negative influence that is not significant on MSME Income. This is evidenced by the initial sample value of 0.210 with a positive value, and a p value of $0.144 > 0.05$. Access to banking, formal financing, and electronic payment services contributed to business growth. MSMEs that have bank accounts, access to credit, and use digital payment systems find it easier to manage working capital and transactions.

Environment Dynamic can weaken the relationship between Digital marketing and MSME revenue insignificantly with an initial sample value of -150 with a negative value, and a p value of $0.459 > 0.05$. The rapidly changing business environment (e.g., digital trends, changing consumer preferences) amplifies the influence of digital marketing on revenue. In the context of a dynamic market, MSMEs that are adaptive and able to adjust their digital marketing strategies have a competitive advantage. This mediation shows that environmental change is not a threat, but an opportunity for digitally responsive business actors.

Environment Dynamic can strengthen the relationship between financial literacy and MSME income insignificantly with an initial sample value of 0.018 with a positive value, and a p value of $0.923 > 0.05$. Good financial capabilities help MSMEs respond to market changes and economic uncertainty. When the business environment changes rapidly (raw material prices, consumer demand), actors with high financial literacy are able to adjust pricing and cash flow strategies. This indicates that financial literacy is an adaptive mechanism in unstable economic conditions.

Environment Dynamic can strengthen the relationship between financial technology and MSME income insignificantly with an initial sample value of 0.139 with a positive value, and a p value of $0.483 > 0.05$. This shows that fintech has not yet become a strategic response to environmental changes. Many MSMEs have not made



financial technology a tool for adaptation. The low integration between financial technology and operational activities is a major obstacle.

Environment Dynamic can weaken the relationship between Financial Inclusion and MSME income insignificantly with an initial sample value of -0.006 with a negative value, and a p value of $0.963 > 0.05$. As the business environment changes rapidly, access to formal and digital financing helps MSMEs survive and thrive. The flexibility of formal financial services and the digitalization of banking support MSMEs to adapt to market changes.

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