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Driving Fractions of Business Model Innovation (BMI) among the Micro, Small and Medium Enterprises (MSME)

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Abstract

The purpose of this study is to investigate how changes in business models in Micro, Small, and Medium Enterprises (MSME) affect company performance. This quantitative study tested the connection between business model innovation drivers, innovation results, and MSME performance. 300 of the MSME owner data are recorded by the questionnaire and used this data collection method. The recorded data are evaluated using SEM-PLS. The results showed that the forces driving innovation in business models have a positive impact on their outcomes, so MSME managers gain knowledge about how innovative business models can support MSME to overcome resource limitations and achieve sustainable growth.

Keywords:

MSME; business model innovation drivers; business model innovation outcome; firm performance;

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1.0 Introduction

The importance of the business model (BM) to a company's ability to succeed in emerging areas is looked at (Perelygina et al., 2022). A BM is a representation of a company's current business strategy (Madhavan et al., 2022). By demonstrating that business model innovation (BMI) may provide higher profits than product and process innovation, Wirtz et al., (2019) stated that BMI as a tactical approach to improve a company's competitiveness and sustainability. A BMI is described as an activity or a process in which fundamental components of an enterprise and its business logic are purposefully changed in order to produce operational and strategic gains (Palmié et al., 2022). In times of substantial environmental unpredictability, business model innovation (BMI) has been identified as a potential strategy to give companies a long-lasting competitive edge (Rummel et al., 2022).

One element influencing the performance of BMI is business model drivers. They serve as the precondition for a number of business that enable the company to perform better (Lopes et al., 2022). One of the things that propels a nation's development and economic progress is innovation (Lopes et al., 2022). An organization's capacity for innovation is its capacity to introduce new products, transform

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existing ones, or do both. This can be accomplished by employing fresh material combinations in manufacturing procedures or by giving the final product new features to better meet the demands of the market where it will be sold (Tidd & Trehwella, 1997).

This study intends to investigate the connection between business model innovation drivers, innovation results, and MSME performance. We hypothesize that business model innovation will improve MSME performance because it enables MSME to better understand consumer wants, respond more quickly to opportunities, reduce costs and increase production efficiency.

2.0. Literature Review

2.1. Business Model Innovation

Businesses must alter their business models if they want to continue growing, make more money, and survive (Latifi et al., 2021). A well-designed BM may develop and provide value propositions that appeal to customers as a form of innovation and response to a changing market (Randhawa et al., 2021). According to Dymitrowski & Mielcarek, (2021), BM enables significant value capture by producing a creative and distinctive portfolio of goods and services. It also aids in the creation of income streams and competitive advantages. A business model is essentially a plan for how a company will produce, distribute, and capture value (Haaker et al., 2017). Businesses must constantly innovate their business models due to the rising market volatility and uncertainty (Schoormann et al., 2022). Businesses modify their business models (BM) in response to emerging digital technology, fluctuating regulatory frameworks, increasing rivalry, and change client needs. A company's efforts to establish, implement, and sustain strategies for creating, distributing, and capturing value are referred to as BMI (Kraus et al., 2022). Businesses adjust the set of activities and component interactions in a business model (BM) in order to better serve (new) customers (Kraus et al., 2022; Muhic & Bengtsson, 2021).

2.2. Drivers of business model innovation

The performance of the company is improved through configuration adaptations, which also help it maintain its competitive advantage (Kraus et al., 2022). To create and examine a conceptual framework that illustrates the complex mechanisms through which strategic BMI decisions affect a firm's performance, Latifi et al., (2021) analyze how firms use or adjust their BM to improve their overall performance. The drivers are one factor that affects BMI performance. They are the conditions that, enable the firm to perform better in BMI for a variety of firm's elements (processes, resources, market, business model, etc.). It is proposed that factors influencing BMI performance act as its precursors (Ammirato et al., 2021). When comparing one's position to an expected value that is desired and causally linked to increased performance, the driver is a crucial variable to take into account; as an antecedent of improved performance, the driver is therefore theoretically significant for processes (Ammirato et al., 2021). Therefore, we hypothesize that:

Hypothesis 1: The outcomes of BMI are positively impacted by the business environment.

Hypothesis 2 : Information technology has an advantageous impact on BMI results.

Hypothesis 3 : The results of BMI are positively impacted by innovation.

2.3. Business Model Innovation and Firm Performance

Existing literature acknowledges how business model innovation affects performance (Foss & Saebi, 2017). The discovery and use of cutting-edge value proposition, value development, and value capture strategies constitutes business model innovation (Clauss et al., 2020; Hiteva & Foxon, 2021). The development of fresh value creation strategies as a result of cutting-edge digital technologies like cloud computing, mobile computing, and the internet of things is known as value proposition innovation. It also refers to a business's line of cutting-edge consumer goods and services (Kohli & Melville, 2019). Worth creation innovation occurs when a company makes use of its assets and intra- and inter-organizational process expertise to create new values and increase the network's overall value (Teece et al., 2009; Åström et al., 2022). Next, value capture innovation is the modification of a business revenue model and/or cost structure to more successfully distribute and capture value in the value network" (Åström et al., 2022).

Through BMI, a business may be able to take advantage of untapped opportunities and carve up a niche in a market that its competitors are not already serving (Latifi & Bouwman, 2018). BMI is defined as improving a part of the business model to raise firm performance. It is also known as replacing the components of the company model by providing customers with goods and services that weren't previously available (Madhavan et al., 2022). BMI is an innovative approach to company that creates, disseminates, and accumulates value that is difficult to replicate (Madhavan et al., 2022). According to Pang et al., (2019) BMI can produce higher value creation and displace the conventional wisdom to set the benchmark for the industry. a company's capacity to produce and capture value depends on BMI in a big way (Ricciardi et al., 2016). BMI is a crucial element in improving corporate performance and a reliable framework for describing competitive advantage (Velu, 2017).

According to Bouwman et al., (2019) Businesses that are changing their business models as a result of digitalization benefit from investing time and energy in thoughtfully contemplating and experimenting with new BM. Resources and practices are the main concepts in this theorization. Resources are defined by Bouwman et al., (2019) as funds, human resources, and time that businesses invest in promoting BMI practices. These efforts could be carried out, for example, by a BM team inside a business, as part of managers' continuous responsibilities, or by contracting outside advisers depending on a budget (Gatautis et al., 2019). One of the most important business metrics is a company's performance. Venkatraman & Ramanujam, (1987) state that a company's success may be assessed using both financial and non-financial metrics, such as operational metrics, or a combination of the two. Businesses that regularly renew their BM have more expertise, knowledge, and confidence to update their BM. Consequently, a recent study has demonstrated how BMI

affects corporate success (Guo et al., 2017). BMI is a vital opportunity exploitation activity that aids a MSME in completely utilizing the opportunities that are accessible (Zott & Amit, 2010). It makes sense that MSME frequently fail to benefit from opportunity recognition since they must rethink their business models in order to grasp prospects that have been identified (Vicente & Roata, 2016). Therefore, we hypothesize that:

Hypothesis 4: BMI results have a positive impact on a company's performance.

3.0 Methodology

The research was carried out during April and June of 2022. MSME are classified as independent companies in Indonesia that employ less than 97% of the country's total labor force. The MSME were chosen at random from a database maintained by the Indonesian Ministry of Cooperatives and MSME. We made advantage of a set of data that records BM data for 300 MSME in Indonesia. The MSME owners were chosen for interviews since they are the ones who make the crucial strategic choices for businesses and are best able to assess their growth. In-depth inquiries regarding the informants' assessments of their MSME' business model and business model innovation, business model innovation (BMI) drivers, BMI outcomes, and firm performance were then asked after broad inquiries about the informants' backgrounds and those of the company. The data set was created utilizing cross-sectional survey data that was obtained through direct questionnaire. The SMART PLS was used to do confirmatory factor analysis (CFA) and structural equation modeling (SEM), but a number of assumptions, such as the minimum sample size and data normality, must be cleared before SMART PLS can be completed. Given that it was over 300, the sample size was enough.

4.0 Findings

4.1. The Profile of the Firms

The company profiles are shown in Table 1. 300 businesses made up our final sample. According to firm age, ownership, daily income, and mobile phone usage, Table I shows the profiles of the sample.

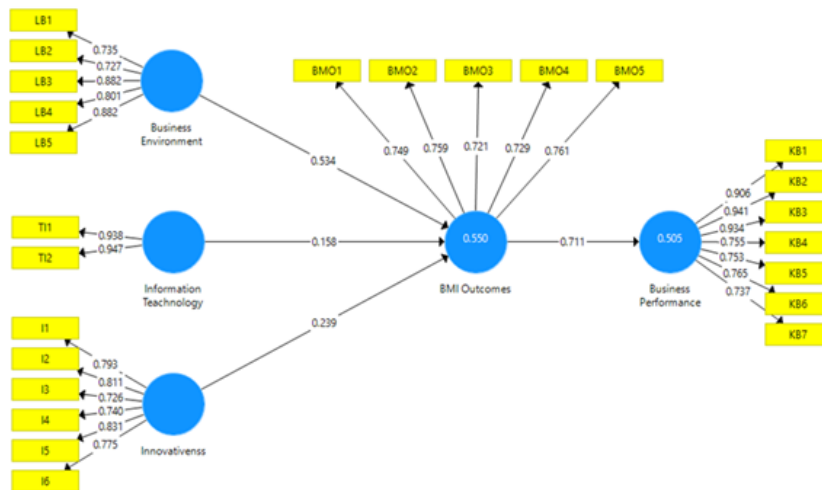
Table I. Profile of the firms

Description	Frequency	Percentage
Age of firms		
<1 year	21	7,00
1-3 years	149	49,67
3-10 years	122	40,67
>10 years	8	2,67
Ownership		
One's own	156	52,00
Family	65	21,67
Joint ventures	6	2,00
Joint with employees	73	24,33
Revenue per day		
<Rp1.000.000	98	32,67
Rp1.000.000 - Rp3.000.000	168	56,00
Rp4.000.000 - Rp5.000.000	34	11,33
Mobile phone		
Android	299	99,67
Others	1	0,33
Mobile phone usage		
Online business	7	2,33
Others	293	97,67
Use of mobile phone increased revenue		
Yes	4	1,33
No	296	98,67
N	300	100

Source: author

4.2. Convergent Validity

A construction validity test is convergent validity. If an indicator's loading factor value is higher than 0.70, it has a good validity (Hair Jr. et al., 2017). All manifestations (observed variables), according to the findings of the model testing, have loading factors that are more than 0.70. Thus, it may be claimed that the SEM-PLS model has strong construct validity. The loading factor values on the model are detailed in the table that follows.



4.3. Loading Factor

Table 2. Loading Factor

Construk	Factor	Loading	R critic	Result
BMO1 <- BMI Outcomes		0,749	0,70	Va1id
BMO2 <- BMI Outcomes		0,759	0,70	Va1id
BMO3 <- BMI Outcomes		0,721	0,70	Va1id
BMO4 <- BMI Outcomes		0,729	0,70	Va1id
BMO5 <- BMI Outcomes		0,761	0,70	Va1id
I1 <- Innovativenss		0,793	0,70	Va1id
I2 <- Innovativenss		0,811	0,70	Va1id
I3 <- Innovativenss		0,726	0,70	Va1id
I4 <- Innovativenss		0,740	0,70	Va1id
I5 <- Innovativenss		0,831	0,70	Va1id
I6 <- Innovativenss		0,775	0,70	Va1id
KB1 <- Business Performance		0,906	0,70	Va1id
KB2 <- Business Performance		0,941	0,70	Va1id
KB3 <- Business Performance		0,934	0,70	Va1id
KB4 <- Business Performance		0,755	0,70	Va1id
KB5 <- Business Performance		0,753	0,70	Va1id
KB6 <- Business Performance		0,765	0,70	Va1id
KB7 <- Business Performance		0,737	0,70	Va1id
LB1 <- Business Environment		0,735	0,70	Va1id
LB2 <- Business Environment		0,727	0,70	Va1id
LB3 <- Business Environment		0,882	0,70	Va1id
LB4 <- Business Environment		0,801	0,70	Va1id
LB5 <- Business Environment		0,882	0,70	Va1id
TI1 <- Information Teachnology		0,938	0,70	Va1id
TI2 <- Information Teachnology		0,947	0,70	Va1id

The table shows that all loading factors are more than or equal to 0.70. Therefore, it can be said that the study's constructs all have good validity.

4.4. Average Variance Extracted

The average variance extracted (AVE) testing is done to back up the conclusions of convergent validity. The AVE number needs to be higher than 0.50 (Hair et al., 2019).

Table 3. Average Variance Extracted

Latent	Average Variance Extracted (AVE)	R critic	Result
<i>BMI Outcomes</i>	0,554	0,5	Va1id
<i>Business Environment</i>	0,653	0,5	Va1id
<i>Business Performance</i>	0,692	0,5	Va1id
<i>Information Teachnology</i>	0,888	0,5	Va1id
<i>Innovativenss</i>	0,609	0,5	Va1id

4.5. Discriminant Validity

To check the discriminant validity, cross loading analysis is done. The association construct must have a greater correlation coefficient for the indicator than for the other constructs.

Table 4. Discriminant Validity

	BMI Outcomes	Business Environment	Business Performance	Information Teachnology	Innovativenss
BMO1	0,749	0,477	0,445	0,075	0,327
BMO2	0,759	0,491	0,664	0,595	0,366
BMO3	0,721	0,588	0,651	0,689	0,373
BMO4	0,729	0,476	0,353	-0,027	0,332
BMO5	0,761	0,495	0,386	-0,033	0,336
I1	0,333	0,256	0,184	0,081	0,793
I2	0,475	0,346	0,402	0,310	0,811
I3	0,355	0,265	0,305	0,298	0,726
I4	0,247	0,150	0,223	0,367	0,740
I5	0,328	0,282	0,233	0,141	0,831
I6	0,395	0,357	0,185	-0,075	0,775
KB1	0,602	0,513	0,906	0,552	0,275
KB2	0,660	0,571	0,941	0,637	0,340
KB3	0,650	0,614	0,934	0,592	0,259
KB4	0,485	0,442	0,755	0,706	0,286
KB5	0,555	0,404	0,753	0,256	0,261
KB6	0,604	0,431	0,765	0,324	0,272
KB7	0,555	0,532	0,737	0,781	0,278
LB1	0,588	0,735	0,393	-0,001	0,313
LB2	0,472	0,727	0,377	0,115	0,256
LB3	0,576	0,882	0,599	0,551	0,292
LB4	0,504	0,801	0,425	0,431	0,278
LB5	0,621	0,882	0,624	0,595	0,336
TI1	0,400	0,367	0,612	0,938	0,208
TI2	0,432	0,438	0,626	0,947	0,228

Table 4 shows that all indicators have a substantial correlation with their respective constructions. The study model appears to have excellent discriminant validity and discriminant validity cross loading, according to it.

4.6. Reliability

A construct is regarded as dependable when Cronbach's Alpha and Composite Reliability are both greater than 0.70. (Hair et al, 2017).

Table 5. Cronbach's Alpha and Composite Reliability

Latent	Cronbach's Alpha	Composite Reliability
BMI Outcomes	0,809	0,861
Business Environment	0,865	0,903
Business Performance	0,923	0,940
Information Teachnology	0,874	0,941
Innovativenss	0,872	0,903

The latent construct in Table 5 has a Cronbach's alpha value greater than 0.6, which denotes a high degree of reliability. Additionally, the composite reliability values of all latent constructs are higher than 0.70. The model has great reliability, as evidenced by the Cronbach's alpha value and newly discovered composite reliability.

4.7. Hypothesis Test

Table 6. Hypothesis Test

Hypothesis	Original Sample (O)	t-Statistik	p-value	Result
The business environment has a positive effect on BMI outcomes	0,534	8,440	0,000	H1 supported
Information technology has a positive effect on BMI outcomes	0,158	2,232	0,026	H2 supported
Innovativeness has a positive effect on BMI outcomes	0,239	6,017	0,000	H3 supported
BMI outcomes has a positive effect on firm performance.	0,711	17,490	0,000	H4 supported

With an Original Sample (O) value of 0.534, Table 6 shows that the Business Environment has a positive direction of influence on BMI Outcomes, i.e., the better the Business Environment, the better the BMI Outcomes. With a t-statistic value of 8.440 above the t-table, or $8.440 > 1.96$, and a p value of 0.000 below the alpha 5%, the company environment strongly influences BMI findings (0.05). Therefore, H1 is approved, demonstrating that the business environment has a favorable impact on the outcomes of the BMI.

The Original Sample (O) value of 0.158 demonstrates a positive direction of influence for information technology on BMI outcomes, i.e., the better the information technology, the better the results for BMI. The impact of information technology on BMI outcomes is significant with a p value of 0.026 less than the alpha 5% and a t-statistic value of 2.232 more than the t table, or $2.232 > 1.96$. (0.05). Therefore, H 2 is accepted, showing that information technology has a positive impact on BMI outcomes.

The Original Sample (O) value of 0.239 shows a positive or unidirectional relationship between innovativeness and BMI outcomes, i.e., the greater the innovativeness, the better the BMI outcomes. A t-statistic value of 6,017 above the t-table, or $6,017 > 1.96$, and a p value of 0.000 below the alpha 5% show that innovation has a significant impact on BMI results. (0.05). H 3 is therefore accepted, demonstrating that innovation has a positive impact on BMI Outcomes.

The Original Sample (O) value of 0.711 demonstrates a positive direction of effect, i.e., the better the BMI Outcomes, the higher the Business Performance. With a t-statistic value of 17.490, higher than the t table or $17.490 > 1.96$, and a p value of 0.000, lower than an alpha of 5%, the impact of BMI Outcomes on Business Performance is significant. (0.05). It can be inferred that BMI Outcomes have a favorable impact on business performance as H1.4 is recognized.

5.0 Discussion

This study indicates that a number of internal and external factors will encourage the development of new business models (Foss & Saebi, 2018). According to Ferreira et al., (2013), business model drivers include stakeholder demands, the competitive environment, and information and communication technologies (Reuver et al., 2009), information and communication technology (Bouwman et al., 2019), and the competitive environment. The findings of this study further show that efforts to innovate business models are directly impacted by internal drivers of innovation. The ability to introduce novel practices, products, or services into the market is what is meant by innovation (Hult et al., 2004). This result is also consistent with the theoretical foundations, which highlight that the ability of a firm to expand its internal resources and capabilities to reinvent its business model is essential to the concept of business model innovation (Zott & Amit, 2010). The findings of study by Bouwman et al., (2018) , which demonstrate a favorable relationship between innovation activities and business model innovation, are consistent with this suggestion.

Initiatives for business model innovation lead to modifications to information technology and operational procedures, which are subsequently regarded as modifications to the business model. The study's central premise is that business model innovation has a favorable impact on an organization's overall success (business). These findings are consistent with earlier research. (Aspara et al., 2010; Cucculelli & Bettinelli, (2015). that validated the association between business model innovation activities and performance.

6.0 Conclusion And Practical Implication

This study emphasizes the significance of business model innovation for the expansion and sustainability of MSME. The study's findings also highlight how difficult it is to manage relationships with all parties involved, even though doing so will make MSME more competitive. The research findings add to the body of information concerning BMI activities in MSME and provide MSME preparing to innovate their business model or business models with helpful guidance. They also provide helpful recommendations to the government in order to create an environment that is favorable. The findings of this study also indicate that certain MSME business owners encounter constraints, such as those related to the number of employees, expertise, and abilities, particularly when using business model techniques (such as the business model canvas), and a variety of tools (eg spreadsheets such as Excel). Finding the right strategies, techniques, and tools to innovate their company models can be challenging for some business owners. As MSME owners lack a comprehensive understanding of how their businesses generate, draw in, and provide value to clients, so decision-making becomes ineffective and competition levels are low. Therefore, MSME must use the available business model approaches and tools in a methodical and thorough manner if they hope to succeed in developing their business model. Business owners must be aware that a strong and systematic change in the individual elements of the owner will not only affect customer satisfaction, but will also make a difference with competitors and be able to gain strong competitiveness.

7.0 Limitations And Future Research

This study has only been undertaken in the specific MSME'. One company may employ BM to boost performance, while another may do so to better serve customers and make the best use of available resources. Future researchers are urged that the study should be expanded to other industries in the future in order to collect more informative data. Because of the cross-sectional nature of our research, tests of causal inferences are constrained. Future studies could look at business. A longitudinal study that tracked model evolution allowed for additional research on the long-term performance impact. The results of this study's empirical examination of BMI drivers indicated that they had a considerable impact on firm outcomes, creating a new topic for future research into the effects of BMI in various organizational units. To enrich the BMI literatures with more insightful information, researchers might experimentally evaluate the other potential moderators and mediators. Additionally, this research might be expanded to other economies, and a comparison of emerging and developed markets could yield even more insightful results.

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