

Digital Transformation Model On Smes Business Performance: An Empirical Study On Smes Receiving Bni Bank Credit In North Sumatra

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Abstract. The main objective of this study is to analyze and demonstrate the influence of Digital Strategy, Market Competition, Government Support, and Digital Transformation on the business performance of SMEs in North Sumatra Province. The research employs an explanatory research approach, which aims to explain the position of the variables under study and the relationships between them. Data were collected from SME actors in North Sumatra Province, using a sample of 175 respondents. The data analysis technique applied in this study is Structural Equation Modeling (SEM). The results of the study demonstrate that Digital Strategy, Market Competition, and Government Support have a positive and significant effect on Digital Transformation. Government Support and Digital Transformation have a positive and significant effect on Business Performance. Digital Transformation serves as a significant mediating variable between external factors (Digital Strategy, Market Competition, and Government Support) and SME business performance. The contributions of these findings are crucial for long-term business sustainability, as effective digital strategies and strong external support help SMEs adapt to market, technological, and regulatory changes.

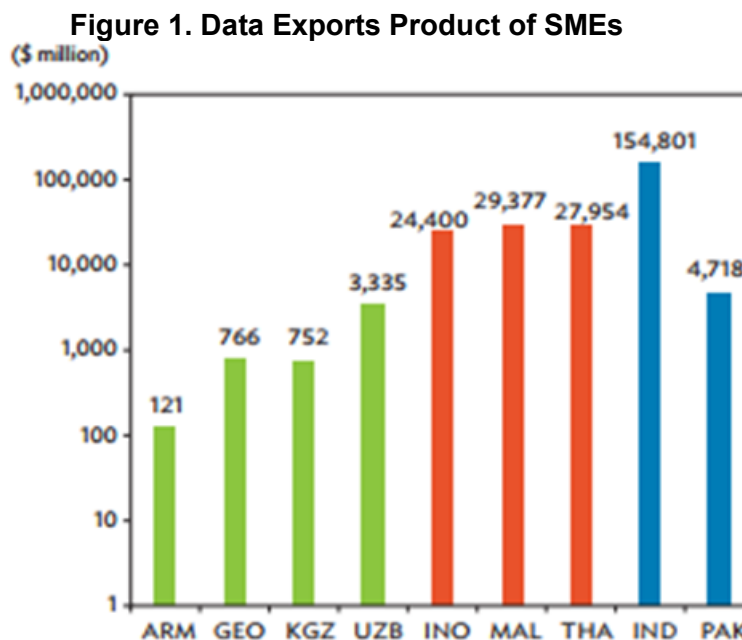
Keywords: Digital Strategy, Market Competition, Government Support, Digital Transformation and Business Performance.

INTRODUCTION

Small, and Medium Enterprises (SMEs) in Indonesia dominate 99.99% of the total business units, employing over 97% of the total workforce. They also contribute 61.1% of the national GDP, with the remainder contributed by large businesses (Sasongko, 2020). The growth trend of SMEs occurs annually, indicating the emergence of new entrepreneurs from various business sectors. SMEs in Indonesia are quite numerous. Data from the Ministry of Cooperatives and SMEs (Kemenkop UKM) showed that as of May 2022, there were 65 million SMEs in Indonesia. However, only a small number of these SMEs have been able to move up a class (Ubaidillah, 2023). Currently, the SME sector is still dominated by micro-entrepreneurs. Of the total 65 million SMEs, 99.6 percent are micro-entrepreneurs (Primantoro, 2023). SMEs that are able to upgrade their business performance, meaning they are able to increase their sales or annual turnover and assets, from a minimum threshold of 2 billion rupiah to a maximum of 2 billion rupiah for micro businesses, 2 billion to 15 billion rupiah for small businesses, and 15 billion to a maximum of 50 billion rupiah for medium businesses (Government of Indonesia, 2021). This low SME performance indicates that various challenges persist in improving SME performance. Therefore, the government specifically created the SME Upgrade Program to

enhance their ability to increase production and sales, both domestically and expand their market abroad through exports.

This low SME performance is also evident in the relatively insignificant growth in their contribution to national Gross Domestic Product (GDP). In 2021, SMEs contributed approximately 61.07% to GDP, and in 2022, they contributed 60.3% (Waseso, 2020). SME export performance also remains very low compared to other Asian countries. This can be seen in the export value of Indonesian SMEs, which reached \$24.4 billion, which is still lower than Malaysia's \$29.377 billion, Thailand's \$27.954 billion, and India's highest figure of \$154.801 billion. The following graph shows the export value of SMEs in these countries.



Source: (ADB, 2024)

Indonesia's export contribution in early 2024 was projected to reach 15 to 16 percent, despite the country having the largest population of SMEs in the world. Of the 332 million SMEs globally, 196 million are located in emerging market countries. Of this figure, 102 million are in the East Asia Pacific. This low export figure is believed to be due to the underutilization of information technology and digital innovation in conducting business activities. The performance of SMEs in Indonesia is inseparable from the digital transformation trend, which has become a necessity for increasing company efficiency and productivity, particularly for micro, small, and medium enterprises (SMEs) in Indonesia. SMEs that successfully adopt and transform digital technologies will experience various benefits, including improved sales performance, increased effectiveness, and reduced operational costs.

The rapid development of digital technology over the past two decades has transformed the global economic landscape, including the micro, small, and medium enterprise (SME) sector. Digital transformation is a key factor in the sustainability and competitiveness of SMEs in the technology-driven economy. According to data from the Ministry of Cooperatives and SMEs (2024), there are more than 65 million SMEs in Indonesia, contributing approximately 60.5% to Gross Domestic Product (GDP) and employing over 97% of the national workforce. However, only around 30% of SMEs have optimally adopted digital technology. This fact indicates a significant gap between the economic potential of SMEs and the level of digital technology utilization.

The main issue currently facing SMEs is the low level of digitalization, especially at the micro and small levels. A 2023 BPS survey showed that most SMEs still face obstacles in accessing technology, digital literacy, and developing a clear digital strategy. This situation is further exacerbated by changes in consumer behavior following the COVID-19 pandemic, which has increasingly shifted towards online platforms (online-based markets). SMEs that fail to adapt to the digital era risk losing market share and experiencing declining business performance.

Digital transformation is not simply the use of information technology; it involves comprehensive changes in business processes, work models, and organizational culture (Vial, 2019). The success of digital transformation depends heavily on an appropriate digital strategy, intense market competition, and government support as external drivers. Several empirical studies have shown mixed results, such as those (Bharadwaj et al., 2013; Al-Omari et al., 2022), which demonstrate that digital strategy improves company performance through efficiency and innovation. However, most SMEs lack a formal digital strategy, merely following trends in social media or marketplaces without a long-term strategic direction. Research by Chen (2019) and Li et al. (2020) demonstrates that market competition drives innovation and digitalization, but for some SMEs, it actually becomes a pressure that triggers decreased performance due to limited resources.

Government support through regulations, training, and access to financing is expected to strengthen SME digital transformation. However, some studies (Zhang & Zhu, 2020; Ministry of Cooperatives and SMEs, 2023) indicate that government assistance is unevenly distributed and often does not align with the specific needs of business sectors. Furthermore, digital transformation is theoretically believed to improve SME performance through operational efficiency, product innovation, and broader market access (Vial, 2019; Verhoef et al., 2021). However, at the implementation level, many SMEs still face obstacles in changing their mindset, managerial capabilities, and digital infrastructure.

This phenomenon indicates an implementation gap between digitalization policies and the actual performance of SMEs on the ground. Many SMEs are still at the digital awareness stage, having not yet reached digital transformation maturity. Considering the important role of SMEs in the national economic structure and the challenges faced by digitalization, this research is relevant and strategic. A deeper understanding of how digital strategy, market competition, and government support influence SME performance through digital transformation can provide theoretical contributions to the development of strategic management and information systems literature, as well as practical contributions for policymakers and SMEs.

LITERATURE REVIEW

Technology Acceptance Model (TAM)

The Technology Acceptance Model (TAM) theory is a model for user acceptance of information technology systems. The technology acceptance model was developed by Davis et al. (1989) based on the TRA model (Jogiyanto, 2007). The primary objective of the TAM is to provide a fundamental picture of the influence of external factors on internal beliefs, attitudes, and goals. The TAM was formulated in an effort to achieve this goal by identifying fundamental variables, as suggested by previous research, that contribute to the intellectual and affective potential of computer acceptance. Research attempting to develop the TAM model does so by adding external variables. These external variables can be categorized as, for example, individual, organizational, cultural, and task characteristics (Jogiyanto, 2007). The following is a review of previous research literature that supports this research theme.

Table 1. Previous Research

No.	Title	Author	Publication	Year
1	Digital Strategy and SME Performance: Evidence from Indonesia	Susanti, R. & Pratama, D.	Indonesian Journal of Business and Entrepreneurship	2021
2	Government Support and SME Digitalization: Case of Emerging Economy	Rahman, A.	International Journal of Entrepreneurship	2020
3	The Effect of Market Competition on SME Innovation Performance	Sari, M. & Wibowo, A.	Jurnal Inovasi dan Kewirausahaan	2022
4	Digital Transformation and Business Performance: Evidence from SMEs During the Pandemic	Putri, E. et al.	Asian Journal of Entrepreneurship	2023
5	The Role of Government Support in Digital Ecosystem Development for SMEs	Nugroho, T	Jurnal Ekonomi dan Pembangunan Indonesia	2021
6	Market Pressure and Digital Transformation in SMEs	Hidayat, F. & Karim, L.	Jurnal Manajemen dan Kewirausahaan	2022
7	Digital Strategy as a Driver of Organizational Transformation: SME Perspective	Lim, C. et al	Technological Forecasting and Social Change	2020
8	Impact of Digital Transformation on MSME Performance in Indonesia	Santoso, Y	Jurnal Ekonomi dan Bisnis Digital	2023
9	Market Dynamics and SME Performance: Moderating Role of Digital Capability	Chen, J. & Liu, Z.	Journal of Small Business Management	2019
10	Integrated Model of Digital Strategy, Government Support, and SME Performance	Fitria, D. & Handayani, R.	International Journal of Business and Digital Economy	2024

The above studies illustrate the importance of assessing SME business performance. Susanti and Pratama (2021) found that digital strategy has a significant impact on improving SME performance in Indonesia. Through the implementation of information technology-based strategies, businesses are able to expand their markets and improve operational efficiency. However, this research has not yet explored how this digital strategy can be implemented through a more in-depth digital transformation process. A similar finding was found by Lim et al. (2020), who stated that digital strategy is a key driver of organizational transformation. However, most research still focuses on large companies, rather than the SME sector, which has limited resources.

Digital Strategy and Digital Transformation

Digital strategy is defined as a series of organizational decisions and actions to integrate digital technology into all aspects of the business to achieve competitive advantage (Bharadwaj et al., 2013). This strategy encompasses more than just the use of technology, but also fundamental changes in how a company creates value, serves customers, and manages resources. Research by Bharadwaj et al. (2013) shows that companies with a mature digital strategy perform better because they are able to respond more quickly to market changes. Research by Al-Omari et al. (2022) also demonstrates that digital strategy has a significant impact on organizational performance through efficiency and innovation. However, Maroufkhani et al. (2020) found that the effect of digital strategy on performance is indirect, but rather mediated by digital transformation and organizational innovation. Digital strategy encompasses efforts such as implementing e-commerce, using social media for marketing, implementing digital financial systems, and adopting cloud technology in business operations.

A digital strategy is an organization's roadmap for leveraging digital technology to create added value and competitive advantage. According to Bharadwaj et al. (2013), digital strategy encompasses more than just the adoption of information technology, but also encompasses a strategic direction that integrates digitalization into business models, operations, and customer relationships. In the context of SMEs, digital strategy is a crucial tool for determining how technology can be used to expand markets, increase efficiency, and strengthen customer relationships through digital channels such as e-commerce, social media, and application-based management systems. Previous research has shown that digital strategy plays a significant role in driving digital transformation (Vial, 2019; Al-Omari et al., 2022). Organizations with a well-planned digital strategy are better prepared for digital transformation because they have a clear direction, supportive leadership, and an organizational culture that adapts to technological change. Therefore, digital strategy is considered a key internal enabler in the digital transformation process.

H1: Digital Strategy has a direct impact on the digital transformation of SMEs in North Sumatra.

H2: Digital Strategy has a direct impact on the digital transformation of SMEs in North Sumatra

Market Competition and Digital Transformation

Market competition refers to the intensity of competition between businesses within an industry. According to Porter (1985), market competition is determined by five forces: the threat of new entrants, supplier power, buyer power, the threat of substitute products, and rivalry among existing competitors. Competition is intensifying due to globalization and digitalization. SMEs must adapt to technology to remain relevant in a competitive market (Chen, 2019). Chen (2019) found that market competition drives companies to digitalize to increase efficiency and retain customers. Li et al. (2020) also stated that competitive pressure can accelerate the adoption of digital technology as a survival strategy. However, other research (Nguyen et al., 2021) shows that for SMEs with limited resources, market competition can actually reduce performance due to cost pressures and an inability to innovate.

The level of market competition is one of the external factors determining the speed and direction of digital transformation. According to Competitive Advantage Theory (Porter, 1985), competitive pressure forces companies to seek new advantages through innovation and operational efficiency. For SMEs, the increasing intensity of market competition due to easy digital access and the emergence of new competitors requires them to adapt quickly to technology. Chen (2019) states that high market competition drives companies to improve their digital capabilities to provide added value to customers and maintain loyalty. However, competitive pressures not matched by digital resource readiness can lead to decreased performance (Nguyen et al., 2021). Therefore, market competition in this study is viewed as an

external driver that drives organizations to undertake digital transformation as a strategy for survival and growth in a competitive environment.

H3: Market competition has a direct impact on the digital transformation of SMEs in North Sumatra.

H4: Market Competition has a direct impact on the Business Performance of SMEs in North Sumatra

Government Support and Digital Transformation

Government support is various forms of assistance, policies, and facilities provided by the government to support the growth and competitiveness of SMEs. The Ministry of Cooperatives and SMEs (2023) emphasized that one of the government's main agendas is to encourage the digital transformation of SMEs to be competitive in the global market through programs such as SMEs Go Digital and Proudly Made in Indonesia. Research by Zhang & Zhu (2020) shows that government support has a positive effect on the adoption of digital technology by SMEs. Zhang et al. (2021) also stated that the government plays a crucial role in strengthening the digital ecosystem through training and incentives. However, Nurani's (2022) study in Indonesia showed different results, stating that government support has not had a significant impact on SMEs performance because its implementation is uneven and still administrative in nature.

The government plays a crucial role in creating a conducive digital ecosystem for SMEs. Based on Institutional Theory (DiMaggio & Powell, 1983), institutional pressure and regulatory support from the government can strengthen an organization's ability to adapt to environmental changes. In the Indonesian context, various policies such as the SME Go Digital Program, the National Digital Literacy Movement, and Proudly Made in Indonesia (BBI) are government efforts to accelerate technology adoption in the SME sector. Research by Zhang & Zhu (2020) and Susanti et al. (2023) demonstrates that government support significantly influences the adoption rate and success of SME digital transformation. This support can take the form of training, tax incentives, easy access to digital capital, and the provision of technological infrastructure. However, the effectiveness of government support depends heavily on the program's relevance to SME needs, the readiness of business actors, and alignment with the implemented digital strategy. Thus, government support is positioned as a supporting external factor that strengthens SMEs' ability to undertake sustainable digital transformation.

1. H5 : Government Support has a direct impact on the digital transformation of SMEs in North Sumatra.
2. H6 : Government Support has a direct impact on the business performance of SMEs in North Sumatra

Digital Transformation and SMEs Performance

Digital transformation is the process of integrating digital technology into all aspects of an organization, resulting in fundamental changes in business models, operations, and the value provided to customers (Vial, 2019). Digital transformation is not simply automation, but rather a rethinking of organizational strategy and structure (Susanti et al., 2023). Vial (2019) shows that digital transformation can improve organizational performance through efficiency and increased customer value. Research by Li et al. (2020) found that digital transformation has a direct impact on the productivity and competitiveness of SMEs. However, in SMEs with low digital literacy, the transformation process is slow and has not had a significant impact on performance (Rahman & Mulyani, 2022). Digital transformation often acts as a mediating variable that bridges the relationship between internal (digital strategy) and external (competition & government support) factors on organizational performance (Maroufkhani et al., 2020). This means that digital strategy, market competition, and government support do not directly improve performance, but rather through the success of digital transformation.

SMEs performance reflects a business's ability to achieve financial and non-financial goals, such as sales growth, profit, productivity, customer satisfaction, and competitiveness. According to Kaplan and Norton (1996) in their Balanced Scorecard, performance can be measured through four perspectives: financial, customer, internal business processes, and learning & growth. Indrawati et al. (2021) emphasize that performance is measured not only from a financial perspective but also from the ability to adapt to technological and market changes. Digital transformation is a fundamental process that changes how organizations operate, interact with customers, and create value (Vial, 2019). Digital transformation not only increases efficiency and productivity but also opens up new opportunities through global market access, product diversification, and improved customer service. Research by Li et al. (2020) and Al-Omari et al. (2022) shows that SMEs that successfully implement digital transformation have higher business performance than those that do not.

H7 : Digital transformation has a direct impact on the business performance of SMEs in North Sumatra.

Digital Transformation Mediation Between Digital Strategy, Market Competition, and Government Support for Performance

In this study, digital transformation acts as a mediating variable, bridging the relationship between driving factors (digital strategy, market competition, and government support) and SME performance. In other words, the success of SME performance in the digital era is largely determined by the extent to which they are able to comprehensively transform traditional business processes into digital ones. Research by Bharadwaj et al. (2013), Chen (2019), and Vial (2019) demonstrates that the effective implementation of digital strategy and digital transformation positively impacts organizational performance. However, research by Nurani (2022) found that for some Indonesian SMEs, this impact is not yet significant due to low digital literacy and limited external support. This suggests that digital transformation is a determining factor in whether digital strategy and government support can truly impact business performance.

Digital strategy plays a key role in driving digital transformation (Vial, 2019). A strong digital strategy enables SMEs to improve operational efficiency, product innovation, and performance (Verhoef et al., 2021). Thus, digital transformation mediates the influence of digital strategy on SME performance. Market competition drives companies to undertake digital transformation for efficiency and innovation (Verhoef et al., 2021). The higher the level of competition, the greater the incentive for SMEs to adapt to digital technology. Therefore, digital transformation mediates the influence of market competition on SME performance. Government support acts as an enabler of digital transformation, strengthening technological readiness and improving SME performance. Therefore, digital transformation mediates the influence of government support on SMEs performance.

H8 : Digital transformation mediates the influence of digital strategy on the business performance of SMEs in North Sumatra.

H9: Digital transformation mediates the influence of market competition on the business performance of SMEs in North Sumatra.

H10: Digital transformation mediates the influence of government support on the business performance of SMEs in North Sumatra.

METHODS

This study uses a quantitative method, namely the study aims to test the influence between variables that have been determined objectively, measurably, and based on numerical data collected through questionnaires (Johnson & Christensen, 2024). The population includes SMEs that have taken out loans from banks. Based on the data, the population in this study is

310 SMEs. The sampling determination technique in this study uses the Slovin formula, which is a practical method for determining the size or number of samples provided the population is relatively large. Based on the sample determination, the target sample size was 175 respondents. Based on the determined sample size, the researcher used a random sampling technique, which is a sampling method that is carried out randomly. Data analysis using the Multivariate Structural Equation Model PLS (SEM-PLS) technique.

Table 2. Operationalization of Research Variables

No	Variable	Defenition	Indicators	Scale
1	<i>Digital Strategy</i> (X1)	SMEs activities that include planning, implementation, and results from the use of digital technology (Susanti & Pratama, 2021).	Utilization of Technology	Likert (1–5)
			Digital platform integration	
			Use of digital data	
			Management commitment	
			Digital strategy alignment	
2	<i>Market Competition</i> (X2)	A condition in which a number of SMEs operating in the same field or industry try to offer products or services to consumers with the aim of gaining profits, market share and business sustainability (Sari & Wibowo, 2022)	Market Share	Likert (1–5)
			Innovation Rate	
			Customer Retention	
			Price Competitiveness	
3	<i>Government Support</i> (X3)	Assistance, policies, facilities, or regulations provided by the government to encourage growth, sustainability, and competitiveness of a business sector, including SMEs (Rahman, 2020).	Regulation	Likert (1–5)
			Financial Support	
			Training and Mentoring	
4	Digital Transformation (Z)	The process of deeply integrating digital technology into all aspects of an organization or society to transform the way people work, deliver value, and interact with customers or the public (Putri et al., 2023).	<i>Digital Presence</i>	Skala Likert (1–5)
			Digital Capability	
			Digital Marketing Strategy	
			Digital Operation & Process	
5	Business Performance (Y)	The measure of success of SMEs in achieving the goals that have been set, both from a financial and non-financial perspective (Santoso, 2023).	Financial performance	Likert (1–5)
			Non-Financial Performance	

RESULTS

The results of this research design can be continued by using the bootstrapping method on SmartPLS 4. The bootstrapping method is a procedure for repeatedly taking new samples of N new samples from the original data of size n, where for a new sample, sample points are taken from the original data one by one up to n times with the taking (Efron & Tibshirani, 1998). For hypothesis testing, the T-statistic test is used which is intended to test the significance of the influence of the exogenous variables X_i as a whole on the endogenous variable Y. This test is carried out by comparing the T value resulting from the T-statistic calculation with the T-Table

value. The null hypothesis will be accepted if the T-statistic value is smaller than the T-Table value ($T\text{-statistic} < T\text{-table}$), this means that the alternative hypothesis is rejected. Conversely, the null hypothesis will be rejected if the T-statistic value is greater than or equal to the T-Table value ($T\text{-statistic} \geq T\text{-table}$), this means that the alternative hypothesis is accepted. The T-Table value can be determined based on a significance level of 0.05 with a total of 312 observations, namely 1,254. The following is a summary of the results of the Bootstrapping Test.

Table 3. Results of Direct Effect Analysis

Hypothesis	T statistics (O/STDEV)	P values	Conclusion
Digital Strategy -> Business Performance	3.825	0.000	Accepted
Digital Strategy -> Digital Transformation	2.566	0.010	Accepted
Government Support -> Business Performance	4.471	0.000	Accepted
Government Support -> Digital Transformation	2.537	0.011	Accepted
Market Competition -> Business Performance	4.471	0.000	Accepted
Market Competition -> Digital Transformation	5.735	0.000	Accepted
Digital Transformation -> Business Performance	5.297	0.000	Accepted

Hypothesis testing was conducted by comparing t-statistic values > 1.854 and probabilities < 0.05 to prove the accepted research hypothesis. The results of the hypothesis test showed that all tested hypotheses were acceptable. The next statistical test used to test the significance of the mediation effect in a regression model is the Sobel test. A mediation effect occurs when an independent variable influences a dependent variable through a mediator variable. The Sobel test helps determine whether the indirect path through this mediator is significant. The test is performed as follows.

Table 4. Results of Indirect Effect Analysis

Hypothesis	T Statistics (O/STDEV)	P Value s	Conclusion
Market Competition -> Digital Transformation -> Business Performance	3.463	0.001	Accepted
Digital Strategy -> Digital Transformation -> Business Performance	2.159	0.031	Accepted
Government Support -> Digital Transformation -> Business Performance	2.617	0.009	Accepted

The data testing table above shows that the t-statistic for the mediating effect of Digital Transformation on Market Competition on Business Performance is $3.463 > 1.853$ with a significance value of $0.001 < 0.05$, which proves that the hypothesis is accepted, meaning that Digital Transformation can mediate the effect of Market Competition on Business Performance. The t-statistic for the mediating effect of Digital Transformation on Digital Strategy on Business Performance is $2.159 > 1.853$ with a significance value of $0.031 < 0.05$, which proves that the hypothesis is accepted, meaning that Digital Transformation can mediate the effect of Digital Strategy on Business Performance. The t-statistic for the mediating effect of Government Support on Digital Strategy on Business Performance is $2.617 > 1.853$ with a significance value of $0.009 < 0.05$, which proves that the hypothesis is accepted, meaning that Government Support can mediate the effect of Digital Strategy on Business Performance.

The research results show that digital strategy has a positive and significant impact on digital transformation. This means that the stronger the digital strategy implemented by SMEs, the higher the level of digital transformation they achieve. This illustrates that a well-thought-out

digital strategy—such as leveraging social media, e-commerce, customer data management, and technology investment—is a key foundation for driving business process transformation toward digitalization. This finding aligns with research by Verhoef et al. (2021), which states that digital strategy plays a crucial role in shaping an organization's direction and readiness for digital transformation. For SMEs, a clear digital strategy not only expands market reach but also accelerates the adoption of technology to improve efficiency and innovation. This study found that digital strategy has a direct and significant impact on business performance. This means that an effective digital strategy can directly improve business performance. This indicates that digital presence, online marketing, and the use of information technology can directly increase sales, profitability, and customer loyalty. This finding aligns with Chaffey & Ellis-Chadwick (2019), which asserts that implementing a digital strategy increases marketing efficiency and strengthens customer relationships.

The analysis results show that market competition has a positive and significant impact on digital transformation. The higher the intensity of market competition, the greater the incentive for SMEs to undertake digital transformation as a survival and growth strategy. Fierce competition demands that SMEs innovate, improve operational efficiency, and provide added value to customers. This aligns with Porter's (1980) theory of market competition, which states that competitive pressure can be a driver of technological innovation. This study also supports the findings of Li, Su, and Liu (2020) who stated that market competition is a major driver of accelerated business digitalization in the small and medium enterprise sector. In conclusion, competitive market conditions actually encourage SMEs to be more adaptive to digital change. The analysis results show that market competition has a positive and significant impact on business performance. Although market competition is often perceived as pressure, in the context of adaptive SMEs, competition actually motivates innovation and product quality improvement. These results reinforce Porter's (1985) theory of competitive advantage, which states that competition can increase organizational efficiency and innovation. In conclusion, SMEs that are able to utilize competitive pressure positively will achieve higher business performance.

This study also found that government support has a positive and significant impact on digital transformation. Government support in the form of digital training, financing (KUR, grants), supportive regulations, and market facilitation programs has been shown to accelerate the digital transformation process in SMEs. This finding reinforces the view of Dwivedi et al. (2021) that external support, especially from the government, plays a crucial role in increasing the digitalization capacity of the SME sector. A proactive government in creating a conducive digital ecosystem will help SMEs overcome resource constraints, limited knowledge, and technological constraints. In conclusion, government support is not only a stimulus but also a strategic factor determining the success of SMEs in digital transformation. This study also found that government support has a positive and significant impact on business performance. Government support not only strengthens digital capacity but also directly impacts performance improvement through providing access to capital, training, and market facilitation. These results support research by Agustina & Rahayu (2022), which states that government intervention contributes to increased competitiveness and revenue growth for SMEs. This demonstrates that well-targeted public policies can create a productive and sustainable business environment.

The test results show that digital transformation has a positive and significant impact on business performance. SMEs that have implemented comprehensive digital transformation—such as process automation, system integration, and data utilization—show significant performance improvements, both financially and non-financially. Digital transformation helps SMEs accelerate services, improve cost efficiency, expand markets, and enhance customer satisfaction. These results are consistent with research by Susanti et al. (2023) and Liu et al. (2020), which confirms that digitalization has a direct impact on increasing the productivity and

competitiveness of small and medium enterprises. In conclusion, digital transformation has proven to be a key factor in improving SME business performance in the digital era. Further findings indicate that Digital Transformation acts as a significant mediating variable in the relationship between:

- a. Digital Strategy → Business Performance
- b. Market Competition → Business Performance
- c. Government Support → Business Performance

This means that a strong digital strategy, market pressure, and government support can improve SME business performance through digital transformation. Digital transformation serves as a bridge connecting external and internal factors to improve business outcomes. These results confirm that the success of SMEs in the digital era is determined not only by strategy or support alone, but also by their ability to transform traditional business processes into digital ones (Baiyere et al., 2020).

CONCLUSION

The results of this study have important strategic implications for Bank BNI, a financial institution that plays an active role in financing and developing SMEs in Indonesia. Given the evidence that Digital Strategy, Market Competition, Government Support, and Digital Transformation positively impact SMEs business performance, BNI can use these findings as a basis for decision-making regarding financing policies, digital service strategies, and MSME development partnerships. This research shows that SMEs with strong digital strategies and digital transformations have better and more sustainable business performance. For BNI, this can be used as a new indicator in credit scoring. The results of this study provide empirical validation that BNI's investment in digitalizing SMEs services has a positive and strategic business impact. A strong digital strategy—through the use of e-commerce, online promotions, and the utilization of customer data—drives the acceleration of digital transformation in SMEs. This means that the better the digital strategy implemented, the higher the adoption rate of digital technology in business processes.

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