



The Importance Of E-Commerce, Financial Technology, And Financial Performance For MSMEs Business Sustainability

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ABSTRACT

This research investigates how e-commerce, financial technology, and financial performance impact the sustainability of MSMEs businesses in Banyuwangi District East Java, Indonesia. Employing a quantitative approach, the study utilizes primary data collected through a questionnaire. The target population comprises 297,706 MSMEs in Banyuwangi District East Java, Indonesia. A purposive sampling method was used to select 140 respondents. Data analysis was conducted using SEM-PLS with SmartPLS software version 4.0. The findings reveal that e-commerce significantly influences the sustainability of businesses. Financial technology affects business sustainability. The implication is that there is a need to hold programs that encourage MSMEs to use e-commerce and financial technology to support sustainable economic growth while strengthening the business sustainability of MSMEs.

INTRODUCTION

The emergence of a digital economy has been fueled by the digital transformations brought about by the Industrial Revolution 4.0 affecting both the economy and everyday life. In the context of digital economic development, companies also adopt and utilize digital technology as part of innovation in business models, which in turn can develop digital resources and capabilities to adapt to market dynamics and create sustainable competitive advantages. Not only large companies, MSMEs are now also turning to digital transformation to remain relevant and survive amid the swift advancement of the digital economy (Annarelli et al., 2021).

Micro, Small, and Medium Enterprises (MSMEs) help maintain financial stability and promote economic development in a country. MSMEs contribute to the business sector and significantly contribute to economic activity, job creation, and business sustainability (Nasution & Nusa, 2022). However, MSMEs also face various challenges that can hinder their business sustainability, such as limited access to broader markets, limitations in technology adoption, and limitations related to financial performance.

The sustainability of MSME businesses is essential for economic growth in Indonesia. A critical factor in achieving and maintaining business sustainability is good financial performance, which reflects the financial condition in a certain period. Financial performance affects internal and external parties to provide an overview of how effectively and efficiently management manages its resources (Rahadjeng et al., 2021). On the other hand, financial performance is also essential because it can affect perceptions of these MSMEs' financial health and business sustainability (Pandak & Nugroho, 2023).

As digital technology advances and traditional MSMEs shift towards e-commerce, various sectors have been impacted, with the financial sector being particularly significant. The rise of financial technology has led to profound transformations in both the financial industry and business operations (Lontchi et al., 2023). Technological innovation in the financial sector, often referred to as financial technology, has given rise to a variety of business models, applications, and products designed to enhance and provide financial services. The impact of financial technology has changed the way MSME players maximize potential profits, financial products and services must be used effectively and efficiently, and increase efficiency and effectiveness in every transaction (Dewi, 2020).

The expansion of information and communication technology has reshaped the global business landscape, including in Indonesia. There is a dynamic shift in customer purchasing behavior where more and more customers often make purchases online, thus increasingly encouraging MSMEs to adopt digital technology innovations (Martini et al., 2023). The rapidly growing digital economy era enables MSMEs to embrace e-commerce to gain a competitive advantage, increase exposure to international markets, maintain financial performance, and maintain business sustainability (Yacob et al., 2021).

The increase in MSMEs in various regions of Indonesia, one of which is Banyuwangi District, which is a district with the most significant area with an area of 5,782.50 km² and one of the economically dense areas in East Java Province with various assets owned (BPS Kabupaten Banyuwangi, 2024). One of the factors driving economic growth in Banyuwangi District is the rapid growth of MSMEs. Banyuwangi District has many MSMEs spread across 25 sub-district areas, totaling 296,706 MSMEs. Based on data from the BPS of Banyuwangi District shows that the value of the Gross Regional Domestic Product (GRDP) in 2023 increased by 57.93 trillion rupiah compared to 2022. This increase in GRDP was caused by the rise in the production of goods and services across nearly all business sectors (BPS Kabupaten Banyuwangi, 2023). Consequently, the Banyuwangi District government has made various efforts to increase MSMEs in the Banyuwangi District area.

Four previous research sources have examined the impact of financial technology and e-commerce on firm survival, but opinions on the findings of these studies are mixed. Research Gao et al., (2023) explained that e-commerce affects increasing the sustainability of MSME businesses. Meanwhile, research Jovanovic (2020) explains that there is no effect by e-commerce for MSMEs sustainable performance. Research Lontchi et al., (2023) revealed that financial technology affects the MSMEs sustainability. Meanwhile, research by Maulana et al., (2022) demonstrated that financial technology has little effect on MSME enterprises' capacity to survive. This study aims to investigate the potential impact of e-commerce, financial technology, and financial performance on company continuity in Banyuwangi District, drawing on prior research findings.

The adoption of e-commerce by MSMEs in Banyuwangi District is the primary concern in this study because of its potential to increase market access and sales for business actors. However, few studies still pay attention to how this e-commerce adoption affects explicitly the sustainability of MSME businesses in the Banyuwangi District area. Financial technology is also interesting to study due to its relatively new impact on the business ecosystem. In addition, financial performance is also a concern because it is an important indicator that reflects business health and sustainability. Consequently, this study examined the influence of e-commerce

adoption, financial technology, and financial performance in maintaining the sustainability of MSME businesses. This research offers novelty by analyzing e-commerce and financial technology in more detail, which has yet to be widely highlighted in MSMEs in Banyuwangi District. This research uses theory about the RBV (Resource Based View) as the basis for analysis. This research is expected to support MSME efforts in improving performance and maintaining business sustainability.

LITERATURE REVIEW

Resource Based View (RBV) Theory

Resource Based View (RBV) is a theoretical concept that suggests that companies can create competitive advantages by utilizing resources so that companies can achieve organizational sustainability (Rohman et al., 2023). RBV theory is essential in determining competitive advantage so that business actors can act and find ways to generate high sales to add financial value to the business (Suyanto, 2022). RBV theory provides relevant perspectives related to economics and information technology in the digital economy era. RBV theory has important implications for digital technology, providing new things that can be developed in business (Basuki & Suwarno, 2021).

Business sustainability

Business sustainability refers to an organization's ability to persist and thrive over the long term and prosper over the long term by addressing economic, social, and environmental factors. Business sustainability is about creating economic value and maintaining a balanced relationship between profitability, social responsibility, and environmental preservation. Business sustainability involves growth, sustainability, and efforts to ensure business protection and expansion (Jiwa et al., 2022).

E-commerce

E-commerce or electronic commerce has become the center of attention in the digital era, which refers to buying and selling online goods or services. E-commerce is a process of trading transactions for goods and services that use electronic media and are carried out online (Auliandari et al., 2022). E-commerce can connect sellers and buyers from various regions online through electronic devices (Piarna & Fathurohman, 2019).

E-commerce encompasses activities that facilitate transactions, including marketing, advertising, customer support, security, delivery, and payment processes. The advent of e-commerce will alter marketing strategies and decrease operational expenses (Ayu & Lahmi, 2020). The implementation of e-commerce significantly impacts the sustainability of MSME businesses. E-commerce provides benefits for businesses that can increase efficiency, revenue, and customer satisfaction, helping MSMEs improve and achieve business sustainability (Yacob et al., 2021).

- H1: E-commerce affects business sustainability

Financial Technology

Financial technology, often abbreviated as Fintech, is the term for technology that provides financial services in a more creative and effective manner. Financial services and contemporary technology are combined to create financial technology. Financial technology seeks to maximize the application of technology throughout financial services in order to effectively enhance and expedite diverse financial service sectors (Yudhira, 2021).

By offering financial services to clients and supporting them in making financial decisions, it upholds the role of banks and other financial organizations (Kusuma & Asmoro, 2020). The use of financial technology can affect business sustainability, by using financial technology MSMEs

are able to improve their economic performance and maintain business sustainability (Nurohman et al., 2021).

- H2: Financial technology affects business sustainability

Financial Performance

Financial performance reflects how well a company is succeeding, which involves analyzing the extent to which the company has applied financial principles appropriately and effectively (Lumenta et al., 2021). Financial performance includes the company's capacity to effectively manage and control its resources. The following statement illustrates that financial performance refers to the achievements or achievements that have been successfully attained by a company's management through the effective management of its assets over a specified period (Ginting, 2020).

Good financial performance has a major impact on a business's sustainability. An effective financial system supports resource management, development, and competitiveness. MSMEs with stable financial performance can manage resources more efficiently, enabling them to survive and thrive in the long term (Saputri, 2019).

- H3: Financial performance affects business sustainability

METHODS

Research Methods

This study employs a quantitative research approach. The independent variables include e-commerce (X1), financial technology (X2), and financial performance (X3), while the dependent variable is business sustainability (Y).

Population And Sample

The study focused on MSMEs in Banyuwangi District, which has a total of 296,706 enterprises. A purposive sampling method was employed for this research. According to the guidelines provided by Hair et al., (2019:132), which recommend using a rule of thumb for sample size determination, a sample of 140 respondents was selected.

Operational and Measurement Variables

The operational definition is a concept operationalized in research that serves to explain the dependent and independent variable (Sugiyono, 2022:93). The measurement scale used is an ordinal scale using a Likert scale to evaluate respondents' answers.

Table 1 Operational and Measurement Variables

Variables	Definition	Indicator	Measurement Scale
E-commerce	E-commerce is a process of buying and selling transactions carried out via the internet using electronic media carried out via the internet.	a. Marketing. b. Sales. c. Payment. d. Bank. Indahsari et al., (2023)	Ordinal scale using Likert scale.
Financial Technology	Financial technology is a new technology in financial services that innovates in developing applications, products, and business models supported by Information Technology (IT).	a. Perceived benefits. b. Perceived convenience. c. Trust in financial technology services. d. Perception of risk.	Ordinal scale using Likert scale.

Variables	Definition	Indicator	Measurement Scale
		Lontchi et al., (2023)	
Financial Performance	Financial performance refers to the assessment of a business's financial health and condition over a specific period.	a. Achievement in sales. b. Increase in profit. c. Achievement of revenue targets.	Ordinal scale using Likert scale.
		Octavina & Rita (2021)	
Business Sustainability	Business sustainability is the ability of a business to maintain and develop its operations over the long term. It is a form of consistency in a company's capacity to sustain its operations.	a. Innovation. b. Employee and customer management. c. Employee and customer management. d. Return on initial capital.	Ordinal scale using Likert scale.
		Nugroho & Rahman (2022)	

Data Collection Technique

Primary data were used in this study. Through the distribution of questionnaires to respondents, researchers collected data from the item under investigation in the form of information on financial technology, e-commerce, financial performance, and company sustainability. MSME players in the Banyuwangi District participated in this study as respondents. A Likert scale was included in the questionnaire to collect data.

Analysis Technique

Analytical techniques in this research by analyzing descriptive statistics and Partial Least Square-Structural Equation Modeling (PLS-SEM) tests using SmartPLS software to test measurement and structural models. There are two steps in the PLS calculation process: determining the outer and inner models. Outer model testing is a validity test and a reliability test. The inner model is assessed by evaluating the R-squared value.

RESULTS

Respondent Characteristics

The respondents consisted of 140 MSME actors in Banyuwangi District.

Table 2 Respondent Characteristics

Characteristics	Frequency	Percentage
Age		
< 25 years old	2	1%
25 - 35 years old	4	3%
35 - 45 years old	27	19%
> 45 years old	107	76%
Gender		
Male	85	61%
Female	55	39%
Length of Business		
< 2 years	4	3%
2 - 5 years	13	9%

5 - 10 years	33	24%
> 10 years	90	64%
Type of Business		
Trade Field	49	35%
Culinary Field	63	45%
<i>Fashion</i> Field	18	13%
Craft Feld	10	7%
Education		
Elementary School	4	3%
Junior High School	7	5%
Senior High School	71	51%
Associate Degree	8	6%
Bachelor Degree	50	36%
1 Month Turnover		
< Rp. 3.000.000	21	15%
Rp. 3.000.000 - Rp. 6.000.000	67	48%
Rp. 6.000.000 - Rp. 9.000.000	36	26%
Rp. 9.000.000 - Rp. 15.000.000	13	9%
> Rp. 15.000.000	3	2%

Source: Primary data processed, 2024

Based on the data presented in Table 1, the characteristics of the respondents are as follows: A significant majority, 76%, are aged over 45 years. Gender distribution shows that 61% of the respondents are male. In terms of business longevity, 64% of respondents have been operating their businesses for more than 10 years. The most common type of business among the respondents is in the culinary sector, which represents 45% of the sample. Regarding educational background, 51% of the respondents have completed senior high school. Lastly, 48% of the respondents report a monthly turnover ranging from Rp. 3,000,000 to Rp. 6,000,000.

Descriptive Statistic Analysis

Descriptive statistical analysis describes research data through minimum, maximum, mean, median, and standard deviation values (Sugiyono, 2022:206).

Table 3 Descriptive Statistic

Variables	N	Minimum	Maximum	Mean	Median	Standard Deviation
E-commerce	140	3,000	5,000	4,036	4,000	0,796
Financial Technology	140	3,000	5,000	3,997	4,000	0,805
Financial Performance	140	3,000	5,000	4,806	4,000	0,679
Business Sustainability	140	3,000	5,000	3,992	4,000	0,739

Source: SmartPLS Test Result Processed, 2024

Based on Table 2, the e-commerce variable has an average value of 4.036, indicating a high level of engagement among MSME operators in utilizing e-commerce to enhance their business operations. Similarly, the financial technology variable has an average value of 3.997, reflecting a strong level of adoption among MSME operators for improving their business operations through financial technology. Financial performance variable has an average score of 4.806, indicating that MSME actors generally experience a high level of success in financial performance. Similarly, the business sustainability variable has an average score of 3.992,

reflecting a commendable level of success in maintaining business operations among MSME actors.

Convergent Validity

The convergent validity test is measured by the loading factor, provided that the loading factor is > 0.7 and AVE is > 0.5 .

Table 4 Outer Loading Value

Variables	Indicator	Outer Loading	Description
E-commerce	X1.1	0,837	Valid
	X1.2	0,805	Valid
	X1.3	0,809	Valid
	X1.4	0,777	Valid
	X1.5	0,828	Valid
	X1.6	0,805	Valid
	X1.7	0,736	Valid
Financial Technology	X2.1	0,732	Valid
	X2.2	0,754	Valid
	X2.3	0,779	Valid
	X2.4	0,750	Valid
	X2.5	0,757	Valid
	X2.6	0,792	Valid
	X2.7	0,706	Valid
	X2.8	0,736	Valid
Financial Performance	X3.1	0,792	Valid
	X3.2	0,821	Valid
	X3.3	0,816	Valid
	X3.4	0,832	Valid
	X3.5	0,831	Valid
Business Sustainability	Y.1	0,736	Valid
	Y.2	0,724	Valid
	Y.3	0,744	Valid
	Y.4	0,791	Valid
	Y.5	0,782	Valid
	Y.6	0,723	Valid
	Y.7	0,749	Valid

Source: SmartPLS Test Result Processed, 2024

Table 5 AVE Value

Variables	AVE Value
E-commerce	0,563
Financial Technology	0,640
Financial Performance	0,670
Business Sustainability	0,564

Source: SmartPLS Test Result Processed, 2024

Based on the data presented in Table 3 and Table 4 show that all indicators have outer loading > 0.7 and AVE value > 0.5 , which means that all indicators can be declared valid. This is

because, in the convergent validity test an indicator can be declared valid if it has a loading factor > 0.7 and an AVE value > 0.5 (Hamid & Anwar, 2019: 41).

Discriminant Validity

Discriminant validity can be measured by the cross-loading value of each variable, which must be > 0.70.

Table 6 Cross Loading Value

Variables	X1	X2	X3	Y
X1.1	0,837	0,591	0,520	0,562
X1.2	0,805	0,618	0,565	0,563
X1.3	0,809	0,644	0,571	0,563
X1.4	0,777	0,642	0,600	0,613
X1.5	0,828	0,593	0,527	0,595
X1.6	0,805	0,643	0,560	0,598
X1.7	0,736	0,621	0,597	0,673
X2.1	0,608	0,732	0,647	0,636
X2.2	0,573	0,754	0,626	0,621
X2.3	0,586	0,779	0,625	0,648
X2.4	0,574	0,750	0,588	0,656
X2.5	0,541	0,757	0,535	0,642
X2.6	0,563	0,792	0,641	0,673
X2.7	0,627	0,706	0,507	0,565
X2.8	0,627	0,736	0,558	0,549
X3.1	0,637	0,619	0,792	0,642
X3.2	0,612	0,632	0,821	0,629
X3.3	0,549	0,669	0,816	0,693
X3.4	0,546	0,642	0,832	0,588
X3.5	0,544	0,661	0,831	0,598
Y.1	0,532	0,658	0,568	0,736
Y.2	0,566	0,589	0,579	0,724
Y.3	0,566	0,667	0,579	0,744
Y.4	0,592	0,602	0,552	0,791
Y.5	0,564	0,603	0,562	0,782
Y.6	0,588	0,616	0,570	0,723
Y.7	0,524	0,632	0,644	0,749

Source: SmartPLS Test Result Processed, 2024

Based on Table 5, the correlation values of each indicator with its respective construct are higher than their correlations with other constructs. Additionally, the cross-loading values for each indicator exceed 0.70. Consequently, it can be concluded that the indicators for each variable exhibit strong discriminant validity.

Reliability Test

The reliability test is done with Cronbach's Alpha and Composite Reliability, with an expected value of > 0.7 .

Table 7 Cronbach's Alpha & Composite Reliability Value

Variables	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Description
E-commerce	0,870	0,870	0,900	Reliable
Financial Technology	0,906	0,906	0,926	Reliable
Financial Performance	0,877	0,979	0,910	Reliable
Business Sustainability	0,890	0,891	0,12	Reliable

Source: SmartPLS Test Result Processed, 2024

Based on Table 6, all variables exhibit Cronbach's alpha values exceeding 0.7 and composite reliability values exceeding 0.7. This indicates that all variables demonstrate strong reliability.

Inner Model

Inner model testing is done by looking at the R square value.

Table 8 R square

	R Square	R Square Adjusted
Business Sustainability	0,744	0,748

Source: SmartPLS Test Result Processed, 2024

Based on Table 7, shows that the R square value for the business sustainability variable is 0,748. This means that e-commerce, financial technology, and financial performance affect business sustainability by 74,8%, and other factors not covered This study takes into account for the remaining 25.2% of the variance. Research by Gao et al., (2023) proves that e-commerce variables can affect business sustainability. Research by Nurohman et al., (2021) study demonstrates that financial technology variables can affect business sustainability. In addition, research by Saputri (2019) proves that financial performance can affect business sustainability. Consequently, it is recommended that MSMEs or further researchers be able to focus more on optimizing the use of e-commerce and financial technology, and managing financial performance to improve business sustainability. However, 25,2% of other variables outside the study can affect business sustainability Consequently, MSMEs or further researchers are advised to continue to consider different variables that can potentially affect business sustainability.

Hypothesis Test

This study uses the t-statistic to determine the level of significance, with $\alpha = 5\%$ as the limit of significant value (Sugiyono, 2022:223).

Table 9 Hypothesis Testing

	Path Coefficients	Standard Deviation	T-Statistic	P Value	Description
E-commerce -> Business Sustainability	0,193	0,074	2,598	0,009	Accepted
Financial Technology -> Business Sustainability	0,260	0,063	4,155	0,000	Accepted

	Path Coefficients	Standard Deviation	T-Statistic	P Value	Description
Financial Performance -> Business Sustainability	0,477	0,074	6,415	0,000	Accepted

Source: SmartPLS Test Result Processed, 2024

The explanation of the hypothesis testing results in Table 4.8 is as follows

1. E-commerce positively and significantly impacts business sustainability. The results of the tests reveal that H1 has a significance value of 0.009. Since this value is less than 0.05, H1 is supported.
2. Financial technology positively and significantly affects business sustainability. The results of the tests indicate that H2 has a significance value of 0.000. As this value is below 0.05, H2 is confirmed.
3. Financial performance has a positive and significant impact on business sustainability. The results of the tests show that H3 has a significance value of 0.000. Given that this value is less than 0.05, H3 is validated.

DISCUSSION

Effect Of E-Commerce On Business Sustainability

The results of the tests indicate that the e-commerce variable significantly influences business sustainability. In line with the Resource-Based View (RBV) theory, MSMEs that embrace e-commerce are effectively leveraging their resources and technology to secure a lasting competitive advantage. By doing so, they are positioning themselves to thrive in a competitive marketplace, ensuring long-term sustainability and growth (Basuki & Suwarno, 2021). The findings of this study align with research by Yacob et al., (2021), which demonstrates that e-commerce has a positive and significant impact on business sustainability. By adopting e-commerce, MSMEs can enhance efficiency, boost revenue, and increase customer satisfaction, thereby fostering long-term business sustainability.

To fully harness the benefits of e-commerce, MSME owners are encouraged to continuously innovate and adapt to evolving market trends and consumer needs. Furthermore, it is recommended that MSME owners invest in employee training to ensure that staff can effectively utilize e-commerce platforms and maintain high levels of customer satisfaction by consistently delivering quality products.

Effect Of Financial Technology On Business Sustainability

The results of the tests show that the financial technology variable positively impacts business sustainability. According to the RBV theory, businesses are motivated to innovate to gain competitive advantage, improve business performance, and ensure long-term sustainability. By effectively leveraging financial technology, businesses can strengthen their operations, improve efficiency, and secure a more stable future in a competitive market (Suyanto, 2022).

The findings of this study are consistent with the research conducted by Nurohman et al., (2021), which indicates a positive and significant impact relationship between financial technology and the sustainability of MSMEs. Leveraging financial technology can enhance financial performance, thereby helping MSMEs maintain business sustainability. The presence of financial technology significantly benefits MSME sustainability. Consequently, MSME operators are encouraged to gather information on the proper use of financial technology, participate in relevant training programs, and partner with financial technology service providers that cater to the specific needs of MSMEs.

Effect Of Financial Performance On Business Sustainability

The results of the tests indicate that the financial performance variable positively influences business sustainability. This finding is consistent with the Resource-Based View (RBV) theory, which posits that a business can attain a lasting competitive edge by effectively leveraging its resources. By optimizing financial performance, businesses can strengthen their foundation, enhance operational stability, and ensure long-term success in a competitive environment (Rohman et al., 2023). MSMEs with strong financial performance can allocate their resources more effectively, which helps them to not only survive but also thrive and grow in the long term. The findings of this study are corroborated by Saputri (2019) which highlights that financial performance has a significant impact on sustainable capabilities. For MSMEs to achieve business sustainability, they need to prioritize effective financial management. This includes maintaining accurate financial records, creating both short-term and long-term budgets, and regularly assessing expenses to ensure cost efficiency.

CONCLUSION

Building on the research and insights presented, this study concludes that e-commerce, financial technology, and financial performance all have a significant impact on the sustainability of MSME businesses in Banyuwangi District. The findings underscore the importance of adopting e-commerce, integrating financial technology, and maintaining strong financial management practices to support the long-term sustainability of MSME businesses in the region. MSMEs that adopt e-commerce and financial technology can improve operational efficiency, expand market reach, and optimize financial management, all of which contribute to improving financial performance. With sound financial performance, it will be able to strengthen MSMEs to survive and thrive amid increasingly fierce market competition. Consequently, there is a need for policies and programs that encourage MSMEs to adopt e-commerce, financial technology, and sound financial management to strengthen the sustainability of MSME businesses while supporting sustainable economic growth.

SUGGESTION

Drawing from the results and analysis, the following recommendations are offered for MSME owners in Banyuwangi District regarding e-commerce: continue to innovate and optimize e-commerce usage, enhance service and product quality, present products attractively, offer promotions, and ensure responsive customer service. For financial technology, it is advisable to actively pursue information on the proper use of financial technology, participate in training programs focused on utilizing financial technology, and collaborate with financial technology service providers that align with the needs of MSMEs. For financial performance, MSMEs can implement a recording system and analyze financial reports regularly to monitor cash flow and expenses. In addition, focus on cost efficiency to help strengthen financial stability and business growth. Future researchers should consider broadening their studies by incorporating additional variables that may influence the sustainability of MSME businesses. Additionally, broadening the population and increasing the sample size would enhance the ability to generalize findings more effectively.

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