

Exploring the Impact of Company Scale, Financial Health, and Debt Structure on Corporate Performance: A Case Study of Consumer Goods Industry Firms Listed on the Indonesian Stock Exchange from 2017 to 2019

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Abstract

This research aims to examine the influence of innovation variables and managerial capabilities in mediating the effect of business strategy on UMKM performance. Respondents are UMKM owners in Bandar Lampung City. Respondents of this study are UMKM owners who live in Bandar Lampung, because the area has become a center for industrial UMKM, especially in the Craft Sub-Sector. There are 62 questionnaires that can be collected. Based on PLS-SEM analysis, it is concluded that strategy directly has a significant positive effect on UMKM performance; strategy directly has a significant positive effect on innovation; strategy directly has a significant positive effect on managerial ability; innovation directly has a significant positive effect on UMKM performance; managerial ability directly has a significant positive effect on UMKM performance; innovation is positively and significantly able to mediate strategy on UMKM performance; and managerial ability is positively and significantly able to mediate strategy on UMKM performance.

Keywords: UMKM Performance, Business Strategy, Innovation, Managerial Ability

Introduction

Micro, small, and medium-sized enterprises (UMKMs) are pivotal to the economic landscapes of developing countries, playing a crucial role in reducing unemployment and boosting gross domestic product (GDP) (Mile et al., 2022). In Indonesia, UMKMs represent 99.99% of all business sectors (BI, 2015) and contributed significantly to the national economy, accounting for 62.57% of GDP and 14.06% of total national exports in 2016 (Barid et al., 2017). Given their extensive contributions across various sectors, there is an urgent need for research to guide small business owners in adopting effective management practices to enhance performance (Njanja et al., 2010). The performance of UMKMs has become a global priority due to their recognized role as engines of economic growth in both developed and developing nations (Defrizal, Wibowo, Hari Nugroho Budhi, et al., 2021). Previous research has shown that firm performance is significantly influenced by business strategy, with high-performing firms typically possessing clear strategic plans (Teh et al., 2018). Strategic development is also critical for improving competitiveness, highlighting the importance of strategic management frameworks for UMKMs to enhance organizational performance (Somov, 2018).

However, there is significant variation in socio-cultural and environmental conditions that necessitate the development of contextual strategies for UMKMs (Dennis et al., 2019). While existing research has explored the impact of various strategies on UMKM performance, gaps remain in understanding how these strategies can be tailored to specific market conditions (Habiburahman et al., 2019). Differentiation strategies, which focus on innovative products and services, provide a competitive advantage by adding value to customers (Defrizal et al., 2021). In Indonesia's creative economy,

especially within the craft subsector, such strategies are essential for leveraging abundant natural resources and the creativity of human resources (Iriani et al., 2016).

The COVID-19 pandemic has introduced additional challenges for UMKMs, including social distancing policies and fluctuating business numbers, impacting their performance. Despite these challenges, differentiation strategies have been shown to enhance competitiveness and improve firm performance (Makina & Oundo, 2020). However, UMKMs face unique constraints, including limited resources for innovation, making it crucial to adopt well-managed innovation processes (Dereli, 2015). This study aims to explore the relationship between business strategy and UMKM performance, focusing on the mediating roles of innovation and managerial skills. While previous studies have examined the impact of business strategy, innovation, and accounting information systems (AIS) on MSME performance, this research distinguishes itself by focusing on the craft subsector in Bandar Lampung and incorporating managerial skills and innovation as mediating variables (Desmice et al., 2022).

Despite extensive research on business strategies and UMKM performance, there is limited understanding of how managerial skills and innovation mediate this relationship, particularly within the craft subsector (Redaputri & Barusman, 2021). This study addresses this gap by examining the specific context of Bandar Lampung, providing insights into the development of tailored strategies for UMKMs in this region. The research questions guiding this study are: How does business strategy affect the performance of UMKMs in Bandar Lampung? What is the role of innovation in mediating the relationship between business strategy and UMKM performance? How do managerial skills influence the effectiveness of business strategies on UMKM performance? The objectives are to analyze the impact of business strategy on UMKM performance in Bandar Lampung, investigate the mediating role of innovation in the relationship between business strategy and UMKM performance, and assess the mediating effect of managerial skills on this relationship. This study aims to provide a comprehensive understanding of how strategic management, innovation, and managerial capabilities can collectively enhance the performance of UMKMs, contributing to the broader discourse on economic development in developing countries.

Methodology

This study employs a quantitative research approach utilizing Structural Equation Modeling (SEM) through Partial Least Squares (PLS) to investigate the impact of business strategy on UMKM performance, with a focus on innovation and managerial skills as mediators. The choice of SEM is grounded in its ability to evaluate complex relationships and test both direct and indirect effects within the research model (Muharam et al., 2020). SEM is particularly suited for this study as it allows for the simultaneous analysis of multiple variables and their interrelationships, providing a comprehensive understanding of the factors influencing UMKM performance (Syahrul et al., 2021).

Primary data for the study were collected through a structured survey distributed via Google Forms, targeting UMKM owners in Bandar Lampung, a region noted for its vibrant craft sector. The survey included validated scales to measure business strategy, innovation, managerial skills, and UMKM performance. The decision to use Google Forms was driven by its efficiency in reaching a wide audience and facilitating data collection. A total of 62 completed questionnaires were collected, meeting the minimum sample size requirement for SEM analysis as indicated by (Farooq et al., 2018). This sample size is deemed sufficient for the structural model analysis, allowing for reliable estimation of path coefficients and evaluation of model fit.

The data were analyzed using the SmartPLS software application. Path analysis was conducted to assess the direct and indirect effects outlined in the research hypotheses. Specifically, the study examined: (1) the impact of business strategy on UMKM performance through the mediating variables of innovation and managerial skills, (2) the direct effects of business strategy, innovation, and managerial skills on UMKM performance, (3) the direct effect of business strategy on innovation, and (4) the direct effect of business strategy on managerial skills. The use of SmartPLS facilitates the estimation of path coefficients and the assessment of model fit indices, which are crucial for validating the research hypotheses. The analysis includes evaluating the reliability and validity of the measurement model, as well as testing the structural model to determine the relationships between the variables.

Overall, this methodology provides a structured approach to exploring the influence of business strategy on UMKM performance, with a particular focus on the mediating roles of innovation and managerial skills. By employing SEM and leveraging SmartPLS for data analysis, the study aims to deliver robust and actionable insights into how strategic management, innovation, and managerial capabilities can enhance UMKM performance in Bandar Lampung.

Results and Discussion

This study uses SmartPLS 3.0 to test the hypothesis. The relationship between variables tested in this study is the relationship between the exogenous variable of business strategy on the endogenous variable, namely the performance of UMKM through the mediating variables of innovation and managerial ability. The significance test to determine the effect between variables can be seen from the statistical test results as presented in Figure 1.

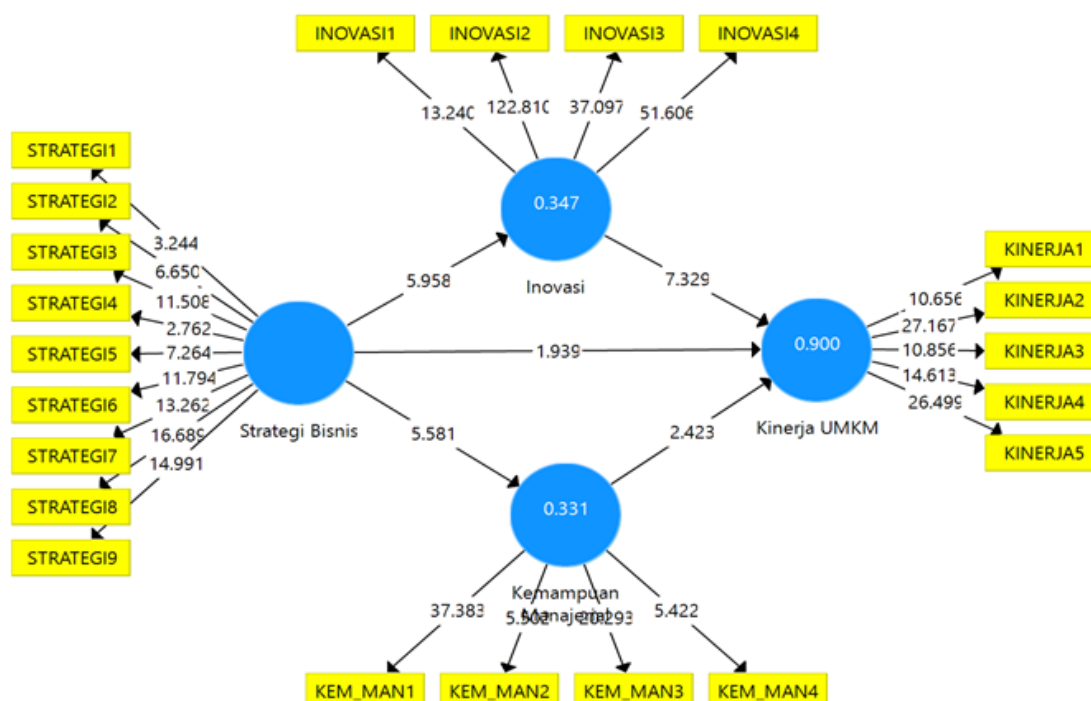


Figure 1. Outer Loading

The minimum criteria that must be met for the hypothesis to be accepted are 1) beta has a positive value, and 2) t-statistic must be above 1.67022 for standard error (alpha 5%). Based on the output of Figure 1, the relationship between each variable is presented in Table 1 which displays the results of hypothesis testing (path coefficients).

Table 1. Path coefficients

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Inovasi -> Kinerja UMKM	0.673	0.686	0.092	7.329	0.000
Kemampuan Manajerial -> Kinerja UMKM	0.203	0.191	0.084	2.423	0.016
Strategi Bisnis -> Inovasi	0.589	0.609	0.099	5.958	0.000
Strategi Bisnis -> Kemampuan Manajerial	0.575	0.595	0.103	5.581	0.000
Strategi Bisnis -> Kinerja UMKM	0.134	0.134	0.069	1.939	0.043

Source: Data processing (2023)

a. The direct effect of business strategy on Micro, Small, and Medium Enterprises (UMKM) performance

The parameter coefficient for the business strategy variable on UMKM performance is 0.673, which indicates a positive effect of business strategy on UMKM performance based on table 1 and figure 1. Or it might be understood that UMKM performance will rise the greater the value of a business plan. The performance of UMKM will improve by 67.3% with an increase of one unit of business strategy. Using bootstrap or resampling calculations, the estimated coefficient of business strategy on UMKM performance from the test is 0.134 with a t value = 1.939 > t table = 1.670 and a standard deviation of 0.069. The direct impact of business strategy on UMKM performance is hence positive and statistically significant (p-value = 0.043 < 0.05, H1 is accepted).

b. The direct effect of business strategy on innovation

The parameter coefficient for the business strategy variable on innovation is 0.589, which indicates a positive effect of business strategy on innovation based on table 1 and picture 1. Alternately, it might mean that innovation will rise in proportion to how valuable company strategy is perceived to be. Innovation will rise by 58.9% for every unit of business strategy that is added. Using bootstrap or resampling computations, the estimated coefficient of business strategy innovation bootstrap results is 0.609 with a t value = 5.958 > t table = 1.670 and a standard deviation of 0.099. Therefore, H1 is accepted because the p-value is 0.000 < 0.05, indicating that the direct impact of company strategy on innovation is both positive and statistically significant.

c. The direct effect of innovation on Micro, Small, and Medium Enterprises (UMKM) performance

The parameter coefficient for the innovation variable on UMKM performance is 0.673 based on table 1 and figure 1, indicating that innovation has a positive impact on UMKM performance. Or it might be understood that UMKM's performance will rise the higher the value of innovation. The performance of UMKMs will improve by 67.3% with an increase of one unit of innovation. Based on calculations using the bootstrap method of resampling, the estimated coefficient of innovation on the performance of UMKMs is 0.134, with a computed t value of 7.329, a t table of 1.670, and a standard deviation of 0.092. Then the p-value is 0.000 < 0.05 so H1 is accepted or which means that the direct effect of innovation on UMKM performance is positive and statistically significant.

Therefore, H1 is acceptable because the p-value is 0.000 < 0.05, indicating that the direct impact of innovation on UMKM performance is both positive and statistically significant.

d. The direct effect of business strategy on managerial ability

Based on table 1 and figure 1, the parameter coefficient for the business strategy variable on managerial ability is 0.575, which means that there is a positive effect of business strategy on managerial ability. Or it can be interpreted that the higher the value of business strategy, the more managerial ability will increase. An increase of one unit of business strategy will increase managerial ability by 57.5%. Based on calculations using bootstrap or resampling, where the test results of the estimated coefficient of business strategy on managerial ability bootstrap results are 0.595 with a t value = 5.581 > t table = 1.670 and a standard deviation of 0.103. Then the p-value is 0.000 < 0.05 so H0 is accepted or which means that the direct effect of business strategy on managerial ability is positive and statistically significant.

e. The direct effect of managerial ability on Micro, Small, and Medium Enterprises (UMKM) performance

Based on table 1 and figure 1, the parameter coefficient for the managerial ability variable on UMKM performance is 0.203, which means that there is a positive effect of managerial ability on UMKM performance. Or it can be interpreted that the higher the value of managerial ability, the more UMKM performance will increase. An increase of one unit of managerial ability will increase the performance of UMKM by 20.3%. Based on calculations using bootstrap or resampling, where the test results of the estimated coefficient of business strategy on UMKM performance bootstrap results are 0.191 with a t value = 2.423 > t table = 1.670 and a standard deviation of 0.084. Then the p-value is 0.016 < 0.05 so H1 is accepted or which means that the direct effect of managerial ability on UMKM performance is positive and statistically significant.

Table 2. Indirect Effect

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Strategi Bisnis -> Kemampuan Manajerial-> Kinerja UMKM	0.214	0.111	0.050	2.341	0.020
Strategi Bisnis -> Inovasi -> Kinerja UMKM	0.397	0.416	0.078	5.098	0.000

Source: Data Processing 2023

Based on table 2, the parameter coefficient for the business strategy variable on UMKM performance mediated by innovation is 0.397, which means that there is a positive effect of business strategy on UMKM performance through innovation. Or it can be interpreted that the higher the value of business strategy, the more UMKM performance will increase. A one-unit increase in business strategy through innovation will increase UMKM performance by 39.7%. Based on calculations using bootstrap or resampling, where the test results of the estimated coefficient of business strategy on UMKM performance through innovation bootstrap results are 0.416 with a calculated t value = 5.098 > t table = 1.670 and a standard deviation of 0.078. Then the p-value is 0.000 < 0.05 so H1 is accepted or which means that the indirect effect of business strategy on UMKM performance through innovation is positive and statistically significant.

The parameter coefficient for the business strategy variable on UMKM performance mediated by managerial ability is 0.214, which means that there is a positive effect of

business strategy on MSME performance through managerial ability. Or it can be interpreted that the higher the value of business strategy through managerial ability, the more MSME performance will increase. A one-unit increase in business strategy through innovation will increase UMKM performance by 21.4%. Based on calculations using bootstrap or resampling, where the test results of the estimated coefficient of business strategy on UMKM performance through bootstrap innovation results are 0.111 with a calculated t value = $2.341 > t \text{ table} = 1.670$ and a standard deviation of 0.050. Then the p-value is $0.020 < 0.05$ so H1 is accepted or which means that the indirect effect of business strategy on UMKM performance through managerial ability is positive and statistically significant.

Table 3. Total effect

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Strategi Bisnis -> Kinerja UMKM	0.648	0.661	0.106	6.126	0.000

Source: Data Processing, 2023

The results of direct effects, indirect effects, and total effects of this study, it can be concluded that all variables studied have a significant value and positive influence. So that the proposed hypothesis 1 is accepted. The next analysis process is the Variance Accounted For (VAF) method on the effect of business strategy on UMKM performance mediated by innovation and managerial ability, it can be explained that business strategy has a direct and significant effect on company performance, so it meets the criteria to continue at the VAF value calculation stage. The mediation effect of the VAF method with criteria; no mediation (0%-19%), partial mediation (20%-80%), and full mediation (81%-100%), namely;

Innovation mediates the effect of business strategy on MSME performance.

$VAF = \text{indirect effect} / \text{total effect} \times 100\% = 0.3970.648 \times 100\% = 61.26\%$

Managerial capability mediates the effect of business strategy on MSME performance.

$VAF = \text{indirect effect} / \text{total effect} \times 100\% = 0.2140.648 \times 100\% = 33.02\%$

Based on the VAF calculation, it shows that the innovation variable mediates partial mediation on the effect of business strategy on UMKM performance with results reaching 61.26%, as well as the managerial ability variable mediates partial mediation on the effect of business strategy on UMKM performance with results reaching 33.02%, meaning that the innovation variable and managerial ability are not the only two variables capable of mediating the effect of business strategy on UMKM performance, but there are still other variables and are opportunities for further researchers. So this study, shows these innovation and managerial skills are able to mediate the effect of business strategy on UMKM performance, which proves that the hypothesis is accepted.

Discussion

a. Business strategy on Micro, Small, and Medium Enterprises (UMKM) performance

Based on the results of hypothesis testing, there is a positive and significant influence between business strategy on UMKM performance. This means that the higher the business strategy implemented, the better the performance will be. This finding is certainly in line with research conducted by Indriastuti & Kartika (2022) which have proven that leadership costs and differentiation strategies affect the performance of UMKM. Research conducted by (Hendra & Hermawan, 2022) states that UMKMs who do

not implement any strategy have lower growth than UMKMs implementing a low-cost strategy or differentiation strategy. Meanwhile, quantitative research conducted by Ashsifa et al., (2023) concluded that differentiation strategies can affect UMKM performance if combined with innovation and a proactive approach.

b. Business strategy on innovation

Based on the results of hypothesis testing, there is a positive and significant influence between business strategy on innovation. This means that the higher the business strategy implemented, the better the innovation will be. This finding is certainly in line with research conducted by Ranerup et al., (2016) found a direct relationship between business strategy and company performance. In general, strategies contribute positively to performance, but only differentiation strategies improve performance directly through strategy alignment (Arundel et al., 2019).

c. Business strategy on managerial skills

Based on the results of hypothesis testing, there is a positive and significant influence between business strategy on managerial ability. This means that the higher the business strategy implemented, the better the managerial ability. This finding is certainly in line with research conducted by Zakaria et al., (2018) found that human capital or the managerial ability of the owner associated with strategy has a positive effect on company performance. Business strategy is closely related to the managerial ability of the company owner/owner, therefore to design the application requires qualified managerial skills, especially in its implementation.

d. Innovation in the performance of Micro, Small, and Medium Enterprises (UMKM)

Based on hypothesis testing, there is a positive effect of innovation on performance. This means that the higher the innovation, the better the performance. This finding is in line with research conducted by (Aliami et al., 2023). These researchers found that there is a positive effect of innovation on the performance of UMKM. The tight competition encourages UMKM to innovate in order to portray excellence and competitiveness. Therefore, the innovation development process requires careful management to improve performance. Innovations in products, services, and business models can provide opportunities for UMKMs to survive and win the competition (Porter, 1980). Thus, UMKMs will gain profitability, such as through customer loyalty and price sensitivity, because customers always consider product uniqueness and innovation (Kabetu & Iravo, 2018).

e. Managerial capability on Micro, Small, and Medium Enterprises (UMKM) performance

Based on the results of hypothesis testing, there is a positive and significant influence between managerial ability on the performance of UMKM. This means that the higher the managerial skills applied, the better the performance of UMKM will be. Good management skills play an important role in running a business. Good business management requires an adequate ability to manage the company, process information, and determine policies. A manager is said to be capable if the manager has sufficient expertise in the field of responsibility. This expertise can be obtained by managers because they have a high level of intelligence and a high level of education. The application of the management function is reflected in the ability to make plans so that the goals to be achieved by the business are clear, can organize employees properly, coordinate and direct, and control and evaluate so that the organization runs effectively

and efficiently, which results in high productivity and performance. A successful manager must be able to carry out management functions, management rules, and management skills.

f. Business strategy on Micro, Small, and Medium Enterprises (UMKM) performance through innovation

Based on the results of hypothesis testing, the effect of strategy on performance with innovation as a mediating variable shows a positive and significant relationship. Furthermore, the mediating effect also shows a significant effect at the 5% significance level. Thus, the indirect effect of strategy variables on performance through innovation is accepted. This means that a good differentiation strategy will improve company performance. It will be higher if supported by high innovation. This research is in line with research conducted which explains that a good differentiation strategy will improve company performance. It will be higher if supported by high innovation. A differentiation strategy can be optimized if it is supported by innovation activities. A differentiation strategy can be optimized if it is supported by innovation activities. Innovation does not only focus on product design but also on innovation in other aspects, such as customer service, product marketing innovation, product distribution innovation, and after-sales service innovation. Innovation in line with this strategy, makes a company develop a uniqueness that can increase added value for customers. The era of global competition requires companies to create added value for customers by creating a uniqueness that differentiates them from their competitors. The added value makes customers indifferent when compared to their competitors. Finally, it can increase the profitability of the company.

g. Business strategy on Micro, Small, and Medium Enterprises (UMKM) performance through the managerial ability

Based on the results of hypothesis testing, the effect of strategy on performance with managerial ability as a mediating variable shows a positive and significant relationship. Furthermore, the mediating effect also shows a significant effect at the 5% significance level. Thus, the indirect effect of strategy variables on performance through managerial ability is accepted. This means that a good differentiation strategy will improve company performance. It will be higher if supported by high managerial ability. Differentiation strategies can be optimized if supported by managerial capability activities. The success of a particular business unit is strongly influenced by the managerial ability of individuals who sit on the management board. Managerial ability refers to the ability and motivation of managers to allocate business resources in an efficient manner. In addition, the managerial ability is the manager's ability to manage business units to get the maximum profit with available resources. Business units managed by managers who have managerial skills are usually profitable.

Conclusion

This study aims to examine the influence of innovation variables and managerial capabilities in mediating the effect of business strategy on UMKM's performance. Respondents were UMKM owners in Bandar Lampung City. Based on PLS-SEM analysis, it is concluded that strategy directly has a significant positive effect on UMKM performance; strategy directly has a significant positive effect on innovation; strategy directly has a significant positive effect on managerial ability; innovation directly has a significant positive effect on UMKM performance; managerial ability directly has a

significant positive effect on UMKM performance; innovation is positively and significantly able to mediate strategy on UMKM performance; and managerial ability is positively and significantly able to mediate strategy on UMKM performance. The implications for UMKM owners are as follows. First, a differentiation strategy cannot produce significant results unless the owner encourages innovation. There must be alignment between the strategies implemented and innovation to improve UMKM's performance. The differentiation strategy certainly emphasizes product uniqueness and quality and requires various innovations in product manufacturing. Although it requires high investment, UMKM owners must prioritize innovation to provide added value to customers. Second, a differentiation strategy can provide significant results if the owner is able to improve his managerial skills. Of course, managerial capability refers to the ability and motivation of managers to allocate business resources in an efficient way to improve the performance of UMKM.

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