
REVITALIZING MSMES : AN EXAMINATION OF BUSINESS STRATEGY, INNOVATION AND ACCOUNTING INFORMATION SYSTEMS FOR IMPROVED PERFORMANCE

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ABSTRACT

Micro, small, and medium enterprises (MSMEs) are essential for economic growth globally. However, they often face problems like unclear business plans, a lack of innovation, outdated accounting systems, and difficulty adapting to changes in the business world. These challenges lead to poor financial management and limited access to the right financial information. To overcome these problems, it's important for MSMEs to create clear business strategies, encourage innovation, improve their accounting systems, and become more adaptable to changes. As a result, MSMEs will perform better and contribute more to the local economy. This study examines the effect of business strategy, innovation, and accounting information systems on MSME performance in Kudus Regency, using a sample of 391. The results showed that business strategy, innovation, and accounting information systems partially positively affected the MSME performance. Innovation, as a moderation variable, is able to strengthen the effect of business strategy on MSME performance. However, the results also show that accounting information systems have not been able to moderate the effect of business strategies on MSME performance. This research provides valuable insights for MSMEs, highlighting the importance of developing and executing suitable business strategies, promoting innovations, and establishing effective accounting information systems to improve performance.

Keywords : Business Strategy; Innovation; Accounting Information System; MSME Performance

ABSTRAK

Usaha Mikro, Kecil dan Menengah (UMKM) sangat penting bagi pertumbuhan ekonomi global. Namun seringkali UMKM menghadapi permasalahan seperti rencana bisnis yang tidak jelas, kurangnya inovasi, sistem akuntansi yang ketinggalan jaman, dan kesulitan beradaptasi dengan perubahan dunia bisnis. Tantangan-tantangan ini menimbulkan permasalahan seperti pengelolaan keuangan yang buruk dan terbatasnya akses terhadap informasi keuangan yang tepat. Untuk mengatasi permasalahan tersebut, penting bagi UMKM untuk membuat strategi bisnis yang jelas, mendorong inovasi, memperbaiki sistem akuntansinya, dan lebih mudah beradaptasi terhadap perubahan. Tujuan penelitian ini adalah untuk menguji pengaruh strategi bisnis, inovasi, dan sistem informasi akuntansi terhadap kinerja UMKM di Kabupaten Kudus, dengan menggunakan sampel 391 UMKM. Hasil penelitian menunjukkan bahwa strategi bisnis, inovasi, dan sistem informasi akuntansi secara parsial berpengaruh positif terhadap kinerja UMKM. Inovasi sebagai variabel moderasi mampu memperkuat pengaruh strategi bisnis terhadap kinerja UMKM. Namun hasil penelitian juga menunjukkan bahwa sistem informasi akuntansi belum mampu memoderasi

pengaruh strategi bisnis terhadap kinerja UMKM. Penelitian ini memberikan wawasan bagi UMKM, menyoroti pentingnya mengembangkan dan melaksanakan strategi bisnis yang sesuai, mendorong inovasi, dan membangun sistem informasi akuntansi yang efektif untuk meningkatkan kinerja UMKM.

Kata Kunci : Strategi Bisnis; Inovasi; Sistem Informasi Akuntansi; Kinerja UMKM

INTRODUCTION

The performance of micro, small, and medium enterprises (MSMEs) has gained significant importance worldwide due to a global viewpoint that acknowledges MSMEs as pivotal drivers of economic growth in developed and developing nations (Nura et al., 2017). MSMEs play a vital role since they have the potential to reduce unemployment and raise gross domestic product (GDP) (OECD, 2018). Indonesia has achieved a remarkable 99.99% representation of MSMEs across all sectors (Bank Indonesia, 2020). According to the 2022 report by the United Nations Conference on Trade and Development (UNCTAD), MSMEs in Indonesia make up 60.3% of the national GDP and provide employment for 97% of the workforce. Based on data from the Department of Industrial Manpower, Cooperatives, Small and Medium Enterprises of Kudus Regency in 2022, the contribution of GDP in the Processing Industry Sector in Kudus Regency has an achievement of 97.84%. Because the contribution of MSMEs is very broad in various sectors, MSMEs must be able to implement good management practices to improve MSME performance.

According to Latifah et al. (2021), MSME performance is impacted by their business strategies. Furthermore, MSMEs that demonstrate excellent work performance are characterized by having a well-defined strategy. Badri et al. (2000) discovered that MSME performance can vary according to the strategy used. Enhancing the company's competitiveness is mostly dependent on strategy creation (Singh et al., 2010). The severe challenges MSMEs face in global economic competition encourage research on strategic management to improve MSME performance. The need for developing MSME contextual strategies is due to the high variation in socio-cultural and environmental volatility (Bellamy et al., 2019).

Businesses have the ability to select strategies that enable them to compete in either broad markets or niche markets. The potential outcomes are contingent upon a business's decision to adopt a differentiation or cost leadership strategy (Latifah et al., 2021). Cost leadership strategies prioritize offering lower costs in comparison to

competitors, whereas differentiation strategies concentrate on the innovation of products and services. Certain organizations perceive product differentiation tactics as more advantageous for enhancing their competitiveness in comparison to cost leadership initiatives (Aliqah, 2017). In the era of globalization, MSMEs must enhance their competitiveness by offering more value to clients in order to thrive in a highly competitive market. The differentiation strategy provides a broader scope to produce value-added products. Differentiation strategies can increase leading competitiveness and improve MSME performance (Latifah et al., 2021; Miller & Friesen, 1986; Slater et al., 2006).

Furthermore, there is significant data indicating that the performance of MSMEs is influenced by both the implementation of strategies and the presence of innovation processes and innovative goods. Indeed, innovative companies have the ability to overcome stagnant companies (Latifah et al., 2021). Creating new products, resources, collaboration structures, and problem-solving procedures that foster innovative thinking and integrate innovation with ongoing business operations are essential for a company to improve its capacity for continuous innovation, including integrating innovation as a critical strategic component (Bhaskaran, 2006). For MSMEs, innovation is the key to sustaining business. MSME owners must be innovative and willing to take business risks to get a more decisive competitive edge (Georgellis et al., 2000).

Innovations created by MSMEs and those created by larger businesses diverge significantly. MSMEs face challenges, such as limited resources, which might hinder their ability to innovate, unlike larger corporations. Furthermore, the significant effort necessary for innovation development does not ensure success because the risk of the innovation process is very high (Howell et al., 2005; Wakasugi & Koyata, 1997). As a result, the innovation process in MSMEs must be carefully managed. The management control system is critical in coping with environmental unpredictability in innovative MSMEs. Accounting information systems have become a crucial element of management control in MSMEs since they assist in internal decision-making and serve as a tool for measuring managers' strategies (Blomkvist et al., 2016). Accounting information systems are essential to building that capacity (King & Burgess, 2006).

Accounting information system focuses on past events rather than future-oriented advancements, so it's considered less valuable in decision-making in

entrepreneurial research. Latifah et al. (2021) show the significance of accounting information systems for managers in innovative organizations, particularly MSMEs. It's an essential element of managers making decisions and planning their strategies since the accounting information system is a key part of management control (Blomkvist et al., 2016).

Management control guides the organization in achieving its goals efficiently. According to the modern perspective, accounting has the potential to enhance innovation. Knowledge can mitigate ambiguity in the process of innovation. Furthermore, accounting information facilitates communication and negotiation between internal and external stakeholders (Feeney & Pierce, 2018). Effective management control system design helps mitigate deviations, such as unplanned events, and helps the organization achieve its set goals (Davila et al., 2009). Research in management control systems indicates that incorporating innovation into budgeting decisions throughout the planning process can enhance financial performance by utilizing accounting information (Blomkvist et al., 2016).

This research focuses on the utilization of accounting information systems in Micro, Small, and Medium Enterprises (MSMEs) located in Kudus Regency. Implementing monitoring and control methods through accounting information systems can assist firms, particularly MSMEs, in addressing short-term challenges related to financing, expenses, and cash flow (Kunttu & Torkkeli, 2015). Applying accounting information can help MSMEs to integrate operational elements into long-term strategic planning in a highly dynamic and competitive environment (Putri & Maghfiroh, 2022). Thus, this study aims to examine and evaluate the effect of business strategy, innovation, and accounting information systems on MSME performance in Kudus Regency. This study also investigates the effect of innovation and accounting information systems as moderating variables on MSME performance.

This research provides valuable insights for micro, small, and medium enterprises (MSMEs), emphasizing the significance of formulating and implementing appropriate business strategies, fostering innovations, and establishing efficient accounting information systems to enhance performance. By embracing this strategy, micro, small, and medium enterprises (MSMEs) can enhance their competitiveness,

streamline their operations, and strategically position themselves in a cutthroat market, thereby bolstering their influence on the local economy.

REVIEW LITERATURE AND HYPOTHESIS DEVELOPMENT

Accounting information systems (AIS) have a significant impact on enhancing the MSME performance. Accounting information is sometimes considered less valuable in decision-making within entrepreneurial literature since it mostly concerns past events, in contrast to innovation, which is focused on prospects. Recent research on MSMEs has demonstrated the crucial significance of accounting information for managers of innovative enterprises. Accounting information presently functions as a component of management control, which is the core aspect of internal decision-making and strategic actions taken by managers in creative organizations (Blomkvist et al., 2016). An accounting information system offers a comprehensive picture of financial data for MSME participants, facilitating the creation of company financial reports by accountants and reducing the expenses associated with note-taking. This method reduces computational errors and enhances users' ability to manage costs and commercial products (Dharmawati & Safitri, 2021).

The conventional perspective posits that management control aims to discover and enforce standardization in order to attain organizational goals. Consequently, it discourages innovation, often characterized by inefficiency and a high likelihood of failure (Karmeni et al., 2018). Management control efficiently steers the organization toward its predetermined objectives. Thus, this restriction is perceived as a limitation on innovation, defined by its abundance of freedom, experimentation, and adaptability. In contrast to the conventional perspective, the emerging control paradigm has recently emphasized the significance of accounting and control in innovation and entrepreneurship (Davila et al., 2009).

According to the modern perspective, accounting has the potential to facilitate innovation. Information can decrease uncertainty and promote communication among individuals who are spread out in creative processes. Furthermore, accounting information can facilitate communication between internal and external stakeholders regarding anticipated outcomes and obligations (Feeney & Pierce, 2018). An effective MCS design can mitigate deviations, such as unanticipated incidents, and help an organization realign with its intended objectives (Davila et al., 2009). Investments in

innovation and MCS are touted as effective means to enhance an organization's financial success. Innovations facilitate generalizing and distributing novel information, enabling economic growth and advancing new products and industrial techniques. Research has substantiated the existence of a substantial correlation between a company's ability to innovate and its overall performance, particularly when performance measurement is taken into account (Bernardino et al., 2022).

Hypothesis Development

Business Strategy and MSME Performance

The business sustainability of small and beginning organizations is relatively low, thus making strategic business development a crucial aspect in ensuring the sustainability of MSMEs (Lechner & Gudmundsson, 2014). A clear and unified strategic direction impedes MSMEs' sustainability, competitiveness, and performance (Acquaah & Agyapong, 2015). Gartner & Porter (1985) asserts that a corporation can achieve more excellent performance compared to its competitors by implementing either a cost leadership strategy or a differentiation strategy. He further argues that these strategies can be implemented across all industries, organizations, and sizes. Differentiation and cost-effective tactics are crucial for the success of MSMEs.

Regrettably, MSMEs encounter challenges in implementing the cost leadership strategy due to the primary emphasis on production efficiency (Leitner & Guldenberg, 2010). Implementing the cost leadership strategy requires significant financial resources, which is a limitation for MSMEs. Due to its emphasis on innovation and suitability for the unique characteristics of MSMEs, the differentiation strategy—centered on speed, customer service, and flexibility—becomes the optimal option for MSMEs (Lechner & Gudmundsson, 2014). A differentiation strategy is a commercial method where companies offer clients a unique, distinct, and exclusive product or service that sets them apart. A differentiation strategy can enable MSMEs to achieve exceptional performance, even during a pandemic. MSMEs can perform better by implementing a differentiating strategy across multiple dimensions (Garcia, 2023).

A study revealed that implementing a differentiation strategy centered around product distinctiveness and excellence necessitates innovation to enhance the product's value and appeal to customers (Latifah et al., 2021). A further study carried out in Indonesia throughout the COVID-19 pandemic revealed a favorable correlation between

MSME performance and the practice of distinguishing oneself through product originality. The differentiation strategy exhibited the most robust correlation with the MSMEs performance (Pusung et al., 2023).

H₁: Business strategy has a positive effect on MSME performance

Innovation and MSME Performance

MSMEs are characterized by their responsiveness, adaptability, and propensity for taking risks. However, they exhibit more innovation than larger corporations (Ruiz-Palomo et al., 2019). Business process innovation strongly influences the MSME performance in developing nations. Innovation is inherently linked to making decisions based on unforeseen opportunities, anomalies, novel connections, and the uncertainty of outcomes. However, it carries a significant risk of failure (Davila et al., 2009). In addition to being a catalyst for gaining a competitive advantage, innovation also promotes the improvement of corporate performance, especially for MSMEs (Exposito & Sanchis-Llopis, 2018; Purwanti & Suyanto, 2021). MSMEs can also generate value by fostering innovation. Furthermore, the introduction of innovation in MSMEs provides a competitive advantage that is not solely reliant on price. Based on innovation, this advantage has a higher likelihood of long-term viability than advantages based solely on price (Dabić et al., 2019).

MSMEs can distinguish themselves from competition through innovation. MSMEs can get a competitive advantage by producing distinctive products or services, improving operational efficiency, or employing innovative marketing tactics. Research on innovation in the setting of MSMEs has recently gained significant attention due to the crucial role that MSMEs play in the economic development of countries. The research conducted by Exposito & Sanchis-Llopis (2018) and Larios-Francia & Ferasso (2023) concludes that innovation significantly affects MSME performance.

H₂: Innovation has a positive effect on MSME performance

Accounting Information System and MSME Performance

Accounting information systems (AIS) can provide a comprehensive overview of financial data for MSMEs. This facilitates the task of accountants in generating corporate financial reports, reducing the expenses associated with documenting annotations (Dharmawati & Safitri, 2021). This approach reduces computational inaccuracies and enhances users' ability to manage expenses and commercial offerings.

The purpose of an AIS is to guide an organization in accomplishing its specified goals (Davila et al., 2009). Information and planning systems serve as valuable management tools to attain company objectives (Esparza-Aguilar et al., 2016). The AIS design is a technique used to improve the overall performance of an organization (Chenhall et al., 2011; Soudani, 2012).

AIS is a crucial component of Management Control Systems (MCS) as it plays a vital role in corporate performance. Accounting information is utilized during the resource planning and resource allocation stages to analyze, measure, and evaluate various alternatives in decision-making (Davila et al., 2009; Esparza-Aguilar et al., 2016). The manager's assessment, derived from financial data, will impact the company's overall success (Dermer & Lucas, 2019). Furthermore, applying accounting information can help mitigate the information asymmetry between a company and its creditors. Hence, high-quality accounting information might increase the likelihood of securing cash from creditors, thereby impacting business performance (Esparza-Aguilar et al., 2016).

Several prior studies have demonstrated that accounting information significantly impacts performance. Lucas's (1975) study devised a model to examine the impact of using AISs on corporate performance. The research findings suggest that information systems providers should consider certain factors when making management decisions. Implementing AIS can enhance the performance of MSMEs favorably. Utilizing AIS can assist MSMEs in enhancing their financial performance, optimizing their business strategy, and refining their accounting performance. MSMEs can reap advantages from an ongoing focus on obtaining government backing and top-level management endorsement for creating detailed action plans to improve their performance (Fitrah & Yuliaty, 2023; Harash, 2017; Jaures, 2015; Tunji et al., 2019).

**H₃: Accounting information system has a positive effect on MSME performance
*Business Strategy, Innovation, and MSME Performance***

Innovation is the process by which an organization incorporates new ideas or behaviors into its operations (Zaltman, 1973). Innovation is directly linked to the requirement of organizations to enhance their competitiveness. In the current period of free trade, competition has intensified, prompting firms to strive for innovation and adopt product differentiation strategies to narrow the performance gap. Companies that

adopt product differentiation strategies must engage in the process of developing and modifying their products (Pasaribu et al., 2022). Innovation enables a firm to develop distinctive products, providing customers more value (Gartner & Porter, 1985). Innovation is crucial for creating a flexible and controllable environment within a corporation (Cohen & Cyert, 1973). Moreover, an innovative strategy is generally associated with improved organizational performance (Hambrick, 1983; Robinson & Fornell, 1985). MSMEs need to plan on providing an innovative environment and opportunities for creative thinking.

Enhancing the operational structure can enhance the prospects of MSMEs thriving by fostering a more streamlined organization, resulting in heightened efficiency and triumph. MSMEs may foster employee creativity and idea generation by offering training, incentives, and acknowledgment for innovative thinking. Nevertheless, it is important to note that different organizations may not be able to adapt to their surroundings uniformly (Latifah et al., 2021). Certain organizations may respond to environmental changes by formulating innovative strategies, such as identifying new markets and developing new products, whilst others may adopt a similar approach (Kumar & Kober, 2012). MSMEs can leverage innovation to create distinctive products, services, or processes, which can serve as a crucial component of their company strategy. This difference can enhance their market presence and appeal to a specific target demographic, bolstering the strategy's efficacy.

Latifah et al. (2021) discovered that innovation serves as a beneficial mediator in the connection between business strategy and the success of MSMEs. The study indicates that the synchronization of strategy and innovation is crucial in enhancing the performance of MSMEs. The differentiation approach, which centers around product distinctiveness and excellence, necessitates innovation to enhance the value of both the product and the customer's experience. Given the significant risk of failure in the innovation process, it is crucial for MSME owners to rely on precise estimates when making decisions. The differences in orientation strategies between large corporations and MSMEs can result in contrasting performance levels. Hence, implementing a product diversification strategy can result in inventive advancements in product design and manufacturing processes, ultimately enhancing overall performance.

H₄: Innovation strengthens the effect of business strategy on MSME performance

Business Strategy, Accounting Information Systems, and MSME Performance

According to Daniel & Inim (2019) using a computer-based AIS helps enhance organizational control and coordination. The absence of information poses challenges for MSMEs in attaining enhanced performance, discerning client and supplier invoices, and predicting future performance. Utilizing innovative activities facilitated by accounting information can enhance the quality of information produced. Furthermore, implementing strategy and innovation can serve as a means of controlling a corporation. Subsequently, enhancements might be made to optimize performance (Latifah et al., 2021).

MSMEs have the opportunity to incorporate AIS into their overall business plan in order to enhance their accounting performance and minimize the likelihood of errors. AIS can assist MSMEs in synchronizing their accounting procedures with their company plan, recognizing benchmarks, and guiding the firm's objectives. Integrating AIS with business strategy can enhance their decision-making process by utilizing precise financial data (Latifah et al., 2021). AIS allows quick access to up-to-date financial information and reports, empowering MSMEs to make well-informed and prompt decisions. This is especially crucial for properly implementing MSMEs strategies. Accessing precise and current financial data empowers corporate executives to make strategic decisions with certainty.

H₅: Accounting information system strengthen the effect of business strategy on MSME performance

RESEARCH METHODS

The research methodology employs a quantitative approach through the use of surveys. The survey approach uses questionnaires as the primary tool for data collection. Data collection involves the distribution of questionnaires through both direct and online techniques, such as Google Forms. The study focuses on the population of MSMEs in the Kudus Regency that are officially registered with the Kudus Regency Industrial Manpower, Cooperatives, Small and Medium Enterprises Office. There are a total of 17,284 registered MSMEs. Calculate sample size using the Slovin formula with a 5% margin of error. According to these sample computations, the number of samples obtained was 391 MSMEs. The respondents in this study are MSME owners.

$$\begin{aligned}n &= \frac{N}{1+Ne^2} \\ &= \frac{17,284}{1 + (17,284 \times 0.05^2)} \\ &= 390.95 \text{ (rounded to 391)}\end{aligned}$$

Variable Measurement

MSME Performance

MSME performance refers to the results of the business strategies employed to achieve the business's desired market and financial goals. The performance measurement is conducted using the items created by Khandwalla (1977) and verified by Miller & Friesen (1986). MSME performance measurement includes the evaluation of long-term profitability, sales growth, resources (such as cash and investment capacity), and customer loyalty. This evaluation is conducted utilizing a 5-point Likert scale.

Business Strategy

The term "strategy" refers specifically to the differentiation strategy. This can be further elucidated as developing a product that distinguishes itself from competitors and provides additional client benefits. The variable's measurement was devised by Camisón & Villar-López (2010), Wolff & Pett (2006), and Luo & Zhao (2004).

Innovation

Adopting new ideas or behaviors in implementing new items in an organization is referred to as innovation. The measurement of innovation is conducted using tools created by Capon et al. (1992) and Scott & Tiessen (1999). Innovation measurement includes assessing newly introduced products, modifications made to existing products within the last three years, the frequency of the company's entry into new markets, and the number of scheduled product releases.

Accounting Information System

Accounting information systems involve the processing of financial data and transactions that are provided by users in order to facilitate decision-making. The measurement of accounting information system is predicated on its fundamental characteristics—namely, reliability, relevance, and timeliness. The accounting information systems were assessed using measurement tools created by (Romney & Steinbart, 2015; Sajady et al., 2008; Sori, 2009).

RESULTS AND DISCUSSION

In evaluating the measurement model, the validity of the questionnaire questions was assessed by examining the Loading Factor (LF), which needed to be greater than 0.7, and the Average Variance Extracted (AVE), which needed to be equal to or greater than 0.5. The questionnaire's reliability level was assessed using Cronbach's Alpha (α) and Composite Reliability (CR) with a minimum threshold of 0.7. Table 1 shows that all LF and AVE items fall within the required range. Furthermore, all research components exhibited Cronbach's Alpha and CR values beyond the predetermined threshold values.

Inner Model Test Analysis

The inner model test analysis in this study used R-Square. R-Square has a value of 0.411 in this research. Based on the model's independent variables, business strategy, innovation, and accounting information systems, this model can explain 41.1% of the variation in the dependent variable, MSME Performance. Other factors not included in the study explained 58.9% of the variation.

Hypothesis Test Results

After verifying the model measurements, the next stage in PLS analysis is structural model evaluation and hypothesis testing. The significance level used in this study was 0.05. The criteria for accepting or rejecting a hypothesis are as follows: if the significance value > 0.05 , then the hypothesis is rejected, while if the significance value < 0.05 , then the hypothesis is accepted. Table 3 shows the testing results against this research hypothesis (*path coefficients*). First, the test results show that business strategies have a significant and positive effect on MSME performance, with a significance value of 0.000 and an original sample value of 0.198. Thus, **H1 is accepted.**

Offering customers a unique, one-of-a-kind, and exclusive good or service that makes them stand out from the competition is known as a differentiation strategy. MSMEs can achieve outstanding success by putting differentiation strategies into practice. MSMEs can perform better by putting a distinctive approach in several areas into practice (Garcia, 2023). MSMEs can determine their priorities, aims, and objectives with the use of business strategy. MSMEs can better concentrate on initiatives promoting growth and profitability when they clearly know what they aim to accomplish. MSMEs can identify how they will set themselves apart from the

competition and gain a competitive edge using business strategy. Understanding the target market, segmenting the market, and figuring out how to better satisfy consumer wants are all part of it.

The p-value for the innovation variable on MSME performance is 0.000, and the original sample value is 0.494, indicating a significant positive effect of innovation on MSME performance; **H2 is accepted**. MSMEs that use innovation have a higher competitive edge. Implementing innovation in MSMEs offers a competitive edge not exclusively dependent on pricing. Advantages rooted in innovation are more likely to have long-term sustainability compared to advantages merely based on pricing (Dabić et al., 2019). They could provide something distinct or better than their competition, allowing them to gain market share. MSMEs benefit from innovation not only in terms of growth but also in terms of competitiveness and sustainability. MSMEs that can embrace an innovative culture and develop effective innovation strategies perform better and contribute more to the local economy. Innovation helps businesses obtain a competitive edge and enhances corporate performance, particularly for MSMEs (Exposito & Sanchis-Llopis, 2018).

The accounting information system also shows a significance value of $0.032 < 0.05$ with an original sample value of 0.061. Thus, **H3 is accepted**. Accounting information systems enable MSMEs to precisely and consistently track their financial status. Business owners can comprehensively understand their financial situation by keeping track of their assets, income, and expenses. Better decision-making is facilitated by accurate accounting information for MSME owners. In order to raise the performance of MSMEs, they are able to assess business performance, spot trends, and improve planning. MSMEs can improve their accounting performance, company strategy optimization, and financial performance by utilizing AIS. MSMEs can benefit from continued attention to securing government support and upper management endorsement for developing comprehensive action plans to enhance their performance (Harash, 2017; Jaures, 2015; Tunji et al., 2019).

The findings indicated that innovation when examined as a moderating variable in affecting business strategies on MSME performance, exhibited a significant level of 0.000 and an original sample value of 0.170. Therefore, based on these findings, **H4 is accepted**, indicating that innovation strengthens business strategy's effect on MSME

performance. To improve the performance of MSMEs, strategy and innovation must be coordinated. The differentiation strategy, which emphasizes the uniqueness and quality of the product, requires innovation to raise the value of the product and the consumer experience (Latifah et al., 2021). MSMEs can use innovation to offer products or services distinct from their competition. Thus, ongoing innovation can help to develop corporate strategies aiming at differentiation and increasing specialized market share. Continuous innovation can help strengthen business strategies to gain a competitive advantage. MSMEs can discover areas where innovation can lead to long-term success.

Nevertheless, when including accounting information systems as moderation variables, the findings indicate that accounting information systems have not effectively moderated the effect of business strategies on MSME performance. This is shown by the statistical significance level of 0.062, which exceeds the predetermined threshold value of 0.05 and the original sample value of 0.601. Therefore, these findings suggest that **H5 is rejected**. Accounting information systems may not effectively enhance the adopted business strategy's outcomes in this situation. This can arise due to constraints in current accounting information systems or their suboptimal implementation. Although AIS is crucial for handling financial data and reporting, it does not directly handle every aspect of the wide range of variables that affect performance and business strategy. MSMEs must supplement their AIS with additional tools and resources for strategic planning, execution, and monitoring to maximize business strategy's impact on MSME performance. They must also ensure they have the necessary skills and take a comprehensive approach to developing and implementing strategies.

CONCLUSION

This study aims to examine the effect of business strategy, innovation, and accounting information systems on MSME performance in Kudus Regency. This study also investigates the effect of innovations and accounting information systems as moderating variables on MSME performance. The findings indicate that business strategies, innovations, and accounting information systems significantly affect MSME performance. Integrating innovation as a moderating variable might enhance the effect of business strategies on MSME performance. The findings also indicate that accounting information systems have not effectively moderated the effect of company strategy on MSME performance.

This research provides valuable insights for MSMEs, highlighting the importance of developing and executing suitable business strategies, promoting innovations, and establishing effective accounting information systems to improve performance. By adopting this approach, MSMEs can improve their ability to compete, optimize their processes, and strategically position themselves in a competitive market, thus significantly enhancing their impact on the local economy. The constraints of this study are confined to the boundaries of Kudus Regency. Additional investigation has the potential to broaden the scope of the research. The objective is to enhance the performance of MSMEs by facilitating the implementation of business strategies, innovations, and efficient accounting information systems.

Further research can incorporate the utilization of financial accounting standards to enhance the performance of micro, small, and medium enterprises (MSMEs). The adoption of financial accounting standards is not only a legal obligation but also a crucial instrument in assisting MSMEs in overseeing, quantifying, and enhancing their business performance. Implementing financial accounting standards can assist MSMEs in identifying areas that want improvement and undertaking suitable measures.

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FIGURES AND TABLES

Table 1. Validity and Reliability Test

Variable	Indicator Code	Loading Factor (LF)	Average Variance Extracted (AVE)	Cronbach's Alpha (α)	Composite Reliability (CR)
Business Strategy	SB_1	0.810	0.647	0.931	0.943
	SB_2	0.871			
	SB_3	0.719			
	SB_4	0.754			
	SB_5	0.841			
	SB_6	0.840			
	SB_7	0.832			
	SB_8	0.732			
	SB_9	0.827			
Innovation	IN_1	0.930	0.748	0.888	0.922
	IN_2	0.897			
	IN_3	0.822			
	IN_4	0.805			
Accounting Information System	SIA_1	0.781	0.612	0.909	0.915
	SIA_2	0.872			
	SIA_3	0.780			
	SIA_4	0.772			
	SIA_5	0.798			
	SIA_6	0.710			

Variable	Indicator Code	Loading Factor (LF)	Average Variance Extracted (AVE)	Cronbach's Alpha (α)	Composite Reliability (CR)
MSME Performance	SIA_7	0.893	0.799	0.937	0.805
	KU_1	0.898			
	KU_2	0.905			
	KU_3	0.922			
	KU_4	0.879			
	KU_4	0.865			

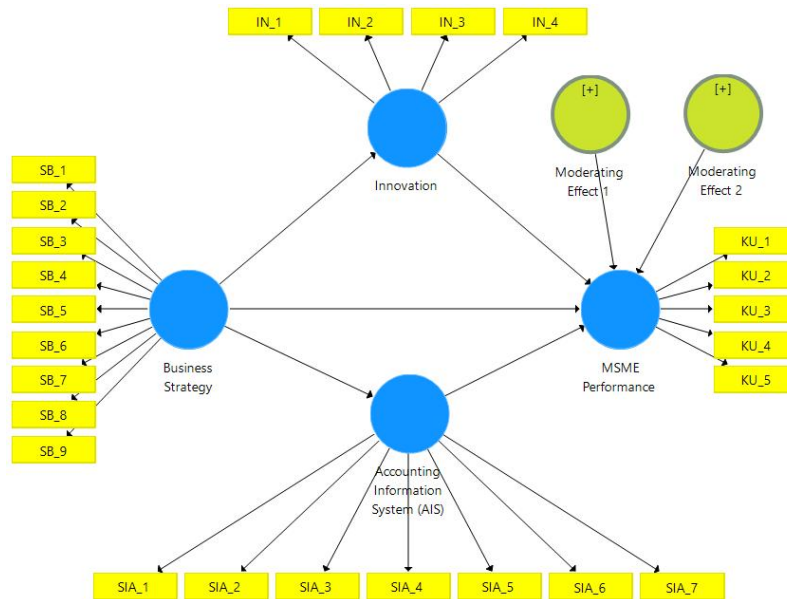


Figure 1. Outer Model

Table 2. Inner Model Test

	R Square	Adjusted R Square
MSME Performance	0.411	0.403

Table 3. Model Testing Results with PLS

#	Paths	Original Sample	T-Statistic	P-Value	Decision
H ₁	Business Strategy → MSME Performance	0.198	3.722	0.000	Accepted
H ₂	Innovation → MSME Performance	0.494	9.494	0.000	Accepted
H ₃	Accounting Information Systems → MSME Performance	0.061	1.115	0.032	Accepted
H ₄	Business Strategy * Innovation → MSME Performance	0.170	4.319	0.000	Accepted
H ₅	Business Strategy * Accounting Information Systems → MSME Performance	0.601	1.628	0.062	Rejected