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Digitalization of SMEs to Survive Amid The Pandemic

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Abstract
The purpose of the research conducted was to understand the relationship of internal factors of SME digitalization on the company's financial performance during the pandemic to test 5 hypotheses. This study used a survey method, questionnaires to get respondents' answers. A purposive technique was used and managed to collect 359 respondents who had small to medium medium-scale businesses. Furthermore, the research model was tested statistically with PLS-SEM analysis techniques. Based on the results of data processing and analysis, it is proven that all hypotheses are acceptable, which shows that the internal factors of digitalization of SME companies, namely information and technology, employee skills, and digital strategies, have a positive and significant effect on the digitalization of SME companies. Furthermore, digitalization affects the company's financial performance where employee skills have the largest variable of the three factors. Digitalization is able to mediate the influence of information and technology, employee capabilities, and digital strategies on the financial performance of SMEs. This result shows that digitalization is also important, especially during a pandemic where SMEs must adapt to technology so that they can survive by maintaining their business performance. These findings add to the empirical development of literature on SME digitization factors such as information and technology, employee skills, and digital strategies. In addition, this study also provides an understanding of how much influence these three factors can affect the digitalization of SMEs.

Keywords— Digitalization; Employee Skill; Financial Performance; Information and Technology; SMEs

Abstrak
Penelitian ini bertujuan untuk memahami hubungan dan pengaruh faktor internal digitalisasi UKM terhadap kinerja keuangan perusahaan di masa pandemi. Penelitian ini menggunakan metode survei dengan menggunakan kuesioner untuk mendapatkan jawaban responden. Teknik purposive digunakan untuk mengumpulkan 359 responden dari usaha kecil dan menengah. Selanjutnya model penelitian diuji secara statistik dengan teknik analisis PLS-SEM. Berdasarkan hasil pengolahan dan analisis data terbukti bahwa seluruh hipotesis dapat diterima yang menunjukkan bahwa faktor internal digitalisasi perusahaan UKM yaitu informasi dan teknologi, keterampilan karyawan, dan strategi digital dimediasi digitalisasi memiliki pengaruh positif dan signifikan terhadap kinerja keuangan perusahaan UKM. Lebih lanjut, digitalisasi mempengaruhi kinerja keuangan perusahaan, dimana keterampilan karyawan menjadi variabel terbesar dari ketiga faktor tersebut. Digitalisasi dapat memediasi pengaruh informasi dan teknologi, kapabilitas karyawan, dan strategi digital terhadap kinerja keuangan UKM. Hasil ini menunjukkan bahwa digitalisasi juga penting, terutama di masa pandemi dimana UKM harus beradaptasi dengan teknologi untuk menjaga kinerja bisnisnya. Temuan ini menambah perkembangan empiris literatur mengenai faktor digitalisasi UKM seperti informasi dan teknologi, keterampilan karyawan, dan strategi digital. Selain itu, penelitian ini juga memberikan pemahaman seberapa besar pengaruh ketiga faktor tersebut terhadap digitalisasi UKM.

Kata kunci— Digitalisasi; Keterampilan Karyawan; Kinerja Keuangan; Informasi dan Teknologi; UKM

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I. INTRODUCTION

The Covid-19 pandemic has had a major impact on business activities. SMEs are among the business lines most impacted by the Covid-19 pandemic (Rosita, 2020). One of the biggest problems of Indonesian MSMEs is the decline in domestic demand. The COVID-19 pandemic has made MSMEs unable to interact directly with consumers and have difficulty promoting their products (Faizi et al., 2022). Disruptions to business and consumption patterns due to the pandemic require MSMEs to make strategy adjustments immediately, and digitalization is one of the strategies most widely used by MSMEs (Supari & Anton, 2022). Research on SMEs in Jordan concludes that Jordanian SMEs have implemented a management strategy by modifying business operations from the usual business model to digitalization (Abuhussein et al., 2023). Digitalization as a management strategy with a Resource Based View (RBV) approach is needed to achieve competitive advantage and company performance (Ramon-Jeronimo et al., 2019). This digitalization is also influenced by the orientation of SME owners in facing environmental changes and helps overcome market opportunities related to digitalization(Penco et al., 2022).

A study conducted in China found that digitalization, digital technology, and digital business models would enable SMEs to respond better to the crisis(Guo et al., 2020). SMEs need to invest and utilize technology to survive while improving SME performance (Juergensen et al., 2020). Several previous studies have discussed the benefits that SMEs will get when digitalizing, especially e-commerce. Research in Malaysia found that SMEs that utilize e-commerce can retain their customers while improving their relationships with business partners (Kartiwi et al., 2018). Indonesian research found something similar: by adopting digitalization, SMEs can reach more customers, increase sales, improve external communications, improve company image, increase employee productivity, and process data more quickly (Rahayu & Day, 2017).

SMEs can use IT through social media to help their business activities. The use of social media itself is the ability of resources to utilize the internet and technology to synergize with other organizational resources (Tajvidi & Karami, 2021). Social media can allow companies, including SMEs, to inform the public about their business. Research in Pakistan on SMEs shows that the use of social media in marketing can impact SME performance (Qalati et al., 2021). IT developments can also be utilized through mobile technology. Mobile technology can change communication with customers and suppliers, thereby changing habits (Okrepilov et al., 2020). Mobile technology speeds up communication between companies, customers, and suppliers.

Employee skills in using technology individually can be linked to broader organizational dimensions (Verhoef et al., 2021a). These skills are supported by a continuous learning process and the formation of a team with the right mix of skills according to the needs of a digital project. Organizational factors on which the success of IT implementation in SMEs is highly dependent (Nguyen et al., 2015). These organizational factors consist of flexibility with a culture that is adaptive to change, the owner's strong commitment to the use of IT, employees' knowledge and level of involvement in IT implementation, their ability to absorb and change existing knowledge and generate new knowledge, effective teamwork, and the existence of information sharing systems between various functions in the company as well as cross-team collaboration and stronger leadership are necessary to create the right environment for companies to utilize IT fully (Nguyen et al., 2015). The challenges facing SMEs from unprecedented changes in realizing digitalization can only be fully realized through developing the necessary skills, increasing innovation (Beliaeva et al., 2020), creating a culture within the organization, and creating an SME structure that requires a combination of hard and soft skills. A study shows that employee knowledge and skills, including critical thinking, problem-solving abilities, and network collaboration, are part of digitalization (Sousa & Rocha, 2019).

From a strategy perspective, research shows that organizations that digitally transform their business processes and organizational structures have a clear and coherent digital strategy (Kane et al., 2015). Digital strategy is more than just identifying digital resources in functional areas; it is broader in understanding business operations and overall purchasing and marketing processes (Bharadwaj et al., 2013). However, this also raises questions about business model strategy (R. B. Bouncken et al., 2020) and how these innovations help companies to develop (Beliaeva et al., 2020). A good digital strategy can recognize digital resources (Bharadwaj et al., 2013) and create and fulfill organizational expectations to obtain new resources (Fisher et al., 2015). Other research finds that digital strategies can facilitate the development and expansion of digital technologies when shared by shared enthusiasm, values, and beliefs (R. Bouncken & Barwinski, 2021).

II. LITERATURE REVIEW

1. Digitalization

The terms digitation, digitalization and digital transformation can be described separately because each is part of a phased organizational change process towards digital transformation. Based on most literature, digitation and digitalization are essential to achieving the digital transformation phase (Loebbecke & Picot, 2015). Digitalization begins by taking information from analog sources such as photos, videos, or sounds and converting it into digital code using the software. After that, the encoded information can be manipulated more easily and accessed via electronic devices such as computers, smartphones, or tablets (Dougherty & Dunne, 2012). Research also refers to digitalization as changing analogue tasks to digital (F. Li et al., 2016) or conceptualizes it as integrating IT with existing tasks.

Meanwhile, digitalization is a technology that changes existing business processes (F. Li et al., 2016). For example, creating an online channel allows customers to easily connect with the company so that customer problems can be resolved quickly. In digitalization, IT is considered the key to obtaining new business opportunities by changing existing business processes, such as communication with customers, distribution of goods, or business relationship management. Digitalization also does not only focus on cost and process efficiency but improving customer experience is also the key to measuring digitalization. Digitalization in marketing aspects, such as digital marketing, is necessary to maintain a position in a tight competitive environment and is equipped with digital tools (Özoğlu & Topal, 2020). Digitalization can be used in large, medium, and small-scale businesses to provide benefits for achieving maximum financial performance.

2. Information and Technology

Digitalization affects the entire company and its business (Amit & Zott, 2001). Reorganizes the process to change the company's business logic (L. Li et al., 2018) or its value creation process (Gölzer & Fritzsche, 2017). For example, digitalization in the health sector is manifested by the broad and deep use of information and technology that fundamentally changes the provision of health services (Agarwal et al., 2010). Information and technology can be transformative and lead to fundamental changes to existing business processes, routines and capabilities, enabling healthcare providers to enter or exit new markets

Implementing IT can help and develop a business (Setiawati et al., 2022). IT is also essential to implement so that companies are enabled to flexibly increase the company speed to provide technical solutions, manage its internal business operations to meet customer demands and preferences and assist in modifying operational strategies while sensing and responding to changing market conditions (Fletcher & Griffiths, 2020). Companies can implement it for several reasons, including meeting customer needs (Nguyen et al., 2015). Meeting customer needs will allow the company to develop its business according to the market and increase its income. IT can be utilized to help the operations of a business, whether on a large, medium or small scale.

Along with technological developments, digitalization is increasingly expanding into various fields, such as industry, commerce, health and education. In trade, digitalization enables electronic commerce and online payments, which makes it easier for consumers to shop. In industry, digitalization allows for more efficient and effective production processes and the use of machines and robots that can reduce human intervention and increase productivity. In health, digitalization enables the adoption of telemedicine and electronic medical records, contributing to better quality health services. Based on this literature, the researcher made a hypothesis:

H1: Information and Technology have a positive influence on digitalization

3. Employee Skills

From a human resource management perspective, digitalization attracts employees with enhanced digital skills who can replace the existing workforce. For example, in Marketing, traditional branding and product marketers are being replaced by online marketing experts, while data analysts may take over marketing researchers' roles. One of the main challenges for incumbents is competing for talent with these skills with new digital entrants. Young digital talent prefers technology giants like Google and Apple or FinTech startups (Deloitte, 2015). Individual employee skills in using technology can be linked to broader organizational dimensions (Verhoef et al., 2021). These skills are supported by a continuous learning process and the formation of a team with the right mix of skills as needed for a digital project. Nguyen et al. (2015) identified organizational factors on which the success of IT implementation in SMEs is highly dependent.

These organizational factors consist of flexibility with a culture that is adaptive to change, the owner's strong commitment to the use of IT, employees' knowledge and level of involvement in IT implementation, their ability to absorb and change existing knowledge and generate new knowledge, effective teamwork, and the existence of information sharing systems between various functions in the company as well as cross-team collaboration and more robust leadership are necessary to create the right environment for companies to utilize IT fully (Nguyen et al., 2015). The development of this culture and skills is significant because IT adoption is the primary basis for digitalization, requiring skilled employees to develop, adopt and integrate new IT and existing ones in the system (Berman, 2012). Nylen and Holmstrom (2015) identified the promotion of continuous learning as an integral part of building digital capabilities. Innovation of new digital devices requires digital skills and organizing teams with appropriate digital expertise (Nylén & Holmström, 2015).

Cloud computing and transformative technology allow SMEs to save costs, but gaining access to technology requires various skills in business, finance, project management (contracts and negotiations with vendors) and data integration skills (Assante et al., 2016) From a more general perspective, IT projects in SMEs often fail due to a lack of management support and poor project management skills (Nguyen et al., 2015). Research conducted by Jandric and Randelovic (2018) and Sousha and Rocha (2019) shows that digitalization is closely related to human resources, also considered technological resources. Adoption of digital technology often requires educated resources and good digital literacy to disrupt digitalization. So, the researcher makes a hypothesis:

H2: Employee skills positively have a significant influence on digitalization.

4. Digital Strategy

From a strategy perspective, recent findings show that organizations that digitally transform their business processes and structures have clear and coherent digital strategies (Kane et al., 2015). Digital strategy is more than just identifying digital resources in functional areas. It has a broader understanding of business operations, purchasing and marketing processes (Bharadwaj et al., 2013). However, this also raises questions about business model strategy (Bouncken et al., 2019) and how these innovations help companies to develop (Beliaeva et al., 2020). A good digital strategy can recognize digital resources (Bharadwaj et al., 2013) and create and fulfill organizational expectations to obtain new resources (Fisher et al., 2015).

Bouncken and Barwinski (2020) found that digital identities can facilitate the development and expanding digital technologies when shared by typical enthusiasm, values, and beliefs. However, changing an existing organization based on a set of beliefs, norms and individual behavioral actions is a complex process fraught with difficulties (Gioia et al., 2013). Thus, owners or managers must consider identity conflicts in their strategic priorities (Gioia et al., 2013). Unmet expectations from inconsistent behavior that conflict with a company's transformative goals can result in identity conflicts among employees and form barriers to a shared digital identity (R. Bouncken & Barwinski, 2021). Several literature findings also show that businesses experiencing change are more likely to follow plans prepared by the company rather than following the change itself (Blackburn et al., 2013). So, companies should prioritize a digital strategy that involves transforming products and services to face changes in the era of digitalization (Matt et al., 2015).

Various digital strategies have been implemented for company growth, but the most prominent ones involve digital platforms (Parker et al., 2017). Digital strategies are more commonly implemented in the broader digitalization phase of companies(Verhoef et al., 2021). This also explains how the growth of digital platforms is multiplying to accommodate this strategy. Companies that successfully implement digitalization depend on the company's digital strategy towards digitalization action plans, although these plans are often implemented informally (Blackburn et al., 2013). Researchers make a hypothesis:

H3: Digital Strategy positively has a significant influence on digitalization

5. Financial Performance

A company's financial performance is essential, especially for shareholders, because it is used to determine the rate of return on funds invested by investors (Akinrinola et al., 2023). Financial performance is a monetary measure for various businesses using tangible and intangible assets to generate income (Njau & Abdul, 2022). The company management will manage the funds invested by investors in the company to provide a level of return to investors so that a general picture of the company's financial performance can be seen. Company managers will pay attention to the level of achievement of their financial performance in using investor funds regularly to provide

a maximum return on the funds invested by investors. Financial performance is an essential assessment in providing an overview of the level of return on investment by investors, both large and small-scale companies.

Financial performance can be achieved by implementing appropriate strategic management in company operational activities. To achieve good performance, companies must operate effectively in the market environment and adapt to non-market environments through strategic management (Baron, 2013). Effective strategic management in finance can also be implemented by companies, such as finding suitable funding sources and improving management performance (Hasanudin, 2023).

The tool for measuring a company's financial performance can be seen from several indicators such as financial statements such as profit growth, revenue/sales, return on sales, and return on assets (Vijfvinkel et al., 2011). According to Eller et al. (2020), a digitalization process can encourage an increase in company revenue, and it is assumed that resources from technology and information, employee capabilities and digital strategies mediated by Digitalization will improve financial performance. So, the researcher makes a hypothesis:

H4: Digitalization positively has a significant influence on the Company's Financial Performance.

H5a: Technology and Information significantly influence Company Financial Performance mediated by Digitalization.

H5b: Employee Skills have a significant influence on Company Financial Performance mediated by Digitalization

H5c: Digital Strategy has a significant influence on Company Financial Performance mediated by Digitalization

III. RESEARCH METHODOLOGY

The research model looks at the relationship with PLS-SEM between the research variables, namely the internal factors of digitalization of SME companies, namely Information and Technology, Employee Skills, and Digital Strategy, to measure their influence on digitalization. This digitalization variable also measures its influence on the company's financial performance and deepens how SME companies that digitalize can survive amid the pandemic. The following **Error! Reference source not found.** explains the structure of the research model.

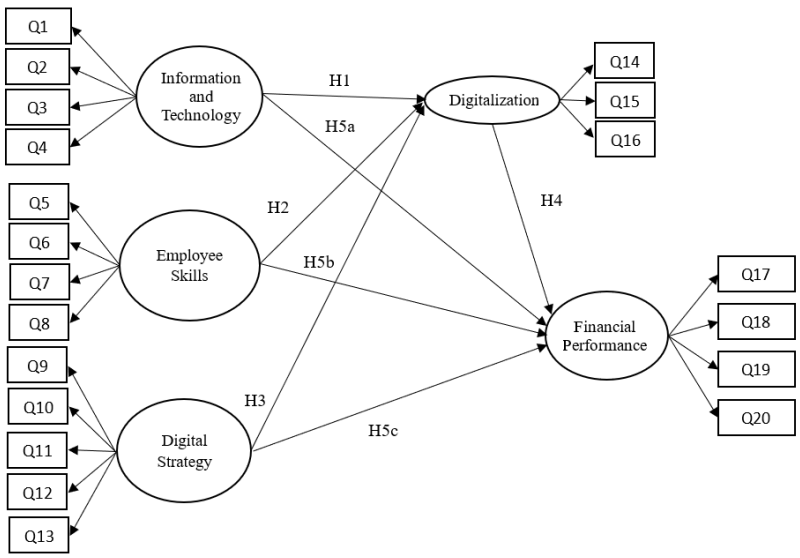

Figure 1. Research Model
Source: processed by the author

The data used in this research is quantitative data from filling out questionnaires. This quantitative data is used to get a definite picture of a phenomenon that can be measured (Sekaran & Bougie, 2019). The ideal number of respondents can be found by determining the number of samples based on the Hair et al. (2022) formula in research using PLS, paying attention to the number of indicators used. This research uses 20 indicators for five variables. According to Hair et al. (2022), ith 20 indicators, the minimum sample is ten times the number of indicators, so in this research, the minimum sample that must be used is 200 respondents. The data collection results in this study reached 359 respondents, thus exceeding the required number of respondents (Hair et al., 2022). The data used in this research is primary data obtained from the data collection process using a questionnaire to measure all research variables. The variable measurement uses a questionnaire with a Likert scale described in Table 1.

Table 1. Variable measurement indicators

Varable	Definition	Indicator
Information and Technology	Technological devices with computing capabilities that support organizational decisions and information processing	*Social Media and Collaborative Technologies* (Q1) *Mobile Technologies* (Q2) *Data and Analytics* (Q3) *Cloud Computing Services* (Q4)
Employee Skills	Employee skills in individual use of technology and its application to adapt these skills to broader organizational dimensions	*Promote continuous learning of the unique properties of digital technologies* (Q5) *The balance between overall digital skills & specialized digital roles is adequate* (Q6) *Assemble teams with the right combination of skills for each digital project* (Q7) *Provides the employees with the resources or opportunities to obtain the right skills to take advantage of digital trends* (Q8)
Digital Strategy	Recognize digital resources as a whole to create something and meet expectations within the organization to acquire new resources.	*Fundamentally transform business process and/or business model* (Q9) *Improve customer experience and engagement* (Q10) *Improve innovation* (Q11) *Improve business decision making* (Q12) *Improve efficiency* (Q13)
Digitalization	Use of digital technology to change existing business processes. Digitalization is also a prerequisite towards digital transformation	*Assessment own digitalization compared to the industry* (Q14) *Assessment of Information, Communication, and Technology (ICT) use (*Q15) *Evaluate how extensive own ICT use* (Q16)
Financial Performance	Company performance indicators based on financial performance	*Growth in profit* (Q17) *Growth in revenue/sales*(Q18) *Return on sales* (Q19) *Return on assets* (Q20)

Source: processed by the author

IV. RESULT/FINDING

The measuring instrument was tested for reliability and validity before measuring respondents using a questionnaire with a Likert scale. Reliability and validity testing was conducted on 100 respondents using Kaiser Mayer Olkin (KMO), Component Matrix, Total Variance Explained, and Cronbach's Alpha. KMO with a value ≥0.5 can be declared a valid variable. Component Matrix or factor loading with a value ≥ 0.5 indicates that the variable can be declared valid (Hair et al., 2013). Total Variance Explained in initial Eigenvalues must reach a minimum of 60% to be considered reliable (Maholtra, 2016). The test results can be seen in Table 2.

Table 2. Validity and reliability testing results on measuring instruments

Variable	Item	KMO	Component Matrix	Total Variance Explained	Cronbach Alpha
Information and Technology	Q1	0,658	0,824	65,02%	0,808
	Q2		0,847		
	Q3		0,868		
	Q4		0,671		
Employee Skills	Q5	0,609	0,713	85,88%	0,768
	Q6		0,822		
	Q7		0,743		

Variable	Item	KMO	Component Matrix	Total Variance Explained	Cronbach Alpha
	Q8		0,797		
Digital Strategy	Q9	0,784	0,729	67,64%	0,878
	Q10		0,851		
	Q11		0,915		
	Q12		0,879		
	Q13		0,718		
Digitalization	Q14	0,672	0,845	71,38%	0,795
	Q15		0,893		
	Q16		0,794		
Financial Performance	Q17	0,820	0,896	80,39%	0,918
	Q18		0,920		
	Q19		0,917		
	Q20		0,852		

Source: processed by the author

Table 2 shows that all variables have a KMO value of more than 0.5 and a Component Matrix value of more than 0.5, which illustrates that the measuring instrument for each variable is categorized as valid. All tables have a Total Variance Explained value of more than 60% and a Cronbach Alpha value of more than 0.7, which can be categorized as a reliable measuring instrument for each variable.

Table 3. Descriptive Analysist

Variable	Item	Std. Deviation	Mean
Information and Technology	1. *Social Media and Collaborative Technologies* (Q1)	0,766	4,407
	2. Mobile Technologies (Q2)	0,786	4,426
	3. Data and Analytics (Q3)	0,770	4,281
	4. *Cloud Computing Services* (Q4)	0,803	4,251
Employee Skills	*5. Promote continuous learning of the unique properties of digital technologies* (Q5)	0,810	4,301
	6. The balance between overall digital skills & specialized digital roles is adequate (Q6)	0,819	4,237
	7. Assemble teams with the right combination of skills for each digital project (Q7)	0,856	4,181
	8. Provides the employees with the resources or opportunities to obtain the right skills to take advantage of digital trends (Q8)	0,846	4,217
Digital Strategy	*9. Fundamentally transform business process and/or business model* (Q9)	0,671	4,318
	10. Improve customer experience and engagement (Q10)	0,650	4,396
	11. Improve innovation (Q11)	0,679	4,421
	12. Improve business decision making (Q12)	0,663	4,423
	13. Improve efficiency (Q13)	0,688	4,398
Digitalization	*14. Assessment own digitalization compared to the industry* (Q14)	0,824	4,022
	*15. Assessment of Information, Communication, and Technology (ICT) use (*Q15)	0,866	4,111
	16. Evaluate how extensive own ICT use (Q16)	0,799	4,125
Financial Performance	*17. Growth in profit* (Q17)	0,794	4,153
	18. Growth in revenue/sales(Q18)	0,767	4,173
	19. Return on sales (Q19)	0,759	4,153
	20. Return on assets (Q20)	0,736	4,031

Source: processed by the author

This research carried out an advanced validity test, namely a convergent validity test with the aim of seeing the reliability of the indicators used in measuring the latent variable construct. There are several measures that can be used to measure construct validity and reliability, namely Convergent Validity, Variance Extracted, Discriminant Validity, and Cronbach Alpha. Validity and reliability testing on 359 respondents can be seen in Table 4.

Table 4. Validity and reliability testing

Variable	Item	Loading Factor	Average Variance Extracted (AVE)	*Discriminant Validity*	Cronbach Alpha
Information and Technology	Q1	0,860	0,734	0,857	0,879
	Q2	0,807			
	Q3	0,882			
	Q4	0,876			
Employee Skills	Q5	0,820	0,745	0,863	0,886
	Q6	0,862			
	Q7	0,889			
	Q8	0,881			
Digital Strategy	Q9	0,774	0,627	0,792	0,852
	Q10	0,738			
	Q11	0,798			
	Q12	0,839			
	Q13	0,807			
Digitalization	Q14	0,792	0,654	0,809	0,735
	Q15	0,842			
	Q16	0,791			
Financial Performance	Q17	0,834	0,642	0,801	0,814
	Q18	0,795			
	Q19	0,805			
	Q20	0,769			

Source: processed by the author

Based on the calculation results in Table 4, the validity measured using Convergent Validity is declared valid because it has a loading factor value of more than 0.7. Validity is based on the calculation of Variance Extracted and Discriminant Validity, and all variables are declared valid because they have a value of more than 0.5 for Variance Extracted and a value of more than 0.6. For measuring reliability with Cronbach Alpha, it is stated that all variables are reliable because they have a Cronbach Alpha value of more than 0.7.

A collinearity test was carried out to see the influence between the variables Information and Technology, Employee Skills and Digital Strategy on Digitalization in SMEs. Collinearity testing can be carried out provided there is no multicollinearity in the Information and Technology, Employee Skills and Digital Strategy variables based on a Variance Inflating Factor (VIF) value of no greater than 0.5. The calculation results show that the VIF value for the Information and Technology variable is 1.311, for the Employee Skills variable is 1.641 and for Digital Strategy is 1.677. From the results of the VIF calculation, it is categorized that there is no multicollinearity in the Information and Technology, Employee Skills and Digital Strategy variables. To see the influence between variables through path coefficient testing, namely Information and Technology on Digitalization, Employee Skills on Digitalization, Digital Strategy on Digitalization, Digitalization on Financial Performance, Information and Technology on Financial Performance, Employee Skills on Financial Performance and Digital Strategy on Financial Performance. Testing this effect compares the T value with the T table and P-Values values. The test criteria are if the t-count value is greater than the t-table value, namely 1.96, or the P-values are less than the significance level (α) of 5%, then it can be concluded that there is an influence between the variables. The path coefficient test results are in Table 5.

Table 5. Path Coefficient Test

Description	Path Coefficient Test	T-Values	*P-values*
Information and Technology → Digitalization	0,172	2,687	0,007
Employee Skills → Digitalization	0,269	3,883	0,000
Digital Strategy → Digitalization	0,192	2,674	0,008
Digitalization → Financial Performance	0,444	7,531	0,000
Information and Technology → Financial Performance	0,047	0,589	0,556
Employee Skills → Financial Performance	0.265	2,695	0,007
Digital Strategy → Financial Performance	0.089	1.080	0.281

Source: processed by the author

Information and Technology influence digitalization because the t-value of 2.687 is greater than the t-table of 1.96 or the p-value of 0.007 is smaller than the significance value of 0.05. Information and Technology positively influence digitalization, with an influence size of 0.172. These results are to the findings of Eller et al.

(2020) who researched quantitatively the influence of information and technology adoption on the digitalization of SME companies. Other research also shows that information and technology resources such as mobile Technology, social media, collaborative Technology, cloud computing services, and digital analytical tools contribute to the digitalization of SME companies (Singh & Swait, 2017). The findings from this research were also confirmed by Ainin et al. (2015 that digital analytical tools enable SMEs to optimize their business processes.

Employee skills influence digitalization because the t-value of 3.883 is greater than the t-table of 1.96, or the p-value of 0.000 is smaller than the significance value of 0.05. Employee skills positively influence digitalization, with an influence size of 0.269. The results of this study follow the findings of research by Eller et al. (2020) that employee skills also have a positive correlation with digitalization. This is confirmed by previous research on how digitalization depends on human resources, also considered technological resources (Jandrić & Ranđelović, 2018). Adopting new information and Technology also requires employees with good education and high digital literacy. According to Bouncken and Barwinski (2020) employees are the center of an organization's values, norms and behavior, so SME companies that carry out digital transformation pay attention to their employees.

Digital strategy influences digitalization because the t-value of 2.674 is greater than the t-table of 1.96, or the p-value of 0.008 is smaller than the significance value of 0.05. Digital Strategy positively influences digitalization with an influence size of 0.192. The results of this study consistently agree with the findings of research by Eller et al. (2020), which shows that digital strategy has a positive correlation with digitalization. This was also confirmed by research conducted by Blackburn et al. (2013) that SME companies undertaking digital transformation follow digitalization planning, although sometimes this needs to be more formal planning. Digitalization planning causes organizations or companies to be at different levels. First, the identity of the organization or company may change with new norms and values, where these norms and values must meet the expectations of different audiences (Fisher et al., 2016). Second, driving growth for the coming period with often extreme changes in business models and value propositions (Bouncken et al., 2019; Clauss et al., 2020; Fisher et al., 2016). Third, digital innovation caused by digitalization strategies can improve customer experience.

Digitalization influences the Company's Financial Performance because the t-value of 7.531 is greater than the t-table of 1.96 or the p-value of 0.000 is smaller than the significance value of 0.05. The results of this study consistently agree with the findings of research by Eller et al. (2020), which shows that digitalization has a positive relationship with company financial performance. This is also confirmed by research conducted by Teece (2019) that building company capabilities with digitalization needs to be done in a business environment characterized by technological change. The ability to digitalize also has an impact on a company's competitiveness.

Information and Technology do not directly affect the Company's Financial Performance because the t-value of 0.589 is smaller than the t-table of 1.96 or the p-value of 0.556 is greater than the significance value of 0.05. Employee Skills influence the Company's Financial Performance because the t-value of 2.695 is greater than the t-table of 1.96 or the p-value of 0.007 is smaller than the significance value of 0.05. Digital Strategy does not directly influence the Company's Financial Performance because T-value of 1.080 is smaller than the t-table of 1.96 or the p-value of 0.281 is greater than the significance value of 0.05.

This research also looks at the influence of Information and Technology, Employee Skills and Digital Strategy on Financial Performance indirectly or moderated by the Digitalization variable using bootstrap the sampling distribution of the indirect effect. The bootstrap calculation of the sampling distribution of the indirect effect is shown in Table 6.

Table 6. Indirect Effect

Description	Path Coefficient Test	T-Values	*P-values*
Information and Technology → Digitalization → Financial Performance	0,076	2,713	0,007
Employee Skills → Digitalization → Financial Performance	0,120	3,413	0,001
Digital Strategy → Digitalization → Financial Performance	0.085	2,562	0,011

Source: processed by the author

Information and Technology have an indirect influence on the Company's Financial Performance through the mediation of Digitalization because hypothesis testing shows that the calculated t-value is 2.713, which is greater

than the t-table value of 1.96 and the P_value of 0.007 is smaller than the significance value of 0.05. The direction of the indirect relationship between the Information and Technology variables and the Company's Financial Performance is positive, namely 0.076. Employee Skills indirectly influence the Company's Financial Performance through the mediation of Digitalization because hypothesis testing shows that the t-value is 3.413, greater than the t-table value of 1.96. The P_value of 0.001 is smaller than the significance value of 0.05. The direction of the indirect relationship between the Employee Skills variable and the Company's Financial Performance is positive, namely 0.120. Digital Strategy has an indirect influence on the Company's Financial Performance through the mediation of Digitalization because hypothesis testing shows that the calculated t-value is 2.562, which is greater than the t-table value of 1.96 and the P_value of 0.011 is smaller than the significance value of 0.05. The direction of the indirect relationship between the Digital Strategy variable and the Company's Financial Performance is positive, namely 0.085.

V. DISCUSSION

The influence testing showed that Information and Technology did not directly affect the Company's Financial Performance. However, digitalization positively mediates between information and Technology on a company's financial performance. The results of this study consistently agree with the findings of research by Eller et al. (2020), which shows that digitalization mediates positively between information and Technology on company financial performance. Information and Technology is considered key to obtaining new business opportunities by changing existing business processes, for example, communication with customers, distribution of goods, or business relationship management. Digitalization also does not only focus on cost and process efficiency but improving customer experience is also the key to measuring digitalization. Therefore, for companies to maintain their existence and even gain profits, they must follow the external environment and adapt to the latest Technology (Sümer, 2020) so that the application of digitalization that helps in business processes can provide efficiency in business operations to achieve maximum financial performance. IT adoption as the main basis for digitalization requires skilled employees to develop, adopt and integrate new and existing IT in systems, so developing employee culture and skills is very important (Berman, 2012). Cloud computing and transformative Technology allow SMEs to save costs, but to gain access to Technology requires a variety of skills in business, finance, project management (contracts and negotiations with vendors) and data integration skills (Assante et al., 2016). From deeper perspective, IT projects in SMEs often fail due to lack of management support and poor project management skills (Nguyen et al., 2015). Therefore, digitalization in SMEs can be fully realized through developing the necessary skills and increasing innovation and culture in the organization and structure of SMEs, which require a combination of hard and soft skills.

VI. CONCLUSION AND RECOMMENDATION

Information and technology positively influence company digitalization, with data and analytics as the highest factor. Employee skills positively influence company digitalization, with diverse digital skills as the highest factor. Digital strategy positively influences company digitalization, with business decision-making as the highest factor. Digitalization has a positive and significant influence on company financial performance where information, communication and technology (ICT) is an important factor that drives company profitability. Information and technology indirectly influence the financial performance of changes mediated by digitalization. Skills indirectly influence the financial performance of changes mediated by digitalization. Digital strategy indirectly influences a company's financial performance through digitalization.

This research shows that information and technology are important variables and have a positive influence on digitalization. The biggest factor in these variables is data and analytics items, so SMEs need to increase the use of data and analytics as tools to encourage digitalization. Employee skills are an important variable and have a positive influence on digitalization. The biggest factor of this variable is the item of gathering a team with diverse digital skills so that SMEs need to expand employee capacity with digital skills training according to needs in order to encourage digitalization. Digital strategy is an important variable and has a positive influence on digitalization. The biggest factor of this variable is the business decision making item, so SMEs need to prepare a business decision making strategy based on the use of digital technology in order to encourage digitalization. Digitalization is a variable that has a positive influence on company financial performance. The biggest factor of this variable is the item of ICT use so that SMEs need to improve this in order to increase company profitability. Information and technology, employee skills and digital strategies have a positive influence, albeit indirectly, through the mediation of digitalization on the company's financial performance. Therefore, SMEs need to start considering these three variables in developing their business so that SMEs are able to achieve maximum company performance.

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