

## ABSTRACT

*The existence of MSMEs (Micro, Small and Medium Enterprises) is an important part in moving the wheels of the Indonesian economy which has an impact to the smallest layer. The process of adopting information technology and digitalization MSMEs generally rarely uses strategic techniques such as financial analysis or forecasting. MSMEs remain cautious in adopting the solutions offered by emerging technologies. As every company in every industry and every size is affected by digitization, all companies must confront their strategic orientation and develop a digital strategy that is right for them. So that MSMEs can get a clearer picture of the benefits of implementing digitalization/digital transformation, it is necessary to measure the performance of the digitalization carried out.*

*How the efforts of MSMEs to survive and even continue to develop in the digital era through the implementation of digital business strategy in the perspective of capabilities supported by digital literacy on perceived financial performance by mediating digitalization performance on MSMEs in Indonesia is the purpose of this research.*

*The survey data was collected online during October-December 2021 (amid Covid-19 pandemic) and there were 375 respondents of MSME practitioner in 18 provinces in Indonesia but 367 data that could be used. The results of the pilot test of 30 respondents showed that the measurement model met the requirements of validity and reliability. To test the hypothesis using Structural Equation Modeling (SEM) through software SmartPLS version 3.2.9.*

*The results of the study found variables that had a positive and significant effect: digitalization capability on digitalization performance, digital literacy on digitalization performance, digital literacy on perceived financial performance, digitalization performance on perceived financial performance. The digitalization capability has no positive and significant effect on perceived financial performance. However, through mediating the performance of digitalization, digitalization capability have a positive and significant impact on perceived financial performance. The value of  $R^2$  is 57% & 63% which shows the influence of the independent variables (digitalization capability & digital literacy) is moderate/strong enough on digitalization performance & perceived financial performance in this study.*

*The results of the study show that perceived financial performance in digitizing has not become a top priority for MSME actors because digitalization is still considered an additional cost. Therefore, stronger digital literacy is needed regarding more measurable results of digitization implementation. Considering that 90% of the respondents are micro-enterprises, it is hoped that further research focused on small and medium-enterprises regarding digitalization performance and financial performance for MSMEs that implement of digital business strategy.*

**Keywords:** *digital business strategy, digitalization capability, digitalization performance, digital literacy, MSMEs*