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Abstract: Digital transformation has emerged as a pivotal element for micro, small, and medium enterprises (MSMEs) in developing nations to bolster their competitiveness and business performance. This study examines the impact of government support and digital strategy on MSME performance, with digital transformation serving as a mediating variable. A quantitative survey was conducted among 260 culinary business owners in Indonesia. The data were analysed using partial least squares structural equation modelling (PLS-SEM). Based on dynamic capability theory (DCT), the results indicate that government support and digital strategy positively influence MSME performance, both directly and indirectly through digital transformation. Digital transformation functions as a strategic capability that enables MSMEs to internalise policy support and align it with internal strategic initiatives. This study contributes to the business innovation literature by clarifying the mediating role of digital transformation in emerging economy contexts and provides practical insights for policymakers seeking to enhance MSME digital readiness.

Keywords: performance; digital transformation; government support; digital strategy; micro, small, and medium enterprises; MSMEs.

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1 Introduction

Effective government performance through micro, small, and medium enterprise (MSME) empowerment programs contributes to the creation of economic stability by reducing structural barriers and strengthening a competitive business climate (Maksum et al., 2020). The sustainability and economic contributions of MSMEs are vital for attaining development goals, even though they encounter numerous challenges that impede their full growth potential (Nseobot et al., 2020). Governments focus on

fortifying MSMEs because of their crucial role in fostering industrial innovation, creating job opportunities, boosting export activities, and enhancing productivity (Srisathan et al., 2023). Public policy plays a key role in addressing market inefficiencies and providing the necessary resources to enhance the competitiveness of these enterprises (Van Tran et al., 2024). In recent years, governments have increasingly emphasised MSME empowerment programs that focus on improving access to infrastructure, financial assistance, training, and digital resources. Nevertheless, policy interventions alone are often insufficient to guarantee sustainable performance improvements unless firms are able to strategically internalise and operationalise the support received. This condition highlights the importance of organisational capabilities that enable MSMEs to translate external institutional assistance into tangible performance outcomes.

Digital technology has fundamentally changed how firms build resilience in dynamic environments (Tarigan et al., 2025). Digital technology offers MSMEs significant opportunities to enhance their dynamism in managing business processes, adapting to market fluctuations, and comprehending customer perspectives. Digital transformation involves the integration of digital technology into business operations, thereby providing added value to customers and a wider range of stakeholders, ultimately leading to enhanced organisational performance (Mavlutova et al., 2022). Research on digital transformation has evolved in tandem with the dynamic capabilities of MSMEs, with the aim of bolstering their performance and competitive edge.

Digital transformation is increasingly recognised as a fundamental driver of MSME performance by reshaping how firms innovate, operate efficiently, and compete in rapidly evolving markets. Prior empirical studies have consistently demonstrated that the adoption of digital technologies, supported by both internal capabilities and external pressures, plays a critical role in enhancing organisational outcomes. Kumar et al. (2025) show that factors such as IT capability, collaborative value creation, competitive intensity, and government support significantly accelerate digital transformation and innovation, which subsequently strengthen SMEs' financial performance. Amin et al. (2025) revealed that digital transformation positively affects marketing performance, with social media use mediating and market turbulence moderating this relationship, emphasising the importance of digital adaptation in dynamic markets. Merín-Rodrigáñez et al. (2024) demonstrated that business model innovation acts as an intervening mechanism through which digital transformation translates into superior firm performance, indicating that innovation amplifies the value of digitalisation. Teng et al. (2022) confirmed digital transformation's direct and mediating roles in enhancing financial performance through digital technology, employee digital skills, and strategic planning. Prihandono et al. (2024) further reveal that digital transformation bridges the relationship between digital strategy, market competition, and SME performance by enhancing customer experience and market responsiveness. Collectively, these studies affirm that digital transformation serves as a strategic renewal mechanism enabling MSMEs to convert digital initiatives into sustainable business performance gains.

Dynamic capability theory (DCT) offers a comprehensive lens for explaining how firms continuously build, recombine, and refresh their capabilities in order to sustain competitiveness under conditions of rapid environmental change (Teece, 2014). This theory emphasises that organisational success depends not only on resource ownership, but also on the ability to adapt and transform those resources in response to external pressures and market dynamics. This perspective is relevant for MSMEs, which generally have simple business structures but are required to be more adaptable in the face of

increasingly fierce competition in the digital age. Despite having limited resources, MSMEs possess a high degree of flexibility, enabling them to respond to environmental changes and adopt technology more quickly than large organisations.

This framework conceptualises government support and digital strategy as critical drivers of MSME performance. Government support acts as an external enabler that provides access to infrastructure, training, and policy incentive resources that strengthen MSMEs' operational and financial capacities. Recent developments in this domain have begun to investigate the potential advantages of government support in enhancing the outcomes of companies' digital transformation efforts (Gao et al., 2022). Otherwise, digital strategies function as internal capabilities that guide technology adoption, establish priorities, and allocate resources efficiently to facilitate digital transformation (Haq and Huo, 2023). A well-formulated digital strategy simplifies the digitisation process for businesses and enables value creation through digital technology, ultimately enhancing organisational performance (Martínez-Caro et al., 2020). These two factors form complementary mechanisms that government support provides the foundation for readiness, while digital strategy transforms that readiness into competitive outcomes.

Despite the growing literature on digital transformation and MSME performance, existing studies tend to examine government support, digital strategy, or digital transformation in isolation. Limited empirical evidence explicitly addresses how government support and digital strategy jointly influence MSME performance through the mediating role of digital transformation, particularly within emerging economy contexts. This gap suggests a need for integrative research that captures the mechanisms through which institutional support and firm-level strategic orientation interact to drive performance outcomes.

The culinary sector provides relevant empirical context for this investigation. The sector's relatively simple business models allow entrepreneurs to implement digital practices, such as social media marketing, online ordering platforms, and digital payment systems, with greater ease and agility. Through continuous adaptation, culinary enterprises can maintain their relevance and competitiveness in highly competitive markets, ultimately shaping their long-term success (Karneli et al., 2025). This setting offers valuable insights into how digital transformation mediates the relationship between government initiatives and firm-level strategic intent in enhancing MSME performance. Collectively, this study contributes to the literature by clarifying both the direct and indirect pathways through which policy support and organisational strategies interact to foster digital competitiveness and sustainable growth among MSMEs in emerging economies.

The study employs MSMEs operating in a relatively accessible digital context as an empirical setting, providing insight into how digital transformation enables firms to translate policy-driven support and strategic initiatives into improved performance outcomes. By clarifying both the direct and indirect pathways linking government support, digital strategy, and MSME performance, this research contributes to the literature on business innovation and strategic management. More broadly, it underscores that sustainable competitiveness in the digital economy depends not solely on supportive public policies or technology adoption, but on firms' dynamic capabilities to align strategic orientation with transformative processes that generate long-term value and resilience.

2 Literature review and hypothesis development

The classification of MSMEs is not standard globally, as they differ from one country to another and are shaped by each nation's specific economic conditions and regulatory frameworks. International discussions frequently utilise small and medium enterprises (SMEs). OECD (2019) categorises SMEs based on factors such as workforce size, annual revenue, and assets value. In contrast, Indonesia applies a distinct classification framework by using the term MSMEs, which is formally regulated under Law Number 20 of 2008 on MSMEs. This regulation differentiates business categories primarily based on financial criteria, including net asset ownership and yearly sales volume. Micro enterprises, for example, are defined as businesses with assets not exceeding IDR 50 million or annual revenues of up to IDR 300 million, while SMEs operate with larger financial capacities, albeit still constrained by limited resources (Republic of Indonesia, 2008). Tambunan (2019) highlights the vital role MSMEs play in the global economy, although they continue to encounter resource challenges, especially in developing nations.

2.1 Dynamic capability theory

MSMEs possess inherent characteristics that enable them to adapt swiftly to changes in the business environment and market conditions (Kayanula et al., 2000). These enterprises demonstrate significant dynamism in seizing new opportunities (Abor and Quartey, 2010), which positions them well for digital transformation through the adoption of digital strategies. Such strategies, including social media marketing, online ordering systems, and digital payment solutions, are straightforward to implement. These attributes demonstrate the value of developing a theoretical framework that elucidates how MSMEs manage their internal capabilities while responding to external institutional pressure. The concept of dynamic capability is pivotal in explaining differences in organisational performance, particularly regarding output and technological innovation adaptations (Crossan and Apaydin, 2010). Dynamic capabilities involve the strategic reconfiguration of resources by companies, enabling them to adapt to and maintain a competitive edge in constantly changing environments (Teece and Pisano, 1997). These capabilities reflect an organisation's potential to secure innovative competitive advantages, considering path dependency and market positioning.

DCT explains how organisations build and renew their capabilities to remain competitive in a constantly changing environment through three interconnected processes: sensing, seizing, and reconfiguring (Teece, 2007). In the context of MSMEs, government support acts as an external enabler that strengthens sensor capabilities through policies, training, and the provision of digital information, helping business owners recognise technological opportunities. However, this role is facilitative, not transformative, and its effectiveness depends on the internal capacity of MSMEs to internalise support. Conversely, digital strategy represents seizing capability, which is the internal ability to capture opportunities by aligning technology adoption with business goals and optimising resource utilisation. Digital transformation reflects reconfiguration capabilities, where organisations restructure their business processes and structures through the integration of digital technology to enhance agility and performance. This framework explains that digital transformation is a stronger mediator of the relationship between digital strategy and performance compared to government support. Internal

strategic factors have proven more effective in driving renewal and improving dynamic capabilities compared to external interventions. Thus, the sustainability of MSME competitiveness depends on their ability to transform external support into adaptive internal strategies and transformations.

2.2 MSME performance

The performance of MSMEs reflects their achievements across multiple financial and non-financial dimensions. The financial dimension encompasses improvements in income, profitability, assets, and investments (Eller et al., 2020). By contrast, non-financial dimensions include advancements in employment, staff development, reputation, customer relations, service quality, and social networks, which are not directly quantifiable in financial terms (Fernandes et al., 2020). Performance measurement is often associated with an enterprise's ability to achieve strategic objectives and adapt to its market dynamics. A significant correlation exists between performance and digital transformation because the latter enables MSMEs to leverage digital technologies to enhance customer experience, optimise resource allocation, and improve operational efficiency (Li et al., 2023; Khin and Ho, 2019). Digital transformation positively impacts SME performance by providing appropriate technology, enhancing employee capabilities, and being supported by a well-formulated strategy, thereby fostering efficiency, innovation, and market competitiveness (Teng et al., 2022). Numerous studies corroborate that digital transformation offers various advantages to MSMEs, including cost reduction, improved operational and financial efficiency, and increased revenue, productivity, performance, and business growth (Kahveci, 2025).

2.3 Relationship between government support and MSME performance

Governments play a pivotal role in fostering an environment conducive to the growth of MSMEs. As the primary agent, the government is responsible for formulating and implementing policies that enable SMEs to compete equitably in a competitive market (Ganlin et al., 2021; Pelletier and Cloutier, 2019). Government support encompasses policies, programs, and infrastructure aimed at facilitating the development of small businesses (Hossain et al., 2020). Through such mechanisms, government intervention mitigates structural barriers, enhances resource accessibility, and enables MSMEs to adapt to technological and market transformations. It is imperative for the government to provide suitable support programs and enhance access to education and training for SMEs (Hafeez et al., 2025). The government actively formulates policies, programs, and regulations to help small businesses overcome resource constraints and inadequate capabilities (Eniola and Entebang, 2015). Furthermore, supportive policy frameworks and targeted funding opportunities enhance business confidence and stimulate investment, ultimately leading to improved organisational performance. Based on the discussion, it can be hypothesised that effective government support enhances MSME capability development and business outcomes. Thus, the hypothesis is formulated as follows.

H1 Government support has a positive impact on MSME performance.

2.4 Relationship between digital strategy and MSME performance

The integration of digital strategies with business strategies is a dynamic process that necessitates continuous adjustments to ensure alignment with organisational needs. This alignment can lead to variations in the intensity and form of technology usage (Canhoto et al., 2021). Digital strategy functions as a crucial mechanism to enhance business resilience and drive value creation in a competitive business environment. MSMEs must connect their understanding of the company's internal conditions with their digital literacy, enabling the generation of technological innovation ideas that align with business strategy (Sagala and Őri, 2024). The capability to design and execute digital strategies can support value creation by enhancing productivity, operational efficiency, and customer understanding (Prihandono et al., 2024). Digital strategies provide guidance for the adoption and successful implementation of digital initiatives by offering clear directions, priorities, and resource allocation (Kahveci, 2025). A mature digital strategy can identify market opportunities, set technological investment priorities, and foster digital-based innovations. MSMEs can use digital strategies to stay competitive, make their operations more efficient, encourage new ideas, and improve the experiences of their customers (Reim et al., 2022). Consequently, digital strategy not only enhances firms' operational performance but also strengthens long-term competitiveness through innovation and customer value co-creation. The discussion expects the formulation and implementation of digital strategies to positively influence organisational outcomes. Therefore, the hypothesis is formulated as follows.

H2 Digital strategy has a positive impact on MSME performance.

2.5 Mediating role of digital transformation on government support and MSME performance

Through digital transformation, small businesses can improve their business performance, productivity, and growth by leveraging third-party digital platform services, enhancing their capabilities, and receiving government support (Chen et al., 2021). People frequently regard the government's role in supporting MSME development as a critical external factor for performance enhancement. Digital transformation is perceived as a vital mechanism that links government support to performance improvement. Přívara et al. (2025) found that information system capacity, competitive pressure, and particularly government support significantly increase the likelihood of successful digital transformation in small and micro enterprises. Trieu et al. (2025) emphasise that government support in the implementation of information technology can enhance performance by bolstering digital capabilities. Governmental support fortifies digital capabilities, which positively influences MSME productivity (Rahman et al., 2025). Sagala and Őri (2025) demonstrate that SME digital transformation strategies, when integrated with public policy support, can enhance organisational resilience amid change. When government policies and programs are effectively integrated with MSMEs' digital transformation initiatives, firms become more resilient and adaptive to technological and market changes, resulting in superior performance outcomes. Based on the discussion, digital transformation is expected to play a mediating role in linking government support to MSME performance. Accordingly, the hypothesis is formulated as follows.

H3 Digital transformation mediates the relationship between government support and MSME performance.

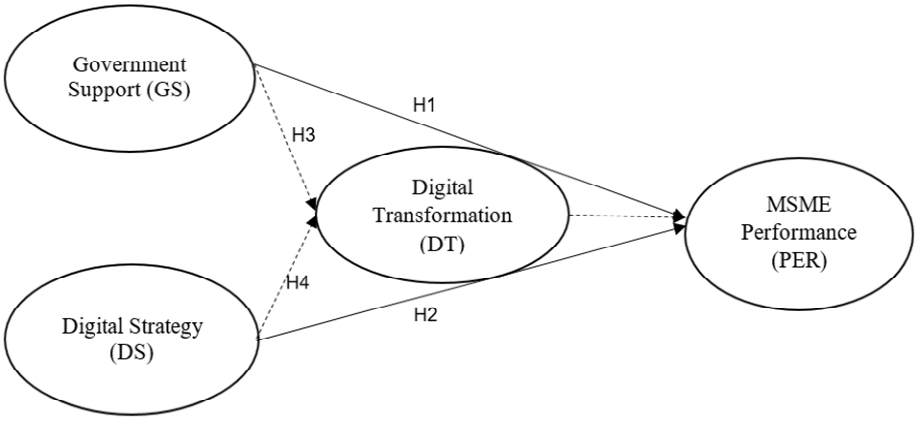
2.6 *Mediating role of digital transformation on digital strategy and MSME performance*

Research on digital transformation is continually advancing, elucidating the mechanisms through which organisations can use digital technology as a means of strategic renewal (Vial, 2019). Companies must possess robust dynamic capabilities that encompass the ability to sense and shape opportunities, exploit them, and reconfigure resources. To effectively drive digital transformation, a well-defined strategy must support these capabilities (Teece, 2014). Dynamic capabilities allow MSMEs to make, use, and protect intangible assets that are important for long-term success in competitive markets (Arif and Herawan, 2025). By adopting relevant information through digital tools, MSMEs can access new market areas and segments, thereby creating new value in their products, services, and business processes (Ragazou et al., 2022). A well-formulated digital strategy enables MSMEs to design and execute digital initiatives that enhance productivity, efficiency, and innovation. In this sense, digital transformation serves as an essential mechanism through which digital strategies generate tangible performance results. Based on the discussion, digital transformation is expected to mediate the relationship between digital strategy and MSME performance. Therefore, the following hypothesis is proposed.

H4 Digital transformation mediates the relationship between digital strategies and MSME performance.

This study specifically focuses on MSMEs in Indonesia's culinary sector, providing an empirical perspective on the interplay between government support, digital strategy, and digital transformation to improve organisational performance. Additionally, the proposed conceptual model seeks to empirically evaluate the relationships among its determinants, offering insights into how MSMEs can effectively execute their digital plans to gain competitive advantage and achieve sustainable performance. This study develops a conceptual model as presented in Figure 1.

Figure 1 Conceptual framework



3 Research methods

This study employs a quantitative methodology to examine the interrelationships among the variables. The quantitative approach is considered suitable for hypothesis testing, elucidating causal relationships, and validating the proposed theoretical framework (Hair et al., 2021). The study focuses on culinary MSMEs operating in Makassar City, Indonesia. Respondents were selected using purposive sampling to ensure that participants met criteria aligned with the objectives of the study (Sekaran and Bougie, 2017). The research population consists of culinary MSMEs mentored by the Supervision Team of the Makassar City Cooperative and MSME Office Incubator (Umam et al., 2025). This population is chosen due to their direct involvement with government support programs and their frequent encouragement to adopt digital technologies. Furthermore, this sector is characterised by its dynamic nature, high transaction intensities, and competitive environment. The culinary sector is noted for its active use of digital platforms for product promotion, including social media, e-commerce, and digital payment applications. Previous research has also indicated that culinary MSMEs often lead in digital adoption due to their high level of consumer interaction and the necessity to enhance transaction efficiency (Rita and Nastiti, 2024).

Table 1 Research indicator

Variables	*Indicator*
Government support (Hossain et al., 2020)	Government policy
	Skills training programs
	Providing relevant information and knowledge
Digital strategy (Eller et al., 2020)	Customer feedback consideration
	Networking ability
	Improve innovation
	Improve business decision making
	Increase efficiency
Digital transformation (Teng et al., 2022)	Use of digital technology
	Digital transformation maturity
	Scope of digital technology use
MSME performance (Eller et al., 2020; Prihandono et al., 2024)	Revenue growth
	Sales volume growth
	Net profit growth
	Return on equity
	Customer satisfaction

Data analysis was conducted using partial least squares structural equation modelling (PLS-SEM) with the assistance of Smart PLS software. The PLS-SEM method is deemed appropriate as it can test complex models with mediating variables, possesses predictive capabilities, and is applicable to medium-sized samples (Hair et al., 2021). This method is widely employed in MSME and entrepreneurship research to investigate the relationships among technology adoption, strategy, and performance (Kim and Jin, 2024; Sagala and Őri, 2024). The analysis includes both the measurement model and the

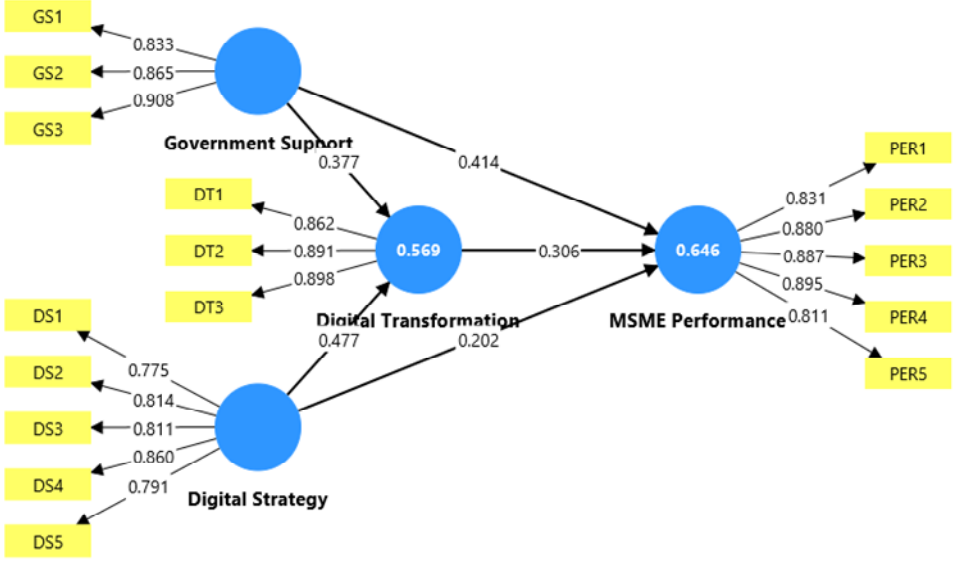
structural model. Path significance testing was performed using the bootstrapping procedure with 5,000 subsamples to provide robust estimates (Hair et al., 2017).

Data were collected through a structured questionnaire utilising a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). The research instrument in Table 1 was developed based on indicators adapted from previous studies, encompassing the variables of government support, digital strategy, digital transformation, and MSME performance (Hossain et al., 2020; Prihandono et al., 2024; Teng et al., 2022; Eller et al., 2020). To enhance accessibility, the questionnaire was distributed online via digital platforms with the support of the Makassar City Government's Incubator Team. This approach aligns with the prevailing trend in MSME research, which increasingly employs online distribution due to its efficiency and broader reach.

4 Results

The outer model was assessed to ensure that the indicators employed in this study exhibited a satisfactory level of validity and reliability in measuring the latent constructs. The evaluation included tests for convergent validity through outer loading analysis and the average variance extracted (AVE) value, as well as construct reliability assessed using Cronbach's alpha and composite reliability (CR) values.

Figure 2 Loading factors (see online version for colours)



The results indicated that the outer loading values ranged from 0.775 to 0.908, all exceeding the recommended minimum threshold of 0.70 (Hair et al., 2019). This indicates that each indicator explains more than 50% of the variance in its corresponding latent construct, thereby confirming a strong correlation between the indicators and their respective constructs. As illustrated in Figure 2, all indicators achieved high loading values, confirming excellent convergent validity for all constructs. The lowest loading value was 0.775, while the highest was 0.908, indicating excellent convergence.

Therefore, all constructs in the model met the criteria for convergent validity, and no indicators required removal.

In Table 2, the reliability test results for the constructs revealed that all constructs had Cronbach's alpha and CR values that exceeded 0.70. Digital strategy obtained a Cronbach's alpha of 0.870 and a CR of 0.825, digital transformation scored 0.859 and 0.877, and government support scored 0.838 and 0.842. MSME performance achieved the highest value of 0.913 for Cronbach's alpha and 0.912 for CR. The result indicates that all constructs meet the criteria for good internal reliability, in accordance with the recommendation of Hussey et al. (2025), who state that a Cronbach's alpha and CR value ≥ 0.70 indicates acceptable reliability.

Table 2 Reliability test

Items	*Cronbach's alpha*	*Composite reliability*	*AVE*
Government support	0.838	0.842	0.755
Digital strategy	0.870	0.825	0.657
Digital transformation	0.859	0.877	0.781
MSME performance	0.913	0.912	0.742

The reliability test based on AVE values demonstrated that all constructs had values above 0.50, specifically between 0.657 and 0.781. This indicates that more than 50% of the variance in the indicators can be explained by the respective constructs, confirming that convergent validity was achieved (Fornell and Larcker, 1981). Notably, the AVE value of 0.742 for MSME performance indicates the construct's strong ability to explain the variance in its indicators. Based on these results, it can be concluded that all the constructs in this study satisfied the criteria for convergent validity and construct reliability.

Table 3 Discriminant validity

	GS	*DS*	*DT*	*PER*
Government support	0.869			
Digital strategy	0.553	0.811		
Digital transformation	0.641	0.686	0.884	
MSME performance	0.722	0.641	0.710	0.861

The results of the discriminant validity test using the Fornell-Larcker criterion in Table 3 show that all constructs meet the necessary standards. This is because the square root value of the AVE of each construct is higher than the correlations between the other constructs. These findings confirm that each construct in the research model has adequate discriminant validity, allowing it to be clearly distinguished from the other constructs.

The structural model assessment in Table 4 confirmed that the data supported all hypotheses in this study. The first hypothesis tested the direct relationship between government support and MSME performance. The results show a positive and significant effect ($\beta = 0.414$, $t = 5.621$, $p < 0.000$), indicating that government support plays an important role in enhancing MSME performance. Government support, reflected through regulatory policies, training and skill development programs, and the provision of relevant knowledge and information, collectively contributes to improved business outcomes such as sales growth, profit growth, return on equity, and customer satisfaction.

The second hypothesis examined the influence of digital strategy on MSME performance. The findings reveal a positive and significant relationship ($\beta = 0.202$, $t = 2.498$, $p = 0.013$). Although the effect is smaller than that of government support, digital strategy remains an important determinant of MSME performance. The construct of digital strategy in this study includes efforts to enhance customer experience and engagement, foster innovation, strengthen business decision-making, and increase efficiency, all of which positively influence both financial and non-financial performance indicators.

Table 4 Hypothesis testing

Hypothesis	*Relationship*	*Path coefficient*	*t-value*	*Significance*	*Test results*
H1	Government support -> MSME performance	0.414	5.621	0.000	Supported
H2	Digital strategy -> MSME performance	0.202	2.498	0.013	Supported
H3	Government support -> Digital transformation -> MSME performance	0.116	2.483	0.013	Supported
H4	Digital strategy -> Digital transformation -> MSME performance	0.146	3.558	0.000	Supported

The third hypothesis tested the mediating role of digital transformation in the relationship between government support and MSME performance. The results confirm a significant indirect effect ($\beta = 0.116$, $t = 2.483$, $p = 0.013$), showing that government support not only has a direct impact but also indirectly improves MSME performance through digital transformation. This construct was measured by the use of digital technologies, the maturity of digital transformation, and the coverage of digital tools, which together reinforce the ability of MSMEs to enhance performance. Finally, the fourth hypothesis assessed the mediating role of digital transformation in the relationship between digital strategy and MSME performance. The analysis shows a significant mediating effect ($\beta = 0.146$, $t = 3.558$, $p < 0.000$), suggesting that digital strategy achieves optimal results when implemented through comprehensive digital transformation processes. By combining technological adoption, maturity, and coverage, MSMEs can turn their digital strategy into better performance results.

5 Discussion

The results of this study affirm that government support plays a significant role in improving MSME performance. This support is not only limited to macro-level policies but also takes shape in programs that facilitate technological adaptation, the enhancement of digital skills, and access to market information. Government programs must be formulated to facilitate the growth and progression of MSMEs (Matsongoni and Mutambara, 2018). The government's role is crucial in formulating effective policies and ensuring efficient implementation, providing fair opportunities for MSMEs to compete in a competitive marketplace (Ganlin et al., 2021). Training programs enable culinary

business actors to learn how to leverage digital platforms to brand their businesses and promote them through online marketplaces and social media. Government support functions as a mechanism that strengthens the adaptive capacity of culinary MSMEs to remain relevant, even when operating with simple business models. The government also plays a role in supporting the administration and legal status of MSMEs. Trieu et al. (2025) emphasise that government support contributes to strengthening MSMEs' digital capabilities and increasing their productivity. Government support can strengthen the relationship between innovation capability and MSME performance, indicating that public policies not only create a conducive business environment but also serve as a catalyst that enables internal innovation within MSMEs (Otache and Usang, 2022). Policymakers play a crucial role in allocating resources to encourage innovative entrepreneurship to spur economic growth in their regions (Buffart et al., 2020).

This study also proves that digital strategy significantly impacts MSME performance. Digital strategy provides direction for technology adoption and serves as guidelines for business actors in designing activities that enhance customer experience, drive innovation, strengthen operational efficiency, and support data-driven business decision-making. Digital strategy enhances competitiveness through efficiency and innovation (Reim et al., 2022). The implementation of digital strategy in culinary MSMEs is evident in the use of social media as an interactive promotional tool, menu innovation that follows consumer trends, and the integration of digital payment systems that simplify transactions, among others. Appropriate implementation of digital strategy helps MSMEs improve their business processes, strengthen customer relationships, and foster loyalty and sales to improve their performance (Prihandono et al., 2024). Digital strategy enables culinary entrepreneurs with simple business processes to expand their market reach and build stronger customer engagement. Martínez-Caro et al. (2020) emphasise that digital strategies provide clear directions and priorities for resource allocation. The digital strategies of culinary sector MSMEs can be seen as capacities that enable entrepreneurs to quickly seize market opportunities, transform them into added value, and enhance performance in terms of customer satisfaction and sales growth. Digital strategies are not just about adopting technology; they are also accompanied by the development of digital platform capabilities and an innovative and adaptive organisational culture.

The findings of this study indicate that digital transformation plays a crucial role in mediating the gap between government support and MSME performance. Government support through policies, training, or information dissemination not only directly impacts MSMEs but also encourages them to integrate digital technology into their operations to improve productivity. Government support is essential for facilitating companies' digital transformation efforts (Gao et al., 2022). MSMEs use government-provided training facilities and digital incentives to enhance their marketing through branding, social media, and online marketplaces. Government support strengthens digital transformation initiatives along with financial education and training programs for rural entrepreneurs by providing the necessary support and guidance (Li et al., 2024). Government support creates opportunities for small service enterprises to undergo digital transformation and achieve their business objectives (Chen et al., 2021). Through policies, regulations, digital infrastructure development, and mentorship programs, government support acts as an institutional mechanism that enhances SMEs' preparedness for digital transformation and helps them establish legitimacy in an increasingly digital environment.

The study further reveals that digital transformation serves as a mediator between digital strategy and MSME performance. Digital strategy that focuses on improving customer experience, fostering product innovation, enhancing operational efficiency, and enabling data-driven decision-making is more effective when actual changes in business processes are implemented. Digital marketing strategies via social media and online platforms result in active customer engagement, product development, increased efficiency, and data-driven decision-making. An effective digital strategy propels digital transformation by refining internal SME processes, strengthening customer relationships, boosting loyalty and sales, and ultimately enhancing market performance (Prihandono et al., 2024). Digital strategy and digital transformation work in tandem during implementation, leading to greater customer satisfaction, sales growth, and consumer loyalty. A robust strategy guides the digital transformation process by outlining systematic steps tailored to the business context and aligning digital technology with the overall business vision and goals (Teng et al., 2022). A digital strategy relies not only on technology adoption but also on the everyday practices and activities of individuals within the organisation. This study illustrates that human factors and organisational culture play crucial roles in the digital transformation process (Canhoto et al., 2021).

Additionally, the analysis reveals that digital transformation mediates the effect of digital strategy on performance more strongly than government support. This indicates that digital transformation is more effectively stimulated by internal organisational drivers, such as strategic intent and managerial alignment, than by external interventions, like government policy. DCT explains this difference by highlighting the fundamental nature of both variables. Digital strategy is an internal resource directly related to a company's ability to sense, seize, and reconfigure opportunities in the digital environment. Digital transformation becomes the vehicle for implementing these capabilities, organisations convert knowledge and strategic direction into operational practices that enhance innovation and competitiveness. Thus, when mature digital strategies trigger the digital transformation process, MSMEs show significant improvement in both financial and non-financial performance.

Meanwhile, government support is still facilitative and has not fully shaped the internal capabilities of MSMEs. Aligning government policies more closely with entrepreneurial expectations and addressing systemic barriers can significantly enhance the impact of sustainability initiatives (Kukjans et al., 2025), ultimately improving MSME performance. Assistance in the form of training and policies necessitates organisational readiness for true internalisation into adaptive capabilities. Many MSME actors are still in the early adoption phase, so the digital transformation triggered by government intervention has not had the same impact as digital strategies that grow within the organisation. In other words, digital transformation serves as a path that strengthens the effect of digital strategies on performance, while on the government's support path, this role is still developing and not yet maximised. The implication is that strengthening the digital capabilities of MSMEs becomes crucial. The government needs to do more than just provide infrastructure and training; it also needs to encourage the development of specific and contextual digital strategies at the business level. On the other hand, MSMEs need to develop the ability to integrate external policies with internal strategies so that digital transformation can take place sustainably. Harmonious collaboration between pol-icy support, organisational strategic directions, and technology transformation processes will generate synergies that shape long-term competitiveness in a dynamic digital economy.

6 Conclusions

This study demonstrates that government support and digital strategy significantly influence MSME performance, both directly and indirectly through digital transformation as a mediating mechanism. Government support acts as an external enabler that enhances MSMEs' readiness for digital adoption. In contrast, digital strategy represents an internal capability that drives innovation, efficiency, and data-driven decision-making. Digital transformation serves as the reconfiguring process that connects these internal and external factors, allowing MSMEs to adapt, realign re-sources, and improve performance. Based on DCT, the results indicate that the competitiveness of MSMEs depends not only on the availability of external resources but also on their ability to integrate and reconfigure the-se resources when the environment changes. The culinary industry shows how social media, online ordering systems, and digital payment systems can speed up the use of digital technology in business processes that are not too complicated. When backed by clear public policies and well-thought-out digital strategies, this simplicity becomes a strength that can be adapted. This study emphasises the significance of the synergy between external policy support and internal strategic capability as a fundamental basis for improving the competitiveness of MSMEs and attaining sustainable performance in the digital economy.

This study enriches DCT by clarifying how internal strategic capabilities and external enablers jointly contribute to performance improvement. Digital transformation is conceptualised as a reconfiguration capability that operationalises strategic intent into concrete outcomes, while government support acts as a trigger that enhances the sensing environment for MSMEs. The findings confirm that dynamic capabilities are more effectively developed when internal strategies interact with enabling external conditions. Furthermore, the stronger mediating effect of digital transformation on the digital strategy and performance relationship demonstrates that internally driven strategic alignment plays a more decisive role in shaping transformation outcomes than external facilitation alone. The findings provide guidance for both MSME owners and policymakers. Entrepreneurs need to come up with clear digital strategies that combine technology, processes, and people to encourage new ideas and make their businesses more flexible. Meanwhile, policymakers should design targeted digital support programs that enhance MSMEs' digital readiness and strengthen their capacity for continuous transformation. Collaborative efforts between the government and MSMEs can thus expedite inclusive and sustainable digital advancement.

Several limitations of this research should be recognised as potential opportunities for future work. The cross-sectional nature of the data collection limits the study's ability to identify or confirm causal directions among the observed relationships. Future researchers are encouraged to employ longitudinal or panel data techniques that enable a deeper understanding of temporal processes, such as the evolution of firms' dynamic capabilities and digital transformation outcomes. Moreover, the present study concentrates on a single industry and regional scope, the culinary MSMEs in Indonesia, which may reduce the extent to which the results can be generalised to other contexts. Broadening the sample to include different sectors or countries would provide more comprehensive and comparative insights into how firms' strategies and institutional support interact across varied environments. Third, the reliance on self-reported data may introduce response bias; combining survey results with objective financial data or qualitative case studies would enhance validity. Future research could advance the

current understanding of digital transformation in MSMEs by focusing on the development of adaptive digital platforms and intelligent analytical frameworks that support the implementation of transformation initiatives. Such studies could integrate advanced computing technologies, such as artificial intelligence, big data analytics, machine learning, and cloud-based systems, to optimise business decision-making, automate operational processes, and strengthen predictive management capabilities.

Researchers are also encouraged to design and validate prototype systems, simulation environments, or decision support tools that can assess the level of digital readiness, performance improvement, and scalability of transformation strategies across various MSME sectors. Finally, future investigations may explore alternative mediating or moderating mechanisms, such as organisational digital culture, innovation-driven orientation, or entrepreneurial agility, to provide deeper insights into how MSMEs cultivate and sustain dynamic capabilities within digital ecosystems. Longitudinal assessments of government interventions and their influence on MSMEs' digital maturity would also offer valuable implications for policy formulation in emerging economies.

Declarations

The authors used AI-assisted language editing tools (ChatGPT by OpenAI) solely to improve grammar and readability. The authors are fully responsible for the content and accuracy of this manuscript.

Informed consent was obtained from all participants prior to data collection. The survey was conducted anonymously, and participants voluntarily agreed to participate after being informed about the study objectives, confidentiality of responses, and ethical use of the data. Written consent was provided through the online survey platform.

All authors declare that they have no conflicts of interest.

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