Driving SME Performance through Digital and Network Capabilities: The Mediating Role of Innovation

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ABSTRACT

In the era of digital transformation, small and medium enterprises (SMEs) are required to enhance their innovation capacity and adapt to digital platform capabilities to remain competitive. This study aims to investigate the relationship between entrepreneurial SME performance, innovation capability, network capability, and digital platform capability. Using a quantitative approach, data were collected from 278 SMEs in Indonesia through a structured questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings demonstrate that entrepreneurial SME performance positively influences innovation capability and network capability. Furthermore, innovation capability significantly enhances both network capability and digital platform capability. However, digital platform capability is not directly influenced by entrepreneurial performance, indicating the mediating role of innovation. The findings also highlight the interdependence between innovation and network capability in strengthening digital capabilities. This study concludes that innovation plays a key mediating role in linking business performance to digital transformation. Practical implications suggest that SMEs must foster a culture of innovation and invest in digital skills and networking strategies. Theoretically, the study enriches the understanding of dynamic capabilities and digital transformation in the SME context.

Keywords*: Digital Platform Capability, Digital Transformation, Entrepreneurial SME Performance, Innovation Capability, Network Capability, Mediation.*

ABSTRAK

Di era transformasi digital, Usaha Kecil Dan Menengah (UKM) dituntut untuk meningkatkan kapasitas inovasi dan beradaptasi dengan kapabilitas platform digital agar tetap kompetitif. Studi ini bertujuan untuk menyelidiki hubungan antara kinerja UKM kewirausahaan, kapabilitas inovasi, kapabilitas jaringan, dan kapabilitas platform digital. Dengan menggunakan pendekatan kuantitatif, data dikumpulkan dari 278 UKM di Indonesia melalui kuesioner terstruktur dan dianalisis menggunakan Partial Least Squares Structural Equation Modeling (PLS-SEM). Temuan ini menunjukkan bahwa kinerja UKM kewirausahaan berpengaruh positif terhadap kapabilitas inovasi dan kapabilitas jaringan. Lebih lanjut, kapabilitas inovasi secara signifikan meningkatkan kapabilitas jaringan dan kapabilitas platform digital. Namun, kapabilitas platform digital tidak secara langsung dipengaruhi oleh kinerja kewirausahaan, yang menunjukkan peran mediasi inovasi. Temuan ini juga menyoroti saling ketergantungan antara inovasi dan kapabilitas jaringan dalam memperkuat kapabilitas digital. Studi ini menyimpulkan bahwa inovasi

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memainkan peran mediasi kunci dalam menghubungkan kinerja bisnis dengan transformasi digital. Implikasi praktis menunjukkan bahwa UKM harus menumbuhkan budaya inovasi dan berinvestasi dalam keterampilan digital dan strategi jaringan. Secara teoritis, penelitian ini memperkaya pemahaman tentang kemampuan dinamis dan transformasi digital dalam konteks UKM.

***Kata kunci**: Kemampuan Platform Digital, Transformasi Digital, Kinerja Berwirausaha UKM, Kemampuan Inovasi, Kemampuan Jaringan, Mediasi.*

INTRODUCTION

Innovation plays a critical role in enabling companies to achieve a dominant competitive position in the market, particularly in the context of information technology development and industrial integration (Novillo-Villegas et al., 2022; Sánchez-García et al., 2022). The digital economy era has introduced digital technology as a key infrastructure for economic development. However, Small and Medium Enterprises (SMEs) face challenges in mastering core technologies, with the digital divide further complicating their efforts to overcome growth barriers (Lu et al., 2022; Zhang et al., 2022). The digital transformation era has driven fundamental changes in how businesses operate. In relation to that, digital platform capability has emerged as a crucial component that enables SMEs to optimize business operations and expand market reach (Cenamor et al., 2019). Digital platforms and ecosystems that transcend time, space, and organizational boundaries have become a significant focus, as demonstrated by leading companies like Alibaba, Tencent, and Haier (Yu et al., 2022). In addition, network capability plays a vital role in supporting SME success in the digital era, where strong network capabilities provide better access to resources and market opportunities (Bhatti et al., 2022; Dong et al., 2023).

Dynamic Capability Theory (DCT) has emerged as a crucial theoretical lens to explain how organizations adapt and thrive in rapidly changing business environments. DCT builds upon the Resource-Based View (RBV) by highlighting the importance of a firm's ability to integrate, develop, and reconfigure both internal and external resources in response to environmental changes (Warner & Wäger, 2019). One prominent expression of dynamic capabilities in the digital age is digital platform capability, which enables small and medium-sized enterprises (SMEs) to recognize new market opportunities and effectively embed digital technologies into their operations (Li et al., 2018). This capability is not limited to merely adopting digital tools but involves a broader transformation encompassing strategic, operational, and organizational dimensions. In this context, digital platform transformation represents a comprehensive integration and exploitation of digital technology across business functions (Xu et al., 2022). Furthermore, digital transformation capabilities empower firms to innovate their business models, improve operational agility, and enhance the value creation process. Complementing this, big data analytics capabilities provide firms with the tools to harness large-scale data for strategic decision-making, thus fostering both innovation and improved financial performance (Xiao et al., 2020; Bhatti et al., 2022; Betz et al., 2023). Together, these digital capabilities serve as dynamic levers that help firms remain competitive in fast-evolving markets.

Despite previous research by Cenamor et al. (2019), Müller (2019), and Jiang et al. (2023) examining the relationship between digital capabilities and SME performance, several research gaps remain. First, the understanding of how Network Capability functions as a supporting factor for SMEs, particularly in leveraging digital platforms, is still limited. Second, studies exploring the mediating role of Innovation Capability in the relationship between Digital Platform Capability and SME performance are scarce, especially in developing economies. Third, research that integrates Digital Platform Capability, Network Capability, and Innovation Capability into a comprehensive framework is extremely limited.

This study aims to address these gaps by analyzing how Digital Platform Capability and Network Capability influence SME performance, with a specific focus on the mediating role of Innovation Capability in the digital era context. The objective of this study is to examine the influence of Digital Platform Capability and Network Capability on SME performance, with a particular focus on the mediating role of Innovation Capability, in order to provide insights into how SMEs can leverage digital transformation to overcome barriers and achieve sustainable growth in the competitive digital era. The findings will contribute to understanding how SMEs can leverage digital transformation to overcome barriers and achieve sustained growth in competitive markets.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Entrepreneurial SMEs Performance

The synergistic interaction between innovation, network, and digital platform capabilities significantly enhances the entrepreneurial performance of SMEs in the dynamic digital economy. Innovation capability serves as a catalyst for performance by enabling the development of new products and process innovations, enhancing competitiveness through business model adaptation, and fostering sustainable growth by promoting creativity and market responsiveness (Rubio-Andrés et al., 2024). Network capability facilitates access to strategic resources and business partnerships while enabling critical knowledge exchange essential for innovation and competitive advantage (Liang & Li, 2022). Digital platform capability optimizes operations and leverages technology for improved data analytics, supporting effective decision-making crucial in addressing digital economy challenges and contributing to financial and non-financial performance metrics (Fan & Zhai, 2023). However, some SMEs face short-term operational focus, potentially hindering long-term strategic orientation and overall performance, highlighting the importance of a balanced approach in capability development.

Digital Platform Capability and Innovation Capability

Digital platform capability significantly contributes to the performance of entrepreneurial SMEs by enhancing innovation, improving operations, and aligning strategies. It strengthens innovation capabilities, allowing SMEs to design new products and services efficiently while cultivating an innovation-driven culture essential for sustaining competitive advantage in fast-changing markets (Sarwar et al., 2024; Orero-Blat et al., 2025). Through digital platforms, SMEs can better adapt to technological changes, respond to market demands swiftly, and implement innovative practices (Nikopoulou et al., 2023). These capabilities ultimately support SMEs in remaining relevant, agile, and growth-oriented within increasingly dynamic and competitive business environments. Digital transformation capabilities play a vital operational role by streamlining business processes and optimizing resource allocation. According to Yu et al. (2022), advanced digital capabilities enable SMEs to integrate supply chains more efficiently, leading to enhanced operational performance and revenue growth. These capabilities not only improve internal workflows but also support adaptability and responsiveness in dynamic market conditions. Furthermore, digital platforms assist SMEs in aligning operations with strategic business objectives. As noted by Wang et al. (2023), such alignment facilitates better decision-making, improves resource management, and encourages the development of innovative business models that drive long-term performance gains. Despite these benefits, certain challenges may hinder digital effectiveness, including inadequate infrastructure and misaligned strategic planning (Corvello et al., 2023; Dikken et al., 2024). These barriers emphasize the importance of balanced investment in digital infrastructure and the need for SMEs to develop comprehensive strategies that integrate technological adoption with long-term business goals, ensuring that digital capabilities translate into tangible competitive advantages.

H1: Digital platform capability has a positive influence on entrepreneurial SMES performance.

H2: Digital platform capability has a positive influence on innovation capability.

Innovation Capability and SMES Performance

Innovation capability is a vital factor influencing the performance of entrepreneurial SMEs. One of the key enablers of this capability is Big Data Analytics Capability (BDAC), which plays a strategic role in fostering supply chain innovation and enhancing financial outcomes. The impact of BDAC on performance is further amplified through its interaction with network structures and digital platform capabilities, demonstrating the interconnectedness and complexity of innovation drivers in achieving business success (Ahmed et al., 2022). In the context of adaptive innovation, creativity and implementation are also central. These elements contribute directly to financial performance when managers effectively align innovation strategies with evolving market demands. The managerial ability to adaptively integrate innovation into business practices becomes a crucial determinant of competitiveness (Fornell & Larcker, 1981; Zainab et al., 2017).

Moreover, the presence of a strong entrepreneurial culture acts as a foundational element for fostering innovation. This culture not only supports creativity but also stimulates economic development at the broader level. The availability of adequate resources and a robust entrepreneurial ecosystem further accelerates innovation, allowing SMEs to optimize operational and financial performance (Zemlyak et al., 2023). However, despite the potential of innovation, SMEs often face financial constraints that limit their capacity to fully realize the benefits of their innovation strategies. Such constraints can hinder investment in innovation-related activities, technology, or talent. Therefore, addressing financial barriers becomes essential to ensure that innovation capabilities can be fully leveraged to improve SME performance (O'Connell et al., 2021). This reinforces the need for supportive financial and policy interventions to enhance innovation-driven growth in entrepreneurial SMEs.

H3: Innovation capability has a positive influence on entrepreneurial SMES performance.

Network Capability and Innovation Capability

Network capability plays a central role in driving the innovation performance of entrepreneurial SMEs. By enabling collaboration, resource exchange, and inter-organizational knowledge sharing, network capability fosters the conditions necessary for innovation to thrive. Firms with strong network capabilities are better positioned to engage in effective knowledge flows and strategic partnerships, which in turn enhance their innovation performance (Dongling et al., 2022). These networks allow SMEs to implement competitive strategies, gain market insight, and improve their innovation output, thereby strengthening market performance (Rubio-Andrés et al., 2024). Moreover, networks provide critical access to resources and information that help SMEs navigate operational constraints and remain agile in competitive markets (Fan & Zhai, 2023).

When combined with digital platform capabilities, the potential for innovation becomes even more pronounced (Nasiri et al., 2023). Digital platforms support real-time data access, streamline communication, and integrate business processes across networks, enhancing innovation capability. The integration of big data analytics with digital platforms and network capability drives supply chain innovation and contributes significantly to financial performance improvements (Bhatti et al., 2022). Digital tools facilitate faster response to market demands, better coordination among partners, and the development of novel products or services. However, while external collaboration is beneficial, over-dependence on network partners can suppress independent innovation, making it essential for SMEs to maintain a balance. Thus, the synergy between network capability and digital platform capability forms a strategic foundation for enhancing innovation capability and ensuring sustainable performance growth in entrepreneurial SMEs.

H4: Network capability has a positive influence on innovation capability.
H5: Network capability and digital platform capability have a positive influence on innovation capability.

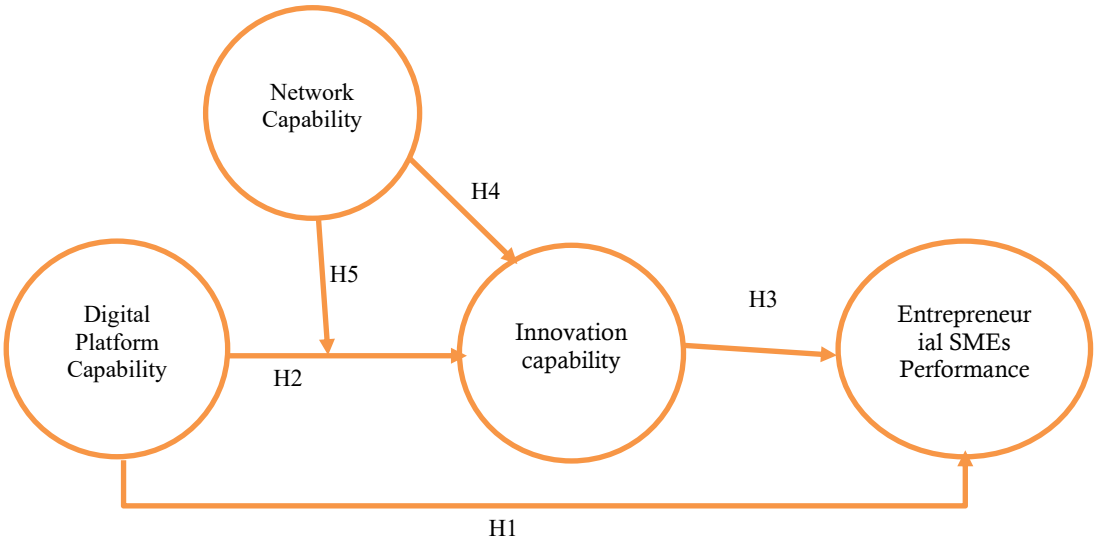

Figure 1. Conceptual Framework

Figure 1 illustrates a conceptual framework showing the relationship between digital platform capabilities, network capabilities, innovation capabilities, and MSME entrepreneurial performance. Digital platform capabilities act as an initial variable that has a direct influence on MSME entrepreneurial performance, as well as an indirect influence through network capabilities and innovation capabilities. In this model, digital platform capabilities influence network capabilities, which then contribute to increased innovation capabilities. Furthermore, innovation capabilities have a direct influence on MSME entrepreneurial performance. Furthermore, digital platform capabilities also have a direct path to innovation capabilities and MSME entrepreneurial performance. This framework shows that mastery of digital platforms can strengthen business networks and encourage innovation, which overall has a positive impact on the performance of entrepreneurial-oriented MSMEs.

RESEARCH METHODS

This study adopts a quantitative explanatory approach to analyze causal relationships between Digital Platform Capability, Network Capability, Innovation Capability, and Entrepreneurial SMEs Performance. The research employs a survey method with a cross-sectional design, using a structured questionnaire distributed via digital platforms. Data was collected from 295 SME respondents, selected through purposive sampling with the following criteria: Operating for a minimum of 2 years, actively using digital platforms, and demonstrating innovation within the last year. To collect the data, initial communication was established with SME owners to explain the research objectives and significance. Upon receiving consent, the survey instrument was distributed via email and WhatsApp groups using Google Forms. The data collection spanned over three weeks, yielding 271 responses, with 250 valid responses after verification for completeness and quality.

The research instrument consists of a structured questionnaire divided into three sections: Introduction, demographic data collection, and item measurement. The first section provides a detailed explanation of the study's objectives and context to ensure respondent understanding. The second section captures key respondent characteristics such as gender, age, education, and business scale. As for the third section, it constructs validated items based on previous research. Each construct uses a 7-point Likert scale ranging from 1 (Strongly Disagree) to 7 (Strongly Agree), and inputs from subject-matter experts ensured contextual relevance and clarity of the statements. Furthermore, the measurement constructs include digital platform capability, network capability, innovation capability, and entrepreneurial SMEs performance. This structured design and robust data collection process provide a strong foundation for analyzing the relationships between the study variables.

This study assesses the reliability and validity of constructs through standardized loadings, Cronbach's Alpha (CA), Composite Reliability (CR), and Average Variance Extracted (AVE). All standardized loadings exceeded 0.6, and CA values were above the 0.7 threshold, indicating strong internal consistency. Convergent validity was confirmed with CR values above 0.7 and AVE above 0.5. Discriminant validity was established by showing that the square root of each construct's AVE was greater than its correlations with other constructs. These results confirm that the constructs used in this study meet the criteria for both reliability and validity.

RESULTS

The result of the analysis, Table 1 shows the characteristics reveal that the majority of respondents are male (59.60%). Most are young entrepreneurs (44.00%) aged between 18–35 years, followed by middle-aged (36.80%) and senior participants (17.60%). In terms of education, 55.20% of respondents have a high school education, while elementary and higher education levels account for 22.80% and 22.00%, respectively. The sample is predominantly composed of micro-enterprises (82.40%), with small enterprises making up 17.60%.

Table 1. Characteristics of Respondents

Characteristic	Details	Frequency	Percentage (%)
Gender	Male	149	59.60
	Female	101	40.40
Age	Youth (18–35)	115	44.00
	Middle-Aged (36–50)	92	36.80
	Senior (>50)	44	17.60
Education	Elementary	57	22.80
	High School	138	55.20
	Higher Education	55	22.00
Business Scale	Micro	206	82.40
	Small	44	17.60
Total Respondents	250	100	

Table 2. Validity Test Result

Code	Item	Loadings	CR	AVE	CA
EP1	A better return on investment than competitors	0.740			
EP2	A better return on sales than competitors	0.746			
EP3	Better growth in sales than competitors	0.809			
EP4	Better growth in profit than competitors	0.777			
EP5	Better growth in market share than competitors	0.758			
	Networked Capability (Xiao et al., 2020; Betz et al., 2023)				
NC1	Regular meetings for every project	0.739			
NC2	Analyzed what is desired and aimed to be achieved with which partner	0.854			
NC3	Regular discussions with partners on how support can be given to each other	0.837	0.828	0.711	0.825
NC4	The ability to build good personal relationships with business partners	0.759			

Code	Item	Loadings	CR	AVE	CA
NC5	Flexibility in dealing with partners	0.771			
NC6	Knowledge of partners' markets	0.818			
	Digital platform capability (Xiao et al., 2020)				
DPC1	Built a database containing information about consumers and their behavior that businesses can use to reach target groups.	0.737			
DPC2	Developed a digital platform to launch direct digital marketing programs for businesses.	0.839			
DPC3	Developed a digital platform that makes it easier or more affordable for businesses to reach their prospects.	0.847			
DPC4	The platform consists of modular software components, most of which can be reused in other business applications.	0.811	0.886	0.677	0.882
DPC5	Built a database containing comprehensive local information that consumers need for everyday decisions.	0.841			
DPC6	Developed a digital platform for consumers to share their prior experiences, knowledge, and expertise.	0.797			
DPC7	Developed a digital platform for consumers to share news and information and engage in community dialogue and conversations.	0.880			
	Innovation (Cenamor et al., 2019b)				
INN1	The company has developed new services.	0.855			
INN2	The company has enhanced and promoted existing services.	0.854			
INN3	The company has repackaged and promoted existing services.	0.801	0.892	0.657	0.885
INN4	The company has expanded and promoted existing service lines.	0.868			
INN5	The company has introduced new services not offered by competitors in the market.	0.742			

Table 2 presents the measurement model analysis, which confirms the reliability and validity of the constructs used in the study. Entrepreneurial SMEs Performance, adapted from Cenamor et al. (2019), demonstrated strong internal consistency with a Composite Reliability (CR) of 0.923, Average Variance Extracted (AVE) of 0.754, and Cronbach's Alpha (CA) of 0.920, with item loadings ranging from 0.740 to 0.809. Network Capability, based on Xiao et al. (2020) and Betz et al. (2023), also showed good reliability with a CR of 0.828, AVE of 0.711, and CA of 0.825, and item loadings between 0.739 and 0.854. Digital Platform Capability, adapted from Xiao et al. (2020), displayed strong psychometric properties with a CR of 0.886, AVE of 0.677, and CA of 0.882, with loadings ranging from 0.737 to 0.880 across its seven items. Finally, Innovation, based on Bhatti et al. (2022), had a CR of 0.892, AVE of 0.657, and CA of 0.885, with item loadings between 0.742 and 0.868. These values confirm that all constructs meet the recommended thresholds for reliability and validity, supporting their suitability for further analysis.

Table 3. Discriminant Validity

Variable	DPC	EP	INN	NC
DPC	0.823			
EP	0.620	0.766		
INN	0.810	0.607	0.825	
NC	0.772	0.667	0.700	0.797

The evaluation of the measurement model in Table 3 using the Fornell-Larcker criterion confirmed adequate discriminant validity for all constructs in the study. The primary diagonal values, representing the square root of the AVE for each construct (DPC = 0.823; EP = 0.766; INN = 0.825; NC = 0.797), were higher than the inter-construct correlations in the corresponding rows and columns. The highest correlation was observed between NC (Networked Capability) and DPC (Digital Platform Capability) at 0.823, indicating a strong relationship while still meeting the criteria for discriminant validity. EP (Entrepreneurial SMEs Performance) exhibited moderate to strong

correlations with other constructs (0.620–0.766), while INN (Innovation) showed a similar correlation pattern (0.810–0.825). These findings confirm that each construct in the measurement model has sufficient distinctiveness and measures unique concepts, validating the model's suitability for further structural analysis.

Table 4. Model's fitness

Model	Saturated model	Estimated model
SRMR	0.077	0.083
d_ULS	1.626	1.905
d_G	0.796	0.821
Chi-square	872.641	898.375
NFI	0.765	0.758

The model fit evaluation on Table 4 indicates an adequate alignment between the theoretical model and the empirical data. The SRMR (Standardized Root Mean Square Residual) values for the saturated and estimated models were 0.077 and 0.083, respectively, falling below the thresholds of 0.08 for saturated models and 0.10 for estimated models, signifying good model fit. The d_ULS (unweighted least squares discrepancy) values were 1.410 for the saturated model and 2.385 for the estimated model, while the d_G (geodesic discrepancy) values were 0.796 and 1.821, indicating acceptable levels of discrepancy. Chi-square values of 872.641 and 898.375, along with the NFI (Normed Fit Index) scores of 0.765 and 0.758, approach the recommended threshold of 0.90. These results suggest that the model demonstrates a reasonable degree of fit with the empirical data, making it suitable for further analysis.

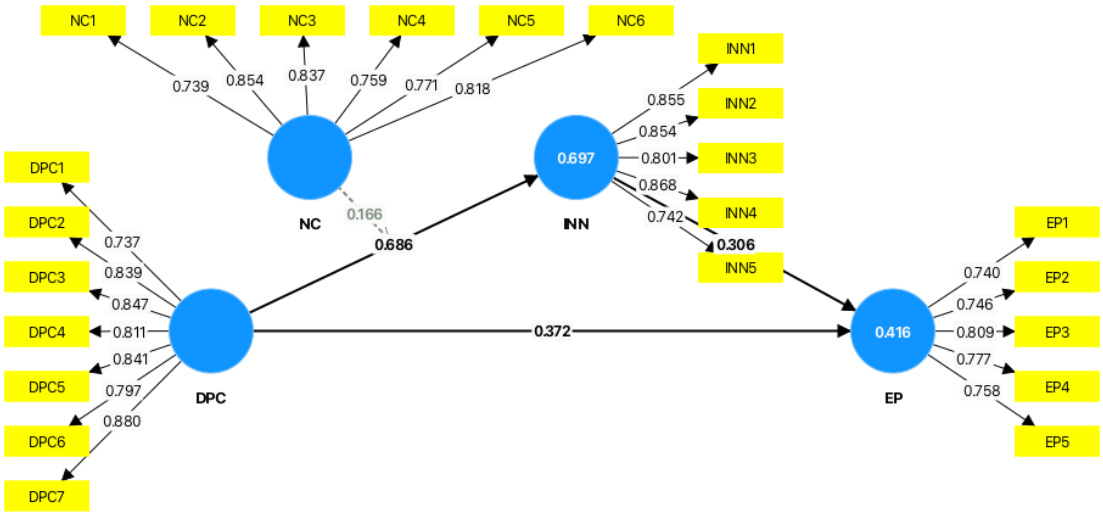

Figure 2. Structural Model

Figure 2 displays a structural model of the study that examines the relationship between network capability, digital platform capability, innovation capability, and entrepreneurial SME performance. Each construct is measured through several indicators displayed in the yellow box, with factor loading values above 0.7, indicating a strong contribution to the construct. Network capability has a direct influence on innovation capability with a path coefficient value of 0.166, while Digital Platform Capability provides a stronger contribution to innovation capability with a coefficient of 0.686. Innovation capability plays an important role in improving entrepreneurial SME performance, reflected in the coefficient value of 0.372. Furthermore, digital platform capability also has a direct influence on Entrepreneurial SME performance with a path coefficient of 0.416. The R^2 value displayed in the middle of the blue circle indicates that Innovation Capability can be explained by 69.7 percent by the independent variables, while entrepreneurial SME performance is explained by 41.6 percent by innovation

capability and digital platform capability. This model shows that digital platform capability is a key driver of innovation and overall SME performance.

Table 5. Structural Model

Hypothesis	(O)	(M)	(S)	T-statistics	P-values	Decision
Digital platform capability -> Entrepreneurial SMEs Performance	0.372	0.377	0.110	3.385	0.001	Significant
Digital platform capability -> Innovation	0.686	0.686	0.070	9.868	0.000	Significant
Innovation -> Entrepreneurial SMEs Performance	0.306	0.309	0.102	3.011	0.003	Significant
Networked Capability -> Innovation	0.255	0.256	0.075	3.375	0.001	Significant
Networked Capability x Digital platform capability -> Innovation	0.166	0.166	0.035	4.688	0.000	Significant

Inferential statistical analysis in Table 5 reveals significant causal relationships among the study variables. Digital platform capability was found to have a positive and significant effect on entrepreneurial SMEs performance, with an original sample coefficient (β) = 0.372, standardized loading of 0.377 (SE = 0.110, t = 3.385, $p < 0.001$). This indicates that improving digital platform capabilities substantially enhances entrepreneurial SMEs' performance. Furthermore, digital platform capability exhibited a strong influence on innovation, as demonstrated by a coefficient (β) = 0.686, standardized loading of 0.686 (SE = 0.070, t = 9.868, $p < 0.001$), confirming its role as a key driver of innovation.

Innovation itself significantly contributed to entrepreneurial SMEs performance, with a coefficient (β) = 0.306, standardized loading of 0.309 (SE = 0.102, t = 3.011, $p < 0.01$), highlighting its critical role in enhancing SME performance. Additionally, networked capability had a significant positive effect on innovation, as indicated by a coefficient (β) = 0.255, standardized loading of 0.256 (SE = 0.075, t = 3.375, $p < 0.001$). This underscores the strategic importance of networked capabilities in fostering innovation within SMEs.

The interaction effect between networked capability and digital platform capability further demonstrated a significant positive influence on Innovation, with a coefficient (β) = 0.166, standardized loading of 0.166 (SE = 0.035, t = 4.688, $p < 0.001$). This finding confirms that the relationship between networked capability and innovation is strengthened by higher levels of digital platform capability. Overall, the structural model results provide strong empirical support for the role of digital platform capability and networked capability in driving innovation and enhancing the performance of entrepreneurial SMEs, with Innovation serving as a significant mediating variable within the research framework.

DISCUSSION

The empirical analysis revealed that digital platform capability has a positive and significant impact on entrepreneurial SMEs performance (β = 0.372, t = 3.385, $p < 0.001$). This finding indicates that the higher the digital platform capability of SMEs, the better their business performance. Bhatti et al. (2022) support this by emphasizing that digital platforms significantly enhance the performance of entrepreneurial SMEs by facilitating the better integration of monitoring tools, improving transparency, and promoting ethical governance. These capabilities collectively lead to financial performance improvements through supply chain innovation and network capabilities. Similarly, Asante et al. (2022) highlight that the impact of digital platforms on entrepreneurial SME performance spans various dimensions, including data analytics, digital transformation, and strategic marketing. Digital platforms improve operational efficiency and market reach, ultimately driving enhanced business performance.

Digital platform capability also strongly influences innovation (β = 0.686, t = 9.868, $p < 0.001$). The significant coefficient underscores the fundamental role of digital platforms

in fostering innovation within SMEs. This aligns with the Dynamic Capabilities Theory, which emphasizes the importance of organizational ability to leverage digital technologies for innovation. Supporting studies by Thomas et al. (2021) and Yao et al. (2022) illustrate that digital capabilities promote innovation by enhancing knowledge access and collaboration. Moreover, De Reuver et al. (2018) and Carroll et al. (2024) found that digital platforms influence organizational performance and innovation processes through capabilities like big data analytics, which, in turn, drive supply chain innovation and financial outcomes in SMEs. Hasselwander (2024) further highlights the role of digital platforms in fostering ecological and technological empowerment, which is critical for sustainable entrepreneurship. Meanwhile, Lee and Roger (2023) argue that a digital innovation orientation facilitates the creation of social and environmental value.

Innovation also has a positive and significant effect on entrepreneurial SMEs performance ($\beta = 0.306$, $t = 3.011$, $p < 0.01$). This demonstrates that innovation capabilities substantially enhance SMEs' business performance. The findings support the Innovation-Based Theory of the Firm, which identifies innovation as a key driver of organizational performance. This is consistent with Kurniawati et al. (2022), who confirmed the role of innovation in improving SMEs' competitiveness and performance. Foreman-Peck (2013) also identified self-reported innovation as a significant predictor of revenue growth in SMEs. Innovation boosts SME outcomes through new product development, operational reliability, and competitive advantage creation, ultimately improving financial performance through efficient supply chains and enhanced value creation (Bhatti et al., 2022; Sulistyowati et al., 2025). Ahmed et al. (2022) highlighted innovation's multi-dimensional impact on product development, process improvements, and administrative changes in enterprises.

The analysis also revealed that network capability significantly contributes to innovation ($\beta = 0.255$, $t = 3.375$, $p < 0.001$). This finding highlights the importance of SMEs' ability to build and manage networks for enhancing innovation capacity. It supports the network theory of innovation, which underscores the role of collaboration and knowledge exchange in innovation processes. Studies by Yang et al. (2022) align with this, showing that network capabilities enable access to resources and knowledge critical for innovation. Wang et al. (2022) and Hayati and Caniago (2023) further emphasize that big data analytics capabilities enhance network and digital platform capabilities, facilitating supply chain innovation and financial performance improvements. This underscores the critical role of network capabilities in driving innovation in competitive markets.

The interaction between network capability and digital platform capability demonstrates a positive and significant effect on innovation ($\beta = 0.166$, $t = 4.688$, $p < 0.001$). This finding highlights the synergistic effect of these two capabilities in fostering innovation. The result supports the Complementarity Theory, which suggests that combining complementary resources can generate higher value. Empirical evidence shows that integrating network and digital platform capabilities strengthens SMEs' innovation capacity, consistent with the findings of Thomas et al. (2021) and Yao et al. (2022). Digital platforms enable firms to leverage strategic information and analytics critical for driving technological innovation (Kamariotou & Kitsios, 2022; Persada et al., 2025).

CONCLUSION

This study reveals that innovation plays a pivotal role in linking entrepreneurial SME performance with the development of digital platform capability and network capability. The findings indicate that innovation is not only an outcome of high business performance but also a key driver in enhancing digital transformation. The strong relationship between innovation and digital platform capability emphasizes that SMEs must embed innovation at the core of their strategic operations to effectively adapt to digital changes. From a practical standpoint, the results provide essential insights for SMEs and policymakers. SMEs should strategically allocate their resources to foster innovation and build robust

networks as a response to strong business performance. This includes cultivating a culture of digital experimentation, upskilling employees in digital technologies, and applying integrated innovation management systems. Additionally, innovation should be embedded into collaborative processes to enhance digital networks, requiring SMEs to adopt modern digital tools and partnership models. Policymakers are encouraged to facilitate programs that support SME innovation, promote inclusive digital platforms, and develop collaborative ecosystems. Theoretically, this study enriches the understanding of digital capability development by demonstrating how innovation functions as a strategic mediator. The findings expand perspectives on how SME digital transformation depends not solely on technology adoption, but also on the alignment of internal innovation with external networks and organizational performance.

Despite these contributions, the study is limited by its cross-sectional nature and may not capture dynamic changes over time. Future research could employ longitudinal approaches to observe the evolution of digital capabilities. Comparative studies across industries and regions may also provide context-specific insights. Furthermore, integrating moderating variables such as firm size, age, and market dynamics could refine the model, while examining the influence of external support systems and infrastructure would deepen the analysis of SME digital transformation.

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