

DYNAMIC CAPABILITIES IN COMMUNITY-BASED MSMES: HOW INNOVATION AND COLLABORATION ENHANCE BUSINESS PERFORMANCE THROUGH STRATEGIC AGILITY

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Abstract:

Community-based Micro, Small, and Medium Enterprises (MSMEs) play an important role in the local economy because they are supported by social networks, collaboration, and a sense of community among business actors. However, MSMEs still face challenges in improving business performance amid a changing environment and dynamic competition. In this context, innovation and collaboration are seen as key factors in strengthening competitiveness, while strategic agility is considered a relevant adaptive capability. This study aims to analyze the influence of innovation and collaboration on MSME business performance and to examine the mediating role of strategic agility in community-based MSMEs at the Ngarsopuro Night Market in Surakarta City. This study uses a quantitative approach with a survey method of 100 respondents who are MSME owners and managers. Data analysis was performed using Partial Least Squares–Structural Equation Modeling (PLS-SEM) with the help of SmartPLS. The results show that innovation and collaboration have a positive and significant effect on MSME business performance. In addition, innovation and collaboration also have a positive and significant effect on strategic agility. However, strategic agility does not have a significant effect on business performance and does not mediate the relationship between innovation and collaboration on business performance. These findings indicate that in community-based MSMEs, improvements in business performance are driven more by innovation and collaboration directly than through the mechanism of strategic agility.

Keyword: Innovation; Collaboration; Strategic Agility; Business Performance; SMEs

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) play a vital role in Indonesia's economy, contributing more than 61 percent to the Gross Domestic Product (GDP) and employing 97 percent of the national workforce (KEMENKEU, 2023). The government also continues to encourage transformation through the MSME Go Digital program, in which around 27 million MSMEs have utilized digital technology (Isdarmadji, 2024). However, this number is still far from the total of 65 million active MSMEs. This indicates that most businesses still face limitations in developing innovation, collaboration, and adapting to the digital climate. In these conditions, MSMEs are required to have adaptive capabilities to increase competitiveness as a key foundation (Seyadi & Elali, 2021).

In a dynamic environment, Zahoor et al. (2022) emphasize that the resilience of small businesses is supported by the organization's ability to respond to change through the management of internal capabilities. These capabilities are important for MSMEs to respond to uncertainty and take advantage of new opportunities (Al Shawabkeh, 2024; Alkandi & Helmi, 2024). The Dynamic Capability View (DCV) framework provides a relevant explanation for these conditions. This theory views competitive advantage as depending not only on the resources owned by the company, but also on the ability to sense opportunities, seize strategic resources, and transform internal structures to enable continuous adaptation (Teece, 2009). Increasing strategic agility requires organizations to transform creativity into intangible capital that contributes to the company's strategic value (Bounfour et al., 2023).

In the context of DCV, one of the main challenges for MSMEs lies in their innovation capabilities, namely the capacity to create or renew products, processes, and business models to generate added value and market relevance (Adam & Alarifi, 2021). Innovation is directly related to the sensing process, when organizations are able to recognize changes in consumer needs, market trends, and new business

opportunities. MSMEs with strong sensing capabilities find it easier to update products and adjust designs to remain competitive.

In addition to innovation, collaboration capabilities also play an important role. External collaboration is understood as partnerships between MSMEs and suppliers, business communities, governments, or private parties to create value synergies (Mulyana & Wasitowati, 2021; García-Valenzuela et al., 2023). In the DCV framework, collaboration is included in the seizing process, which is how companies mobilize resources through strategic alliances. Research shows that collaboration encourages increased absorptive capacity, reduces innovation costs, and accelerates product development (Andrade-Rojas et al., 2021; Audretsch et al., 2023).

Both capabilities can directly drive business performance improvement, but they are not yet optimal. This is because not all forms of innovation and collaboration can be effectively converted into business performance improvement. A mechanism is needed to bridge and curate these two variables for optimal results. The appropriate mechanism is strategic agility, which is the ability of an organization to respond quickly to change, adjust its strategy, and effectively capitalize on opportunities (Doz & Kosonen, 2008). In DCV, strategic agility is a manifestation of the transforming process, which is the ability of companies to reconfigure resources and work structures to maintain long-term competitiveness (Stoeber & Kanbach, 2025; Teece, 2009).

This phenomenon can be seen in MSMEs at the Ngarsopuro Night Market in Surakarta City, which has become a center for creative economic activities including the culinary, handicraft, and local fashion sectors (Kurniawan, 2025). In recent years, businesses in this area have begun to adapt to modern business models through digitalization of promotion, product innovation, creative packaging, and cross-business collaboration. The Surakarta City Government has also strengthened the sustainable ecosystem of MSMEs through various programs such as the MSME Center, entrepreneurship training, and cooperation with the private sector (Agnia, 2025). However, business performance improvements in NMN MSMEs often fluctuate and tend to be unstable. Given these characteristics, the Ngarsopuro Night Market SMEs are a relevant subject for examining the role of strategic agility in improving their business performance.

A number of studies have proven that there is a positive relationship between strategic agility and organizational performance (López-Gamero et al., 2023; Alkandi & Helmi, 2024). Although various studies have shown a positive relationship between strategic agility and organizational performance. However, studies examining the mediating role of strategic agility in the relationship between innovation, collaboration, and business performance are still limited, especially in the context of local MSMEs. Therefore, this study aims to analyze the influence of innovation and collaboration on business performance with the mediating role of strategic agility in the Ngarsopuro Night Market MSMEs. Theoretically, this study expands the application of DCV by placing innovation and collaboration as dynamic capabilities that shape strategic agility. Practically, the findings of this study are expected to serve as a reference for local governments and MSME actors in strengthening competitiveness through the development of innovation, collaboration, and adaptive capabilities to the dynamics of the business environment.

2. Literature Review

2.1. Theoretical Framework

Dynamic Capabilities View (DCV)

Strategic agility within the Dynamic Capabilities View (DCV) framework is understood as an important capability that enables organizations to respond quickly to their environment by integrating, rebuilding, and configuring resources to remain competitive (Zahoor et al., 2022). In the context of DCV, strategic agility is a manifestation of the transforming capability that maintains a balance between sensing, seizing, and adjusting resources. Paulino et al. (2025) emphasize that MSMEs that are able to adapt this capability will be more agile in facing market fluctuations, both through innovation and strategic cooperation. García-Valenzuela et al. (2023) state that truly resilient organizations are those that are able to optimize their resources in an uncertain environment through dynamic capabilities.

Innovation

Innovation is defined as an organization's ability to develop new ideas, products, processes, or business models that can create added value and increase competitiveness (Sendawula et al., 2023; Stoeber & Kanbach, 2025). In the context of MSMEs, innovation has become an important necessity amid global competition and the development of digital technology (Adam & Alarifi, 2021). Based on the DCV perspective, innovation reflects the elements of sensing and seizing capability, namely the ability to recognize opportunities and utilize them to remain competitive (López-Gamero et al., 2023).

However, Osiyevskyy et al. (2025) dan Valdez-Juárez et al. (2024) emphasize that innovation does not always have a positive impact if business actors have limited resources or weak external support.

According to Issau et al. (2022), innovation can be measured through three main dimensions, namely Product Innovation, the ability to create or modify products to make them more attractive and suitable for market needs; Process Innovation, the application of new methods in the production or distribution process to improve efficiency; and Market Innovation, efforts to introduce products to new market segments or use new marketing strategies to expand reach.

Collaboration

Collaboration is an organization's ability to establish cooperation with other parties, both internal and external, through knowledge exchange, process integration, and joint value creation (Paulino et al., 2025). Within the DCV framework, collaboration is viewed as a relational dynamic capability that strengthens the sensing and transforming processes, namely the ability to recognize opportunities and respond to change optimally (Andrade-Rojas et al., 2021). For MSMEs, strategic cross-sector collaboration with external parties has been proven to increase product innovation and expand market reach (Novirin, 2025). Through effective collaboration, MSMEs can accelerate the learning and innovation processes that form the basis for strategic agility.

Common forms of collaboration include cooperation with suppliers, customers, competitors, and the government or institutions (Mulyana & Wasitowati, 2021; Audretsch et al., 2023). According to Zhang & Zhu (2021), collaboration (collaborative capability) can be measured through three main dimensions, namely Scanning, the company's ability to identify opportunities for cooperation through monitoring the external environment; Relational Skills, the ability to build and maintain good relationships with business partners; and Adaptation, the ability to adjust and renegotiate cooperation to remain effective in the face of environmental changes.

Strategic Agility

Strategic agility is defined as an organization's ability to respond to environmental changes quickly, accurately, and adaptively, including resource reallocation and business strategy adjustments (Haider & Martins, 2021; Paulino et al., 2025). A study by Saegebrecht & Walter (2025) shows that the dimensions of strategic agility (sensitivity, unity, fluidity) also support the process of innovating new business models in dynamic environments. Strategic agility in the context of MSMEs is evident when businesses can quickly respond to changes in consumer tastes, adjust production processes, or modify marketing strategies (Sharma et al., 2024).

From a DCV perspective, strategic agility functions as a transforming capability that synergizes sensitivity, leadership, and resource management to remain relevant amid change. Strategic agility can be measured through three main dimensions, namely Strategic Sensitivity, which is the extent to which an organization is able to quickly recognize market changes and new opportunities. Leadership Unity, the level of alignment of the vision and commitment of leaders in making strategic decisions quickly and consistently. Resource Fluidity, the ability of an organization to allocate and mobilize resources flexibly to support strategy adjustments (Vrontis et al., 2023).

Business Performance

Business performance is defined as an organization's ability to achieve its planned objectives through managerial activities by utilizing available resources effectively and efficiently (Alkandi & Helmi, 2024). Business performance reflects how effectively an organization utilizes its resources to achieve strategic objectives, both financial and non-financial (Khraim, 2022; Yadav et al., 2024).

In the context of MSMEs, most studies use a perceptual approach to business performance due to limited access to formal financial data (Sendawula et al., 2023). Therefore, business performance measurement covers not only financial aspects but also non-financial dimensions. According to Susanti et al. (2023), business performance indicators can be measured through market growth, productivity, brand reputation, and customer satisfaction. Meanwhile, according to Issau et al. (2022), MSME performance can be measured through profit level and customer satisfaction.

2.2. Hypothesis Development

The Effect of Innovation on Business Performance

Innovation directly improves business performance by creating operational efficiency and product differentiation (López-Gamero et al., 2023). Research by Paulino et al. (2025) confirms that MSMEs with high innovative performance tend to be more responsive and resilient in the face of external disruptions. Innovation drives operational efficiency, increases selling value, and creates new value-added propositions (Sendawula et al., 2023). Chen et al. (2023) add that digital innovations such as IoT integration contribute significantly to industry profitability and sustainability. Thus, strong innovative

performance will increase an organization's potential to improve its business performance amid market pressures. Based on the above explanation, the hypothesis proposed is:

H1: Innovation has a positive and significant effect on business performance.

The Effect of Collaboration on Business Performance

Collaboration has a positive effect on business performance through cooperation between actors, increased process efficiency, and collective innovation (Andrade-Rojas et al., 2021). Ikechukwu (2020) adds that collaboration based on trust and open communication strengthens the profitability and productivity of MSMEs. An empirical study by (Kusa, 2023) shows that collaboration has a positive and significant relationship with business performance. This is reinforced by Lu et al. (2024), who show that international collaboration drives new product development performance through cross-organizational learning. Findings by Mulyana & Wasitowati (2021) on innovation performance in SMEs. Based on the above explanation, the hypothesis proposed is:

H2: Collaboration has a positive and significant effect on business performance.

The Influence of Innovation on Strategic Agility

Innovation plays an important role in accelerating the formation of knowledge-based agility and organizational agility through the process of cross-organizational knowledge transfer (Hutton et al., 2024). Empirically, the direct relationship between innovation and organizational agility has been proven to be positive and significant (Arsawan et al., 2022). This is reinforced by research by Abdulkhalik et al. (2024), which shows that innovative capabilities have a positive effect on strategic agility. This is because innovative organizations tend to be better able to recognize environmental opportunities, adapt quickly to change, and manage resources effectively and efficiently. Purwanto et al. (2023) add that innovation capability has a positive effect on strategic agility through the mechanisms of seizing, shifting, and transforming. Thus, the higher an organization's innovation capability, the greater its level of strategic agility. Based on the above explanation, the hypothesis proposed is:

H3: Innovation has a positive and significant effect on strategic agility.

The Influence of Collaboration on Strategic Agility

Collaboration strengthens strategic agility by enhancing knowledge exchange, cross-organizational coordination, and access to external resources (Xie & Wang, 2025). A study by Saegbrecht & Walter, (2025) shows that strategic collaboration promotes resource fluidity and leadership unity, two key elements of strategic agility. Strategic collaboration contributes significantly to organizational agility in maintaining competitive advantage (Al Shawabkeh, 2024). Ragazou et al. (2022) also add that cross-sector collaboration enables companies to adaptively redesign business models, improve operational efficiency, and accelerate strategic decision-making processes. Therefore, the ability to collaborate is considered an important part of strategic agility in facing uncertainty and threats. Based on the above explanation, the hypothesis proposed is:

H4: Collaboration has a positive and significant effect on strategic agility.

The Influence of Strategic Agility on Business Performance

Although most literature states that strategic agility plays an important role in improving business performance, empirical findings related to this relationship still show mixed results. A number of studies have found that strategic agility has a positive and significant impact on organizational performance through increased operational efficiency, continuous innovation, and the ability to manage risk (Arokodare, 2020; ALfarajat, 2023; Manurung & Sudhartio, 2024), and can strengthen company performance in both stable and dynamic environments (Arici & Gok, 2023). However, other studies show different results, where strategic agility does not have a direct positive and significant effect on MSME performance (Munawar et al., 2022). These differing findings indicate that the role of strategic agility in improving business performance is contextual and greatly influenced by organizational characteristics, decision-making structures, and the scale and operational orientation of the business. Based on the above explanation, the hypothesis proposed is:

H5: Strategic agility has a positive and significant effect on business performance.

The Influence of Innovation and Collaboration on Business Performance with Strategic Agility as a mediating variable

Within the Dynamic Capabilities View framework, innovation and collaboration are viewed as key capabilities that have the potential to improve business performance both directly and through the strengthening of strategic agility. Innovation enables organizations to recognize opportunities and adapt quickly to changes in the business environment, thereby strengthening internal strategic agility (Hutton et al., 2024). A number of studies show that agility triggered by continuous innovation can accelerate

business model renewal and improve organizational performance (Saegebrecht & Walter, 2025; Troise et al., 2022). Furthermore, Zongyuan et al. (2025) found that organizational agility mediates the relationship between innovation capability and firm performance, indicating that innovative capabilities can be translated into performance through increased internal agility.

On the other hand, strategic collaboration also plays a role in shaping strategic agility through knowledge exchange, cross-actor coordination, and shared resource utilization (Yu et al., 2024). Paulino et al. (2025) show that strategic agility mediates the relationship between collaboration capability and organizational performance, while Adomako et al. (2022) prove the mediating role of strategic agility in the relationship between networking capability and SME performance. However, the literature also shows that the role of strategic agility as a mediating variable is contextual and not always empirically confirmed. Tenggono et al. (2024) found that strategic agility does not mediate the relationship between dynamic managerial capability and strategic renewal, indicating that strategic agility does not always function as a mechanism for channeling the influence of organizational capabilities on performance outcomes. Adapting this context, the hypotheses proposed are:

H6: Positive and significant strategic agility mediates the relationship between innovation and business performance.

H7: Positive and significant strategic agility mediates the relationship between collaboration and business performance.

2.3. Conceptual Framework

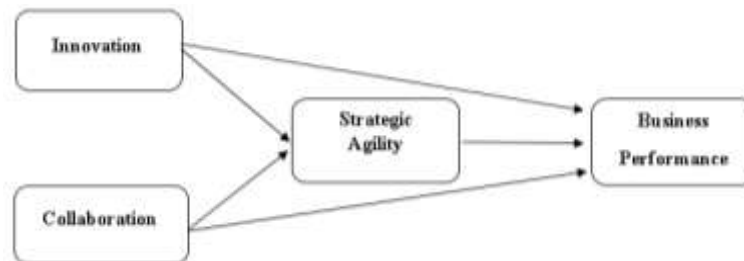


Fig 1. Conceptual Framework Model

H1= Innovation has a positive and significant effect on Strategic Agility.

H2= Collaboration has a positive and significant effect on Strategic Agility.

H3= Innovation has a positive and significant effect on Business Performance.

H4= Collaboration has a positive and significant effect on Business Performance.

H5= Strategic Agility has a positive and significant effect on Business Performance.

H6= Strategic Agility positively and significantly mediates the effect of Innovation on Business Performance.

H7= Strategic Agility positively and significantly mediates the effect of Collaboration on Business Performance.

3. Research Method

3.1. Research Design

This study uses a quantitative approach using a survey method. This approach was chosen because it allows for direct measurement of the relationship between variables, namely innovation, collaboration, strategic agility, and business performance, as well as enabling empirical testing of hypotheses through statistical analysis (Sari et al., 2022). Data were collected cross-sectionally, i.e., at a single point in time, using a structured questionnaire with a 1–7 Likert scale (1 = strongly disagree; 7 = strongly agree) (Koo & Yang, 2025).

3.2. Population and Sample

The population in this study was MSMEs operating in the Ngarsopuro Night Market, Surakarta City. This population included various business sectors such as culinary, handicrafts, and small trade that actively operated in the night market. Based on data from the Ngarsopuro Night Market management, there were around 200 active business units.

The sampling technique used was purposive sampling. This technique was chosen because it requires respondents or informants with certain characteristics relevant to the research objectives (Campbell et al., 2020), with the following criteria:

1. MSMEs have been operating for at least 1 year at the Ngarsopuro Night Market.

2. MSMEs have owners or managers who are directly involved in business decision-making.

The sample size was determined based on the 10 times rule guideline from Hair et al. (2021), which is a minimum of ten times the largest number of indicators in a construct. In this study, the

construct with the most indicators has five indicators, so the minimum number of informants required is 50 informants. To anticipate invalid or incomplete data, 100 questionnaires were distributed so that the collected data would meet the requirements for statistical analysis.

3.3. Research Instruments

This research instrument consists of four main variables, namely innovation, collaboration, strategic agility, and business performance. All indicators are adapted from previous literature with adjustments to the context of MSMEs in Indonesia. The innovation variable is measured through three dimensions developed by Issau et al. (2022), namely product innovation, process innovation, and market innovation. The collaboration variable is measured using three indicators developed by Zhang & Zhu (2021), covering scanning, relation skills, and adaptation. Furthermore, the strategic agility variable is measured based on three main dimensions as developed by Vrontis et al. (2023), namely strategic sensitivity, leadership unity, and resource fluidity. Meanwhile, the business performance variable is measured through five indicators that reflect financial and non-financial aspects, namely market growth, productivity, brand reputation, customer satisfaction (Susanti et al., 2023), and profit level (Issau et al., 2022).

3.4. Data Analysis Techniques

Data analysis in this study was conducted using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach through SmartPLS software. This method was chosen because it is capable of analyzing complex relationships between latent variables, is suitable for relatively small sample sizes, and does not require data to be normally distributed (Hair et al., 2021; Othman & Yusuff, 2022). The PLS-SEM approach is widely used in research because it can efficiently handle models with many constructs and indicators (Henseler et al., 2009).

Data analysis was carried out in two main stages, namely measurement model evaluation (outer model) and structural model evaluation (inner model). In the measurement model evaluation stage, construct validity and reliability were tested using factor loading values, Average Variance Extracted (AVE), Composite Reliability (CR), and Cronbach's Alpha. A construct is considered valid if it has a factor loading value greater than 0.70 and an AVE greater than 0.50, while reliability is considered good if the CR and Cronbach's Alpha values exceed 0.70, respectively (Othman & Yusuff, 2022). In addition, discriminant validity testing was conducted using the Heterotrait-Monotrait Ratio (HTMT) with an HTMT value of less than 0.90 as the acceptance threshold (Rasoolimanesh, 2022).

Furthermore, at the structural model evaluation stage, the relationship between latent variables in the research model was tested. This test included an analysis of the R² value to assess the contribution of independent variables to dependent variables, as well as the Q² value to measure the predictive relevance of the model. The path coefficient significance test was conducted through a bootstrapping procedure to obtain t-statistics and p-values. The relationship between variables is considered significant if the t-statistics > 1.96 and p-value < 0.05 (Henseler et al., 2009). In addition, the analysis also considers the effect size (f²) and adjusted R² values to evaluate the strength of each construct's influence and the overall feasibility of the model (Hair et al., 2017).

4. Results and Discussion

4.1. Result

The measurement model in this study was evaluated to ensure that all constructs met the validity and reliability criteria before testing the relationships between variables. Table 1 shows that all indicators had outer loading values above the minimum threshold of 0.50. This finding indicates that the indicators used were able to represent the latent constructs well.

Convergent validity can be measured through the AVE (Average Variance Extracted) value. In Table 1, all constructs have an AVE value above 0.05, indicating that the latent variables are able to explain more than half of the variance of the indicators. This shows that the variables of innovation, collaboration, strategic agility, and business performance can be declared to meet convergent validity.

Table 1. Construct Reliability

Source: Smart-PLS (2026)

Variabel	Loading Range	Cronbach's Alpha	Composite Reliability	AVE	Remark
Innovation	0.763 – 0.853	0.942	0.950	0.656	Reliabel
Collaboration	0.755 – 0.846	0.891	0,913	0.541	Reliabel
Strategic Agility	0.712 – 0.839	0.933	0.943	0.626	Reliabel
Business Performance	0.542 – 0.869	0.940	0.949	0.649	Reliabel

Construct reliability was tested using Composite Reliability and Cronbach's Alpha. The CR value

ranged from 0.913 to 0.950, and the CA value was above the threshold of 0.7, indicating a very good level of internal consistency. This indicates that the measurement instruments used in this study are stable.

Tabel 2. Discriminat Validity of HTMT

	Business Performance	Collaboration	Innovation	Strategic Agility
Business Performance				
Collaboration	0.888			
Innovation	0.891	0.841		
Strategic Agility	0.895	0.899	0.869	

Source: Smart-PLS (2026)

In Table 2, discriminant validity was tested using the Heterotrait–Monotrait Ratio (HTMT) approach. All values were below the threshold of 0.90, indicating that each construct had clear conceptual differences and did not overlap empirically. With all measurement model evaluation criteria met, the analysis can proceed to the structural model evaluation stage.

Tabel 3. Structural Model Evaluation

Endogenous Variabel	Predictor	R ²	F ²	Effect size	Q ²
Strategic Agility	Innovation	0.768	0.313	Large	0.436
Business Performance	Collaboration		0.413	Large	
	Innovation	0.800	0.222	Medium	0.495
	Collaboration		0.100	Small	
	Strategic Agility		0.105	Small	

Source: Smart-PLS (2026)

The purpose of structural model evaluation is to assess the strength of the relationship between latent variables and the model's ability to explain endogenous variables. In Table 3, the analysis results show a coefficient of determination (R²) value for Strategic Agility of 0.768, indicating that innovation and collaboration are able to explain 76.8% of the variation in Strategic Agility simultaneously. This value is relatively high and shows that both exogenous variables play a very strong role in shaping the strategic agility of MSMEs.

Furthermore, the R² value for Business Performance is 0.800, which shows that the combination of innovation, collaboration, and strategic agility plays a very strong role in explaining 80% of the variation in business performance. This value indicates that the research model has excellent predictive capabilities in the context of MSMEs.

Effect Size Analysis (F²) shows that innovation and collaboration have a large effect on strategic agility, indicating that these two variables are the main determinants in improving the adaptive capabilities of MSMEs. However, the influence of each variable on business performance is at a small to medium level. This indicates that there are other factors that influence MSME business performance outside of this research model. The Q² value, which is entirely greater than zero, shows that this model has good predictive relevance and practical value in explaining the phenomenon.

Tabel 4. Hypothesis Testing Results

Hypothesis	Coeff	T-statistics	P Values	Result
H1 In – BP	0.387	2.596	0.010	Supported
H2 Cl – BP	0.269	2.714	0.007	Supported
H3 In- SA	0.432	3.706	0.000	Supported
H4 Cl – SA	0.496	4.742	0.000	Supported
H5 SA- BP	0.301	1.803	0.072	Not supported

Source: Smart-PLS (2026)

Table 4 shows the results of the analysis that innovation has a positive and significant effect on business performance. ($\beta = 0.387$; $p = 0.010$), so H1 is accepted. Collaboration has a positive and significant effect on business performance ($\beta = 0.269$; $p = 0.007$), so H2 is also accepted. These findings indicate that increasing innovation capabilities and the role of external collaboration have been proven to contribute directly to improving the business performance of MSMEs.

In addition, innovation and collaboration are proven to have a positive and significant effect on business strategic agility ($\beta = 0.432$; $p < 0.001$) and ($\beta = 0.496$; $p < 0.001$), so that H3 and H4 are accepted.

However, this is not in line with the role of strategic agility, which does not have a significant effect on business performance ($\beta = 0.301$; $p = 0.072$), so H5 is not supported.

Tabel 2. Indirect Effect

Hypothesis	Coeff	T-statistics	P Values	Result
H6 In – SA-BP	0.130	1.530	0.127	Not supported
H7 CI – SA-BP	0.149	1.652	0.099	Not supported

Source: Smart-PLS (2026)

Table 5 shows the results of the mediation effect test, which indicates that strategic agility does not play a mediating role in the relationship between innovation and collaboration on business performance ($\beta = 0.130$; $p = 0.127$) ($\beta = 0.149$; $p = 0.099$), thus rejecting H6 and H7. These findings indicate that although innovation and collaboration have a significant effect on increasing strategic agility, strategic agility is not yet able to act as a direct predictor or through a mediation mechanism on the business performance of MSMEs.

4.2. Discussion

Based on the results of the analysis above, innovation and collaboration play a vital role in improving business performance and at the same time confirm that these two variables are strategic capabilities that can create value directly. In the DCV framework, innovation describes the ability to seize opportunities that enable organizations to take advantage of opportunities through the development of new products, processes, and business models. Meanwhile, collaboration acts as a mechanism that strengthens the sensing and transforming processes to respond to opportunities and overcome internal resource constraints.

In the context of the Ngarsopuro Night Market, which is event-based, competitive, and highly influenced by visitor traffic, innovation tends to be practical and contextual in nature, responding to consumer preferences. This explains why innovation can have a direct impact on business performance, particularly on short-term indicators such as increased sales and consumer appeal. Similarly, collaboration between MSME actors enables the creation of promotional synergies, market information exchange, and operational efficiency. These findings are in line with (Andrade-Rojas et al. (2021), López-Gamero et al. (2023) serta Paulino et al. (2025), who assert that innovation and collaboration capabilities can improve operational efficiency, product differentiation, and access to external resources, which directly impact business performance.

The analysis also shows that innovation and collaboration have a positive and significant effect on organizational strategic agility. This finding confirms that adaptive capabilities are built by an organization's ability to innovate and collaborate. From a DCV perspective, strategic agility represents a transforming capability that enables organizations to reorganize their resources, respond quickly to change, and maintain their competitive advantage. This is in line with Abdulkhaliq et al. (2024), Al Shawabkeh (2024), and Arsawan et al. (2022), who emphasize that innovative organizations tend to be more adaptable to change and manage resources efficiently in order to maintain the organization's competitive advantage.

However, the results of the analysis show that strategic agility does not have a significant effect on business performance. This finding is in line with Munawar et al. (2022), who emphasize that even though MSMEs have a high level of strategic agility, this capability has not been directly converted into improved business performance. In the context of Ngarsopuro Night Market, this condition can be explained by characteristics that are highly influenced by external factors such as area management policies or tourist flows. Under these conditions, strategic agility functions more as a survival mechanism than as a driver of measurable business performance improvement.

The absence of a significant influence of strategic agility on business performance also explains why this variable does not mediate the relationship between innovation and collaboration on business performance. These findings indicate that innovation and collaboration create value directly for business performance without the need for complex strategic transformation mechanisms. This contradicts several previous studies that positioned strategic agility as a mediator between dynamic capabilities and performance. The effectiveness of the mediating role of strategic agility also depends heavily on the organizational context, in terms of size, scale, and business model.

The findings of this study are in line with Tenggono et al. (2024), which shows that strategic agility does not always act as a mediator in the relationship between organizational capabilities and strategic outcomes. The differences in findings with Paulino et al. (2025) dan Zongyuan et al. (2025) can be explained by the characteristics of the organization. In this study, the organizational context is MSMEs, which often have limitations in terms of scale, formal structure, and managerial systems. In this context, strategic agility plays more of a role as an internal adaptive mechanism that maintains the

flexibility and responsiveness of the organization, but has not been fully converted into optimal financial and operational performance improvements. Thus, this study enriches the DCV literature by showing that dynamic capabilities do not always operate through mediation pathways, and that the relationship between strategic agility and business performance is contextual.

4.3. Limitations

First, this study uses a cross-sectional design, so it is not yet able to capture the long-term dynamics of the role of strategic agility. Given the nature of strategic agility, which tends to have an impact in the medium to long term, the time-lag effect may not yet be fully observable. Second, this study deliberately focuses on community-based MSMEs in the Ngarsopuro Night Market in Surakarta for an in-depth exploration of the mechanisms of dynamic capabilities in a real and active community ecosystem. However, the empirical scope of this study is limited to one community, so generalizing the findings to other MSME communities with different characteristics needs to be done carefully.

4.4. Implication

Theoretically, these findings enrich the entrepreneurship literature by confirming that the role of strategic agility is not always universal as a predictor of performance, especially in the context of community-based MSMEs. The resulting model shows that innovation and collaboration have more relevant direct influence pathways than mediation mechanisms. Practically, these results have implications for community managers and policymakers to prioritize strengthening the collaborative ecosystem and innovation capacity of MSMEs through networking facilitation, community-based incubation programs, and policy support that encourages innovation in line with market characteristics, such as the Ngarsopuro Night Market.

5. Conclusions

This study concludes that innovation and collaboration are key factors in improving the business performance of community-based MSMEs at the Ngarsopuro Night Market in Surakarta. Innovation has been proven to have a positive and significant effect on business performance, demonstrating that the ability of MSME actors to develop adaptive products, processes, and marketing approaches contributes directly to improved business performance. Similarly, collaboration with fellow MSME actors, communities, and external partners has a positive impact on business performance, reflecting the strong role of social networks and community solidarity in supporting business sustainability.

On the other hand, although innovation and collaboration significantly increase strategic agility, this strategic agility has not been proven to have a direct effect on business performance or to act as a mediator. These findings indicate that in community-based MSMEs, strategic agility functions more as an internal capability that supports business stability and sustainability, rather than as a mechanism that is directly translated into short-term performance improvements. The relatively stable characteristics of the Ngarsopuro Night Market community, which is based on social relations and oriented towards collective sustainability, are thought to make business performance more influenced by actual innovation and collaboration practices than by abstract strategic maneuvering capabilities.

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