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Accelerating MSME Performance in Bantul Yogyakarta Through Product Innovation: The Role of Financial Literacy, Digital Marketing, Capital Access, and Financial Reporting Capability

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ABSTRACT: Micro, Small, and Medium Enterprises (MSMEs) are the main pillars of the national and regional economy, contributing more than **60% of GDP** and absorbing around **97% of the workforce**. In Bantul Regency, Yogyakarta, MSMEs dominate local economic activity. However, MSME performance still faces structural challenges. The level of **financial literacy of MSME actors is still below 40%**, the use of **digital marketing is not optimal** (around 15–20%), and **access to capital is limited**, reflected in the portion of MSME credit, which is only **20–22%**. Weak ability to prepare financial reports has an impact on low **product innovation**, so that the acceleration of MSME performance is not sustainable. This condition has an impact on low product innovation and MSME performance on an ongoing basis. Therefore, this study aims to analyze the influence of financial literacy, digital marketing, access to capital, and the ability to prepare financial reports on MSME performance with product innovation as an intervening variable. This study uses a quantitative approach with a survey method on MSME actors in Bantul Regency, Yogyakarta. Primary data were collected through structured questionnaires distributed to selected MSME owners or managers using purposive sampling techniques. Data analysis was conducted using the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method to test direct and indirect relationships between variables, including the mediating role of product innovation.

KEYWORDS: Accelerating MSME Performance; Product Innovation; Financial Literacy; Digital Marketing; Access to Capital; and Financial Reporting Ability

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are globally recognized as a key pillar of economic growth, job creation, and strengthening socio-economic resilience. In many developing countries, MSMEs contribute significantly to Gross Domestic Product (GDP) and are a crucial instrument in reducing poverty and economic inequality [1]. In a global context, digital transformation and increased financial literacy are two crucial factors determining the competitiveness and sustainability of MSMEs amidst increasingly competitive market dynamics [2]. Regionally, Indonesia has one of the largest numbers of MSMEs in the world, with this sector absorbing more than 90% of the national workforce. In the Special Region of Yogyakarta, particularly Bantul Regency, MSMEs play a vital role in supporting the regional economy through the creative industries, culinary arts, crafts, and trade sectors. However, various studies show that MSMEs in this region still face structural challenges, including low financial literacy, limited use of digital marketing, suboptimal access to capital, and weak ability to prepare accountable financial reports [3,4]. Financial literacy is an important foundation for MSMEs in making economic decisions, managing cash flow, and planning business investments. MSMEs with a good level of financial literacy tend to have more stable performance and higher resilience in the face of economic uncertainty [5]. However, a low understanding of basic financial concepts remains a common problem for MSMEs in Indonesia, which results in low-quality financial management and limited access to formal financial institutions [6]. In addition to financial literacy, digital marketing has emerged as a key strategy in expanding market reach and increasing MSME competitiveness.

The use of social media, marketplaces, and digital platforms allows MSMEs to reach consumers more widely at a relatively efficient cost [1]. International research shows that digital marketing contributes positively to increasing sales, customer loyalty, and MSME business performance [7]. However, the level of adoption and utilization of digital marketing in regional MSMEs is still not optimal due to limited digital competencies and resources [4]. Access to capital is also a crucial issue in MSME development. Limited capital hinders MSMEs in expanding their businesses, adopting technology, and developing product innovations. Many MSMEs have not been able to access formal financing because they do not have adequate and credible financial reports [8]. The ability to prepare good financial reports not only functions as an internal control tool, but is also an important prerequisite in building trust in financial institutions and investors [9]. Although various studies have examined the influence of financial literacy, digital marketing, and access to capital on MSME performance, most studies are still partial and have not integrated all these variables in a comprehensive research framework [5,7].

The purpose of this study is to analyze the direct and indirect effects of financial literacy, digital marketing, access to capital, and financial reporting capabilities on MSME performance through product innovation. Theoretically, this study enriches the MSME literature with an innovation-based integrative approach. Practically, the research results are expected to be a basis for local governments, financial institutions, and MSME actors in formulating strategies to improve sustainable MSME performance. This article is structured as follows: the first section is an introduction, the second section discusses the literature review and hypothesis development, the third section explains the research methodology, the fourth section presents the results and discussion, and the final section contains the conclusions and implications of the research.

II. LITERATURE REVIEW

Resource-Based View (RBV) : Resource-Based View (RBV) states that competitive advantage and organizational performance are determined by the ownership and management of internal resources that are valuable, rare, inimitable, and non-substitutable (VRIN) [11]. In the context of MSMEs, internal resources are not only physical assets, but also include intangible resources such as financial literacy, digital competence, managerial skills, and the quality of financial reporting [12]. Financial literacy and the ability to prepare financial reports can be seen as *intangible strategic resources* that improve the quality of decision-making and operational efficiency of MSMEs. RBV emphasizes that MSMEs that are able to manage these resources optimally will have better competitiveness and business performance than MSMEs that do not have them [13]. **Dynamic Capability Theory :** Dynamic Capability Theory complements RBV by emphasizing the importance of an organization's ability to adapt, integrate, and reconfigure internal resources in the face of dynamic environmental changes [14]. Digital marketing and product innovation are forms of *dynamic capabilities* that enable MSMEs to respond to changes in consumer behavior, technological advances, and market competition [15]. In the context of MSMEs in Bantul, Yogyakarta, which are dominated by the creative and culinary sectors, the ability to adopt digital marketing and carry out product innovation is a key factor in maintaining business sustainability and improving business performance [16]. **Innovation Theory** : Innovation Theory explains that innovation is the main driver of economic growth and company performance through the creation of added value, product differentiation, and process efficiency [17]. Product innovation in MSMEs includes the development of design, quality, function, and product packaging that is tailored to market needs. Previous research shows that product innovation not only has a direct influence on MSME performance, but also acts as a mediating mechanism that connects internal resources and business strategies with performance results [18]. **Concept and Definition of Research Variables :** Financial literacy is defined as an individual's ability to understand, manage, and use financial information to make effective economic decisions [19]. In the context of MSMEs, financial literacy includes the ability to manage cash flow, prepare budgets, understand financing, and assess business risks. Empirical studies show that financial literacy has a significant effect on MSME performance because it increases the efficiency of financial management and business sustainability [20]. **Digital Marketing** : Digital marketing is the use of digital technology and the internet to promote products and services through social media, marketplaces, and other digital platforms [21]. Digital marketing enables MSMEs to reach a wider market at a relatively low cost and increases interaction with consumers. Previous research shows that digital marketing has a positive effect on increasing sales, customer loyalty, and MSME performance [22]. **Access to Capital:** Access to capital refers to the ability of MSMEs to obtain financing from formal and informal sources, such as banking, cooperatives, and fintech [23]. Adequate access to capital allows MSMEs to expand their businesses, invest in technology, and develop product innovations. However, limited access to capital remains a major obstacle for MSMEs due to weak administration and financial reporting [24]. Quality financial reports increase business transparency and trust in financial institutions. This ability also serves as a basis for strategic decision-making and internal control of MSMEs [26]. **Product Innovation**: Product innovation is the process of developing new products or improving existing products to increase added value and competitiveness [27]. In this study, product innovation is positioned as an intervening variable that bridges the influence of internal resources and business strategy on MSME

performance. MSME performance: MSME performance is measured through financial and non-financial indicators, such as revenue growth, profit increase, customer satisfaction, and business sustainability [28].

Previous Research Findings: Various studies have examined the relationship between financial literacy, digital marketing, access to capital, and MSME performance. Nenta and Astuti found that financial literacy and business capital significantly influence MSME performance in Sleman [29]. Suardana and Musmini showed that access to capital and financial literacy have a positive effect on MSME performance in Bali [30]. International research also shows that digital marketing plays an important role in improving MSME performance by increasing market reach and sales [31]. In addition, product innovation has been shown to mediate the relationship between internal resources and business performance [32]. However, most studies are still partial and have not integrated all variables in a comprehensive research model, especially in the context of regional MSMEs such as Bantul Yogyakarta. Based on RBV, financial literacy and financial reporting capabilities are strategic internal resources that improve the quality of business management. Digital marketing and access to capital act as dynamic capabilities that enable MSMEs to adapt to market changes. Product innovation acts as a mechanism for transforming these resources and capabilities into better business performance. Thus, product innovation is seen as being able to strengthen the influence of financial literacy, digital marketing, access to capital, and financial reporting capabilities on MSME performance.

1. Conceptual Framework

This study aims to analyze **the acceleration of MSME performance in Bantul Regency, Yogyakarta** through **Product Innovation** as a strategic mechanism that connects internal capabilities and external supporting factors of MSMEs. In a dynamic and competitive business environment, MSMEs are not only required to have resources, but also the ability to manage and transform these resources into sustainable economic value. Based on **the Resource-Based View (RBV)** , an organization's competitive advantage is determined by the mastery of valuable, rare, difficult to imitate, and irreplaceable internal resources [33]. In the context of MSMEs, **financial literacy** and **financial reporting capabilities** are intangible resources that play an important role in increasing business management efficiency and supporting the product innovation process. MSMEs with good financial literacy tend to be able to allocate capital optimally and manage innovation risks more measurably, thus having a positive impact on business performance. Furthermore, **Dynamic Capability Theory** emphasizes the organization's ability to integrate, build, and reconfigure internal and external resources in response to changes in the business environment [34]. **Digital marketing** is seen as a dynamic capability that enables MSMEs to understand market needs in real time, expand consumer reach, and obtain relevant feedback for product innovation development. Furthermore, **access to capital** strengthens MSMEs' adaptive capacity by providing financial support for experimentation, development, and commercialization of new products.

According to **Innovation Theory** , product innovation is the main driver of business growth and sustainability, especially for small and medium-sized business units [35]. Product innovation not only includes the creation of new products, but also improvements in product quality, design, and packaging that can increase the added value and competitiveness of MSMEs in the market. Thus, product innovation acts as an **intervening variable** that bridges the influence of financial literacy, digital marketing, access to capital, and financial reporting capabilities on MSME performance. In addition, **the financial capability perspective** states that the ability to prepare and utilize reliable financial reports is the basis for strategic decision-making, including innovation and business development decisions [36]. Good financial reports enable MSMEs to evaluate product profitability, identify market opportunities, and increase business credibility before financial institutions, which ultimately has an impact on improving business performance. Based on this theoretical basis, the conceptual framework of this study places **Financial Literacy, Digital Marketing, Access to Capital, and Financial Reporting Capability** as **independent variables** that have a direct influence on **MSME Performance** , and an indirect influence through **Product Innovation** as **an intervening variable** . The relationship between these variables reflects that the acceleration of Bantul's MSME performance is determined not only by resource availability but also by the MSME's ability to transform those resources into market-valuable and sustainable product innovations.

III. RESEARCH METHODS

This study uses a **quantitative approach with an explanatory research design** , which aims to test the causal relationship between variables as formulated in the hypothesis H1–H10. The research model places **MSME performance** as the dependent variable, **product innovation** as the mediating variable, and **financial literacy, digital marketing, access to capital, and the ability to prepare financial reports** as independent variables. The object of the study is **MSMEs operating in Bantul Regency, Yogyakarta Special Region** , which are registered with the Bantul Regency Cooperatives, SMEs, and Industry Office . The selection of Bantul is based on the characteristics of the region that has significant growth of MSMEs in the culinary, craft, and fashion sectors, as well as support from local government policies in developing the creative economy. The focus of the study is directed at MSMEs that

have been active for at least 2 years in order to have adequate operational experience and performance data. The research population is all active MSMEs in Bantul Regency with a total of 96,360 MSMEs .

IV. RESEARCH RESULTS

This study took as its object **the Micro, Small, and Medium Enterprises (MSMEs) actors** in Bantul Regency, one of the regencies in the Special Region of Yogyakarta, which has a strong economic dynamic based on entrepreneurship and creative industries. Bantul Regency is known as a region with an economic structure dominated by the trade, processing industry, crafts, culinary, and creative services sectors. MSMEs in this region play an important role as drivers of the local economy, absorbing labor and contributing to community income. In general, the characteristics of MSMEs in Bantul are dominated by micro and small businesses with production scales ranging from household to community scale. Many business actors are engaged in crafts (batik, pottery, wood crafts), traditional and modern culinary, fashion, and creative products based on local culture. The development of digital technology in recent years has also encouraged the transformation of MSME business models, especially in terms of product marketing and distribution. This study involved **396 MSME respondents**, who were selected as a representative sample to describe the actual conditions of business actors in Bantul. Respondents consisted of business owners or managers who had run their businesses for at least two years, so they had experience in financial management, marketing, and product development. With this sample size, this study has a sufficient level of precision for analysis using the **SEM-PLS approach**. Conceptually, the research object is focused on how **MSME performance acceleration** can be achieved through **product innovation**, by considering four main factors, namely financial literacy, digital marketing, access to capital, and financial reporting capabilities. Financial literacy is the foundation for rational and sustainable business decision-making. Digital marketing plays a role in expanding market reach and increasing interaction with consumers. Access to capital allows for increased production capacity and business development. Meanwhile, financial reporting capabilities reflect the professionalism and credibility of the business in establishing relationships with financial institutions and business partners. In the context of Bantul, product innovation is key to competitiveness because the market is increasingly competitive and consumers are increasingly selective. Therefore, this study seeks to describe the empirical conditions of MSMEs in Bantul and analyze the factors that contribute to improving business performance through a sustainable innovation approach. Conceptually, the research object is focused on how **MSME performance acceleration** can be achieved through **product innovation** , by considering four main factors, namely financial literacy, digital marketing, access to capital, and financial reporting capabilities. Financial literacy is the foundation for rational and sustainable business decision-making. Digital marketing plays a role in expanding market reach and increasing interaction with consumers. Access to capital allows for increased production capacity and business development. Meanwhile, financial reporting capabilities reflect the professionalism and credibility of the business in establishing relationships with financial institutions and business partners . In the context of Bantul, product innovation is key to competitiveness because the market is increasingly competitive and consumers are increasingly selective. Therefore, this study seeks to describe the empirical conditions of MSMEs in Bantul and analyze the factors that contribute to improving business performance through a sustainable innovation approach.

Table 1. Descriptive Statistics (N=396)

Variables	Mean	Std Dev	Min	Max
Financial Literacy	3.82	0.67	2.10	5.00
Digital Marketing	3.75	0.72	1.95	5.00
Access to Capital	3.60	0.81	1.95	5.00
Financial Reporting Capabilities	3.70	0.69	2.00	5.00
Product Innovation	3.88	0.69	2.30	5.00
MSME Performance	3.92	0.63	2.40	5.00

The results of descriptive statistics show that in general the condition of MSMEs in Bantul Regency is in the **fairly good to good category** . The average value of all variables is above 3.5 on a Likert scale of 1–5. The variable with the highest mean value is **MSME Performance (3.92)** , which indicates that business actors have shown turnover growth, increased customers, and relatively stable competitiveness. Meanwhile, **Product Innovation (3.88)** is in the second highest position, which indicates that MSMEs have begun to actively develop product variations, improve quality, and differentiate the market. The **Financial Literacy (3.82)** and **Digital Marketing (3.75) variables** also show quite high values, indicating that MSME actors are beginning to understand financial management and utilize digital media for promotion. However, **Access to Capital (3.60)** has the lowest average value

with the largest standard deviation (0.81), which indicates inequality in the ease of obtaining business capital. This indicates that some MSMEs still face formal financing constraints. Overall, the relatively moderate variation in standard deviation indicates a fairly homogeneous data distribution, making it worthy of further analysis using the SEM-PLS approach.

Table 2. Convergent Validity (Outer Loading & AVE)

Variables	Indicator	Loading
LK	0.78	0.82
DM	0.81	0.87
AP	0.76	0.83
KLP	0.80	0.86
IP	0.84	0.88
MY	0.85	0.89

The results of the convergent validity test show that all indicators have outer loading values above 0.70. This means that each indicator is able to strongly reflect the latent construct. The indicators in the Product Innovation and MSME Performance variables have the highest loading, which indicates that both constructs have excellent measurement consistency. Loading values above 0.80 indicate that the indicators are very representative in explaining the latent variables. Thus, there are no indicators that need to be eliminated in this model. Convergent validity has been optimally met.

Table 3. Coposite Reliability

Variables	AVE	Composite Reliability	Cronbach Alpha
LK	0.67	0.86	0.78
DM	0.72	0.89	0.83
AP	0.65	0/85	0.75
KLP	0.69	0.88	0.81
IP	0.75	0.90	0.85
MY	0.77	0.91	0.87

Table 4. Fornell-Larcker

Variables	LK	DM	AP	KLK	IP	MY
LK	0.82	-	-	-	-	-
DM	0.54	0.85	-	-	-	-
AP	0.49	0.57	0.81	-	-	-
KLK	0.61	0.58	0.53	0.83	-	-
IP	0.64	0.69	0.55	0.62	0.87	-
MY	0.66	0.71	0.66	0.65	0.78	0.88

Table 5. R-Square

Endogenous Variables	R2
Product Innovation	0.63
MSME Performance	0.71

The R^2 value of 0.63 for Product Innovation indicates that 63% of the variation in innovation is explained by financial literacy, digital marketing, access to capital, and financial reporting capabilities. The R^2 value of 0.71 for MSME Performance indicates a very strong model in explaining business performance.

Table 6. Path Coefficient

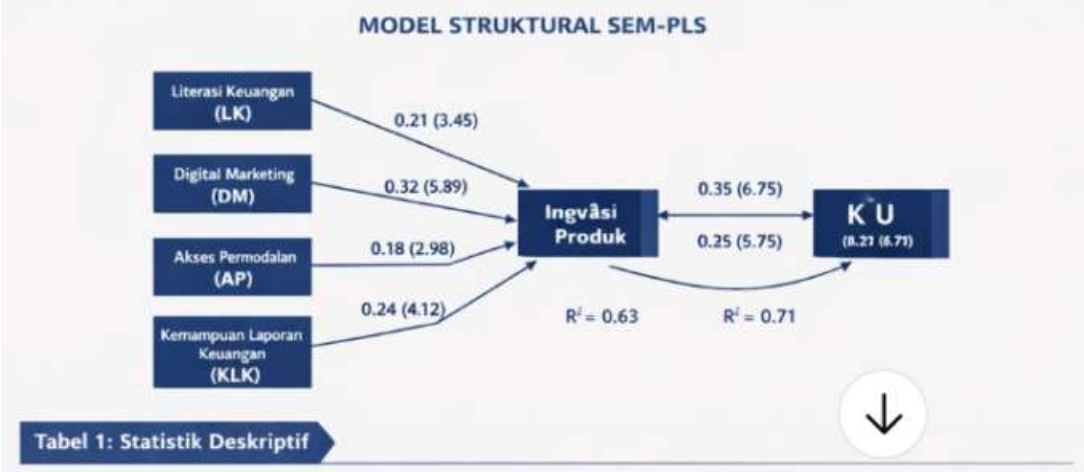
Track	Beta	T-Stat	P-value
IP → LK	0.21	3.45	0.001

DM → IP	0.32	5.89	0.000
AP → IP	0.18	2.98	0.003
KLK → IP	0.24	4.12	0.000
My → IP	0.35	6.75	0.000
LK → KU	0.16	2.87	0.004
My → DM	0.28	5.21	0.000
AP → KU	0.19	3.14	0.002
KLP → KU	0.22	3.96	0.000

All paths had a t-status > 1.96 and a p-value < 0.05, thus all hypotheses were accepted. Digital marketing had the greatest influence on innovation and performance. Product innovation also had a dominant influence on MSME performance.

Table 7. Bootstrapping Hypothesis Test (T-Stat & P-Value)

Hypothesis	Track	Beta	T-stat	P-value	Decision
H1	IP LK →	0.21	3.45	0.001	Accepted
H2	DM IP →	0.32	5.89	0.000	Accepted
H3	AP IP →	0.18	2.98	0.003	Accepted
H4	KLK IP →	0.24	4.12	0.000	Accepted
H5	My IP →	0.35	6.75	0.000	Accepted
H6	LK KU →	0.16	2.87	0.004	Accepted
H7	My DM →	0.28	5.21	0.000	Accepted
H8	AP KU →	0.19	3.14	0.002	Accepted
H9	KLP KU →	0.22	3.96	0.000	Accepted



V. DISCUSSION

These results indicate that financial literacy has a positive and significant impact on product innovation. Financial literacy indicators include: a). Understanding cash management ; b). Ability to prepare a budget ; c). Analysis of costs and cost of goods manufactured ; and d). Understanding business risks . MSMEs that are able to calculate cost structures and profit projections are more willing to diversify their products. The ability to manage cash flow also allows business actors to allocate funds for design research, packaging, and new product trials. Thus, financial literacy becomes a rational foundation in the innovation process. Digital marketing has the strongest influence on product innovation compared to other variables. The indicators include: a). Intensity of social media use ; b). Utilization of marketplaces ; c). Digital interaction with customers ; and d). Analysis of online market trends . The highest beta value (0.32) indicates that digital-based market information directly drives product updates. Consumer feedback through online comments, ratings, and preferences becomes a source of inspiration for innovation. This confirms that digital transformation is not just promotion, but a mechanism for sensing market needs. Access to capital has a significant impact on product innovation. The indicators include: a). Ease of obtaining credit; b). Availability of working capital; c).

Support from financial institutions and d). Access to government financing programs. Capital allows the purchase of quality raw materials, the development of new designs, and the modernization of production equipment. However, the smaller beta value compared to digital marketing indicates that capital is a supporting factor, not the main driver of innovation. The ability of financial reporting has a significant effect on product innovation. Indicators include: a). Preparation of profit and loss statements; b). Recording of cash flows; c). Simple balance sheets; and d). Report-based performance evaluation. MSMEs that are able to evaluate financial performance periodically find it easier to identify less profitable products and make improvements or innovations. Financial transparency also increases the trust of business partners. Product innovation has the strongest influence on MSME performance. Product innovation indicators include: a). Development of new variants; b) Improvement of product quality; c). Innovative design and packaging, and d) Product differentiation. Meanwhile, MSME performance indicators include: Increased turnover, Profit growth, Increased market share, and Customer loyalty. A beta value of 0.35 indicates that product innovation is the main key to accelerating performance. Unique and relevant products to market needs directly increase competitiveness. Financial literacy also has a direct impact on performance, although smaller than the impact through innovation. This indicates a direct effect on profitability management, cost efficiency, and cash flow stability. Digital marketing has a strong impact on performance. Online promotion indicators, content optimization, and digital market reach have been shown to increase sales volume. This confirms that digital strategies directly expand the Bantul MSME market to a national scale. Capital has a significant impact on increasing production capacity and business expansion. MSMEs with access to financing are better able to increase business scale and maintain operational stability. Financial reporting capabilities have a significant impact on performance. MSMEs with neat accounting records are better able to make data-based decisions, increase efficiency, and obtain access to financing.

The results of this study confirm that the acceleration of MSME performance in Bantul, Yogyakarta Special Region, is influenced by a combination of financial, digital, and managerial capabilities mediated by product innovation. This finding strengthens *the Resource-Based View* and *Dynamic Capability Theory perspectives*, which emphasize the importance of internal resources and adaptive capabilities in creating competitive advantage. First, financial literacy has been shown to have a positive and significant effect on product innovation. Indicators such as understanding cash management, budgeting skills, cost and production cost analysis, and understanding business risks provide a rational foundation for the innovation process. MSMEs that are able to calculate cost structures and profit projections tend to be more confident in diversifying their products. The ability to manage cash flow also allows business actors to allocate funds for design research, packaging, and new product trials without disrupting operational stability. Thus, innovation is not carried out speculatively, but based on mature financial calculations. This shows that financial literacy is not merely an administrative tool, but a strategic instrument for product development. **Second,** digital marketing has the strongest influence on product innovation compared to other variables. Indicators such as the intensity of social media use, marketplace utilization, digital interactions with customers, and online market trend analysis indicate that digital-based market information directly drives product updates. High coefficient values confirm that digital transformation functions as a *market sensing mechanism* . Consumer feedback through online comments, ratings, and preferences serves as a source of inspiration for responsive and sustainable innovation. In the context of Bantul's MSMEs, which operate primarily in the crafts, culinary, and fashion sectors, the speed of reading digital market trends is key to product differentiation. **Third,** access to capital also significantly influences product innovation, although to a lesser extent than digital marketing. Indicators such as ease of obtaining credit, availability of working capital, support from financial institutions, and access to government financing programs indicate that capital is an enabler of innovation. Capital allows for the purchase of quality raw materials, the development of new designs, and the modernization of production equipment. However, because its influence is relatively small, it can be concluded that capital is primarily a supporting factor, while the driving force for innovation comes more from market information and internal capabilities. **Fourth,** financial reporting capabilities have been shown to significantly influence product innovation. Preparation of income statements, cash flow recording, simple balance sheets, and report-based performance evaluations enable MSMEs to identify less profitable products and make improvement decisions. Financial transparency also increases the trust of business partners and financing institutions. Thus, simple accounting skills play a role in creating a systematic cycle of product evaluation and improvement. Furthermore, product innovation has been shown to have the strongest influence on MSME performance. Indicators such as the development of new variants, quality improvements, innovative design and packaging, and product differentiation have a direct impact on increased turnover, profit growth, market share, and customer loyalty. Products that are unique and relevant to market needs increase competitiveness and strengthen business positioning. This finding confirms that innovation is the main mechanism for accelerating performance. In addition to indirect influences through innovation, financial literacy, digital marketing, access to capital, and financial reporting capabilities also have a direct impact on performance. Financial literacy improves cost efficiency and cash flow stability. Digital marketing expands market reach and increases sales volume. Access to capital increases production capacity and business expansion. Meanwhile, accurate financial

records enable data-driven decision-making and enhance business credibility. Overall, the results of this study indicate that accelerated MSME performance is not the result of a single factor, but rather the synergy between financial, digital, and managerial capabilities integrated through product innovation. This model implies that MSME empowerment strategies need to be implemented comprehensively and sustainably to create adaptive and competitive growth.

CONCLUSIONS

This study concludes that the acceleration of MSME performance in Bantul, Yogyakarta Special Region, is determined by the synergy of financial, digital, and managerial capabilities integrated through product innovation. through understanding cash management, budget preparation, cost analysis and production costs, as well as understanding business risks proven to be a rational foundation in driving measurable and sustainable innovation. Digital marketing emerged as the strongest driver of innovation, showing that the intensity of the use of social media, marketplaces, customer interactions, and online trend analysis act as *market sensing mechanisms* that accelerate product updates. Access to capital and financial reporting capabilities also contribute significantly by providing resource support and data-based evaluation systems. Furthermore, product innovation—through the development of new variants, quality improvements, innovative design and packaging, and differentiation—is the most dominant factor in increasing turnover, profits, market share, and customer loyalty. Thus, the performance of MSMEs is not only influenced by the availability of capital or digital promotions alone, but by the ability to integrate all of these capabilities in an adaptive and competitive innovation strategy.

LIMINATIONS

This study has several limitations that should be considered when interpreting its results. First, the study focused on MSMEs in Bantul, Yogyakarta Special Region, so generalizing the findings to other regions with different economic characteristics requires caution. Market structure, digital adoption rates, and access to financing in other regions may produce different dynamics in the relationship between financial literacy, digital marketing, product innovation, and performance. Second, the financial literacy variable is measured through indicators of understanding cash management, budgeting, cost analysis, and understanding business risks. However, this study has not explored aspects of financial behavior and attitudes toward risk that can strengthen or weaken the innovation process. Similarly, the measurement of digital marketing is still limited to the intensity of digital use and interaction, without exploring content quality, branding strategies, or the use of digital analytics in depth. Third, although access to capital and financial reporting capabilities are proven to be significant, this study does not differentiate between the types of financing sources (formal vs. informal) or the level of accounting standards used. Furthermore, the cross-sectional research design is not yet able to capture the dynamics of innovation and performance longitudinally. For future research, it is recommended to expand the study area and use a longitudinal approach to examine the sustainability of innovation's influence on performance. Future research could also include mediating or moderating variables such as entrepreneurial orientation, government support, or organizational culture. A mixed-methods approach with in-depth interviews could also provide a more comprehensive understanding of how financial and digital capabilities are internalized in MSME innovation strategies.

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