

Business Model Innovation Dimensions and MSMEs Performance in Emerging Economies: Evidence from Plateau State, Nigeria

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ABSTRACT: This study examined the influence of business model innovation dimensions on the performance of Micro, Small, and Medium Enterprises (MSMEs) in emerging economies. Specifically, the study investigated the effects of value proposition innovation, revenue model innovation, cost structure innovation, and innovative resource allocation with strategic partnership on MSME performance. The study adopted a cross-sectional research design, while data were collected from 313 owners and managers of MSMEs using a structured questionnaire. Partial Least Squares Structural Equation Modelling (PLS-SEM) through SmartPLS version 4.1.1.7 was employed for data analysis. The findings revealed that value proposition innovation, revenue model innovation, and innovative resource allocation with strategic partnership have significant positive effects on MSME performance. However, cost structure innovation showed no significant relationship with MSME performance. The study concludes that innovative business models play a critical role in improving competitiveness, sustainability, and operational performance of MSMEs in emerging economies. The study recommends that MSMEs should prioritize customer-focused innovation, strategic collaboration, and diversified revenue mechanisms to strengthen resilience and long-term growth. The study contributes to the growing literature on Business Model Innovation Theory by providing empirical evidence from the context of emerging economies.

KEYWORDS: Business Model Innovation, MSMEs, Emerging Economies, Performance.

1.0 INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as major drivers of economic growth, employment generation, innovation, and poverty reduction across emerging economies. MSMEs contribute significantly to national income and account for a substantial proportion of business activities globally. In developing countries particularly, MSMEs stimulate entrepreneurship, improve local productivity, and enhance socio-economic development through job creation and income redistribution (World Bank, 2023). Despite their strategic importance, MSMEs continue to encounter severe operational and environmental challenges that hinder their performance and sustainability.

The business environment in emerging economies has become increasingly turbulent due to rising inflation, technological disruptions, unstable market conditions, inadequate infrastructure, and limited access to finance. These challenges have adversely affected the survival and growth of MSMEs, making it difficult for many firms to sustain profitability and maintain competitiveness (Organisation for Economic Co-operation and Development (OECD, 2023). In addition, fluctuations in consumer demand, high operating costs, and weak institutional support systems further constrain the operational efficiency of MSMEs in developing economies (International Labour Organization [ILO], 2023). Consequently, MSMEs are increasingly compelled to adopt innovative business strategies capable of enhancing organizational resilience and improving performance outcomes.

One of the most important strategic approaches adopted by firms in recent years is business model innovation (BMI). Business model innovation refers to the redesign or transformation of how firms create, deliver, and capture value within the marketplace (Foss & Saebi, 2022). Unlike traditional innovation, which focuses mainly on product and process improvements, business model innovation emphasizes changes in the structure, mechanisms, and logic through which businesses operate and generate value. Teece (2022) argue that firms can achieve sustainable competitive advantage not only through innovative products and services but also through innovative business models that improve operational efficiency and customer value creation.

Among the critical dimensions of business model innovation are revenue model innovation, cost structure innovation, and value proposition innovation. Revenue model innovation involves changes in the methods firms use to generate income and capture value from customers. This includes strategies such as subscription-based pricing, digital monetization, platform-based

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transactions, and diversified revenue streams (Clauss et al., 2021). Cost structure innovation refers to the redesign of operational systems, resource allocation, and internal processes to reduce operational expenses and improve efficiency (Amit & Zott, 2021). Value proposition innovation, on the other hand, involves the development of unique products, services, and customer experiences that better satisfy customer needs and differentiate firms from competitors (Bocken & Geradts, 2022).

Recent empirical studies suggest that business model innovation significantly influences firm competitiveness, adaptability, and performance. MSMEs that successfully innovate their revenue generation mechanisms are more likely to improve profitability, expand market opportunities, and achieve long-term sustainability (Latifi et al., 2021). Similarly, firms that adopt cost structure innovations can optimize resource utilization, improve productivity, and reduce operational inefficiencies, thereby enhancing organizational performance (Amit & Zott, 2021). Furthermore, value proposition innovation enables firms to strengthen customer relationships, improve customer satisfaction, and enhance market differentiation, which ultimately contributes to superior firm performance (Bocken & Geradts, 2022).

In emerging economies, business model innovation has become particularly important because firms often operate under conditions of financial constraints, infrastructural deficiencies, and institutional instability. Research indicates that MSMEs capable of adapting their business models to changing market conditions are more resilient and better positioned to survive economic uncertainties (Loon et al., 2025). Additionally, firms that align value creation activities with customer expectations and efficient value capture mechanisms tend to achieve improved operational and financial performance (Ferreira et al., 2023). Studies further reveal that innovative business models support organizational flexibility and enable MSMEs to respond effectively to rapidly evolving customer demands and competitive pressures (Ramdani et al., 2022).

Despite the growing body of literature on business model innovation, significant gaps remain in existing empirical studies. Most prior research examines business model innovation as a multidimensional or aggregated construct without specifically analyzing the individual influence of revenue model innovation, cost structure innovation, and value proposition innovation on MSME performance (Foss & Saebi, 2022). Furthermore, many studies have focused on large organizations in developed economies, thereby limiting the applicability of findings to MSMEs operating within emerging economic environments characterized by resource scarcity and market volatility (OECD, 2023). This limitation creates a need for further empirical investigation into the direct effects of specific business model innovation dimensions on MSME performance in emerging economies.

Moreover, recent studies have emphasized the need for context-specific research on MSMEs because business environments differ significantly across regions and economic systems (World Bank, 2023). Emerging economies often present unique challenges such as poor infrastructure, weak technological capabilities, policy inconsistencies, and limited financial accessibility, all of which influence how firms implement innovative business models (ILO, 2023). Consequently, understanding how revenue model innovation, cost structure innovation, and value proposition innovation individually and collectively affect MSME performance is critical for both academic research and managerial practice.

Against this background, this study examines the influence of revenue model innovation, cost structure innovation, and value proposition innovation on MSME performance in emerging economies. Specifically, the study seeks to determine the direct and combined effects of these dimensions of business model innovation on MSME performance. The study contributes to the literature by providing empirical evidence on the role of specific innovation dimensions in enhancing MSME competitiveness, sustainability, and overall organizational performance within emerging economic contexts.

Hypotheses Development

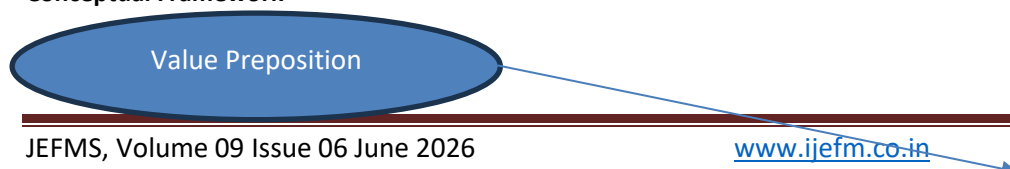
H1: Value Proposition has no significant positive effect on performance of MSMEs.

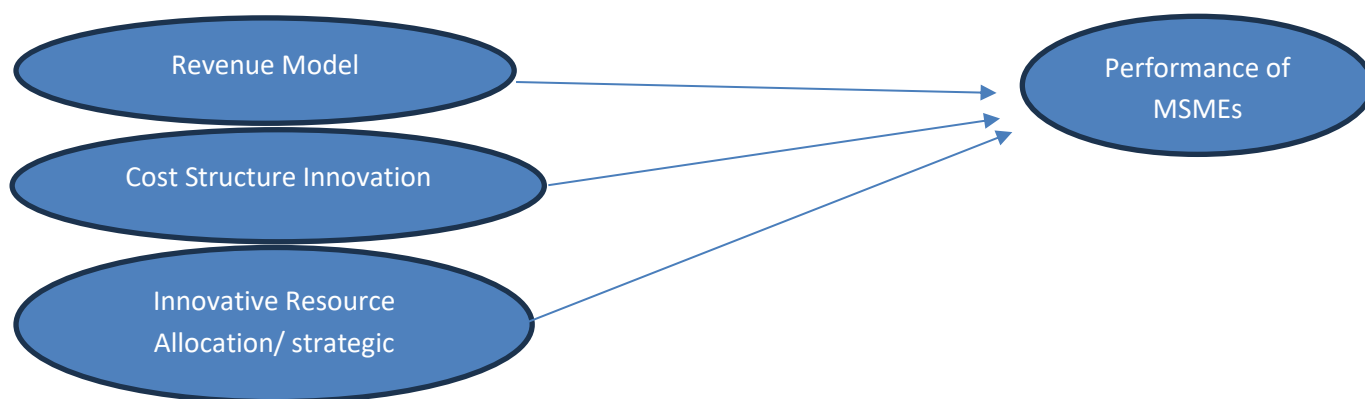
H2: Revenue Model Innovation has no significant positive effect on performance of MSMEs.

H3: Cost Structure innovation has no significant positive effect on performance of MSMEs.

H4: Innovative Resource Allocation and Strategic Partnership has no significant positive effect on performance of MSMEs.

Conceptual Framework





All independent variables exert direct effects on MSME performance (financial and non-financial indicators).

2.0 CONCEPTUAL REVIEW

Value Proposition Innovation

Value proposition innovation refers to redefining the benefits delivered to customers through products or services. It represents the core of value creation and differentiation in a business model. It focuses on addressing customer needs more effectively than competitors. Studies define it as the bundle of products and services that provide value to customers (Salfore et al., 2023). It enhances customer satisfaction, loyalty, and retention. A strong value proposition is a key driver of competitive advantage and market success.

Revenue Model Innovation

Revenue model innovation refers to the mechanisms through which firms generate income and capture value from their offerings. It involves redefining pricing strategies, payment systems, and revenue streams to improve financial performance. It is a core element of business models that determines how firms convert value into revenue. Studies emphasize that innovative revenue models enhance sustainability by diversifying income sources and reducing dependency on single streams (Yahaya et al., 2024). Recent SME research shows that revenue innovation supports scalability and competitiveness in dynamic markets (Ndlovu et al., 2025). It aligns customer value with monetization strategies, ensuring long-term profitability.

Cost Structure Innovation

Cost structure innovation involves redesigning the cost components of a business to improve efficiency and profitability. It includes strategies such as outsourcing, automation, and lean operations to reduce unnecessary expenses. Cost structures consist of fixed and variable costs, economies of scale, and scope efficiencies. Efficient cost management enables MSMEs to remain competitive despite resource constraints. Literature shows that cost innovation enhances operational flexibility and sustainability (Yahaya et al., 2024). It ensures optimal resource utilization, which is critical for MSME survival and growth.

Innovative Resource Allocation and Strategic Partnership

Innovative resource allocation refers to the strategic use of financial, technological, and human resources to improve innovation, efficiency, and competitiveness in MSMEs. Scholars consider it an important managerial capability that helps firms maximize limited resources for better organizational performance and sustainability. Bhatti et al. (2022) noted that effective allocation of digital and network resources enhances innovation and operational performance among MSMEs. Strategic partnership, meanwhile, refers to collaborative relationships between businesses and external stakeholders for the purpose of sharing resources, knowledge, and opportunities. Yang et al. (2022) explained that strategic partnerships improve enterprise performance through enhanced information sharing and operational flexibility. These concepts are viewed as essential for helping MSMEs adapt to competitive business environments and achieve sustainable growth.

Performance of MSMEs

MSMEs' performance is generally conceptualized as a multidimensional construct reflecting financial and non-financial outcomes such as profitability, sales growth, market share, customer satisfaction, innovation, and operational efficiency. Scholars argue that relying solely on financial indicators is insufficient; instead, a balanced approach incorporating both financial and non-financial measures provides a more accurate assessment of MSMEs' success and sustainability (Richard et al., 2009; Santos & Brito, 2012). Given the subjective nature of many MSME performance indicators, the most appropriate measurement instrument is the

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structured questionnaire using a 5-point Likert scale, ranging from “strongly disagree” to “strongly agree.” This scale is widely recommended due to its simplicity, reliability, and suitability for capturing perceptions of performance among MSME owners and managers (Joshi et al., 2015). Performance in this study is measured using the Balanced Scorecard (BSC) developed by Kaplan, et al. (1996). The BSC is appropriate for measuring MSME performance because it provides a holistic, strategic, and multidimensional assessment framework that captures both short-term financial results and long-term organizational capabilities.

Empirical Review

Revenue Model Innovation and MSMEs Performance

A study on manufacturing SMEs found that value capture mechanisms (revenue model innovation) significantly improve firm performance by enabling new income streams (Salfore et al., 2023). Research shows that innovative revenue models enhance profitability and financial resilience in SMEs (Ndlovu et al., 2025). Turulja et al., (2025) demonstrates that firms adopting innovative revenue strategies achieve higher growth and sustainability. Evidence from emerging markets indicates that revenue diversification significantly improves firm performance outcomes. Recent studies confirm that revenue innovation strengthens competitiveness and long-term financial stability in SMEs (Zhang et al., 2024).

Cost Structure Innovation and MSME Performance

Research shows that optimizing cost structures significantly enhances MSME profitability and efficiency (Yahaya et al., 2024). A study on SMEs indicates that cost efficiency improvements lead to better performance outcomes (Salfore et al., 2023). Evidence suggests that cost innovation reduces operational inefficiencies and improves competitiveness. A 2025 study highlights that cost restructuring is critical for SME survival in volatile markets (Turulja et al., 2025). Empirical findings show that firms with efficient cost models achieve superior performance compared to competitors (Ndlovu et al., 2025).

Value Proposition Innovation and MSME Performance

Studies show that value proposition innovation significantly improves SME performance through enhanced customer satisfaction (Salfore et al., 2023). Turulja et al., (2025) found that innovative value propositions lead to stronger competitive advantage and performance (Evidence indicates that customer-focused innovation directly enhances firm growth and market success. A study conducted by Alake et al. (2022) examined the influence of the value proposition dimension of business model innovation on firms’ structural resilience among SMEs in Nigeria. Using Smart PLS analysis on data collected from 371 SME operators, the study found that value proposition innovation significantly influenced firms’ resilience and adaptability. The findings revealed that firms that continuously provide innovative customer value through product uniqueness, service quality, and customer-oriented solutions tend to achieve improved business sustainability and competitive advantage.

Innovative Resource Allocation and strategic Partnership and MSMEs Performance

Mamun, et al. (2022) examined the influence of strategic partnerships and resource capabilities on SME performance in developing economies. Using structural equation modeling on data collected from SMEs, the study found that strategic alliances and effective resource allocation significantly improved business performance, innovation capability, and organizational competitiveness. The findings revealed that firms that strategically allocate resources toward innovation, technology adoption, and collaborative business activities tend to achieve higher operational efficiency and profitability. The study concluded that strategic partnerships provide MSMEs with access to external expertise and complementary resources necessary for sustaining competitive advantage.

Theoretical Framework

Business Model Innovation (BMI) Theory

BMI Theory explains how firms create, deliver, and capture value through new or improved business models rather than relying only on new products or technologies. The theory emphasizes changes in areas such as value proposition, customer relationships, revenue streams, distribution channels, partnerships, and resource allocation to improve organizational performance and competitiveness. For Micro, Small, and Medium Enterprises (MSMEs) in emerging economies, BMI theory is highly relevant because these businesses often operate in environments characterized by limited resources, unstable markets, weak infrastructure, and intense competition. Through business model innovation, MSMEs can adapt to these challenges by developing flexible and cost-effective ways of operating.

3.0 METHODOLOGY

This study adopted a cross-sectional research design to examine the formulated hypotheses. The research is both descriptive and analytical in nature. The target population comprised 1,533 owners and managers of Micro, Small, and Medium Enterprises

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(MSMEs) obtained from the National Bureau of Statistics (NBS, 2017) and SMEDAN (2017). A purposive sampling technique was employed because it enables the selection of respondents possessing the relevant characteristics required for the investigation. Consequently, owners, managers, and employees of MSMEs in Plateau State constituted the unit of analysis for the study. A sample size of 318 respondents was derived using the Taro Yamane (1987) sample size determination formula. Data analysis was conducted using SmartPLS version 4.1.1.7, while Partial Least Squares Structural Equation Modelling (PLS-SEM) was utilized to estimate and analyze the regression relationships among the study variables.

4.0: DATA PRESENTATION

Table 1: Response Rate

Number of questionnaire Administered	No of questionnaire returned	No of questionnaire not returned	Percentage of retrieval rate
320	313	7	98

Source: Field Survey, 2026

Table 1 showed that out of the 320 questionnaires that were administered on the respondents, 313 were properly filled and returned. This represents 98 percent retrieval rate.

Data Analysis

In conducting data analysis through the use of Partial Least Square Structural Equation-Structural Equation Model (PLS-SEM) two major procedures are involved. First, the assessment of the measurement model to determine the relationship between constructs and their indicators also referred to as outer model (Hair et al., 2013). Second, structural assessment describes the relationship between latent variables in order to predict the expected outcome for hypothesis testing.

Measurement Model Assessment

This section discusses the measurement model process in this study. Measurement model in PLS-SEM is comprised of two types; Reflective and Formative model. According to Hair Jr et al. (2013), reflective measurement model involves the assessment of internal consistency with emphasis on composite reliability, indicator reliability and convergent validity otherwise known as the Average Variance Extracted (AVE) and Discriminant validity. This study only employed reflective model.

Table 2: Descriptive Statistics

Indicators	Mean	Median	Observed min	Observed max	Number of observations used	Standard deviation	Excess kurtosis	Skewness	Missing Values
CS1	3	3	1	5	313	1.416	-1.303	0	0
CS2	3	3	1	5	313	1.416	-1.303	0	0
CS3	3	3	1	5	313	1.416	-1.303	0	0
CS4	3	3	1	5	313	1.416	-1.303	0	0
CS5	3	3	1	5	313	1.416	-1.303	0	0
PF1	3	3	1	5	313	1.416	-1.303	0	0
PF2	3	3	1	5	313	1.416	-1.303	0	0
PF3	3	3	1	5	313	1.416	-1.303	0	0
PF4	3	3	1	5	313	1.416	-1.303	0	0
PF5	3	3	1	5	313	1.416	-1.303	0	0
RA1	3	3	1	5	313	1.416	-1.303	0	0
RA2	3	3	1	5	313	1.416	-1.303	0	0
RA3	3	3	1	5	313	1.416	-1.303	0	0
RA4	3	3	1	5	313	1.416	-1.303	0	0
RA5	3	3	1	5	313	1.416	-1.303	0	0
RM1	3	3	1	5	313	1.416	-1.303	0	0
RM2	3	3	1	5	313	1.416	-1.303	0	0

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RM3	3	3	1	5	313	1.416	-1.303	0	0
RM4	3	3	1	5	313	1.416	-1.303	0	0
RM5	3	3	1	5	313	1.416	-1.303	0	0
VP1	3	3	1	5	313	1.416	-1.303	0	0
VP2	3	3	1	5	313	1.416	-1.303	0	0
VP3	3	3	1	5	313	1.416	-1.303	0	0
VP4	3	3	1	5	313	1.416	-1.303	0	0
VP5	3	3	1	5	313	1.416	-1.303	0	0

The descriptive statistics in Table 2 present the distribution characteristics of all the indicators used to measure the study variables: Cost structure innovation (CS), performance of MSMEs (PF), resource allocation (RA), revenue model innovation (RM), and value proposition (VP) based on 313 observations. First, the mean and median values for all indicators are 3, indicating that respondents generally expressed moderate or neutral perceptions regarding all the constructs measured on the five-point Likert scale. The equality of the mean and median further suggests a balanced distribution of responses across the items. The observed minimum and maximum values are 1 and 5 respectively, showing that respondents utilized the entire range of the Likert scale, which implies adequate variability in responses and meaningful measurement of the constructs.

The standard deviation for all items is 1.416, indicating a moderate level of dispersion around the mean. This suggests that while responses are centered around the midpoint, there is still reasonable variation among respondents' opinions. Regarding the normality of the data, the skewness value of 0 across all indicators indicates that the data are symmetrically distributed. Additionally, the excess kurtosis value of -1.303 suggests a platykurtic distribution, meaning the data are slightly flatter than a normal distribution but still within acceptable limits for multivariate analysis such as CB-SEM. Finally, the table shows zero missing values, indicating that the dataset is complete and suitable for further statistical analysis. Overall, the descriptive statistics demonstrate that the data are well distributed, symmetric, and free from missing observations, making them appropriate for subsequent structural equation modeling analysis.

Table 3: Internal Consistency and Convergent Validity Report

Constructs	Indicators	Factor Loadings	Composite reliability (rho_c)	Average variance extracted (AVE)
Cost Structure Innovation	CS1	0.838	0.946	0.777
	CS2	0.922		
	CS3	0.920		
	CS4	0.880		
	CS5	0.845		
Performance of MSMEs	PF1	0.897	0.953	0.802
	PF2	0.890		
	PF3	0.903		
	PF4	0.886		
	PF5	0.901		
Innovative Resource Allocation and Strategic Partnership	RA1	0.886	0.948	0.783
	RA2	0.896		
	RA3	0.882		
	RA4	0.874		
	RA5	0.886		
Revenue Model Innovation	RM1	0.867	0.95	0.792
	RM2	0.888		
	RM3	0.893		

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Value Proposition	RM4	0.896	0.952	0.797
	RM5	0.905		
	VP1	0.890		
	VP2	0.902		
	VP3	0.887		
	VP4	0.898		
	VP5	0.887		

Source: SmartPLS v. 4.1.1.7

Criteria: Hair et al. (2014), indicators loading must be at least 0.708, composite reliability > 0.70 (Fornell & Larcker, 1991) AVE > 0.5 (Hair et al., 2014). Table 3 showed that factor loadings, composite reliability and AVE all met the threshold.

Convergent Validity Assessment

As a requirement in reflective measurement model, all indicators of the same construct must possess this attribute. Convergent validity of a construct according to Hair et al. (2014), is the extent to which an indicator correlates with other items within the same construct. This is determined by researchers through Average Variance Extracted (AVE) in reflective indicators. Hair et al. (2011: 2014) posits that an AVE value of equal or greater than 0.5 is considered adequate determinant of constructs convergent validity. This substantiates their earlier claim of a threshold internal consistency 0.708 which when squared will give AVE of at least 0.5. Therefore, beside the AVE result produced in PLS-SEM measurement model, the reliability coefficient is another way to determine construct measurement strength. Consequently, Table 3 respectively showed the average variance extracted (AVE) of all the constructs being measured in this model scored AVE above the threshold of 0.5 indicating a high convergent validity.

Table 4: Fornell-Larcker Criterion for Discriminant Validity

Constructs	1	2	3	4	5
1. Cost Structure Innovation	0.882				
2. Innovative Resource Allocation and Strategic Partnership	-0.040	0.885			
3. Performance of MSMEs	-0.083	0.355	0.895		
4. Revenue Model Innovation	-0.034	0.031	0.384	0.89	
5. Value Proposition	-0.098	0.004	0.422	0.087	0.893

Source: SmartPLS v. 4.1.1.7

Note: The elements highlighted represent the square root of AVE and the off-diagonal elements are bivariate correlation between constructs.

Discriminant Validity Assessment

Another way to determine the suitability of a measurement model before going further with any analysis is to ensure that discriminant validity exists between the indicators of different constructs. Discriminant validity as the name implies, is conducted to establish that a construct as used in a given study is dissimilar to other constructs (Henseler et al., 2014) within the same framework. Two methods have been widely used by researchers over the years in determining constructs discriminant validity which include, cross loading, Fornell and Larcker and Heterotrait and Monotrait (HTMT) criterion. The Fornell and Larcker criterion is used for this paper.

Fornell-Larcker Criterion for Discriminant validity

The technique established discriminant validity among constructs at a point where the square root of AVE is higher than the correlation with other constructs. Results as presented in the Table 4 revealed that discriminant validity is established, since the square root of the AVEs as highlighted in the diagonal is greater than correlations within the row and the column.

Assessing Structural Model

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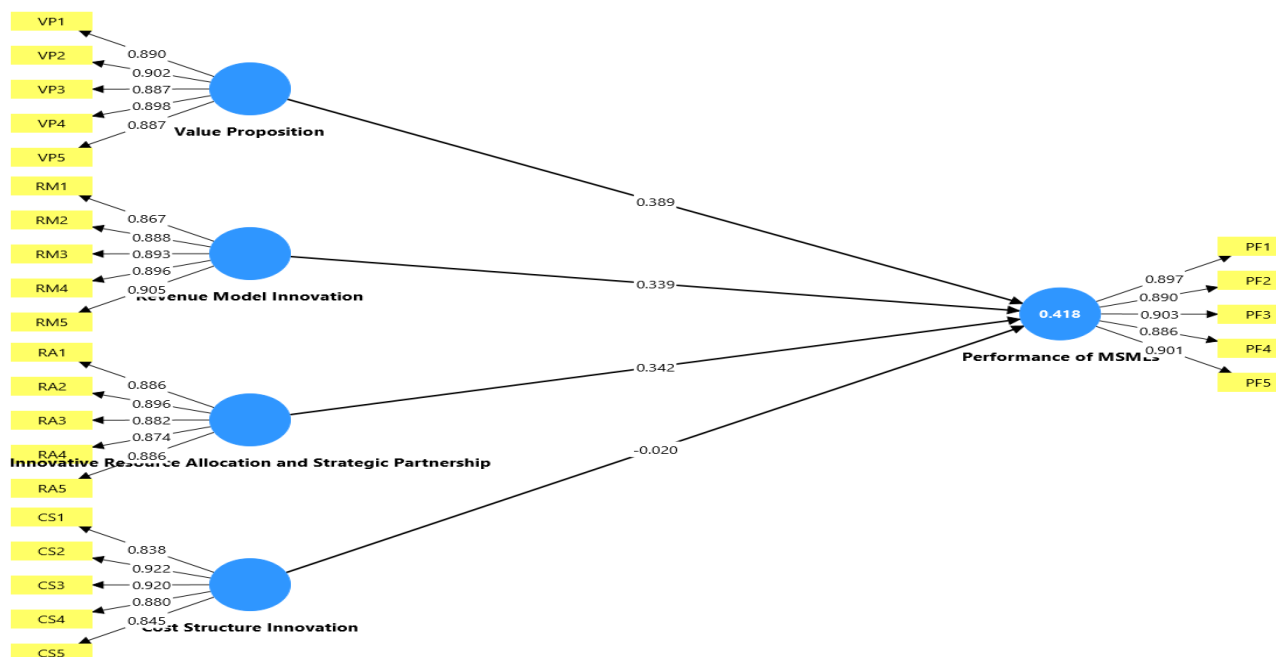


Figure 1: Structural Model for Direct Relationship

Source: SmartPLS v. 4.1.1.7

According to Hair et al. (2014), indicators loading must be at least 0.708. Figure 1 showed the retained indicators of the four variables of value proposition, revenue model innovation, innovative resource allocation and strategic partnership and cost structure innovation and performance of MSMEs.

Test of Research Hypotheses for Direct Relationship

In assessing the path coefficient, various relationships that were hypothesized earlier are tested to establish the nature of the relationships as well as its significance. As a guide to this section, null hypotheses are restated:

HO1: There is no significant relationship between value proposition and performances of MSMEs.

HO2: There is no significant relationship between revenue model innovation and performances of MSMEs.

HO3: There is no significant relationship between innovative resource allocation and strategic partnership and performances of MSMEs.

HO4: There is no significant relationship between cost structure innovation and performances of MSMEs.

Assessing of path coefficient and hypotheses testing

Table 5: Assessing Path Coefficient and Hypotheses Testing

Research Hypotheses	Path Coefficient	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values	Decision
HO1	Value Proposition -> Performance of MSMEs	0.389	0.388	0.044	8.871	0.000	Reject the null Hyp.
HO2	Revenue Model Innovation -> Performance of MSMEs	0.339	0.34	0.043	7.909	0.000	Reject the null Hyp.
HO3	Innovative Resource Allocation and Strategic Partnership -> Performance of MSMEs	0.342	0.342	0.04	8.5	0.000	Reject the null Hyp.
HO4	Cost Structure Innovation -> Performance of MSMEs	-0.02	-0.026	0.05	0.392	0.695	Reject the null Hyp.

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Source: *SmartPLS v. 4.1.1.7* Key: VP–Value Proposition; RM–Revenue Model Innovation, RA–Innovative Resource Allocation and Strategic Partnership, CS–Cost Structure Innovation, PF– Performance of MSMEs

In order to assess the path coefficient in line with the hypothesis postulated in this study, a bootstrapping command was carried out using SmartPLS v. 4.1.1.7 and the result displayed in Table 5 based on the direct relationships on two tailed tests at 95% level of significance as postulated in the hypothesis. However, Table 5 revealed that the direct value proposition on performances of MSMEs, revenue model innovation on performances of MSMEs, innovative resource allocation and strategic partnership on performances of MSMEs, value proposition and performance of MSMEs because all the p-values is < 0.05 while there is no significant effect of cost structure innovation on performances of MSMEs because the p-value is > 0.05.

Table 6: Coefficient of Determination R²

Constructs	R-square	R-square adjusted
Performance of MSMEs	0.418	0.41

Source: *SmartPLS v. 4.1.1.7*

Criteria: of 0.02 (weak), 0.13 (moderate) and 0.26 (substantial) (Cohen, 1988)

This is referred to as models 'predictive accuracy denoted by an R² value. Hair et al. (2014) posits that coefficient of determination measures the effect of exogenous latent constructs on endogenous latent construct. According to Cohen (1988) R² values of 0.02, 0.13, and 0.26 are considered weak, moderate and substantial respectively. Falk and Miller (1992) suggested a minimum of 10% as acceptable for a variance explained to be regarded as adequate. In line with the aforementioned, the study considered the R² of all endogenous variables obtained from PLS algorithm as presented in Table 6. The results revealed that, 41.8% variance in performance of MSMEs is explained by value proposition, cost structure innovation, innovative resource allocation and strategic partnership and revenue model innovation. This means the variance in performance of MSMEs is substantial for 41.8%.

Table 7: Collinearity Statistics

Independent Constructs	Variance Inflation Factor (VIF)
Cost structure innovation	1.012
Innovative resource allocation and strategic partnership	1.002
Revenue model innovation	1.009
Value proposition	1.017

Source: *SmartPLS v. 4.1.1.7*

There is no multicollinearity in the data analysis of statistics showed that this assumption has been met as, VIF scores in Table 7 were well below 3.3 (Statistics = 1.012, 1.002, 1.009, 1.017) for cost structure innovation, innovative resource allocation and strategic partnership, revenue model innovation and value proposition respectively. Variance Inflation Factor (VIF) value should be ≤ 3.3 (Diamantopoulos & Siguaw, 2006).

Table 8: Predictive Relevance

Dependent Construct	Q ² predict	RMSE	MAE
Performance of MSMEs	0.399	0.779	0.644

Source: *SmartPLS v. 4.1.1.7*

Based on blindfolding procedure, Q2 evaluates the predictive validity of a large complex model using PLS. While estimating parameters for a model under blindfolding procedure, this technique omits data for a given block of indicators and then predicts the omitted part based on the calculated parameters. Thus, Q2 showed how well the data collected empirically can be reconstructed with the help of model and the PLS parameters (Fornell & Cha, 1994). Q2 can be obtained using two different types of prediction techniques, that is, cross validated communality and cross validated redundancy. The first one is obtained by

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predicting data points using latent variable score, whereas the latter one is obtained by predicting the questionable blocks using the latent variables used for prediction. Chin (2010) suggests using the latter to estimate the predictive relevance of a large complex model. Q2 is generally estimated using an omission distance of 5-10 under existing PLS software packages. The rule of thumb indicates that a cross validated redundancy $Q^2 > 0.5$ is regarded as a predictive model (Chin, 2010). Table 8 revealed that there is no predictive relevance because Q2 value of 0.399 performances of MSMEs < 0.5 .

4.3 Discussion of Findings

The findings of the study revealed that there is a significant relationship between value proposition and performances of MSMEs. This finding is consistent with the study conducted by Mashingaidze (2025), who found that innovative business model components, particularly value proposition, positively influence the resilience and performance of SMEs in developing economies by enhancing customer value creation and business sustainability.

The findings of the study showed that there is a significant relationship between revenue model innovation and performances of MSMEs. This finding revealed that there is an insignificant relationship between innovative resource allocation and strategic partnership and performances of MSMEs which is in tandem with the study conducted by Supramono, et al. (2025) who reported that innovative financial and strategic capabilities significantly contribute to MSME performance recovery and long-term business sustainability in emerging economies. The study found that cost structure innovation had no significant relationship with performances of MSMEs. This finding aligned with the study conducted by Latifi et al. (2021), which reported that not all dimensions of innovation independently exert significant effects on SME performance, as the impact of innovation is often contingent upon organizational flexibility and contextual factors rather than cost-related restructuring alone.

CONCLUSION AND RECOMMENDATIONS

The study concludes that business model innovation significantly enhances the performance of MSMEs in emerging economies. Specifically, value proposition, revenue model innovation, and innovative resource allocation with strategic partnership positively influenced MSME performance, while cost structure innovation showed no significant effect. The findings imply that MSMEs achieve superior performance when they focus on customer-centered value creation, diversified revenue streams, and collaborative strategic capabilities. Therefore, MSME owners and managers should prioritize innovative value delivery systems and flexible revenue generation mechanisms. Policymakers and development agencies should support MSMEs through innovation-driven training programs, digital transformation initiatives, and strategic partnership facilitation. Furthermore, MSMEs should adopt adaptive business models that align with changing market dynamics to improve sustainability and competitiveness.

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