

Strengthening the Financial Performance of MSMEs in Lamongan: Exploring the Relationship Between Digitalization, Financial Literacy, Product Development, Branding Capability and HR Quality with Sales Turnover as a Mediator

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ABSTRACT

This research emphasizes the importance of internal factors in strengthening the financial performance of MSMEs and exploring potential mediation mechanisms through sales turnover. With a better understanding of this relationship, MSMEs in Lamongan Regency are expected to optimize their potential and adapt to the demands of the digital era. PLS SEM methodology. This research shows that factors such as digitalization, financial literacy, branding, and the quality of human resources have a significant impact on the financial performance and sales turnover of SMEs in Lamongan. However, some factors such as product development need more attention to improve their effectiveness. Sales turnover has also proven to be a significant mediator in the relationship between these factors and the financial performance of SMEs. The results of this study are expected to provide insights and practical recommendations for SMEs and other stakeholders to improve the financial performance of SMEs in Lamongan.

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1. Introduction

Micro, Small, and Medium Enterprises (UMKM) play an important role in the Indonesian economy, including in Lamongan Regency. However, the challenges faced by MSMEs in achieving optimal financial performance are still quite significant. One of the efforts that can be made to improve the financial performance of MSMEs is by strengthening the internal factors that influence it (Zaroni, 2024). In this digital era, digitalization has become a driving force that fundamentally changes business paradigms. The development of information and communication technology has provided broader and easier access for SMEs to adopt technological solutions that enable them to operate more efficiently and effectively (Purwanti et al., 2022).

One of the main aspects of digitalization is the use of the internet, social media, and e-commerce platforms. The internet allows MSMEs to connect with global and local markets, creating opportunities to expand their market reach without strict geographical boundaries (Hermina, 2024). Social media, such as Facebook, Instagram, and Twitter, provide a platform for SMEs to build and interact with customers, strengthen brand relationships, and increase their brand awareness (Mahmudah & Muhtarom, 2024). Additionally, e-commerce platforms such as Tokopedia, Bukalapak, and Shopee provide a means for SMEs to sell their products online, creating additional sales channels that can increase revenue and profitability according to Purnamasari, E. D., &

Asharie, A. (2024). In addition to expanding market reach, digitization also helps SMEs improve operational efficiency. By adopting technology solutions, such as business management software, digital bookkeeping, and supply chain management systems, MSMEs can automate their business processes, reduce operational costs, and increase productivity (Septiano et al., 2024).

Furthermore, digitalization enables SMEs to be more responsive to rapid changes in the business environment. With faster access to information and real-time market analysis, MSMEs can easily adjust their business strategies, respond to market trends, and anticipate changes in customer demand (Sinaga, 2022). Overall, digitalization has opened new opportunities for SMEs to grow and thrive in an increasingly competitive business environment. However, while many SMEs have effectively utilized this technology, there are still challenges and obstacles that need to be addressed, including limited access, limited technological skills, and data security. Therefore, it is important for MSMEs to continuously enhance their understanding and implementation of digitalization to optimize their business potential in this digital era (Widyasari & Ayunda, 2020).

In addition, financial literacy also becomes a crucial factor that influences the financial performance of SMEs. A good understanding of financial management, budget planning, and financial risk management can help SMEs manage their financial resources more effectively and efficiently according to Purnamasari, E. D., & Asharie, A. (2024). Furthermore, the development of innovative products that meet market needs is key to maintaining the competitiveness of SMEs. By continuously innovating their products, SMEs can attract new consumer interest and expand their market share according to Irwan, A., & Hakim, A. (2023).

In addition, strong branding capability is also very important for SMEs to differentiate themselves from competitors and build a strong brand image in the minds of consumers. Effective branding can enhance the perceived value of products and influence consumer purchasing decisions according to Syahputra, R. A., Putri, C. W. A., Maliza, N. O., & Lestari, R. (2023). Equally important is the quality of human resources (HR) in SMEs. Quality human resources can be a determining factor in the successful implementation of business strategies, such as the application of digital technology, product development, and good customer service according to Salam, B., & Huda, B. (2023).

However, although these factors have been recognized as important in influencing the financial performance of MSMEs, there has not been much research that holistically explores the relationship between digitalization, financial literacy, product development, branding capability, HR quality, and the financial performance of MSMEs, especially in the Lamongan region. Therefore, this study aims to fill that gap by exploring the relationship between these factors using sales turnover as a mediator in the context of MSMEs in Lamongan. It is hoped that this research can provide in-depth insights and practical recommendations for SMEs and other stakeholders to improve the financial performance of SMEs in Lamongan according to Kartika, R., Afriani, R. I., Hartoko, G., Pratama, R., Safitri, E., & Alhaidar, R. (2024).

Research to explore the relationship between several internal factors of MSMEs, namely digitalization, financial literacy, product development, branding capability, and the quality of human resources (HR), with the financial performance of MSMEs in Lamongan. This research aims to understand how these factors can influence each other and contribute to the financial performance of SMEs. In addition, the research will also consider the role of sales turnover as a mediator in the relationship between these factors and the financial performance of SMEs. Thus, the title of this research underscores the importance of internal factors in enhancing the financial performance of MSMEs and exploring the potential mediation mechanisms through sales turnover.

2. Method

In this study, the researcher used a quantitative method and took samples from the population of MSME customers in Lamongan. This study uses a sample of 311 MSME customers in Lamongan. The analysis method used is SEM and employs the PLS 3.0 testing tool using inner model test, outer model test, mediation test, and hypothesis test.

3. Results and Discussion

Respondent Characteristics to describe each employee's characteristics based on gender, age, education, and length of service.

Table 1. Characteristics of Respondents Based on Gender

No	Gender	Total	Percentage
1	MAN	146	47%
2	WOMAN	165	53%
Total		311	100%

Based on table 4.1 above, it is known that of the 311 respondents who were used as research subjects, 146 people (47%) were male respondents and 165 people (53%) were female respondents.

Table 2. Respondent Characteristics Based on Age

No	Age	Amount	Presentation
1	<30	99	32%
2	30-40	102	33%
3	41-50	110	35%
4	50>	0	0%
Total		311	100%

Based on the table above, the number of respondents by age in this study, those under 30 years old accounted for 32%, those aged 30-40 years for 33%, and those aged 41-50 years for 35%. Thus, the majority of the research respondents are aged 41-50 years.

Table 3. Characteristics of Respondents Based on Education

No	Education	Number	Percentage
1	SMA/SMK/Equivalent	52	17%
2	SMA/SMK/Equivalent	75	24%
3	S1	143	46%
4	S2	10	3%
5	S3	3	1%
6	D1	16	5%
7	D2	5	2%
8	D3	7	2%
Total		311	100%

Based on table 4.3, the number of respondents by highest education level in this study is as follows: SMP/MTS/Equivalent 17%, SMA/SMK/Equivalent 24%, Bachelor's Degree 46%, Master's Degree 3%, Doctorate 1%, Associate Degree 5%, Diploma 2%, Diploma 3%, respondents. Thus, the majority of the research respondents have an S1 education level.

a. Validity Test

Validity test is used to determine the suitability of the relationship between indicators and their latent variables. The tool used to assess whether the data is valid or not is the loading factor value exceeding 0.7. To test the validity of the discriminant so that it is valid, the AVE value must exceed 0.50.

Table 4. OUTER LOADING

	DIGITALI ZATION (X1)	FINAN CIAL LITER ACY (X2)	PRODUCT DEVELOP MENT (X3)	BRANDI NG ABILITY (X4)	QUALITY OF HUMAN RESOURC ES (X5)	FINANCIA L PERFORM ANCE (Y)	SALES TURNOVE R (Z)
X1.1	0.941						
X1.2	0.914						
X1.3	0.924						
X2.1		0,853					
X2.2		0,944					
X2.3		0,909					
X2.4		0,953					
X2.5		0,943					
X2.6		0,893					
X3.1			0,912				
X3.2			0,890				
X3.3			0,906				
X3.4			0,868				
X3.5			0,826				
X3.6			0,848				
X4.1				0,907			
X4.2				0.924			
X4.3				0.913			
X4.4				0.887			
X5.1					0.934		
X5.2					0.908		
X5.3					0.917		
X5.4					0.914		
X5.5					0.881		
X5.6					0.909		
Y1						0.827	
Y2						0.960	
Y3						0.948	
Z1							0.934
Z2							0.957
Z3							0.945
Z4							0.944

Table 5. DISCRIMINANT VALIDITY

	Average Variance Extracted (AVE)	KET
DIGITALIZATION (X1)	0.858	VALID
FINANCIAL LITERACY (X2)	0.840	
PRODUCT DEVELOPMENT (X3)	0.767	
BRANDING ABILITY (X4)	0.824	
QUALITY OF HUMAN RESOURCES (X5)	0.829	
FINANCIAL PERFORMANCE (Y)	0.834	
SALES TURNOVER (Z)	0.893	

The results of the validity test state that the convergent validity and discriminant validity values of the variables of digitalization, financial literacy, product development, HR quality, financial performance, and sales turnover are declared valid. This is because the outer load value is more than 0.70. Average Variance Extracted (AVE) is more than 0.50.

Reliability Test

Reliability test is used to assess the reliability of the construct using Composite Reliability with a scale of more than 0.70. And the Cronbach Alpha value is good if it is above 0.50.

Table 6. Cronbach's Alpha & Composite Reliability

	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>	KET
DIGITALIZATION (X1)	0.917	0.948	REALIABLE
FINANCIAL LITERACY (X2)	0.961	0.969	
PRODUCT DEVELOPMENT (X3)	0.939	0.952	
BRANDING ABILITY (X4)	0.929	0.949	
QUALITY OF HUMAN RESOURCES (X5)	0.959	0.967	
FINANCIAL PERFORMANCE (Y)	0.898	0.938	
SALES TURNOVER (Z)	0.960	0.971	

The results of the reliability test stated that the Composite Reliability and Cronbach's Alpha values for the variables of digitalization, financial literacy, product development, HR quality, financial performance, and sales turnover were declared reliable because they were above 0.50 (*Cronbach's Alpha*) and 0.70 (*Composite Reliability*).

2. Structural Model (Inner Model)

To determine the cause and effect between variables, the inner model test is used .

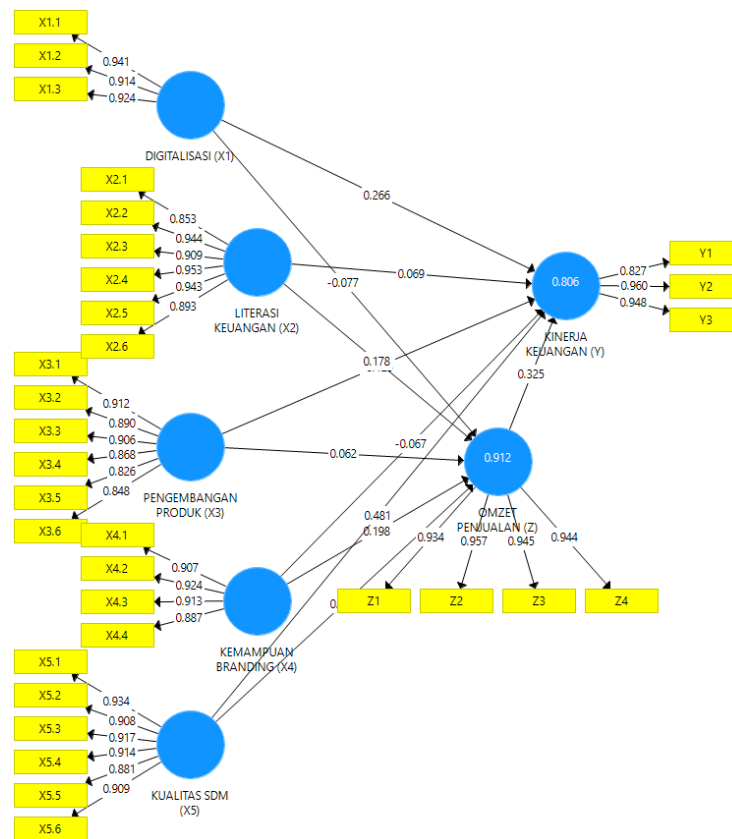


Fig 1 Result

R-Square

Used to determine the influence of the relationship between variables, both independent variables and dependent variables, using the R-Square test.

Table 7. R-Square

	R Square	R Square Adjusted
FINANCIAL PERFORMANCE (Y)	0.806	0.802
SALES TURNOVER (Z)	0.912	0.911

The results of the data testing above can be said that the R-Square value simultaneously has a relationship from the independent variable to the dependent variable of 0.806, and the amount of R-Square Adjusted is 0.802. This means that the R-Square value is stated as strong.

1. Mediation Test

The results of the mediation test are divided into 3 categories, namely full mediation, partial mediation, and non-mediation. If the independent and dependent variables are negative and the connector is positive, it means full mediation. If the independent and dependent variables and the link are all positive, it means partial mediation. If the independent variance and dependent variable are positive but the link is negative, it means non-mediation. And if the P Values for Specific Indirect Effect < 0.5 are declared positive and vice versa.

Table 8. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
DIGITALIZATION (X1) -> FINANCIAL PERFORMANCE (Y)	0.266	0.262	0.050	5,331	0,000
DIGITALIZATION (X1) -> SALES TURNOVER (Z)	-0.077	-0.075	0.045	1,731	0.084
FINANCIAL LITERACY (X2) -> FINANCIAL PERFORMANCE (Y)	0.069	0.078	0.133	0.521	0.603
FINANCIAL LITERACY (X2) -> SALES TURNOVER (Z)	0.178	0.175	0.063	2,807	0.005
PRODUCT DEVELOPMENT (X3) -> FINANCIAL PERFORMANCE (Y)	-0.125	-0.121	0.064	1,963	0.051
PRODUCT DEVELOPMENT (X3) -> SALES TURNOVER (Z)	0.062	0.063	0.051	1,217	0.224
BRANDING ABILITY (X4) -> FINANCIAL PERFORMANCE (Y)	-0.067	-0.066	0.085	0.788	0.431
BRANDING ABILITY (X4) -> SALES TURNOVER (Z)	0.198	0.201	0.066	2,998	0.003
HUMAN RESOURCES QUALITY (X5) -> FINANCIAL PERFORMANCE (Y)	0.481	0.478	0.105	4,573	0,000
QUALITY OF HUMAN RESOURCES (X5) -> SALES TURNOVER (Z)	0.612	0.608	0.070	8,754	0,000
SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	0.325	0.318	0.111	2,916	0.004

Table 9. Specific Indirect Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
DIGITALIZATION (X1) -> SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	-0.025	-0.023	0.016	1,554	0.121
FINANCIAL LITERACY (X2) -> SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	0.058	0.056	0.030	1,944	0.052
PRODUCT DEVELOPMENT (X3) -> SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	0.020	0.018	0.016	1,227	0.220
BRANDING ABILITY (X4) -> SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	0.064	0.063	0.030	2,148	0.032
HUMAN RESOURCES QUALITY (X5) -> SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	0.199	0.195	0.075	2,641	0.009

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(Y)

Based on the results of tables 8 and 9, it can be stated as follows:

The Impact of Digitalization on Financial Performance in Sales Turnover Mediation

In *the Path Coefficient* of digitalization on financial performance, it gets positive results because the P values are $0.000 < 0.05$. In the *Specific Indirect Effect table* of digitalization on financial performance mediated by sales turnover, it shows a negative relationship because $0.121 > 0.05$. So it is said to be *Non Mediation*.

The Influence of Financial Literacy on Financial Performance in Sales Turnover Mediation

In *the Path Coefficient of* financial literacy on financial performance, the results are negative because the P values are $0.603 > 0.05$. In the *Specific Indirect Effect table* , financial literacy on financial performance mediated by sales turnover shows a negative relationship because $0.052 > 0.05$. So it is said to be *Non Mediation*.

The Influence of Product Development on Financial Performance in Sales Turnover Mediation

In *the Path Coefficient of* product development on financial performance, the results are negative because the P values are $0.050 > 0.05$. In the *Specific Indirect Effect table* , product development on financial performance mediated by sales turnover shows a negative relationship because $0.220 > 0.05$. So it is said to be *Non Mediation*.

The Influence of Branding Ability on Financial Performance in Sales Turnover Mediation

In *the Path Coefficient of* branding ability to financial performance, the results are negative because the P values are $0.431 > 0.05$. In the *Specific Indirect Effect table* , branding ability to financial performance mediated by sales turnover shows a positive relationship because $0.032 < 0.05$. So it is said to be *Full Mediation*.

The Influence of Human Resources Quality on Financial Performance in Sales Turnover Mediation

In *the Path Coefficient of* HR quality on financial performance, the results are positive because the P values are $0.000 < 0.05$. In the *Specific Indirect Effect table* , HR quality on financial performance mediated by sales turnover shows a negative relationship because $0.009 < 0.05$. So it is said to be *Partial Mediation*.

2. Hypothesis Testing

The use of hypothesis testing is intended to test the influence of relationships between variables, directly and indirectly, as well as mediating or connecting variables. The way to test the hypothesis is to look at the T- *Statistic values* and P *values* . If the P Values are less than 0.05 then it is declared accepted

Table 10. Hypothesis Testing

No	Hypothesis	Analysis
1	DIGITALIZATION (X1) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = 0.266 P Value = 0.000 T- Statistic = 5.331 T-table = 1.967 Positive and Significant
2	DIGITALIZATION (X1) -> SALES TURNOVER (Z)	Coefficient value = -0.007 P Value = 0.084

		T -Statistic = 1.731
		T-table = 1.967
		Negative and Insignificant
3	FINANCIAL LITERACY (X2) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = 0.069
		P Value = 0.603
		T-Statistic = 0.521
		T-table = 1.967
		Positive and Insignificant
4	FINANCIAL LITERACY (X2) -> SALES TURNOVER (Z)	Coefficient value = 0.178
		P Value = 0.005
		T -Statistic = 2.807
		T-table = 1.967
		Positive and Significant
5	PRODUCT DEVELOPMENT (X3) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = -0.125
		P Value = 0.051
		T -Statistic = 1.963
		T-table = 1.987
		Negative and Insignificant
6	PRODUCT DEVELOPMENT (X3) -> SALES TURNOVER (Z)	Coefficient value = 0.062
		P Values = 0.224
		T -Statistic = 1.217
		T-table = 1.987
		Positive and Insignificant
7	BRANDING ABILITY (X4) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = -0.067
		P Value = 0.431
		T -Statistic = 0.788
		T-table = 1.987
		Negative and Insignificant
8	BRANDING ABILITY (X4) -> SALES TURNOVER (Z)	Coefficient value = 0.198
		P Values = 0.003
		T -Statistic = 2.998
		T-table = 1.987
		Positive and Significant
9	HUMAN RESOURCES QUALITY (X5) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = 0.481
		P Value = 0.000
		T -Statistic = 4.573
		T-table = 1.987
		Positive and Significant
10	QUALITY OF HUMAN RESOURCES (X5) -> SALES TURNOVER (Z)	Coefficient value = 0.612
		P Value = 0.000

		T -Statistic = 8.754
		T-table = 1.987
		Positive and Significant
11	SALES TURNOVER (Z) -> FINANCIAL PERFORMANCE (Y)	Coefficient value = 0.325
		P Value = 0.004
		T-Statistic = 2.916
		T-table = 1.987
		Positive and Significant

H1: Digitalization (X1) on Financial Performance (Y) of MSMEs in Lamongan

The table above shows that the Original Sample value is 0.266 > 0.000. Tstatistic . 5.331 > T table 1.987 . P values 0.000 <0.050 So it is stated that Ha1 is accepted. This means that it occurs because of the positive and significant influence of digitalization on financial performance in MSMEs in Lamongan.

Digitalization has a significant positive impact on the financial performance of MSMEs in Lamongan. By using digital technology, MSMEs can improve operational efficiency, expand markets through e-commerce platforms, and facilitate faster and safer payments. This leads to increased profitability and liquidity of MSMEs as a whole.

These results are in line with previous research by Kartini (2021) which showed that price has a positive and significant influence on customer loyalty.

H2: Digitalization (X1) on Sales Turnover (Z) in MSMEs in Lamongan

The table above shows that the Original Sample value is -0.007 <0.000. Tstatistic . 1.731 <T table 1.987 . P values 0.084 > 0.050 So it is stated that Ha2 is rejected. This means that it occurs because of the negative and insignificant influence of digitalization on sales turnover in MSMEs in Lamongan.

There are negative and insignificant impacts of digitalization on sales turnover of MSMEs in Lamongan, mainly due to lack of access or understanding of technology, infrastructure challenges, and high initial costs. However, on a large scale, these impacts may not be so significant and can be overcome over time and with increased adoption of technology.

H3: Financial Literacy (X2) on Financial Performance (Y) of MSMEs in Lamongan

The table above shows that the Original Sample value is 0.069 <0.000. Tstatistic . 0.521 <T table 1.987 . P values 0.603 > 0.050 So it is stated that Ha3 is rejected. This means that it occurs because of the positive and insignificant influence of digitalization on sales turnover in MSMEs in Lamongan.

financial literacy was found to have a positive effect on financial performance, but not significant. This can be caused by several factors, such as the lack of knowledge of financial literacy by MSME actors or the lack of infrastructure that affects financial access and effective financial management.

H4: Financial Literacy (X2) on Sales Turnover (Z) in MSMEs in Lamongan

The table above shows that the Original Sample value is 0.178 <0.000. Tstatistic . 2.807 <T table 1.987 . P values 0.005 > 0.050 So it is stated that Ha4 is accepted. This means that it occurs because of the positive and significant influence of digitalization on sales turnover in MSMEs in Lamongan.

Financial literacy was found to have a positive and significant effect on MSME sales turnover. This can be caused by several factors, such as the ability of MSME actors to manage finances effectively, increase income, and improve business performance. Financial literacy helps MSME actors in making the right financial decisions, managing risks, and increasing operational efficiency, thereby increasing sales turnover.

H5: Product Development (X3) on Financial Performance (Y) in MSMEs in Lamongan

The table above shows that the Original Sample value is $-0.125 < 0.000$. Tstatistic . 1.963 <T table 1.987 . P values $0.051 > 0.050$ So it is stated that Ha5 is rejected. This means that it occurs because of the negative and insignificant influence of digitalization on sales turnover in MSMEs in Lamongan.

Poor product development or product that does not meet market needs can cause product failure in the market. If the product does not meet consumer expectations or does not have a competitive advantage, then investment in product development will not contribute positively to the financial performance of MSMEs.

H6: Product Development (X3) on Sales Turnover (Z) in MSMEs in Lamongan

The table above shows that the Original Sample value is $0.062 < 0.000$. Tstatistic . 1.217 <T table 1.987 . P values $0.224 > 0.050$ So it is stated that Ha6 is rejected. This means that it occurs because of the positive and insignificant influence of digitalization on sales turnover in MSMEs in Lamongan.

product development was found to have a positive but insignificant effect on MSME sales turnover. This can be caused by several factors, such as the lack of ability of MSME actors in developing products that are in accordance with market needs, lack of infrastructure that affects financial access and effective financial management, or the lack of ability of MSME actors in managing risks and dealing with rapid market changes.

H7: Branding Ability (X4) on Financial Performance (Y) of MSMEs in Lamongan

The table above shows that the Original Sample value is $-0.067 < 0.000$. Tstatistic . 0.788 <T table 1.987 . P values $0.431 > 0.050$ So it is stated that Ha7 is rejected. This means that it occurs because of the negative and insignificant influence of digitalization on sales turnover in MSMEs in Lamongan.

Ineffective branding can result in difficulties in retaining existing customers. Without a good branding strategy, MSMEs are unable to build loyalty and attract customers, which will have a negative impact on MSME financial performance.

H8: Branding Ability (X4) on Sales Turnover (Z) in MSMEs in Lamongan

The table above shows that the Original Sample value is $0.198 < 0.000$. Tstatistic . 2.998 <T table 1.987 . P values $0.003 > 0.050$ So it is stated that Ha8 is accepted. This means that it occurs because of the positive and significant influence of digitalization on sales turnover in MSMEs in Lamongan.

Good branding capabilities do have a positive and significant influence on MSME sales turnover. By increasing brand awareness, building trust, differentiating from competitors, setting premium prices, increasing perceived quality, facilitating marketing, and enabling market expansion, effective branding can increase MSME sales turnover as a whole.

H9: Human Resource Quality (X5) on Financial Performance (Y) in MSMEs in Lamongan

The table above shows that the Original Sample value is $0.481 < 0.000$. Tstatistic . 4.573 <T table 1.987 . P values $0.000 > 0.050$ So it is stated that Ha9 is accepted. This means that it occurs because of the positive and significant influence of digitalization on sales turnover in MSMEs in Lamongan.

Quality human resources can improve productivity, innovation, product or service quality, management, and customer satisfaction. In addition, investment in human resource training and development can help MSMEs achieve better operational efficiency and business strategies, which ultimately improve MSME financial performance.

H10: Human Resource Quality (X5) on Sales Turnover (Z) in MSMEs in Lamongan

The table above shows that the Original Sample value is $0.612 < 0.000$. Tstatistic . 8.754 <T table 1.987 . P values $0.000 > 0.050$ So it is stated that Ha10 is accepted. This means that it occurs because of the positive and significant influence of digitalization on sales turnover in MSMEs in Lamongan.

The quality of human resources has a positive and significant influence on the sales turnover of MSMEs through various means, including improving sales capabilities, customer service quality, *Abid Muhtarom (Strengthening the Financial Performance of MSMEs in Lamongan: Exploring the Relationship Between Digitalization, Financial Literacy, Product Development, Branding Capability and HR Quality with Sales Turnover as a Mediator)*

innovation, operational efficiency, marketing strategies, managerial capabilities, and customer relationship management. Quality human resources can improve all of these aspects, which ultimately increases the sales turnover of MSMEs.

H11: Sales Turnover (Z) Against Financial Performance (Y) in MSMEs in Lamongan

The table above shows that the Original Sample value is $0.325 < 0.000$. Tstatistic . $2.916 < T$ table 1.987 . P values $0.004 > 0.050$ So it is stated that Ha11 is accepted. This means that it occurs because of the positive and significant influence of digitalization on sales turnover in MSMEs in Lamongan.

High sales turnover has a positive and significant impact on the financial performance of MSMEs through various mechanisms, including increasing gross profit, operational cash flow, profit margin, investment capacity, bargaining power, risk management, brand reputation, and long-term financial health.

4. Conclusion

This study shows that factors such as digitalization, financial literacy, branding, and human resource quality have a significant influence on the financial performance and sales turnover of MSMEs in Lamongan. However, some factors such as product development need more attention to improve their effectiveness. Sales turnover is also proven to be a significant mediator in the relationship between these factors and the financial performance of MSMEs. The results of this study are expected to provide insights and practical recommendations for MSMEs and other stakeholders to improve the financial performance of MSMEs in Lamongan.

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