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The Influence of Strategic Agility, Dynamic Capabilities, and Business Model Innovation on Sustainable Business Performance of MSMEs Managed by Generation Z

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ABSTRAK

Studi ini bertujuan untuk mengukur kontribusi kelincahan strategis, kapabilitas dinamis, dan inovasi model bisnis, sebagai faktor utama, terhadap kinerja berkelanjutan Usaha Mikro, Kecil, dan Menengah (UMKM) yang dipimpin oleh Generasi Milenial atau Gen Z. Penelitian ini terinspirasi oleh ekonomi digital di mana usaha kecil dan menengah memainkan peran yang semakin krusial, dan para wirausaha muda perlu memastikan bisnis mereka bertahan di pasar yang sulit dan terus berubah. Studi ini dilakukan dengan metode eksplanatori kuantitatif terhadap sampel 150 UMKM Generasi Z. Teknik pengambilan sampel yang digunakan adalah purposive sampling dengan mempertimbangkan faktor-faktor seperti lama berbisnis, penggunaan teknologi digital, dan partisipasi dalam inovasi bisnis. Kuesioner yang menjadi instrumen penelitian telah divalidasi melalui uji-t korelasi item dan skor total, serta reliabilitasnya ditentukan dengan Cronbach's Alpha. Normalitas, heteroskedastisitas, dan multikolinearitas diuji sebelum analisis regresi. Analisis regresi linier berganda menunjukkan bahwa ketiga variabel independen memiliki pengaruh positif dan signifikan terhadap keberlanjutan kinerja bisnis. Hasil penelitian ini memberikan kontribusi substansial terhadap literatur manajemen strategis UMKM generasi muda. Salah satu hasil penelitian ini adalah penerapan praktis temuan penelitian bagi UMKM Generasi Z dalam hal strategi kelincahan, pengembangan kapabilitas, dan inovasi model bisnis untuk memastikan keberlanjutan jangka panjang mereka.

Kata kunci: kelincahan strategis, kapabilitas dinamis, inovasi model bisnis, kinerja bisnis berkelanjutan

ABSTRACT

The study at hand intends to measure the contribution of strategic agility, dynamic capabilities, and business model innovation, as the main factors, to the sustainable performance of the Millennials or Gen Z led Micro, Small and Medium Enterprises (MSMEs). The research is inspired by the digital economy where small and medium enterprises play an increasingly crucial role, and the youth entrepreneurs need to make their businesses survive in the tough and ever-changing market. The study is conducted using a quantitative explanatory method on a sample of 150 Generation Z MSMEs. Purposive sampling of factors like the time in business, the use of digital technology, and participation in business innovation was the sampling technique used. The questionnaire which was the research instrument underwent validation through item and total score correlation t-test and its reliability was determined by Cronbach's Alpha. Normality, heteroscedasticity, and multicollinearity were tested prior to regression analysis. Multiple linear regression analysis showed that all three independent variables had a positive and significant influence on business performance sustainability. The results of this study provide a substantial contribution to the strategic management of the young generation MSMEs literature. One of the research results is the practical application of the findings for Generation Z MSMEs in terms of their agility strategies, capability development, and business model innovation to ensure their long-term sustainability advice.

Keywords: strategic agility, dynamic capabilities, business model innovation, sustainable business performance

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INTRODUCTION

MSMEs play the key role for the Indonesian economy. On the other hand, companies in this sector are not yet ready to face the very dynamic digital competition which is gradually taking over the digital space (Susanto et al., 2023). The young entrepreneurs belonging to Gen Z, are equipped with both the good and the bad qualities of being tech-savvy, creative, and innovation-seeking, yet at the same time they are not good in the making of long-term business management strategies. One of the major conditions for Gen Z run MSMEs to obtain the guarantee of business sustainability in financial, operational, marketing, and socio-environmental aspects is a sustainable business performance (Renwarin et al., 2022). Customers are becoming more and more demanding concerning the quality of products and services in the digital era, which includes high quality that is closely related to speed, transparency, and sustainability. The above-mentioned scenario will eventually lead to the need for adaptability in business model, strategy, and sales techniques among Gen Z MSMEs so that their response to the market shift would be very quick (Junianti et al., 2023). Performance-wise, without the support of a sustainably operated business, they are likely to experience stagnation, lose their competitive edge, and, as a result, face a very difficult situation in trying to stay alive (Suhendra et al., 2024). For that reason, exploring the elements that lead to the business sustainability of Gen Z MSMEs is one of the most urgent issues for contemporary management (Tannady & Veronica, 2024).

Organizations with strategic agility abilities are not only faster but also more resource-efficient overall in these areas (Renwarin, 2022). Moreover, one of the attributes that could play a big role in the future of entrepreneurs is the frequency at which a company changes its strategy (Gathmyr et al., 2025). One of the advantages of strategic agility is that it not only allows the small and medium enterprises to recover from the bad situations but at the same time it gives the Generation Z entrepreneurs the power of first-mover advantage (Hari et al., 2024). Generally, technology-friendly and eco-friendly digital business ecosystem MSMEs will be the fittest one financially (Ws et al., 2025). Moreover, by being strategically agile, they will be the sustainable ones offering high-quality services and being the market leaders. The concept of dynamic capabilities is the one which describes an organization that has the ability to supply, integrate, and reorganize internal resources so as to cope with the changes occurring outside it (Susanto et al., 2023). Dynamic capabilities are vital for Gen Z MSMEs since they are constantly subject to unstable market conditions where technology, customer preferences, and marketing channels are changing almost simultaneously and all of them have very fast shifts (Safariningsih et al., 2025). In contrast, dynamic capabilities are the ones that give the MSME the chance to become a continuous learner, acquire new skillsets and come up with better and more efficient ways of working. Business model innovation enables MSMEs to "talk" in the same "tongue" as their clients, hence, increasing customer satisfaction, enhancing cost-effectiveness, and broadening the market (Gathmyr et al., 2024).

The pace of change is so rapid that Gen Z MSMEs that do not renew their business models will mostly be the ones that get left behind (Erika et al., 2025).

The research focuses on the relationship among strategic agility, dynamic capabilities, and business model innovation and their sustainable business performance in the case of micro, small, and medium enterprises (MSMEs) led by Generation Z. Theoretically, the research will be a platform for the strategic management literature that deals with the digital era MSMEs of the younger generation. In addition, the study will show how the three factors can be the power behind the sustainability of business performance. The research will be a practical one for the Gen Z MSMEs in the formulation of adaptive, innovative, and long-term corporate strategies. Moreover, the insights gained from this research can serve as guidance for institutions that are dedicated to MSME development, business incubators, and policymakers in making MSME development programs that are more tuned to the Gen Z's requirements. Hence, the outcome of this research will not only enhance the competitive edge of the MSMEs but also the sustainability of the national economy.

RESEARCH METHOD

Defaulting to a quantitative explanatory method, the current study is revealing the cause-and-effect link of strategic agility, dynamic capabilities, and business model innovation through sustainable business performance of MSMEs run by Generation Z kids. The methodology has been selected because it provides a highly accurate empirical representation of the impact of each variable via the statistical analysis that can be performed. The study employs a survey approach, with the primary data being collected from the respondents via questionnaires containing a five-point Likert scale to assess the extent of perception and experience of the MSME sector players belonging to Generation Z with regard to the research variable. The research participants include those owning or managing MSMEs who belong to the Generation Z group and are working in diverse sectors, either goods or services, with an age limit of 18-28 years for the owners or managers. The sampling method practiced was planned sampling with the stipulation that the MSMEs must have been operational for at least one year, solely managed by the Generation Z people, and using digital technology for either their operational or marketing activities. According to these requirements, the number of research participants was 150 which was considered to be enough for running the best regression analysis possible. The test's validity was established by applying the t-test item-total correlation method, where all items were considered valid if they had a significance value of <0.05 and a correlation value of >0.30. Moreover, reliability was assessed by using Cronbach's Alpha and the instrument was considered reliable if the α value was >0.70. Signature techniques of multiple linear regression were the ones applied in the data analysis phase with the aim of assessing how much the three independent variables affect sustainable business performance.

RESULT AND DISCUSSION

The output of the F-test reveals the importance of the regression model with the example of F-value which is computed to be 63.54 which exceeds the F-value in the table of 3.05 and also has a p-value of 0.000 < 0.05. Therefore, it is concluded that strategic agility, dynamic capabilities, and business model innovation together are the main factors of the measured sustainable business performance of generation Z MSMEs. The R^2 value of 0.72 means that the three independent variables together explain 72% of the variation in sustainable business performance and the other 28% can be attributed to other factors like quality of leadership, market conditions, access to capital, brand positioning, and the innovation of digital marketing practices. The partial t-test result reveals that all three variables have a t-value higher than the t-table (1.97) and a significance value lower than 0.05, thus, the positive and significant effect of each variable on the sustainable performance of generation Z MSMEs is demonstrated. Consequently, the regression results support the research hypothesis put forward.

The research conclusions show that strategic agility not only significantly but also positively influences the sustainable business performance of the MSME sector which is managed by the Z generation. The ability and dominance of MSMEs to rapidly pivot and gradually anchor the business to the new market have been the main cause of business sustainability. The Z generation with strategic agility MSMEs have now become the fastest in reacting to digital trends, changes in consumer preferences, and interactions with competitors as compared to those without such agility. Furthermore, strategic agility empowers MSMEs to reposition their businesses, open up new avenues, and reorganize their operational frameworks more adeptly during market disruptions. In addition to this, the strategic agility grants the young entrepreneurs a realm where they can carry out business experiments, introduce new products, and apply digital technology in a novel way in marketing and operations. Being able to make prompt decisions is a very crucial competitive edge in the rapidly changing digital era. Hence, the strategic agility is not only a means to survive but rather a key and indispensable factor for the Z generation MSMEs to attain sustainable business performance.

Moreover, the research has come to the conclusion that these dynamic capabilities are a prerequisite for sustainable Generation Z MSMEs business performance. The stated above dynamic capabilities are the forces that enable the MSMEs to create, change, and even shift their internal resources according to the fast-changing business world. The Gen Z MSMEs possessing dynamic capabilities will not only be able to fully utilize technical innovations but also improve the quality of production processes, and even produce goods that will become the market leaders. Spotting opportunities, adapting to the times, and upgrading tech and digital skills are the Gen Z MSMEs ways to keep the competition at bay regarding their products and services. Besides, the dyanmics also contribute to the decision-making power of the right kind, the capacity to lose intentionally, and the ability to join and even ride the changes in market disruptions or shifts in demand through being the prepared ones. It is the practice of constantly learning

and upgrading one's skills and knowledge that is essential for MSMEs to live in a very competitive and dynamic market. Hence, dynamic capabilities are considered to be an internal resource that not only generates short-term growth but also long-term business sustainability.

The research reveals that the changes in business models not only help but also to a large extent increase the sustainable performance of the Generation Z MSMEs. The younger MSMEs are those that consider the new business models more as a powerful magnet that attracts the customers, delivers new value, and enhances the customer experience thus maintaining the competitive advantage. Gen Z MSMEs that are very open to experimenting with their models through going e-business, working with subscription models, doing digitally-content-based marketing, or even providing integrated services often view their performance as more stable and having a longer duration. Business model innovation allows firms almost to run at zero cost, to digitize their operations, and thus the whole process time is shortened, and the biggest market with the least investment can be accessed. A business model transition is a sign that the companies are changing and their transformation thus being more appealing to the youngest consumers who are the most inclined to the instant, open and technology-based services. Hence, Gen Z MSMEs are very likely not only to defeat the competition but also to increase their market share in terms of sustainable performance by continually innovating their business models in accordance with demand.

CONCLUSION

The research results indicate that strategic agility, dynamic capabilities, and business model innovation have positively and significantly affected the sustainable business performance of the MSMEs run by Gen Z. The studies have given a lot of managerial suggestions to the Gen Z MSMEs among which, the most prominent is that the entrepreneurs should make their strategic agility more responsive by speeding up the decision-making, carrying out market monitoring continuously and being open to change their business model if need be. MSMEs have to build their dynamic capabilities with technology-related training, learning, and upgrading their digital skills to become more tech-savvy and accordingly more adaptable to the changes in technology. Business model innovation should be done by adopting digital technology, applying creative marketing strategies, or improving customer value-based service processes that are in line with the organization. If these three factors are combined, the Gen Z MSMEs will not only be able to increase their power of resistance to business risks but also gain a larger share of the market and finally, be performing their business sustainably in the long run.

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