Nurfitasari Febrianti

Universitas Islam Raden Mas Said,
Surakarta, Indonesia

*Corresponding author:
Email: febriantinurfitasari@gmail.com

Abstract

This study aims to determine the effect of differentiation strategy on MSME financial performance media by innovation, accounting information systems, and social media. This research technique sampling is purposive sampling and data analysis techniques using Structural Equation Modeling–Partial Least Square (SEM–PLS). The data collection techniques used are quantitative by distributing questionnaires to the MSME actors who are in the city of Surakarta so that the number of Surakarta the sample obtained was 104 MSMEs. The results of this study prove that differentiation strategy has a positive effect on innovation, accounting information systems, and social media. Differentiation strategy has a negative effect on MSME financial performance. Innovation and accounting information systems have a positive effect on MSME financial performance. Social media does not affect MSME's financial performance. Differentiation strategy has a positive effect on MSME financial performance mediated by innovation, accounting information systems, and social media.

Keywords: Differentiation Strategy; Innovation; Accounting Information Systems; Social Media; MSME Financial Performance

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of a country's economy, contributing significantly to employment and economic growth. In Indonesia, MSMEs account for approximately 61.9% of the Gross Domestic Product (GDP) and absorb 97% of the workforce (Kementerian Koordinator Bidang Perekonomian, 2022). Despite their critical role, MSMEs continue to face numerous challenges that hinder their growth and sustainability. Issues such as limited access to financing, marketing constraints, technological barriers, and struggles with competitiveness and productivity remain prevalent.

A crucial factor influencing the sustainability of MSMEs is financial management, which ensures that businesses can track their income and profits to make informed decisions. Effective financial management involves various practices, including budget planning, capital savings, and business expense monitoring (Jiwandari & Pardi, 2022). However, many MSMEs in Surakarta still lack proper financial reporting systems, with 19,747 businesses operating without financial reports

and only 2,100 having established financial reporting practices. This gap in financial management exposes businesses to a high risk of failure, as a lack of proper record-keeping and financial oversight can lead to poor decision-making and financial instability (Jiwandari & Pardi, 2022).

To strengthen financial performance, MSMEs can adopt competitive strategies that focus on product differentiation. Differentiation is a strategic approach that enables businesses to create products and services that are unique and distinct from those of competitors, offering additional value to consumers (Padli, 2022). By implementing differentiation strategies, MSMEs can enhance business growth, achieve competitive advantage, and increase profitability through improved product appeal and market positioning (Aldania & Niswah, 2021). Research has demonstrated that differentiation strategies contribute positively to MSMEs' financial performance (Marlina et al., 2020; Udayani et al., 2023). However, some studies suggest that differentiation alone does not guarantee financial success, particularly when businesses fail to align their strategies with innovation and technological advancements (Latifah et al., 2021).

The effectiveness of product differentiation in improving financial performance may depend on additional factors that mediate this relationship. One such factor is innovation, which plays a fundamental role in sustaining differentiation by allowing businesses to continuously improve products, introduce new offerings, and enhance production efficiency (Latifah et al., 2021). Innovation enables businesses to create distinct value propositions and respond effectively to market changes, making it a crucial element in the success of differentiation strategies (Hendriyanto, 2015).

At the same time, technology integration has become increasingly important in modern business environments. Accounting information systems play a critical role in financial management by processing transaction data, collecting essential financial information, and facilitating informed decision-making (Hastuty HS et al., 2023). However, many MSMEs in Surakarta still rely on manual bookkeeping, which limits their ability to track financial performance accurately and make strategic adjustments (Jiwandari & Pardi, 2022). The use of advanced accounting information systems can support financial transparency and efficiency, ultimately influencing the success of differentiation strategies in driving financial growth.

Social media has also emerged as a vital tool for MSMEs, enabling them to expand business networks, increase brand awareness, and access market insights in real-time (Marlina et al., 2020). In the current digital landscape, businesses that effectively leverage social media platforms can strengthen customer engagement, enhance market presence, and improve financial performance. As MSMEs face growing competition, integrating social media into their differentiation strategies can provide them with a competitive edge, allowing them to reach a broader audience and maximise sales opportunities (Chow et al., 2023).

Given these dynamics, this study explores the mediating role of innovation, accounting information systems, and social media in the relationship between product differentiation and the financial performance of MSMEs. While differentiation strategies are essential for competitive advantage, their success in driving financial growth may depend on how well MSMEs integrate innovation, accounting information systems, and social media into their operations. This study aims to contribute to the understanding of how these factors interact and whether they enhance the impact of differentiation on financial performance.

The remainder of this paper discusses these issues in greater detail. The next section provides a review of relevant literature, examining the role of differentiation strategies, innovation, accounting information systems, and social media in shaping financial performance. The methodology section outlines the research approach used to investigate these relationships, followed by an analysis of findings that provide empirical insights into the mediation effects of innovation, financial technology, and social media. The discussion interprets these results in the

context of existing literature, and the final section offers conclusions and practical recommendations for MSME actors seeking to enhance their financial performance through strategic differentiation.

Literature Review

Resource-Based View (RBV) and Its Relationship to Differentiation Strategy

The Resource-Based View (RBV) theory suggests that a business's competitive advantage lies in its ability to create value and optimize the utilization of its resources. A company's resources are categorized into three main types: organizational capital, human capital, and physical capital (Barney, 1986). Hooley et al. (1998) further classify resources as technological skills, brand reputation, trade contacts, financial capital, efficient procedures, and skilled personnel utilization. The RBV theory focuses on resources and capabilities that determine a company's performance. These resources consist of assets, skills, and capabilities that contribute to the empowerment process, enabling the creation of competitive advantage and the improvement of social welfare (Hutahayan, 2020).

Panno (2020) emphasizes that organizations that leverage their internal resources in market orientation can achieve a sustainable competitive advantage, which in turn enhances their financial performance. Improved financial performance and competitive advantage positively impact the company's overall success. Similarly, Mulyono (2013) argues that, according to RBV theory, understanding the market and enhancing innovation, along with fostering strong entrepreneurial capabilities, are key factors in improving financial performance.

Differentiation Strategy and Its Relationship with Innovation

Differentiation strategy is a competitive strategy aimed at achieving a competitive advantage by offering and providing consumers with high-quality, unique products and excellent service (Sulistyorini et al., 2022). The core concept of differentiation strategy is product innovation, where consumers are willing to pay a premium price as long as the product offers advantages that are not found in competing products. Innovation refers to the adoption of new ideas or behaviors in implementing new elements within an organization (Latifah et al., 2021). It is the process of transforming knowledge into value or integrating ideas and knowledge into new value through the implementation of new or improved products, processes, and systems (Prasetyo et al., 2021). Innovation is a creative process that requires discoveries to be developed into products or services with economic value.

The success of differentiation strategies can be achieved when a business can move ahead of its competitors. Innovation plays a key role in fostering creativity, as it encourages the development of new ideas through experimentation with novel production methods. When an MSME adopts a differentiation strategy, it helps generate new products or services that have unique characteristics and high quality, both for the current and future markets. As a result, differentiation strategies can create a competitive advantage, which has a positive impact on the financial performance of MSMEs (Akbar et al., 2023).

Differentiation strategy serves as a key driver for businesses to establish a unique identity in the market and offer additional value to customers through distinctive concepts that are not available from competitors. This approach fosters **high-quality innovation**, setting businesses apart from their rivals (Nikmah & Siswahyudianto, 2022). Research by Latifah et al. (2021), Aldania & Niswah (2021), and Nuvriasari et al. (2017) support the argument that differentiation strategies have a significant positive impact on innovation. Based on this premise, the hypothesis in this study is formulated as follows:

H1: Differentiation strategy has a positive and significant effect on innovation

The Influence of Differentiation Strategy on Accounting Information Systems

Differentiation strategy has an impact on the quality of management accounting information systems, as it emphasizes excellence in both service quality and technology. When a business effectively utilizes high-quality support services, the accounting information system operates more efficiently and accurately (Lestari & Hertati, 2020). Accurate and well-structured support services ensure that accounting information systems function properly, allowing consumers to receive precise and easily understandable financial information (Lestari & Hertati, 2020). For instance, a well-implemented accounting information system provides customers with clear, accurate, and high-quality purchase receipts*, while also supplying valuable financial insights that aid MSME owners in making informed business decisions.

This relationship is further supported by research conducted by Amalia (2023), Novennia & Andayani (2022), and Latifah et al. (2021), which demonstrates that enhancing differentiation strategies through technology adoption for financial transaction recording has a significant positive impact on accounting information systems. Based on this premise, the hypothesis in this study is formulated as follows:

H2: Differentiation strategy has a positive and significant effect on accounting information systems.

Influence of Differentiation Strategy on Social Media

The rapid advancement of technology requires business actors to adapt and remain competitive in an increasingly tight market (Wernerfelt, 1984). One of the key strategies businesses can adopt to stay relevant is the integration of technology into their business processes (Chow et al., 2023). The number of internet users in Indonesia continues to grow due to technological advancements and the increasing role of social media in business activities (Lina & Permatasari, 2020).

Research by Harina (2023) suggests that differentiation strategy has an impact on social media. This finding is reinforced by Fadhillah et al. (2021), who found that differentiation strategies have a significant positive effect on social media usage, as social media serves as a platform for expanding business networks and enhancing differentiation strategies. Based on this premise, the hypothesis in this study is formulated as follows:

H3: Differentiation strategy has a positive and significant effect on social media.

Influence of Differentiation Strategy on MSME Financial Performance

Differentiation strategies influence the financial performance of MSMEs and have a significant positive effect on market share. When MSMEs implement differentiation strategies that focus on uniqueness and superior quality, they are more likely to attract customer loyalty, which in turn enhances financial performance (Udayani et al., 2023). To create a sustainable competitive advantage, businesses must adopt appropriate strategic measures. Differentiation strategies, when applied effectively, are expected to enhance MSMEs' financial performance. This view is supported by Afiyati et al. (2019) and Latifah et al. (2021), who found that differentiation strategies have a significant positive impact on the financial performance of MSMEs. Based on this premise, the hypothesis in this study is formulated as follows:

H4: Differentiation strategy has a positive and significant effect on MSME financial performance.

The Influence of Innovation on MSME Financial Performance

Innovation plays a crucial role in this process, enabling businesses to develop new products or services that differentiate them from competitors (Manalu, 2022). As economic growth accelerates, the MSME sector continues to expand, requiring business owners to become

more creative and innovative in designing competitive strategies. Effective innovation allows businesses to sustain their growth and achieve better financial performance. Entrepreneurial innovation fosters creativity and experimentation with new production methods, enabling businesses to develop new products and services that meet both current and future market demands. Empirical studies by Putri (2022), Deviastri & Annisa (2022), and Hendriyanto (2015) confirm that innovation has a significant positive effect on MSME financial performance. Based on this premise, the hypothesis in this study is formulated as follows:

H5: Innovation has a positive and significant effect on MSME financial performance.

The Influence of Accounting Information Systems on MSME Financial Performance

Accounting information systems play a crucial role in monitoring business progress, revenue, and profit, while also simplifying financial reporting, making it more efficient and accurate (Sofiyanti et al., 2021). The frequent use of accounting information systems improves MSME financial performance (Amalia, 2023). When MSME owners use advanced digital systems for financial transactions and combine them with strong user knowledge, the transaction process becomes more efficient and accurate. This ultimately enhances financial performance (ERMAWATI & ARUMSARI, 2021). Studies by Widianingsih & Sunarmo (2022) and Prastika & Purnomo (2021) confirm that accounting information systems positively affect MSME financial performance. The successful implementation of accounting information systems provides accurate financial information, which is crucial for making future business decisions. Based on this premise, the hypothesis in this study is formulated as follows:

H6: Accounting information systems have a positive and significant effect on MSME financial performance.

The Influence of Social Media on MSME Financial Performance

Social media has a positive impact on MSME financial performance, as it helps businesses market their products, provide information to customers, expand business networks, and boost sales (Agnesia & Saputra, 2022). Several studies, including those by Armiani et al. (2021), Lina & Permatasari (2020), and Worang & Wenas (2022), confirm that social media usage significantly improves MSME financial performance. Additionally, Pertiwi et al. (2022) argue that social media adoption helps MSMEs market their products at low cost, facilitates consumer research, and enhances business decision-making. Based on this premise, the hypothesis in this study is formulated as follows:

H7: Social media has a positive and significant effect on MSME financial performance.

The Mediating Role of Innovation in the Relationship Between Differentiation Strategy and MSME Financial Performance

In improving financial performance, MSME owners must utilize innovation to create unique and high-quality products or services. Differentiation strategies are closely linked to innovation, as they enable businesses to stay ahead of competitors by offering distinctive value propositions. Innovation helps MSMEs build consumer loyalty, which ultimately enhances financial performance (Latifah et al., 2021; Marlina et al., 2020; Nikmah & Siswahyudianto, 2022). Based on this premise, the hypothesis in this study is formulated as follows:

H8: Innovation mediates the relationship between differentiation strategy and MSME financial performance.

The Mediating Role of Accounting Information Systems in the Relationship Between Differentiation Strategy and MSME Financial Performance

Accounting information systems are a crucial aspect of financial management, helping MSMEs monitor their financial performance and make data-driven decisions (Manalu, 2022).

Proper implementation of accounting information systems enables MSMEs to track financial progress, manage tax documentation, and support various business functions such as marketing, production, and strategic planning (Latifah et al., 2021; Yuscintara & Hendrani, 2022). Based on this premise, the hypothesis in this study is formulated as follows:

H9: Accounting information systems mediate the relationship between differentiation strategy and MSME financial performance.

The Mediating Role of Social Media in the Relationship Between Differentiation Strategy and MSME Financial Performance

Social media facilitates low-cost promotions, improves customer engagement, and enhances brand awareness, ultimately boosting MSME financial performance (Fernández-Miguélez et al., 2020; Kurniawan & Nuringsih, 2022). Based on this premise, the hypothesis in this study is formulated as follows:

H10: Social media mediates the relationship between differentiation strategy and MSME financial performance.

Hypotheses Development

The below conceptual framework is used to illustrate how differentiation strategy (X) impacts the financial performance of MSMEs (Y) through innovation (M1), accounting information systems (M2), and social media (M3) as mediating variables. This study employs a unidirectional model, represented in the Figure 1 below:
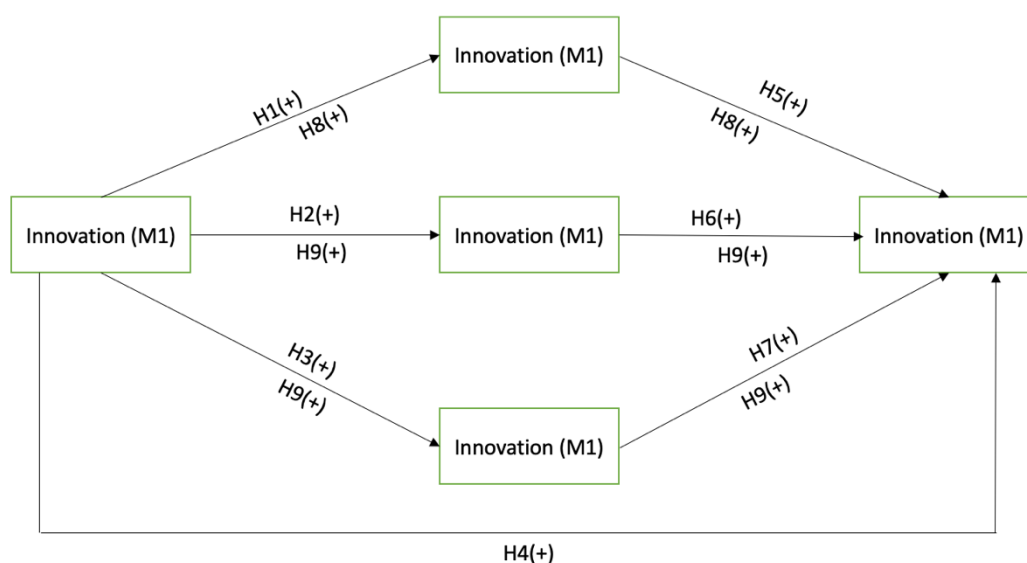

Figure 1. Research Model

Research Method

Data and sample

Sekaran & Bougie (2021) explain that a sample is a group of individuals representing a population, but not all elements of the population are included in the sample. Hair et al. (2021) suggest that a sample size of 100 or more is recommended for research, with a 10:1 ratio as a guideline. The sample size can be determined using the following formula:

N = (10 × the largest number of structural paths directed at a specific construct in the structural model).

Based on this formula, the minimum required sample size is 10 × 7 paths = 70 samples. However, obtaining a sample size larger than the target is preferable, as it enhances the study's reliability. The sample in this study consists of MSME actors in Surakarta City, representing the broader population.

The researcher employs the purposive sampling technique in this study. Purposive sampling is a sampling method in which the selected subjects do not have a predetermined or identifiable probability of being chosen; instead, they must possess specific characteristics relevant to the research (Sekaran & Bougie, 2021).

The following are the categories or characteristics of the purposive sampling technique used in this study:

1. MSMEs that have already implemented or adopted an accounting information system.
2. MSMEs that are actively using social media.

This study was conducted by directly distributing questionnaires to MSME actors in Surakarta City, Indonesia who have already implemented accounting information systems and social media in their businesses. A total of 104 questionnaires were distributed to respondents, and the collected data was processed using Structural Equation Modeling–Partial Least Squares (SEM–PLS) with SmartPLS 3.0 software. Partial Least Squares (PLS) is a statistical technique within Structural Equation Modeling (SEM) used to examine direct and indirect effects between independent and dependent variables (Chandrarin, 2018).

Data Analysis

The questionnaire serves as the primary instrument in this study. A questionnaire is a pre-formulated list of written questions given to respondents to record their answers. This study employs a closed-ended questionnaire, meaning that respondents' answers are limited to the options provided by the researcher. The questionnaire is distributed to MSME actors in Surakarta City, and responses are measured using a five-point Likert scale.

Two models are used in this study. The first model, the Outer Model, is used to test validity and reliability. In SEM–PLS, the Outer Model is commonly referred to as the construct validity test. The second model, the Inner Model, identifies relationships between latent variables based on theoretical assumptions. To examine the influence of other variables affecting endogenous variables, the coefficient of determination (R–Square) and path coefficient values are required.

A variable is considered statistically significant if the t–statistic value is greater than 0.05. The Inner Model tests hypothesis significance by assessing the path coefficient values, using a two-tailed t-value approach with the following thresholds; 1.65 for α = 10%, 1.96 for α = 5%, and 2.58 for α = 1% (Sholihin & Ratmono, 2021).

Results and Discussion

Respondent Characteristics

In this study, The characteristics of the respondents, including age, gender, number of employees, business duration, role or position in the business, type of business, revenue, participation in accounting software training, and use of accounting software, will be further explained in the following Table 1.

Table 1 above explains a total of 40% of respondents are between 20–30 years old, 41% are 31–40 years old, 10% are 41–50 years old, and 9% are over 50 years old. This indicates that the majority of respondents who completed the questionnaire are MSME owners between 31–40

years old. In terms of gender distribution, 69% of respondents are female, while 31% are male. This suggests that the majority of MSME owners participating in this study are women. Regarding the number of employees, 68% of respondents have 1–5 employees, 24% have 6–10 employees, and 8% have 11–50 employees. Meanwhile, there were no respondents (0%) have 51–99 employees and more than 99 employees categories. Therefore, it can be concluded that the majority of respondents in this study are MSME owners with 1–5 employees.

Table 1. Respondent Demographics

Characteristic	Frequency	Presentation (%)
Age Range		
• 20–30 years old	42	40 %
• 31–40 years old	43	41 %
• 41–50 years old	10	10%
• >50 years old	9	9 %
Gender		
• Men	72	69 %
• Women	42	31 %
Total Employee		
• 1–5 People	71	68 %
• 6–10 People	25	24 %
• 11–50 People	8	8 %
• 51–99 People	0	0 %
• >99 People	0	0 %
Type of Business		
• Fashion	17	13 %
• Handcraft	7	7%
• F&B	69	66 %
• Retail	13	13 %
• Service	2	1 %
Income		
• < 200million/year	84	59,21%
• 300–500million/year	15	34,21%
• 500million–1billion/year	5	6,57%
Usage of Accounting Software		
• Kasir Pintar	37	36 %
• Majoo	9	9 %
• Mokka	10	10 %
• Olsera	15	14 %
• Quickbooks	2	2 %
• Ipos	6	6 %
• Miopsis	1	1 %
• Pos Loyverse	3	3 %
• ESB	4	4 %
• Qasir	12	12 %
• R Pro	1	1 %
• Zahir	2	2 %
• Rekalaba	1	1 %
• Jurnal Mekari	1	1 %

Validity Test

Validity testing is conducted to assess the accuracy of the measurement instrument in evaluating and measuring an object. To determine the validity of the questionnaire used in this study, the construct validity model was applied. Construct validity consists of two types of validity: convergent validity and discriminant validity (Sekaran & Bougie, 2021). The following Table 2 are the results of the validity tests conducted for each measured variable.

Through the Table 2 above, all indicators—differentiation strategy, MSME financial performance, innovation, accounting information systems, and social media—are valid. This is

confirmed as all variables have an Average Variance Extracted (AVE) value > 0.50 and a loading factor value > 0.70

Table 2. AVE

Variable	AVE	Note
Differentiation Strategy (X)	0.612	Valid
MSMEs' Financial Performance (Y)	0.823	Valid
Innovation (IN)	0.619	Valid
Accounting Information System (SIA)	0.701	Valid
Social Media (MS)	0.578	Valid

Table 3. Fornell-Larcker Criterion

	IN	FP	MS	SIA	DF
Innovation (IN)	0.788				
MSMEs' Financial Performance (FP)	0.370	0.907			
Social Media (MS)	0.679	0.199	0.760		
Accounting Information System (SIA)	0.316	0.353	0.294	0.837	
Differentiation Strategy (DF)	0.552	0.096	0.561	0.343	0.723

Based on Table 3 above, all variables—including innovation, MSME financial performance, accounting information systems, social media, and differentiation strategy—meet the criteria for discriminant validity testing. This is confirmed as all variables have outer loading values > 0.70 and AVE values greater than the correlation with other latent variables or constructs.

Reliability Test

Reliability testing in PLS is used to assess the consistency and stability of the research measurement instrument. Cronbach's alpha is a reliability coefficient that indicates how well items in a scale correlate with one another (Sekaran & Bougie, 2021). Reliability testing in PLS can be conducted using two methods: Cronbach's alpha and composite reliability, both of which should have values greater than 0.70 to be considered reliable (Sholihin & Ratmono, 2021). Table 4 below are the results of the reliability test:

Table 4. Cronbach's Alpha and Composite Reliability

Variable/Indicator	Cronbach's Alpha	*Composite Realibility*	Rho_A
Innovation (IN)	0.797	0.867	0.815
MSMEs' Financial Performance (FP)	0.893	0.933	0.905
Social Media (MS)	0.932	0.942	0.940
Accounting Information System (SIA)	0.929	0.942	0.938
Differentiation Strategy (DF)	0.882	0.905	0.892

Based on Table 4, all variables in this study—differentiation strategy, innovation, accounting information systems, social media, and MSME financial performance—meet the criteria for reliability testing. This is confirmed as all variables have Cronbach's alpha and composite reliability values greater than 0.70, indicating their reliability.

R-Square

The R-Square value for the innovation variable is 0.305, indicating that differentiation strategy influences innovation by 30.5%, while the remaining 69.5% is influenced by other variables outside the scope of this study. The R-Square value for MSME financial performance is

0.237, meaning that differentiation strategy contributes 23.7% to financial performance, while the remaining 76.3% is influenced by other factors beyond this study. The determination test results also show that the R-Square value for social media is 0.315, indicating that differentiation strategy affects social media usage by 31.5%, while the remaining 68.5% is influenced by variables outside this study. Furthermore, the R-Square value for accounting information systems is 0.118, meaning that differentiation strategy accounts for 11.8% of the variance in accounting information systems, while the remaining 88.2% is influenced by other variables beyond the scope of this research. The complete information can be seen from Table 5 below:

Table 5. R-Square

Variable	R-Square
Innovation (IN)	0.305
MSMEs' Financial Performance (FP)	0.237
Social Media (MS)	0.315
Accounting Information System (SIA)	0.118

Hypothesis Test

Hypothesis testing was conducted using the bootstrapping method, where the path coefficient values were examined based on two-tailed t-values. Additionally, the rule of thumb was applied, with a t-value of 1.96 for α = 5% and p-values < 0.05 as the significance threshold (Sholihin & Ratmono, 2021). The results of hypothesis testing can be seen in Table 7.

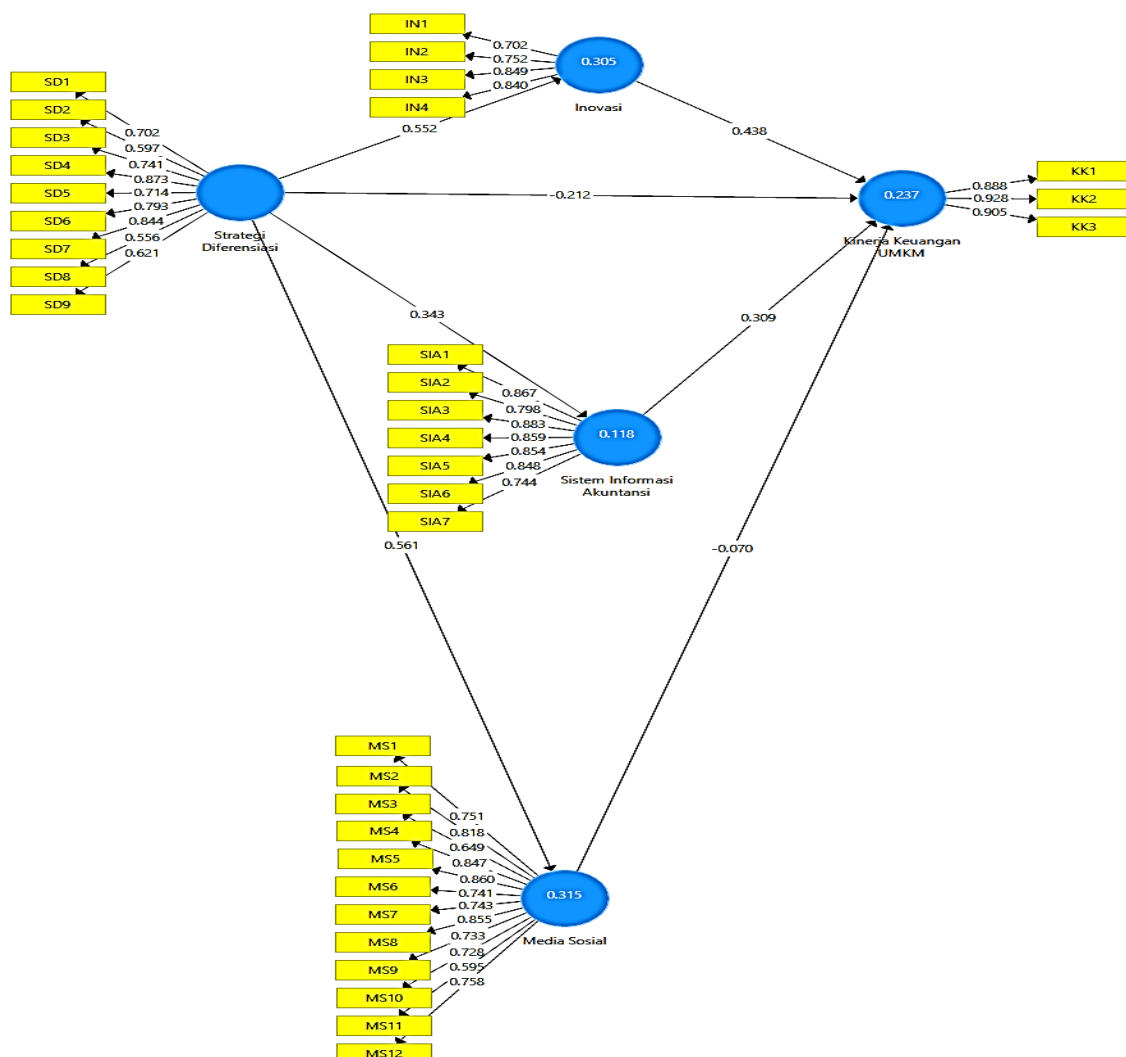Figure 2. P Value

Table 7. Path Coefficients

	Original sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P–Values
Differentiation Strategy → Innovation (H1)	0.552	0.556	0.068	8.131	0.000
Differentiation Strategy → Accounting Information System (H2)	0.343	0.360	0.103	3.320	0.001
Differentiation Strategy → Social Media (H3)	0.561	0.565	0.069	8.175	0.000
Differentiation Strategy → Financial Performance *(H4)*	−0.212	−0.224	0.069	2.212	0.027
Innovation → Financial Performance *(H5)*	0.438	0.443	0.124	3.519	0.000
Accounting Information System → Financial Performance *(H6)*	0.309	0.312	0.111	2.770	0.006
Social Media → Financial Performance *(H7)*	−0.070	−0.065	0.120	0.588	0.557

Discussion

a. Differentiation Strategy on Innovation

Based on Table 7 above, the results of the bootstrapping resampling test for the differentiation strategy variable on innovation in the original sample show a value of 0.552, a t–statistic of 8.131, and a p–value of 0.000. These results indicate that differentiation strategy has a positive influence on innovation with a magnitude of 0.552 and is statistically significant, as the t–statistic (8.131) > 1.96 and p–value (0.000) < 0.05. Therefore, it is concluded that hypothesis **H1 is accepted**, meaning that differentiation strategy has a positive and significant effect on innovation. This study is further supported by Latifah et al. (2021), Aldania & Niswah (2021), and Nuvriasari et al. (2017), who explain that differentiation strategy positively and significantly impacts innovation. Differentiation strategy acts as a catalyst for businesses to develop high-quality and unique products or services in the market, offering customers added value through distinct concepts not found in competitors' offerings. This approach fosters high-quality innovation, setting businesses apart from their competitors and ensuring long-term competitive advantage.

b. Differentiation Strategy to Accounting Information Systems

Based on Table 7, the bootstrapping resampling test results for the differentiation strategy variable on accounting information systems in the original sample show a value of 0.343, a t–statistic of 3.320, and a p–value of 0.001. These results indicate that differentiation strategy has a positive influence on accounting information systems with a magnitude of 0.343 and is statistically significant, as the t–statistic (3.320) > 1.96 and p–value (0.001) < 0.05. Therefore, it is concluded that hypothesis **H2 is accepted**, meaning that differentiation strategy has a positive and significant effect on accounting information systems. This study is supported by Amalia (2023), Novennia & Andayani (2022), and Latifah et al. (2021), who explain that differentiation strategy influences the quality of accounting information systems. Differentiation strategy emphasizes uniqueness, distinctiveness, and quality, which may be reflected in service quality or technology. When a business utilizes high-quality and accurate support services, the accounting information system operates effectively, providing consumers with accurate and easily understandable financial information.

c. Differentiation Strategy on Social media

Based on Table 7, the bootstrapping resampling test results for the differentiation strategy variable on social media in the original sample show a value of 0.561, a t–statistic of 8.175, and a p–value of 0.000. These results indicate that differentiation strategy has a positive

influence on social media with a magnitude of 0.561 and is statistically significant, as the t-statistic (8.175) > 1.96 and p-value (0.000) < 0.05. Therefore, it is concluded that hypothesis H3 is accepted, meaning that differentiation strategy has a positive and significant effect on social media. This study is supported by Fadhillah et al. (2021) and Harina (2023), who explain that differentiation strategy has a positive and significant influence on social media. Differentiation strategy is a competitive approach that provides unique, high-quality, and distinct products compared to other MSMEs. To obtain valuable information for enhancing differentiation strategies, social media is essential as a platform for expanding networks and providing relevant business insights.

d. Differentiation Strategy on MSME Financial Performance

Based on Table 7, the bootstrapping resampling test results for the differentiation strategy variable on MSME financial performance in the original sample show a value of −0.212, a t-statistic of 2.095, and a p-value of 0.027. These results indicate that differentiation strategy has a negative influence on MSME financial performance with a magnitude of −0.212 and is statistically significant, as the t-statistic (2.095) > 1.96 and p-value (0.027) < 0.05. Therefore, it is concluded that hypothesis **H4 is rejected**, meaning that differentiation strategy has a negative and significant effect on MSME financial performance. This study is supported by Wardi et al. (2016) and Huda et al. (2020), who explain that differentiation strategy has a negative and significant impact, which may be attributed to several factors. These include additional costs for product or service development, challenges in maintaining higher selling prices, and a lack of preparation in implementing differentiation strategies within the business.

e. Innovation on MSME Financial Performance

Based on Table 7, the bootstrapping resampling test results in the original sample show that the innovation variable on MSME financial performance has a value of 0.438, a t-statistic of 3.519, and a p-value of 0.000. These results indicate that innovation has a positive influence on MSME financial performance with a magnitude of 0.438 and is statistically significant, as the t-statistic (3.519) > 1.96 and p-value (0.000) < 0.05. Therefore, it is concluded that hypothesis **H5 is accepted**, meaning that innovation has a positive and significant effect on MSME financial performance. This study is supported by N. A. Putri (2022), Deviastri & Annisa (2022), and Hendriyanto (2015), who explain that innovation has a positive and significant effect on MSME financial performance. Innovation fosters an entrepreneurial mindset that encourages creative involvement in experimenting with new ideas, leading to the development of new production methods. As a result, businesses can introduce new products or services that cater to both current and future markets, ultimately enhancing financial performance.

f. Accounting Information System on MSME Financial Performance

Based on Table 7, the results of the bootstrapping resampling test in the original sample indicate that the accounting information system variable on MSME financial performance has a value of 0.309, a t-statistic of 2.770, and a p-value of 0.006. These results suggest that accounting information systems have a positive influence on MSME financial performance, with a magnitude of 0.309, and are statistically significant, as the t-statistic (2.770) > 1.96 and p-value (0.006) < 0.05. Therefore, it is concluded that hypothesis **H6 is accepted**, meaning that accounting information systems have a positive and significant effect on MSME financial performance. This study is supported by Lestari & Rosyidi (2020), Ermawati & Arumsari (2021), Widianingsih & Sunarmo (2022), and Prastika & Purnomo (2021), who explain that accounting information systems have a positive and significant effect on MSME financial performance. The implementation of accounting information systems in MSMEs facilitates financial transaction recording, enables quick and accurate inventory tracking, and helps generate financial reports that can be used for various business decision-making purposes.

g. Social Media on MSME Financial Performance

Based on Table 7, the results of the bootstrapping resampling test in the original sample indicate that the social media variable on MSME financial performance has a value of −0.070, a t−statistic of 0.588, and a p−value of 0.557. These results show that social media has a negative influence on MSME financial performance with a magnitude of −0.070, but this effect is not statistically significant, as the t−statistic (0.588) < 1.96 and p−value (0.557) > 0.05. Therefore, it is concluded that hypothesis **H7 is rejected**, meaning that social media does not significantly affect MSME financial performance. This study is supported by Kembang et al. (2021) and Rusdi et al. (2023), who explain that social media does not have a significant effect on financial performance due to several factors. These include intense market competition, limited resources for managing social media, the underutilization of social media as a sales platform, ineffective marketing strategies that fail to attract customers, and inconsistent engagement with customers.

h. Mediation Testing

The variables that act as mediating variables in this study include innovation, accounting information systems, and social media. The results of the mediation test are presented in the following table 8:

Table 8. Specific Indirect Effect

	Original sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P−Values
DS → IN → FP	0.188	0.116	0.064	1.844	0.066
DS → SM → FP	−0.039	−0.037	0.070	0.562	0.574
DS → AIS → FP	0.106	0.113	0.054	1.951	0.052

Table 9. Comparison of T−Statistics Indirect Effect Stage I and II

Variable/Indicator	Stage I	*Stage II*	Note
Innovation mediates the relationship between differentiation strategy and MSME Financial Performance	2.212	1.844	Full Mediation
Accounting Information Systems mediates the relationship between differentiation strategy and MSME	2.212	1.951	Full Mediation
Social Media mediates the relationship between differentiation strategy and MSME Financial Performance	2.212	0.562	Full Mediation

A mediation effect is met when the t−statistic value is not significant, and the second stage shows a decline from the first stage, indicating full mediation. If the t−statistic value is significant, and the second stage shows a decline from the first stage, the mediation is partial mediation. However, if the t−statistic value is significant, and the second stage remains the same as the first stage, then there is no mediation or the mediation is not supported (Sholihin & Ratmono, 2021). Based on the test results from the total effect and specific indirect effect, the following conclusions can be drawn:

i. Differentiation Strategy on MSME Financial Performance through Innovation

Based on the specific indirect effect results in Table 8, there is an indirect effect of differentiation strategy on MSME financial performance through the innovation mediation variable, with a magnitude of 0.118. The t−statistic value in the first stage (Table 9) is 2.212, while in the second stage, it decreases to 1.844, indicating a significant decline. Therefore, it is concluded that **H8 is accepted**, meaning that innovation serves as a full mediator in the relationship between differentiation strategy and MSME financial performance. The findings of this study are supported by Putri et al. (2018), Nikmah & Siswahyudianto (2022), and Latifah

et al. (2021), who explain that innovation can mediate the relationship between differentiation strategy and MSME financial performance. Innovation fosters the creation of new ideas, practices, and products, which in turn enhances customer loyalty by improving product quality to meet consumer preferences. As customer loyalty increases, it positively impacts the financial performance of MSMEs.

j. Differentiation Strategy on MSME Financial Performance through Accounting Information Systems

Based on the specific indirect effect results in Table 8, there is an indirect effect of differentiation strategy on MSME financial performance through the accounting information systems mediation variable, with a magnitude of 0.106. The t-statistic value in the first stage (Table 9) is 2.212, while in the second stage, it decreases to 1.951, indicating a significant decline. Therefore, it is concluded that **H9 is accepted**, meaning that accounting information systems serve as a full mediator in the relationship between differentiation strategy and MSME financial performance. The findings of this study are supported by Purnata & Suardikha (2019), Sofiyanti et al. (2021), Latifah et al. (2021), Fachruzzaman et al. (2021), and Amalia (2023), who explain that accounting information systems can mediate the relationship between differentiation strategy and MSME financial performance. The use of accounting information systems facilitates the provision of accurate and timely financial transaction data and reports, thereby simplifying the decision-making process for MSME owners.

k. Differentiation Strategy on MSME Financial Performance through Social Media

Based on the specific indirect effect results in Table 8, there is an indirect effect of differentiation strategy on MSME financial performance through the social media mediation variable, with a magnitude of −0.035. The t-statistic value in the first stage (Table 9) is 2.212, while in the second stage, it decreases to 0.562, indicating a significant decline. Therefore, it is concluded that **H10 is accepted**, meaning that social media serves as a full mediator in the relationship between differentiation strategy and MSME financial performance. The findings of this study are supported by Kurniawan & Nuringsih (2022), Armiani et al. (2021), and Ariza & Aslami (2021), who explain that social media can mediate the relationship between differentiation strategy and MSME financial performance. Social media plays a crucial role in business operations, as it serves as a promotional platform and helps expand consumer reach. When business owners effectively utilize social media, it positively influences the growth and development of their businesses. Social media enables businesses to communicate the added value or uniqueness of their products or services to consumers, enhance brand reputation, and increase customer loyalty.

Conclusion

The findings of this study highlight the significant role of differentiation strategy in influencing MSME financial performance, particularly when mediated by innovation, accounting information systems, and social media. The results indicate that differentiation strategy has a positive and significant effect on innovation among MSMEs in Surakarta. When businesses implement a differentiation strategy, they are more likely to develop new and unique products or services with distinctive characteristics and high quality, catering to both current and future market demands. This aligns with the idea that differentiation fosters innovation by encouraging creativity and experimentation in product and service development.

The study also confirms that differentiation strategy positively and significantly influences the use of accounting information systems. Superior customer service, which is a key aspect of differentiation, involves providing accurate and easily understandable financial information. Implementing accounting information systems helps businesses improve efficiency by streamlining financial transactions, monitoring inventory in real time, and generating financial reports that aid decision-making. Similarly, differentiation strategy was found to have a positive

and significant effect on social media usage among MSMEs. The need for updated market information and the ability to prevent product imitation from competitors make social media an essential tool for businesses. The integration of digital platforms allows MSMEs to expand their networks, enhance their promotional activities, and gather insights that strengthen their differentiation strategies.

Contrary to expectations, the study found that differentiation strategy has a negative and significant effect on MSME financial performance. This suggests that excessive focus on differentiation may not always yield financial benefits, as the costs associated with continuously redesigning products, maintaining unique product quality, and developing new features can be substantial. The financial burden of differentiation may outweigh its benefits, particularly for MSMEs with limited resources, leading to decreased financial performance.

The role of innovation in enhancing MSME financial performance is also evident in the findings. Businesses that are creative and innovative in developing competitive strategies tend to experience stronger financial growth. Innovation facilitates the introduction of new products, services, and operational methods, which can enhance customer satisfaction and ultimately contribute to better financial performance. Likewise, the implementation of accounting information systems was found to have a positive and significant impact on financial performance. Businesses that frequently utilize these systems are able to manage their financial records more effectively, resulting in improved financial decision-making and overall stability.

However, the study did not find a significant direct effect of social media on financial performance. While social media is widely used by businesses for marketing and customer engagement, it does not necessarily translate into financial success. Several factors may contribute to this, including limited human resources and time constraints that prevent MSMEs from effectively managing their social media platforms. Additionally, social media often serves as a space for customer reviews and interactions, which may not always drive immediate financial gains.

The mediating role of innovation in the relationship between differentiation strategy and financial performance further underscores the importance of creativity in business growth. The ability to introduce new ideas, practices, and products fosters customer loyalty, which in turn enhances financial performance. Similarly, accounting information systems fully mediate the impact of differentiation strategy on financial performance, demonstrating that the ability to generate accurate and timely financial data facilitates better decision-making and financial outcomes.

Social media also plays a full mediating role in this relationship. Differentiation strategy, which emphasizes uniqueness and quality for competitive advantage, benefits from the insights and inspiration that social media provides. By leveraging digital platforms, businesses can refine their differentiation strategies, gain a better understanding of competitors, and develop innovative approaches that enhance their financial performance.

Limitation

Despite the contributions of this study, there are several limitations that should be acknowledged. First, this research focuses solely on MSMEs in Surakarta, which may limit the generalizability of the findings to other regions with different economic and business environments. Future research could expand the study to include MSMEs from various locations to provide a more comprehensive understanding of the topic. Second, this study relies on self-reported data from respondents, which may introduce bias due to subjective perceptions and possible overestimation or underestimation of responses. To strengthen the validity of findings, future research could incorporate longitudinal data or objective financial performance indicators. Third, while this study examines the mediating role of innovation, accounting information systems, and social media, it does not account for other potential mediators or moderating factors, such as

market conditions, competitive intensity, or digital literacy levels among MSME owners. Future studies could explore these variables to offer a more nuanced perspective on the relationship between differentiation strategy and financial performance. Finally, the cross-sectional design of this study limits its ability to establish causal relationships between the variables. Future research employing longitudinal or experimental designs would help confirm the long-term effects of differentiation strategy on financial performance.

Overall, this study highlights the complex interplay between differentiation strategy, innovation, accounting information systems, social media, and financial performance among MSMEs in Surakarta. While differentiation fosters innovation and improves business operations, it also presents financial challenges that require careful management. The findings suggest that a balanced approach, integrating differentiation with strategic use of technology and innovation, is essential for sustainable business growth and long-term financial success.

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