

The Role of Strategic Agility in Enhancing Financial Performance: Evidence from Small and Medium Enterprises

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Abstrack

This study aims to analyze the role of strategic agility in enhancing the financial performance of Small, and Medium Enterprises (SMEs). In a business environment characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), strategic agility is a crucial capability that enables MSMEs to adapt, innovate, and optimize resources efficiently. This research employs a qualitative descriptive approach using document analysis techniques to explore the relationship between strategic agility, innovation, and digital transformation in improving financial performance. The findings indicate that strategic agility positively influences MSMEs' profitability, operational efficiency, and competitiveness. Furthermore, the integration of strategic agility, entrepreneurial innovation, and organizational learning strengthens key financial indicators such as Return on Assets (ROA) and Return on Equity (ROE). These results highlight that developing strategic agility should be a strategic priority for both MSMEs and policymakers to ensure business sustainability, revenue growth, and long-term financial stability.

Keywords: Strategic Agility; Financial Performance; SME

1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in driving economic growth, creating jobs, and fostering innovation in both developed and developing countries. However, in a business era characterized by complexity, uncertainty, and rapid change (VUCA), this presents significant challenges for SMEs in particular, which they struggle to overcome due to a lack of resources and expertise (Wecken et al., 2023). These conditions require SMEs not only to maintain operational continuity but also to respond quickly and strategically to emerging opportunities and threats. SMEs, with limited resources and weak external networks, are particularly vulnerable to this VUCA environment, and can be considered victims of their environment (You et al., 2025). Therefore, the relationship between entrepreneurial capabilities and strategic agility must be fostered by owner-managers in an effort to improve business performance (Balen et al., 2023).

Strategic agility is a key ability that helps companies predict and respond quickly to changes in their environment. It lets them change their overall business plan and adjust their ways of competing and operating, so they can stay alive and continue to provide value. (De Diego & Almodóvar, 2022). For SMEs with limited human and financial resources, strategic agility serves as a dynamic capability that enables them to adapt, innovate, and effectively exploit market opportunities. Agility helps SMEs businesses improve their competitive position. When trying to grow market share, it's important to focus on agility, as it has a bigger effect than other factors. To boost profitability, businesses need to understand and value how quickly they can respond and how skilled they are. (Zastempowski & Cyfert, 2023a). Therefore, a high level of

agility is expected to positively contribute to improved financial performance, both in terms of profitability, liquidity, and business performance.

Several previous studies have shown that strategic agility influences organizational performance through various mechanisms, such as innovation capability, market responsiveness, and adaptive resource management (Adomako et al., 2022; Zahoor et al., 2022). However, most of these studies have focused on large companies, while the context of SMEs has received relatively little attention. Furthermore, the relationship between strategic agility and financial performance in SMEs, particularly in developing countries with high levels of environmental volatility, remains largely unexplored empirically.

Therefore, this research is relevant both theoretically and practically. Theoretically, this study extends the study of dynamic capabilities and the resource-based view (RBV) by highlighting how strategic agility can be a source of competitive advantage that impacts financial performance. Practically, the results of this study are expected to provide insights for SMEs and policymakers to develop more adaptive, innovative, and financially driven business strategies amidst ever-changing market dynamics.

Thus, this study aims to examine the extent to which strategic agility plays a role in improving the financial performance of SMEs, as well as providing empirical evidence that can enrich the literature on SME management and development strategies in an era of rapid change.

2. Literature Review

2.1 Strategic Agility

Strategic agility is a vague concept that may be counterintuitive and confusing for some scholars regarding the contextual issues of strategic agility. At the same time, the need to be agile is crucial for companies, especially for Multinational Enterprises (MNEs) operating in culturally diverse host countries (Shams et al., 2021). Strategic agility has largely been explored in abstract management strategy sources, exploring the qualities an organization must possess to be strategically agile or experimenting with specific practices (Tsilionis & Wautelet, 2022). Strategic agility, as a dynamic ability to confront and adapt to changing environments, has become crucial, with emphasis on the importance of corporate governance as a microfoundation for adjusting corporate structure and management (Pfaff, 2023). Strategic agility is crucial and a crucial factor in business continuity in a dynamic, fast-paced, and evolving business environment (Jarboui & Elarem, 2025).

2.2 Financial Performance SMES

Several factors affect how well companies and small businesses do financially. These factors include (i) the use of financial technology, (ii) the skills and abilities of the workforce, (iii) the development of new technologies, and (iv) how these technological advancements connect to the overall financial success of the company (Menne et al., 2022). Financial performance is the end result of a series of management policies and decisions that reflect a company's ability to manage resources to achieve financial goals, such as profitability, liquidity, and solvency (Brigham & Ehrhardt, 2022). Financial performance reflects the extent to which a company has succeeded in achieving efficient use of its assets and capital to generate profits (Zutter & Smart, 2021). Financial performance is not only measured through profits but also through a strategic perspective that includes revenue growth, asset productivity, and long-term cost efficiency (Kaplan & Norton, 1996).

3. Method

This research uses a descriptive qualitative method according to (Sugiyono, 2022), A research approach that follows the ideas of postpositivism, used to study things in their real-world settings rather than in controlled experiments. The researcher plays a central role in gathering information. Different methods are used together to collect data, and the analysis focuses on understanding meanings rather than making broad generalizations. The researcher used a document study technique in data collection to obtain information related to the research problem. Documents were obtained through books and online media or the internet. The data obtained was then explained, selected, and reorganized to obtain an overview of how strategic agility can improve the financial performance of SMEs.

4. Results and Discussion

In an increasingly dynamic and crowded business environment, SMEs are required to adapt quickly to survive and thrive. Limited financial, human, and technological resources make MSMEs more vulnerable to market changes than larger companies. This unfavorable scenario has forced entrepreneurs and managers to design strategies that will enable business organizations to remain competitive and become stronger in a competitive and unpredictable global business environment. One such strategy is the agility strategy (Ogunleye et al., 2021). The agility strategy helps in reducing risks, which in turn boosts the performance of small and medium-sized businesses, and adds valuable information to the research on how to manage risks effectively in supply chains for these businesses. (Yaakub & Mustafa, 2022). The agility strategy positively relies on entrepreneurial innovation and organizational learning, and organizational learning has a stronger impact on performance than the agility strategy and entrepreneurial innovation. This implies that SMEs can respond quickly to external changes, find creative solutions, and have agile capabilities in work processes (Munawar et al., 2023). As part of the dynamic capabilities theory, strategic agility helps MSMEs transform limitations into adaptive strengths. By adjusting to the changes in their business environment, small and medium-sized businesses try to develop new and different products that open up new markets. This helps them improve their overall skills and strengthen their business as a whole (Panjaitan et al., 2025). Therefore, strategic agility has become a key element in making changes in organizational strategic planning, thus increasing its impact on innovation and organizational agility in the future (Arsawan et al., 2022). Small businesses that adjust how they operate to meet market demands are more likely to succeed than those that don't change anything. Also, having a range of products can help lower risks for these businesses. Meanwhile, using resources in a smarter way helps small businesses work better and use less energy (Jayanto et al., 2025). The Team and Case Management dimensions play a crucial role in business agility at the tactical level of MSMEs. This dimension is supported by the dynamic capability cap, which is combined into a group of high-level capabilities, namely: Team Management Capability, Knowledge Management Capability, Fast and Informed Decision Making Capability, Case Management Capability, and Business Model Management Capability (Arno, 2025).

There are big differences in how well different industries and kinds of companies use digital tools and achieve results. Small and medium-sized businesses usually fall behind because they

have fewer resources and less knowledge about digital skills. The way digital changes are happening is not unified, so there is a need for different kinds of support and specific policies to help them. (Valaskova et al., 2025). Furthermore, strong digital skills enhance MSMEs' digital transformation and dynamic capabilities, enabling rapid response to change and timely strategic decision-making. Digital transformation coupled with strong dynamic capabilities can improve MSME performance (Setiawan et al., 2025). SMEs that use agile methods find it easier to respond to changes in the market, lower their risks, and keep running smoothly during tough times. These businesses should use agile approaches not just to deal with problems as they happen, but also as a way to stay stable and competitive over the long term in unpredictable markets. (Omowole et al., 2024).

In the context of SMEs, being able to adapt quickly is very important because they work in a constantly changing environment and usually have fewer resources. The connection between how well they can be agile and their position in the market is studied. The findings show that all the agility skills studied help improve the position of these businesses in the market. Also, it is found that when trying to grow market share, paying attention to customer disappointment is especially important, as it has a bigger effect than other factors. Lastly, the effort to make more profit depends on how well they can respond and how skilled they are (Zastempowski & Cyfert, 2023b). Collaborative innovation contributes to a company's financial performance. These results indicate that absorptive capacity and strategic agility influence the relationship between collaborative innovation and a company's financial performance (Mata et al., 2024). SMEs to be agile in order to stay competitive. This can be done by being flexible in their operations or by quickly adjusting to changes in the business environment. Making thoughtful and aware decisions is important, especially when it comes to using technology better in their day-to-day work. These strategies are vital for ensuring their long-term success and survival. (Francis et al., 2021). Therefore, agile MSMEs are better able to navigate the market environment, adapt to new technologies, and improve their operational performance.

Financial performance is an important indicator that reflects an organization's ability to generate profits, maintain liquidity, and optimize the efficiency of asset use. Strategic agility was shown to have a significant impact on increasing company revenue and profitability, especially during crisis situations such as the COVID-19 pandemic (Zahoor et al., 2022). Through strategic agility, MSMEs can quickly change business direction, shift investments to more profitable sectors, and adjust cost structures to maintain profit margins.

Furthermore, the Indonesian MSME sector demonstrates that strategic agility combined with entrepreneurial innovation and organizational learning significantly contributes to improved financial and non-financial performance (Munawar et al., 2023). Agility in adopting digital technology, adapting marketing strategies, and accelerating production processes has been shown to increase sales revenue and net profit. Agility strategies positively contribute to performance, both independently and by facilitating green innovation and digital transformation. Strengthening agility strategies alongside digital capacity development and a sustainable focus can be a valuable direction for SMEs (Yusup et al., 2025). Thus, agility serves not only as a response to change but also as a proactive strategy in creating added value and strengthening MSMEs' financial competitiveness in the digital era, as integration, agility, and innovation positively impact company performance, both financially and operationally.

Strategic agility is a company's ability to react fast and correctly to changes happening inside and outside the business. This happens through making smart changes to strategies, using resources wisely, and leaders making quick decisions without getting stuck in slow or complicated processes. This skill helps companies stay relevant and competitive as the market keeps changing. Strategic agility helps improve how well a company does, both in terms of money like more sales and profits, and in other areas like running operations smoothly and keeping customers happy. But some research shows that the direct effect of strategic agility on how well a company performs isn't always strong. (Saputra & Nasution, 2023). Mediating factors, such as market orientation, play a crucial role in strengthening this relationship. Emphasize that market orientation helps managers understand customer needs, monitor competitors' movements, and adapt business strategies adaptively to changes in the external environment (Alkandi & Helmi, 2024). Thus, the integration of strategic agility and market orientation creates a stronger synergy in driving improvements in organizational financial and operational performance, particularly in the MSME sector, which requires high adaptability in the digital era.

5. Conclusion

Strategic agility plays a crucial role in improving the financial performance of MSMEs, especially in a business environment full of uncertainty and rapid change. Strategic agility enables MSMEs to respond to market dynamics, identify new opportunities, and adjust business strategies and resource allocation quickly and appropriately. This capability not only helps MSMEs survive crises but also strengthens competitiveness and profitability through increased operational efficiency, product innovation, and business process optimization. Thus, strategic agility becomes a dynamic capability that directly contributes to improving financial ratios such as Return on Assets (ROA) and Return on Equity (ROE).

Furthermore, the integration of strategic agility, entrepreneurial innovation, and digital transformation has been proven to strengthen the financial and non-financial performance of MSMEs. Agility, supported by market orientation and organizational learning capabilities, enables MSMEs to be more adaptive to environmental and technological changes. Therefore, developing strategic agility needs to be a strategic priority for both MSMEs and policymakers, through enhanced managerial competency, digital literacy, and adaptive policy support. By building agile organizations, MSMEs can achieve business sustainability, revenue growth, and long-term financial stability in the face of global challenges.

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