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Business Model Innovation and Performance of Medium, Small, and Micro Enterprises (MSMEs) in Plateau State, Nigeria

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Abstract

Business Model Innovation (BMI) has emerged as a significant strategy for enhancing the competitiveness and sustainability of Micro, Small, and Medium Enterprises (MSMEs), particularly in volatile environments such as Plateau State, Nigeria. Despite their pivotal role in employment generation and GDP contribution, MSMEs face persistent challenges including limited resources, infrastructural deficits, and intense competition. This study investigates the role of BMI in improving MSME performance, focusing on dimensions such as value proposition innovation, revenue model innovation, innovative resource allocation and strategic partnerships, cost structure optimization, and employee engagement. A population of 1,533 MSME owners/managers was considered, with a purposive sample size of 318 respondents. Using Partial Least Squares Structural Equation Modelling (PLS-SEM), the study found that value proposition innovation, revenue model innovation, innovative resource allocation, and strategic partnerships significantly enhance MSME performance, while cost structure optimization showed no significant effect. Employee engagement was also found to mediate the relationship between value proposition and performance, underscoring its importance in translating innovation into tangible outcomes. The findings highlight that while BMI dimensions are critical drivers of MSME success, their effectiveness depends on strategic alignment and employee involvement. The study recommends that MSMEs in Plateau State prioritize customer-centric value propositions, adopt innovative revenue models, and strengthen partnerships, while simultaneously fostering employee engagement to maximize

the impact of BMI. Policymakers should also provide supportive infrastructure and training programs to enable MSMEs to fully leverage BMI for sustainable growth.

Keywords: Business Model Innovation (BMI), Micro, Small, and Medium Enterprises (MSMEs), Value Proposition Innovation; Revenue Model Innovation, Innovative Resource Allocation, Strategic Partnerships, Cost Structure innovation, Employee Engagement, Firm Performance

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to the economic development of Nigeria, contributing significantly to employment generation and poverty alleviation. However, MSMEs in Plateau State face numerous challenges, including limited access to resources, infrastructural deficits, and market competition. Business Model Innovation (BMI) has emerged as a transformative strategy to address these challenges by redefining how businesses create, deliver, and capture value. Recent studies emphasize the critical role of BMI in enhancing the performance and sustainability of MSMEs. For instance, Ndayako (2021) highlighted the positive correlation between innovative business models and improved sales growth, productivity, and market adaptability among Nigerian SMEs.

Similarly, Abubakar et al. (2020) propose that innovation in business processes and products significantly boosts the operational efficiency of SMEs in Nigeria. Andreini et al. (2021) emphasize the importance of BMI processes in addressing complex strategic challenges in businesses. In like manner, Markides (2023) explores the strategic and organizational issues faced by established firms in implementing BMI. Furthermore, Aagaard (2024) argued that the role of BMI in fostering strategic agility and responding to external environmental factors is a significant tool for business survival. These insights explain the pivotal role of BMI in driving innovation and achieving long-term success. These findings highlight the importance of fostering BMI to unlock the full potential of MSMEs in Plateau State and drive regional economic growth.

Vaska et al. (2021) conceptualizes Business Model Innovation (BMI) as a transformative approach that enables organizations to adapt to dynamic market conditions, leverage emerging technologies, and enhance competitiveness. BMI involves rethinking core business components, including customer interface innovation, revenue model innovation, resource allocation, strategic partnerships, cost structure optimization, and value proposition innovation.

MSMEs Performance in this study was measured using the Balanced Scorecard (BSC) developed by Kaplan and Norton (1992) is suitable for measuring MSMEs' performance because it provides a holistic view that goes beyond financial results, capturing customer satisfaction, internal processes, and learning & growth which are key areas that drive long-term sustainability. The business environment in the 21st Century is increasingly volatile, forcing businesses to implement innovative and sustainable ideas to survive and thrive. This is a phenomenon that has forced large firms to investigate business model innovation (BMI). Because micro, small, and medium enterprises (MSMEs) constitute a crucial portion of any national economy, understanding the respective performance in an era of the increasingly dynamic business environment underscores the urgency of studying BMI (Abban, R. 2020).

However, their performance is increasingly sub-optimal, suggesting an underlying issue that must be solved.

According to the National Bureau of Statistics (NBS, 2022), SMEs account for approximately 96% of businesses in Nigeria and contribute about 48% to the national GDP, while 75.6% have no business plan (NBS, 2017). They further stated that SMEs have contributed about 48% - on average - to the national GDP in the last five years. Totaling about 17.4 million enterprises, they account for about 50% of industrial jobs and nearly 90% of activities in the manufacturing sector. Despite their importance, MSMEs face persistent challenges, including limited access to finance, inadequate infrastructure, and intense market competition. These challenges hinder their ability to achieve sustainable growth and adapt to evolving market dynamics.

Business Model Innovation (BMI), which involves redefining how businesses create, deliver, and capture value, has been identified as a transformative strategy to address these challenges. However, the adoption of BMI among Nigerian MSMEs remains limited, and its impact on their performance is not well understood. There is a need therefore, for investigation to support the Nigerian Plateau State BMI context. A study exploring the capability of technology firms to explore new business models while exploiting old models with different success dynamics uncovered challenges in the context of emerging economies. Arguably, such challenges are likely to undermine the performance of SMEs in Plateau State, Nigeria. The majority of studies on business model innovation have concentrated on the banking industry and large businesses. Few studies have looked at how small businesses grow by developing a practical model that will be significant in the worldwide market (Chang et al., 2017). Hence the motivation for this study.

The main objective of the study is to investigate the role of business model innovation on the performance of MSMEs in plateau state, Nigeria. The specific objectives include:

i. To evaluate the Effect of Value Proposition Innovation on the performance of MSMEs in plateau state, Nigeria
ii. To examine the role of revenue model innovation on the performance of MSMEs in plateau state, Nigeria
iii. To analyse the effect of innovative resource allocation and strategic partnership on the performance of MSMEs in plateau state, Nigeria
iv. To determine the effect of Cost Structure Optimization on the performance of MSMEs in plateau state, Nigeria
v. To evaluate the mediating role of employee engagement on the relationship between BMI and performance of MSMEs.
vi. To ascertain the relationship between value proposition and employee engagement.
vii. To investigate the relationship between employee engagement and performance of MSMEs.

Literature Review

Value Preposition

Value proposition is a cornerstone of Business Model Innovation (BMI) because it defines the unique value that a firm offers to its customers, setting it apart from competitors. In the context of BMI, the need for a strong value proposition arises from the dynamic nature of

markets and customer preferences. Innovating a firm's business model requires not only revising how value is delivered and captured but also ensuring that the value proposition remains relevant, compelling, and aligned with changing societal and technological trends (Teece, 2010; Andreini et al., 2021; Tang, 2019).

Value preparation, as a dimension of Business Model Innovation (BMI), refers to the strategic alignment and readiness of a firm to create, deliver, and capture value effectively. It involves the development of resources, capabilities, and processes that enable a firm to adapt to changing market conditions and innovate its business model. According to Jonker and Faber (2021), value preparation is a critical component of BMI as it ensures that firms are equipped to address sustainability challenges and create multiple forms of value such as economic, social, and environmental. Ritala and Huizingh (2014) highlight that effective value preparation enhances a firm's ability to innovate and sustain competitive advantage in dynamic markets. Similarly, Pekuri et al. (2014) discuss how value preparation in the construction industry can lead to improved operational flexibility and customer satisfaction, thereby boosting firm performance.

Revenue Model Innovation

Revenue model innovation (RMI) involves exploring novel ways to generate income. Subscription-based models, freemium strategies, and pay-per-use systems have gained traction in recent years. Empirical studies such as Accelare (2023) and Khandai & Gupta (2025) demonstrates that businesses adopting innovative revenue models often achieve higher profitability and customer retention. The integration of blockchain technology has also been identified as a key enabler of transparent and efficient revenue streams. Remeňová et al. (2020) sees revenue model innovation as the process of rethinking and adapting how a company generates income through its offerings like changing revenue streams, enhancing value proposition, Aligning the revenue model with broader business strategies and market changes, and leveraging technology.

Ammirato et al. (2021) sees revenue model innovation as the process by which organizations reshape their existing revenue models or create new ones to enhance their financial performance and strategic positioning. This concept emphasizes the importance of adapting revenue generation approaches to align with changing market dynamics, customer preferences, and technological advancements.

Cost structure optimization

Cost structure refers to the composition of a firm’s expenses, including fixed costs (e.g., rent, salaries), variable costs (e.g., raw materials, utilities), and semi-variable costs. For MSMEs, cost structure optimization is the strategic process of reorganizing, reducing, or reallocating these costs to maximize efficiency, minimize waste, and improve profitability. Singh and Sharma (2022) define cost structure optimization as the systematic alignment of fixed and variable costs to achieve operational efficiency and sustainable profitability in MSMEs. Adebayo and Yusuf (2024) describe it as the innovative allocation of resources and expenditures that ensures MSMEs remain resilient in volatile economic environments. Forrester. (2023) states that businesses adopting lean methodologies and automation technologies achieve significant cost savings. Furthermore, the use of renewable energy

sources and sustainable practices has been linked to improved cost efficiency and environmental impact

Innovative Resource Allocation and Strategic Partnerships

Effective resource allocation and strategic partnerships are critical for BMI. Research emphasizes the significance of leveraging intellectual property, data analytics, and human capital to drive innovation. Strategic alliances, particularly in technology-driven industries, have been shown to foster collaborative innovation and expand market reach. Adeyeye and Owolabi (2021) assessed the impact of financial resources on the performance of small and medium enterprises in Nigeria and found that financial resources significantly influence SMEs performance. Zhang et al. (2023) accentuates that enterprises face increasingly fierce competition and technological innovation challenges, making collaborative innovation a core element of international competition. Mutambik (2024) stress that there remains a lack of clarity concerning the precise benefits of strategic partnership development competency in the context of increasing business instability, hence the need for further research.

Innovation Resource Allocation/ Strategic Partnership

Resource allocation innovation, as defined by Nthiwa and Muchemi (2020), refers to the strategic process through which organizations optimize their resources such as financial, human, and technological assets to enhance efficiency and effectiveness in achieving their objectives. This innovation involves reassessing existing resource distribution, identifying areas for improvement, and reallocating resources to align better with strategic goals. It encourages flexibility and adaptability in resource management, allowing organizations to respond dynamically to market changes and emerging opportunities.

Nthiwa and Muchemi (2020) further define Strategic partnership as a collaborative relationship between two or more organizations that aims to achieve mutually beneficial objectives through shared resources, capabilities, and knowledge. Varadarajan (2018), refers to the strategic distribution and management of resources such as financial, human, and technological assets to support and enhance innovation activities within an organization. This concept emphasizes the importance of effectively channelling resources toward innovative initiatives to achieve business objectives and foster competitive advantage

According to the UNDP South Africa (2020-2025) & beyond, innovation resource allocation refers to the strategic framework and processes through which resources are distributed and utilized to foster innovation within organizations and communities. This allocation is aimed at enhancing capacity for innovation by ensuring that the right resources such as financial, human, and technological are directed toward initiatives that promote sustainable development, socio-economic growth, and resilience.

Employee Engagement

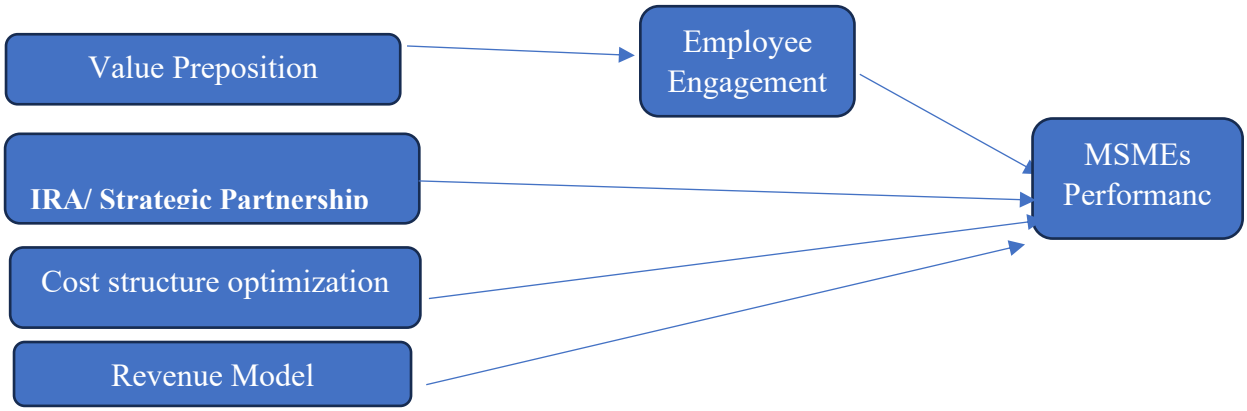
Deepalakshmi et al. (2024) defines employee engagement as the emotional and intellectual commitment of employees toward their work roles and organizational objectives. It encompasses aspects such as job satisfaction, organizational commitment, and a sense of belonging within the workplace. Engaged employees tend to exhibit higher levels of discretionary effort, creativity, innovation, and commitment which contribute positively to various organizational outcomes. These commitment manifests in various forms, including

active participation in work processes, identification with the organizational mission, and a willingness to contribute beyond basic job requirements (**A**ldoy & McIntosh 2023).

Employee engagement is the emotional and psychological commitment that employees have towards their organization and its goals which is characterized by various components, including involvement, enthusiasm, and dedication, which drive employees to contribute more than just the minimum requirements of their roles (Harun & Ling, 2020). A direct correlation exists between employee engagement and customer satisfaction, as engaged employees often provide superior service and promote a positive organizational image (Shaikh & Nawar, 2018). in the study by Latifi and Bouwman (2018), employee engagement serves as a significant mediator in the relationship between Business Model Innovation (BMI) and firm performance. Their research posits that BMI initiatives can enhance firm performance, but this relationship is not direct; instead, it is mediated by the level of employee engagement within the organization. Employee engagement is a key factor in innovative work behaviour without engagement, employees will not understand the company's plan, lose focus, become disoriented, and move in opposite directions, resulting in undesirable outcomes (Gani, et al., 2023)

Conceptual framework

Business Model Innovation



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

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

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

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

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

HO5: There is no significant relationship between value proposition and employee engagement. HO6: There is no significant relationship between employee engagement and performance of MSMEs.

HO6: There is no significant mediating effect of employee engagement on value proposition and performances of MSMEs.

Empirical Review

Value Proposition Innovation (VPI) has become a central theme in the discourse on MSME competitiveness in Nigeria, particularly in Plateau State. The launch of the Plateau State MSME Policy (2024–2027) emphasized innovation as a strategic pillar for enhancing the productivity and sustainability of small businesses (Nanlong, 2024). Empirical evidence from policy documents and development programs indicates that MSMEs that adopt innovative approaches to customer value delivery such as tailoring products to local needs and leveraging digital platforms achieve stronger market positioning and improved financial outcomes (Plateau State Government, 2024). This aligns with broader findings that innovation-driven strategies are critical for MSMEs to overcome structural challenges and expand their market reach (Open Government Partnership, 2025).

Nussipova (2022) highlighted that MSMEs' value propositions are often shaped by the entrepreneurial mindset of founders while entrepreneurial orientation, risk-taking, innovativeness, and proactiveness directly influences how MSMEs create and deliver value. Rosyidiana and Narsa (2024) examined MSMEs in Bojonegoro, East Java, focusing on digitalization, literacy, and innovation. Their findings revealed that business model innovation, particularly digital revenue channels, significantly improved financial performance. MSMEs adopting e-commerce and mobile payment systems reported higher profitability compared to traditional models. Alpheaus, Ubali, and Chigbo (2025) studied MSMEs in Abia State, Nigeria, analyzing financial innovations such as Point of Sale (POS) and mobile transfers. They found that innovative revenue collection methods positively influenced revenue growth, enabling MSMEs to expand customer reach and reduce transaction inefficiencies. In general, most studies consistently show that revenue model innovation whether through digitalization, financial technologies, or diversification positively affects MSME performance.

Rahman and Saputra (2023) studied MSMEs in Indonesia, focusing on partnerships with fintech firms and supply chain collaborators. Their findings showed that strategic partnerships enhanced access to finance and markets, which in turn strengthened MSME resilience and profitability. However, they noted that partnerships without clear governance structures sometimes led to inefficiencies. Adegbuyi et al. (2022) investigated Nigerian MSMEs and found that effective allocation of financial and human resources toward innovation activities significantly improved firm performance. Firms that prioritized R&D and digital tools reported higher productivity and market share compared to those with traditional resource allocation strategies.

Okeke and Nwankwo (2025) analyzed MSMEs in Nigeria and found that strategic alliances with larger firms and government agencies facilitated revenue model innovation, such as

subscription-based services and digital platforms. These innovations significantly boosted MSME performance, particularly in service-oriented industries. Rahman & Idris (2024) study on MSMEs' strategic adaptability highlighted that partnerships without aligned resource allocation strategies often failed to improve performance. They concluded that the relationship was statistically insignificant in resource-constrained firms.

Talikoti (2025) conducted a study on MSMEs in India, focusing on cost management practices. The findings revealed that innovations in cost structures such as lean production, outsourcing, and digital accounting systems positively influenced financial performance. Firms that adopted innovative cost allocation methods achieved better profitability and operational efficiency compared to those using traditional approaches. Keelson et al. (2023) examined SMEs in emerging economies and found that process innovation, which often involves restructuring cost systems, moderated the relationship between market competition and firm performance. Cost structure innovation allowed firms to remain competitive by reducing overheads and improving scalability.

Rahman and Putri (2023) examined Indonesian MSMEs and reported that employee engagement positively influenced productivity and service quality, which in turn enhanced overall firm performance. The study found that engaged employees were more committed to innovation and customer satisfaction, strengthening MSME competitiveness. In tandem with earlier findings, Chowdhury and Saha (2024) analyzed Bangladeshi MSMEs and concluded that innovative value propositions aligned with digital platforms (e.g., online marketplaces, mobile apps) boosted market reach and revenue growth. The study emphasized that digitalization amplifies the impact of value proposition innovation on performance. Okeke and Nwankwo (2025) investigated Nigerian MSMEs and found that employee engagement mediated the relationship between innovation strategies and firm performance. Firms that invested in training, participatory decision-making, and motivational incentives achieved stronger innovation outcomes and higher profitability.

Nkansah, et al. (2023) studied Ghanaian MSMEs during COVID-19 and found that employee engagement significantly improved performance, with job resources moderating the relationship. Their findings reveal that engagement initiatives without adequate job resources created frustration among employees, as expectations rose but organizational support lagged. This mismatch reduced performance benefits. Rahman Hasibuan et al. (2026) conducted a systematic literature review on HRM practices in Indonesian MSMEs. They concluded that employee engagement is a critical outcome of effective HRM, directly influencing productivity and sustainability. The review highlighted that engagement strategies such as participatory leadership and continuous training are essential for MSME competitiveness. Khan and Nawaz (2021) examined Pakistani MSMEs and found that employee engagement significantly enhanced organizational commitment and performance outcomes. Engaged employees demonstrated stronger loyalty and contributed to higher productivity, which improved firm competitiveness.

Adeola and Evans (2022) studied Nigerian MSMEs and found that employee engagement mediated the relationship between value proposition innovation and firm performance. The study found that firms with strong customer-centric value propositions achieved better outcomes only when employees were actively engaged in delivering those promises. Without

engagement, the value proposition had limited impact. Chowdhury and Saha (2024) analyzed Bangladeshi MSMEs undergoing digital transformation. Their findings showed that employee engagement mediated the effect of innovation strategies including value proposition development on MSME performance. Engaged employees facilitated smoother transitions to new technologies, which improved competitiveness and revenue growth.

Theoretical Framework

Dynamic capabilities postulated by Teece et al. (1997) refers to a firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Nigerian MSMEs often operate in volatile markets which are adaptable to swift changes. BMI provides the flexibility to adapt cost structures, revenue models, and customer value propositions. Abubakar and Adhama (2020) proposed a framework linking innovation (product and process) to SME performance in Nigeria, emphasizing adaptability as a dynamic capability.

Methodology

The study employed a cross-sectional and ex-pos facto research design to investigate the hypotheses generated in this study. This study is descriptive and analytical in nature. A total population of 1533 owners/managers of MSMEs (NBS, 2017) were used for this study sourced from SMEDAN (2017). The purposive sampling technique was utilized which is a technique used when investigating participants with specific traits and characteristics as in this study. The owners/Managers and employees of MSMEs in plateau state were the unit of analysis.
The sample for this study is 318 which was determined using the Taro Yamane (1987) formula. The SmartPLS application package v.4.1.0.9 was used. This study made use of the partial least square structural equation modelling (PLS-SEM) to model the regression analysis.

Data Analysis and Results

Table 1
Internal Consistency and Convergent Validity Report

Variables			Composite reliability (rho_c)	Average variance extracted (AVE)
	Indicators	**Factor Loadings**		
Cost Structure Innovation				
	CS1	0.735	0.872	0.632
	CS2	0.847		
	CS3	0.779		
	CS5	0.814		
Employee Engagement				
	EE1	0.765	0.869	0.69

	EE2	0.886		
	EE3	0.837		
Innovative Resource Allocation and Strategic Partnership				
	IR3	0.908	0.873	0.775
	IR5	0.852		
PMSMEs2	PMSMEs2	0.706	0.874	0.635
PMSMEs3	PMSMEs3	0.772		
PMSMEs4	PMSMEs4	0.852		
PMSMEs5	PMSMEs5	0.848		
Revenue Model Innovation				
	RM1	0.895	0.901	0.695
	RM2	0.892		
	RM4	0.744		
	RM5	0.794		
Value Proposition				
	VP2	0.817	0.902	0.696
	VP3	0.886		
	VP4	0.832		
	VP5	0.801		

Source: ***SmartPLS v. 4.1.0.9***

Criteria: CS4, EE4, EE5, IR1, IR2, IR4, PMSMEs1, RM3 and VP1 were deleted factor loading < 0.708 Hair *et al.* (2014), Composite Reliability >0.70 (Fornell & Larcker, 1991) AVE> 0.5 (Hair et al., 2014).

Table 1 showed that all the indictors below the threshold of factor loadings of 0.708 were deleted. All the variables for this study had composite reliable because they were at least 0.7, and all the variables had convergent validity because Average variance extracted was at least 0.5 which showed that the measurement instruments were valid and reliable.

Assessing Structural Model

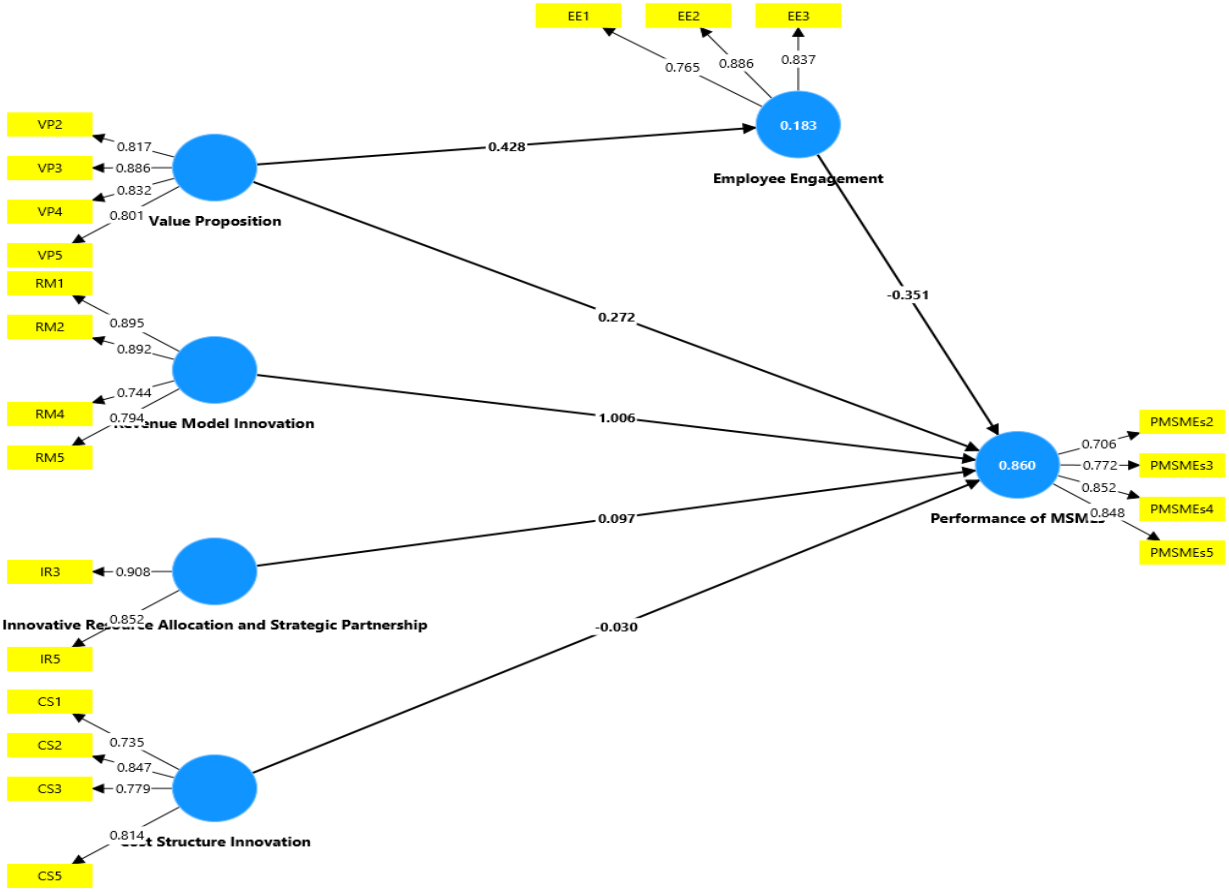


Figure 2: Structural Model for Direct Relationship
Source: *SmartPLS v. 4.1.0.9*

According to Hair *et al.* (2014), indicators loading must be at least 0.708. Figure 2 showed the retained indicators of the six variables of cost structure innovation, employee engagement, innovative resource allocation and strategic partnership, revenue model innovation and value proposition and performance of MSMEs.

Research Hypotheses Testing for Direct Relationship

Table2

Assessing Path Coefficient and Hypotheses Testing

Research Hypotheses	Path Relationship	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Decision
HO1	Value Proposition -> Performance of MSMEs	0.272	0.271	0.036	7.466	0.000	Reject the null hyp.
HO2	Revenue Model Innovation -> Performance of MSMEs	1.006	1.007	0.044	23.004	0.000	Reject the null hyp.
HO3	Innovative Resource Allocation and Strategic Partnership -> Performance of MSMEs	0.097	0.097	0.029	3.293	0.001	Reject the null hyp.
HO4	Cost Structure Innovation -> Performance of MSMEs	-0.03	-0.028	0.025	1.183	0.237	Fail to reject the null hyp.
HO5	Value Proposition -> Employee Engagement	0.428	0.432	0.054	7.986	0.000	Reject the null hyp.
HO6	Employee Engagement -> Performance of MSMEs	-0.351	-0.351	0.042	8.432	0.000	Reject the null hyp.

Source: ***SmartPLS v.*** *4.1.0.9 Key: VP–Value Proposition; RM-Revenue Model Innovation, IR-Innovative Resource Allocation and Strategic Partnership, CS-Cost Structure Innovation, PMSMEs-* Performance of MSMEs

In order to assess the path coefficient in line with the hypothesis postulated in this study, a bootstrapping command was carried out using SmartPLS v. 4.1.0.9.6 and the result displayed in table 2 based on the direct relationships on two tailed tests at 95% level of significance as postulated in the hypothesis. However, table 2 revealed that the direct value proposition on performances of MSMEs, revenue model innovation on performances of MSMEs, innovative resource allocation and strategic partnership on performances of MSMEs, value proposition and employee engagement, employee engagement and performance of MSMEs because all the p-values is < 0.05 while there is no significant effect of cost structure innovation on performances of MSMEs because the p-value is > 0.05.

Table 3
Indirect Relationship

Research Hypotheses	Path Relationship	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Decision
HO7	Value Proposition -> Employee Engagement -> Performance of MSMEs	-0.15	-0.152	0.026	5.798	0.000	

Table 4.5 showed that there is a significant effect of employee engagement on value proposition and performance of MSMEs

Table 4
Coefficient of Determination R^2

Variables	R-square	R-square adjusted
Employee Engagemet	0.183	0.181
Performance of MSMEs	0.860	0.858

Source: *SmartPLS v. 4.1.0.9*

Criteria: of 0.02 (weak), 0.13 (moderate) and 0.26 (substantial) (Cohen, 1988)
This is referred to as models 'predictive accuracy denoted by an R^2 value. Hair *et al.* (2014) posits that coefficient of determination measures the effect of exogenous latent constructs on endogenous latent construct. According to Cohen (1988) R^2 values of 0.02, 0.13, and 0.26 are considered weak, moderate and substantial respectively. Falk and Miller (1992) suggested a minimum of 10% as acceptable for a variance explained to be regarded as adequate. In line with the aforementioned, the study considered the R^2 of all endogenous variables obtained from PLS algorithm as presented in table 4. The results revealed that, 86.0% and 18.3% variance in performance of MSMEs are explained by value proposition, cost structure innovation, innovative resource allocation and strategic partnership and revenue model innovation. This means the variance in performance of MSMEs is substantial for 86.0% and moderate for 18.3%.

Table 5
Collinearity Statistics

Variables	Variance Inflation Factor (VIF)
Cost Structure Innovation	1.406
Employee Engagement	3.248
Innovative Resource Allocation and Strategic Partnership	1.778
Revenue Model Innovation	3.153
Value Proposition	1.483

Source: *SmartPLS v. 4.1.0.9*

There is no multicollinearity in the data analysis of statistics showed that this assumption has been met as, VIF scores in Table 5 were well below 3.3 (Statistics = 1.406, 3.248, 1.778, 3.153 and 1.483) for cost structure innovation, employee engagement, innovative resource allocation and strategic partnership, revenue model innovation and value proposition

respectively. Variance Inflation Factor (VIF) value should be ≤ 3.3 (Diamantopoulos & Siguaw, 2006).

Table 6
Predictive Relevance

Variables	Q^2predict	RMSE	MAE
Employee Engagement	0.171	0.916	0.739
Performance of MSMEs	0.753	0.501	0.385

Source: *SmartPLS v. 4.1.0.9*

Based on blindfolding procedure, Q2 evaluates the predictive validity of a large complex model using PLS. While estimating parameters for a model under blindfolding procedure, this technique omits data for a given block of indicators and then predicts the omitted part based on the calculated parameters. Thus, Q2 showed how well the data collected empirically can be reconstructed with the help of model and the PLS parameters (Fornell & Cha, 1994). is generally estimated using an omission distance of 5-10 under existing PLS software packages. The rule of thumb indicates that a cross validated redundancy Q2 > 0.5 is regarded as a predictive model (Chin, 2010). Table 6 revealed that that there is no predictive relevance because Q2 value of 0.171 performances of MSMEs < 0.5 while there is predictive relevance because Q2 value of 0.753 performances of MSMEs > 0.5.

Discusion of Findings

The findings of the study revealed that there is a significant relationship between value proposition and performances of MSMEs. This finding is consistent with the study conducted by Nussipova (2022).

The findings of the study showed that there is a significant relationship between revenue model innovation and performances of MSMEs which aligns with Rosyidiana and Narsa (2024) study.

The findings of this study further revealed that there is a insignificant relationship between innovative resource allocation and strategic partnership and performances of MSMEs which is in tandem with Rahman & Idris (2024).

The study found that cost structure innovation had a significant relationship with performances of MSMEs. This study aligned with the study conducted by Talikoti (2025).

The findings of the study revealed that there is a significant relationship between value proposition and employee engagement. This study aligns with the study conducted by Chowdhury and Saha (2024)

Results of the findings also indicated that employee engagement and performance of MSMEs. The study found that employee engagement had a significant on value proposition and performances of MSMEs. This study aligned with the study conducted by Adeola and Evans (2022).

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