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Marketing Innovation, Digital Marketing and Competitive Advantage as Determination of MSMEs Performance

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Abstract: Small and medium-sized enterprises (MSMEs) have significant potential to enhance the well-being of individuals by reducing poverty, promoting income equality, and serving as a source of foreign exchange for the nation. Despite their significance, MSMEs commonly encounter challenges like innovation, technology utilization, and competition while building their business, all of which can influence their performance. This study aims to investigate how marketing innovation, digital marketing, and competitive advantage influence MSMEs performance in Yogyakarta. The study targets MSMEs owners and managers involved in marketing and business operations, with a sample size of 456 to ensure representative and valid results. To test the hypotheses, the researchers used SmartPLS version 4. The findings reveal a significant relationship between competitive advantage and MSMEs business performance. Digital marketing also shows a significant effect on business performance. Conversely, marketing innovation does not significantly impact MSMEs performance.

Keyword: Marketing Innovation, Digital Marketing, Competitive Advantages, MSMEs Performance

INTRODUCTION

MSMEs are the the driving force of the Indonesian economy, contributing significantly to employment and national income. Yogyakarta is one of the provinces in Indonesia that has a wealth of cultural heritage and a dynamic local economy and is one of the centers of creative economic growth. There are around 340 thousand MSMEs in this region which also contribute greatly to economic development. According to the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia, MSMEs account for approximately 99% of total business entities and contribute around 60% to the national GDP (Akhmad Akhmad, Idhan Khalid, 2023).

The success of MSMEs in Indonesia is supported by the micro environment such as operational management, organizational culture and cooperation or partnerships Other critical factors are innovation, risk taking, proactivity, and individual' learning orientation (Sukma,

2024). On the other hand, MSMEs also face a number of obstacles such as: low technological innovation, lack of government support, quality of human resources, limited funding for information technology development, economic conditions and business partners (Indrawati et al., 2020). Given the important role of MSMEs in the economy, efforts to improve MSMEs performance are an important focus that must be studied further empirically. MSMEs performance is related to how the firm implements its business strategies effectively and efficiently to achieve its goals. A number of previous investigations confirm that the antecedents of MSMEs performance include marketing innovation (Efrata et al., 2019); (Cuevas-Vargas et al., 2021) digital marketing (Djakasaputra et al., 2021) (Suci Ayu Sudari; Yuni Pambreni, 2023) and competitive advantage (Malek Alharafsheh; Abd Alrahman Ratib Ezmigna, 2023) (Harjadi et al., 2020).

Marketing innovations are new methods that companies can use to promote themselves to both potential and current customers (Gupta et al., 2016). Marketing innovation can be shown by implementing new business models, adding value through initiatives, entering new markets, and forming new partnerships (Yeh-Yun Lin & Yi-Ching Chen, 2007). MSMEs that adopt innovative marketing strategies tend to outperform their competitors by creating unique value propositions that resonate with consumers.

Furthermore, the integration of sustainability into marketing innovation has become increasingly relevant. A number of previous investigations confirm that marketing innovation plays a significant role in improving business performance in MSMEs (Adamu et al., 2020); Peng et al., (2021) argue that marketing innovation specially in service marketing has a positive and significant impact on marketing performance. This trend highlights the importance of aligning marketing innovation with consumer values to drive performance.

However, the implementation of marketing innovation is not without challenges. Many MSMEs in Yogyakarta lack the resources and expertise necessary to develop and execute innovative marketing strategies. A report by the Yogyakarta Chamber of Commerce indicates that approximately 40% of MSMEs struggle with limited access to marketing training and resources. Addressing these gaps through targeted support programs and workshops can empower MSMEs to harness the potential of marketing innovation more effectively. Marketing innovation serves as an important determinant of MSME performance by implementing innovative marketing strategies, focusing on sustainability, encouraging collaboration, and overcoming resource limitations, then MSMEs will be competitive.

Another marketing strategy that is an important focus for MSMEs in this digital era is digital marketing. Digital marketing has emerged as a vital tool for MSMEs to reach broader audiences and enhance customer engagement. The rapid proliferation of internet access and smartphone usage in Indonesia—where over 70% of the population is online—presents a significant opportunity for MSMEs to leverage digital channels for marketing purposes (Akhmad Akhmad, Idhan Khalid, 2023). Promoting products through technology, such as social media and the integration of artificial intelligence into digital marketing, plays a key role in influencing marketing performance (Lahuerta-otero, 2022).

The use of social media for internet marketing has been shown to contribute significantly to improving marketing performance (Juliani & Nuvriasari, 2024) (Zhen et al., 2022). MSMEs that adopt digital marketing strategies experience a notable increase in customer acquisition and retention, resulting in improved overall performance. Digital marketing leverages digital technology to create channels that effectively fulfill consumer needs while helping companies achieve their objectives (Saebah & Zaenal Asikin, 2022). MSMEs utilize digital technologies in their marketing efforts to build strong relationships with clients and create value for their businesses (Ziółkowska, 2021). By utilizing data analytics and customer feedback, MSMEs can customize their messages and offerings to match the specific needs and preferences of their target audience. However, despite the

advantages, many MSMEs in Yogyakarta face barriers to effectively implementing digital marketing strategies. A lack of digital literacy and understanding of online marketing tools can hinder their ability to capitalize on digital opportunities.

MSMEs will achieve their business performance if they are also supported by competitive advantages. Competitive advantage refers to the attributes and collection of elements that enable an organization, including MSMEs, to distinguish itself from competitors and gain a unique and stronger position in the marketplace (Udriyah et al., 2019). Competitive advantage is when a company can create products and services with favorable results at a lower cost. In order to succeed in the business environment, a company must possess a competitive edge. MSMEs that have competitive advantages such as product differentiation and cost advantages will have a significant impact on improving performance (Nuvriasari & Sari, 2023). However, achieving and maintaining competitive advantage is not without challenges. Many MSMEs in Yogyakarta face intense competition from larger corporations and other MSMEs, which can make it difficult to sustain their market position. Approximately 60% of MSMEs in the region struggle with pricing pressures and market saturation (Akhmad Akhmad, Idhan Khalid, 2023).

Having found a number of challenges faced by MSMEs in maintaining the sustainability of their business along with the increasing dynamics of competition, this paper aims to investigate the role of marketing innovation, digital marketing and competitive advantage in driving the achievement of MSMEs performance in Yogyakarta.

LITERATURE REVIEW

Marketing Innovation and Firm Performance

Innovation is an important asset to simplify operation of the firms through facilitating creative and new solution in responding to problems, changing market needs, technological turbulence, competition, and market turbulence (Kocak et al., 2017) (Ha et al., 2016). Innovation activities include the introduction of new ways of products, services, production, marketing and administration that are difficult to imitate (Yıldız et al., 2014). Marketing innovation refers to enhancements in the marketing mix and can help in facing the difficulties of operating in the current economic circumstances (Naidoo, 2010).

Marketing innovation plays an important role in expanding market share and reducing competitive pressures. Marketing innovation demonstrated through product innovation, distribution channels, digital technology and collaboration has proven to be able to drive increased performance of MSMEs (Ajayi et al., 2024). The role of marketing innovation in strengthening business performance has been revealed by a number of researchers who confirm that marketing innovation has a significant influence on the level of performance of MSMEs (Quaye & Mensah, 2019); (Adamu et al., 2020). From this explanation, the following hypothesis can be formulated:

H1: Marketing innovation has a significant influence in improving performance of MSMEs

Digital Marketing and Firm Performance

Digital marketing significantly enhances customer experiences, drives sustainable growth, and equips organizations with a competitive edge (Noori Hussain et al., 2023). As competition in the market intensifies, MSMEs are motivated to adopt digital technologies, which leads to organizational transformation, improved competitiveness, and effective product repositioning (Silva et al., 2022). The digital technologies significantly impact the economic and social sustainability of SMEs, with entrepreneurial orientation moderating this effect (Vrontis et al., 2022). MSMEs can significantly improve their competitiveness and

drive sustainable growth by embracing digital channels, engaging customers through personalized marketing and overcoming barriers to implementation.

The success of digital transformation in MSMEs is driven by technological and contextual factors that strengthen their organizational capabilities (Zhang et al., 2022). Martins (2023) argues that digitalization significantly strengthens the relationship between dynamic capabilities and the performance of MSMEs. Asikin et al., (2024) note that MSMEs in the food and beverage industry are seeing significant growth as they adopt digital media more extensively. Based on a number of studies, the following hypothesis can be proposed:

H2: Digital marketing has a significant influence in improving performance of MSMEs

Competitive Advantage and Firm Performance

Improving firm performance relies on the development, incubation, and acceleration of expertise as crucial factors in creating competitive advantage (Lorenzo et al., 2018). Establishing a competitive advantage is essential for survival and growth in a dynamic market. Competitive advantage strategies demonstrated through low costs and product uniqueness are sources of competitiveness that can improve the performance of MSMEs (Ong et al., 2018). MSMEs that leverage unique selling propositions, such as product quality, exceptional customer service, and brand reputation, are more likely to achieve higher performance levels. Several empirical studies have found a significant positive relationship between competitive advantage and MSMEs performance (Sukmamedian, 2021).

Competitive advantage has a substantial and positive impact on the performance of MSMEs across various sectors. For instance, Hehanussa (2022) highlight that competitive advantage significantly and positively affects the performance of MSMEs in the food sector. Similarly, Udriyah (2019) demonstrate that competitive advantage positively and significantly influences the business performance of textile SMEs in Selangor, Malaysia. This notion is further supported by Asikin & Fadilah (2024) who affirm that competitive advantage strongly affects MSME performance. These findings collectively underscore the critical role of competitive advantage in enhancing business performance, illustrating its importance in achieving superior operational outcomes and market success. Referring to a number of these proofs, the hypothesis formulated is as follows:

H3: Competitive Advantage has a significant influence in improving performance of MSMEs

METHOD

In this study, the method used was a quantitative survey with a descriptive approach. The sampling technique applied was purposive sampling, where samples were taken based on certain criteria relevant to the research objectives. The criteria set were MSMEs that have been actively running their business for at least the last three years and have utilized digital marketing as part of their business strategy. These criteria are important to ensure that respondents have sufficient experience in implementing digital marketing, so that the data obtained can provide a more accurate picture of the effect of digital marketing on the performance of MSMEs in Yogyakarta.

Respondents in this study consist of MSME owners or managers who are directly involved in making decisions related to marketing strategies and business operations. By involving managers or owners, this research aims to gain an in-depth perspective on the implementation of marketing innovation and digital marketing. The targeted sample size was 456 MSMEs, which was considered sufficient to provide representative and valid results.

The indicators of digital marketing variables in this study consist of six items adopted from previous research by Rosli (2013) and Gunday (2011). This variable includes aspects such as social media usage, search engine optimization, online advertising, and digital data

analysis. In addition, to measure digital marketing effectiveness, this study also adopted six items from Boonmalert et al., (2021) and Omar, Ishak, & Jusoh (2020) MSMEs performance indicators consist of six items taken from research by Nuvriasari et al., (2020) and Kamboj & Rahman (2017) which include financial and non-financial aspects.

This study employs a quantitative analysis method using the Partial Least Square (PLS) approach. The data processing is carried out using Smart PLS version 4 software. The collected data will be tested for validity and reliability through the evaluation of the outer model**,** followed by an analysis of the structural model (inner model) to test the proposed hypotheses.

RESULTS AND DISCUSSION

Characteristic of MSMEs and Respondents

This research was conducted in 456 MSMEs in Yogyakarta with subjects being managers or owners of MSMEs. Respondents who are managers are 206 (45.8%) and owners are 215 (47.1%). The length of work in MSMEs is less than 3 years, there are 24 (5.3%), 3-5 years are 172 (37.7%) and more than 5 years are 260 (57%). Male gender is 165 (36.4%) and female 166 (63.6%). Age level between 21-25 years is 70 (15.4%), age 26-30 is 85 (18.6%), 31-35 years is 74 (16.2%), age 36 - 40 years is 64 (14%), 41-45 years is 60 (13.2%) and those over 54 years is 103 (22.6%). The final education level of high school is 227 (49.8%), Diploma is 32 (7%), Bachelor is 186 (40.8%) and Postgraduate is 11 (2.4%).

Table 1. Characteristic of MSMEs

Variables	Frequency	Percentage
Age of MSMEs	456	100
3 – 5 years	134	29.4
> 5 – 10 years	144	31.6
> 10 – 15 years	85	18.6
> 15 – 20 years	33	7.2
> 20 years	60	13.2
Number of workers	456	100
< 10 employees	200	43.9
10 – 20 employees	208	45.6
> 20 employees	48	10.5
Firm Legality	456	100
Not incorporated	365	80.0
Legal entity company	91	20.0
Marketing Area	456	100
Domestic only	307	67.3
Domestic and International	149	32.7
Industry	456	100
Handicraft	178	39.0
Culinary	160	35.1
Fashion	46	10.1
Various services	72	15.8

Source: Processed primary data, 2024

The data processing in this study uses SmartPLS version 4 with the following results:

Outer Model Analysis

The outer model analysis is used to ensure that the indicators used to measure the latent variables are valid and reliable.

Convergence Validity Testing

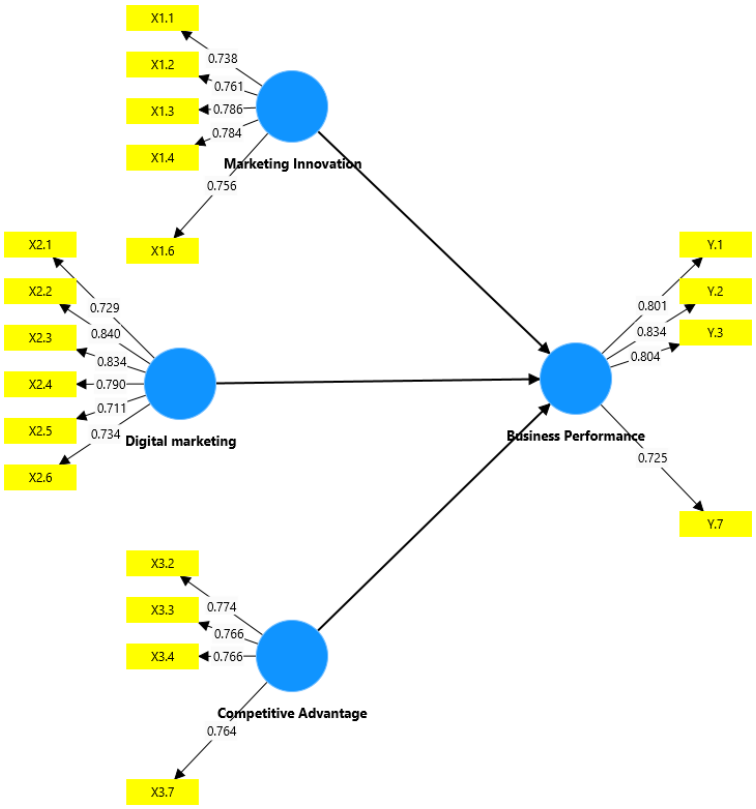
Convergent validity testing is an essential step in evaluating the measurement model, aiming to ensure that the indicators used accurately measure the intended construct. Convergent validity can be assessed through the loading factor values, with the ideal expected value being greater than 0.7. According to Hair et al., (2022) loading factor values below this threshold indicate that the indicator does not significantly contribute to the construct, and thus may need to be considered for removal from the model. The test results are presented in Table 2 below.

Table 2. Convergence Value

Variabel	Indicator	Loading factor	Information
Marketing Innovation	X1.1	0,710	Valid
	X1.2	0,745	Valid
	X1.3	0,778	Valid
	X1.4	0,767	Valid
	X1.5	0,655	Invalid
	X1.6	0,762	Valid
Digital Marketing	X2.1	0,724	Valid
	X2.2	0,830	Valid
	X2.3	0,836	Valid
	X2.4	0,780	Valid
	X2.5	0,704	Valid
	X2.6	0,744	Valid
	X2.7	0,645	Invalid
Competitive Advantage	X3.1	0,642	Invalid
	X3.2	0,728	Valid
	X3.3	0,719	Valid
	X3.4	0,757	Valid
	X3.5	0,626	Invalid
	X3.6	0,499	Invalid
	X3.7	0,727	Valid
MSME Performance	Y.1	0,700	Valid
	Y.2	0,713	Valid
	Y.3	0,730	Valid
	Y.4	0,650	Invalid
	Y.5	0,655	Invalid
	Y.6	0,680	Invalid
	Y.7	0,729	Valid

Source: Processed primary data, 2024

Based on the results, several indicators did not meet the validity criteria, specifically those with loading factor values below 0.7, and therefore needed to be removed. Consequently, out of the initial 27 indicators, 19 indicators remain. The researcher conducted a retest using these 19 indicators to ensure that they are valid in measuring the intended constructs. The measurement results can be seen in the image below.



Source: Research Results

Figure 1. Outer Loading Model

The test results show that the loading factor values for each indicator are now above 0.7, indicating that these indicators are valid for representing the studied constructs.

Construct Reliability

Construct reliability is a critical aspect in the evaluation of the measurement model. It can be measured using several indicators such as Cronbach's alpha, composite reliability, and Average Variance Extracted (AVE). A construct is considered reliable if the Cronbach's alpha and composite reliability values exceed 0.7, while the AVE value should be greater than 0.5. In other words, the higher these values, the more reliable the measured construct is.

Table 3. Construct Reliability

Variable	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Business Performance	0,801	0,802	0,870	0,627
Competitive Advantage	0,770	0,775	0,851	0,589
Digital marketing	0,866	0,871	0,900	0,600
Marketing Innovation	0,825	0,833	0,876	0,585

Source: Processed primary data, 2024

In this study, the analysis of construct reliability and validity was conducted to evaluate four key variables: Marketing Innovation, Digital Marketing, Competitive Advantage, and Business Performance. The results indicate that all constructs have Cronbach's alpha values above 0.7, confirming that the instruments used to measure these variables are reliable. Additionally, the Composite Reliability values (rho_a and rho_c) are also above 0.7, further supporting the internal consistency of the measured constructs. Moreover, the Average

Variance Extracted (AVE) for each construct meets the required criteria, with values exceeding 0.5. This indicates that more than 50% of the variance of each construct is explained by the indicators used, thus supporting construct validity (Fornell & Larcker, 1981).

Discriminant Validity

Discriminant validity aims to ensure that the measured constructs are truly distinct from each other and do not overlap. In this study, discriminant validity was tested at two levels: the indicator level and the variable level. At the indicator level, the method used is Cross Loading, while at the variable level, the Fornell-Larcker Criterion and Heterotrait-Monotrait Ratio (HTMT) were applied.

Cross Loading

At the indicator level, cross-loading values are crucial to ensure that each measurement item used for a particular construct has a higher correlation with the construct it is intended to measure compared to other constructs. This is done to avoid ambiguity or errors in data interpretation. The test results using SmartPLS show that the cross-loading values for each indicator meet the expected discriminant validity criteria. These results can be seen in the following table.

Table 4. Cross Loadings

Indicator	Business Performance	Competitive Advantage	Digital marketing	Marketing Innovation
X1.1	0,254	0,364	0,517	**0,738**
X1.2	0,197	0,397	0,484	**0,761**
X1.3	0,253	0,354	0,405	**0,786**
X1.4	0,222	0,359	0,503	**0,784**
X1.6	0,315	0,407	0,434	**0,756**
X2.1	0,306	0,343	**0,729**	0,439
X2.2	0,388	0,409	**0,840**	0,505
X2.3	0,321	0,409	**0,834**	0,513
X2.4	0,338	0,360	**0,790**	0,512
X2.5	0,328	0,319	**0,711**	0,434
X2.6	0,300	0,299	**0,734**	0,419
X3.2	0,312	**0,774**	0,295	0,304
X3.3	0,258	**0,766**	0,348	0,418
X3.4	0,273	**0,766**	0,325	0,462
X3.7	0,351	**0,764**	0,436	0,353
Y.1	**0,801**	0,297	0,313	0,261
Y.2	**0,834**	0,317	0,315	0,235
Y.3	**0,804**	0,336	0,368	0,304
Y.7	**0,725**	0,295	0,355	0,248

Source: Processed primary data, 2024

For example, in the **Cross Loadings** table displayed, the indicator **X1.1** has the highest cross loading value on the **Marketing Innovation** construct (0.738) compared to other constructs. This indicates that the indicator is more relevant for measuring the **Marketing Innovation** construct. Similarly, the **Y.1** indicator shows the highest value on the **Business**

Performance construct (0.801), indicating that this measurement is also valid in the intended context.

These results show that all indicators have a higher correlation with the construct they are measuring, meaning discriminant validity at the indicator level has been fulfilled. Therefore, the study can proceed with further analysis as the validity of the constructs being measured is ensured. This is in line with the theory proposed by Hair et al., (2022) emphasizes the importance of discriminant validity in research using structural models.

Fornell-Larcker Criterion

Discriminant validity is one of the crucial aspects in research related to construct measurement. One method to test discriminant validity is by using the **Fornell-Larcker Criterion**. According to Fornell and Larcker (1981), discriminant validity at the variable level can be assessed through the square root of the **Average Variance Extracted** (AVE). If the square root of a variable's AVE is greater than the correlation of that variable with others, the model can be considered to have good discriminant validity. This suggests that the variable shares more variance with its own measurement items and less with the items measuring other variables. The test results can be seen in the table below.

Table 5. Fornell-Larcker Criterion

Variable	Business Performance	Competitive Advantage	Digital marketing	Marketing Innovation
Business Performance	0,792			
Competitive Advantage	0,394	0,768		
Digital marketing	0,429	0,462	0,775	
Marketing Innovation	0,333	0,494	0,609	0,765

Source: Research Results

The results indicate that the **Fornell-Larcker Criterion** provides a clear picture of the discriminant validity of the constructs used. For example, the square root of the AVE values for the constructs **Marketing Innovation**, **Digital Marketing**, **Competitive Advantage**, and **Business Performance** show significant numbers. For instance, the square root of the AVE for **Business Performance** is **0.792**, which is greater than its correlation with the other constructs. This indicates that **Business Performance** has good discriminant validity, as the variable explains more variance in its own measurement items than in other variables.

Furthermore, the analysis also shows that the square root of the AVE values for **Digital Marketing (0.775)** and **Marketing Innovation (0.765)** also meet the same criteria. Therefore, it can be concluded that the model used in this study has good discriminant validity, meaning that each construct is clearly identified and does not overlap with the others. This is important to ensure that the measurements conducted in this research are reliable and valid.

Heterotrait-Monotrait Ratio (HTMT)

In addition to the Fornell-Larcker Criterion, discriminant validity can also be tested using the **Heterotrait-Monotrait Ratio (HTMT)**. HTMT is a ratio that compares the average correlations between items measuring different variables (heterotrait) with the geometric mean of the correlations between items measuring the same variable (monotrait). In this context, the model is considered to have good discriminant validity if the HTMT value is below 0.9. Therefore, the HTMT analysis becomes an important step in assessing the

validity of the constructs used in this research. The HTMT test results can be seen in the table below.

Table 6. HTMT

Variable	Business Performance	Competitive Advantage	Digital marketing	Marketing Innovation
Business Performance				
Competitive Advantage	0,493			
Digital marketing	0,510	0,558		
Marketing Innovation	0,396	0,623	0,722	

Source: Processed primary data, 2024

Based on the HTMT table presented, it is evident that the HTMT values for each variable are below the 0.9 threshold. For example, the HTMT value between **Competitive Advantage** and **Business Performance** is **0.493**, while the HTMT value between **Digital Marketing** and **Marketing Innovation** is **0.722**. This indicates that there is no significant overlap between these constructs, supporting the conclusion that each construct has a distinct and separate identity. Therefore, the combination of analyses using the **Fornell-Larcker Criterion** and **HTMT** provides strong evidence of the discriminant validity of the model being studied.

Inner Model Analysis

The inner model analysis aims to evaluate the structural relationships between the constructs (latent variables) in the model. The inner model illustrates the relationships between latent variables used to test the research hypotheses. The inner model testing in this study includes multicollinearity testing, goodness of fit testing, and hypothesis testing.

Multicollinearity Evaluation

The multicollinearity evaluation is conducted to identify any symptoms of multicollinearity between the exogenous and endogenous variables that could affect the analysis results. High multicollinearity values can cause biased parameter estimates, increase standard errors, and widen the confidence intervals of the path coefficient estimates, which can in turn affect the significance of hypothesis testing. Multicollinearity values can be seen in the **Inner VIF** table, where an Inner VIF value below 5 indicates that the multicollinearity symptoms are at a low and tolerable level. Therefore, these multicollinearity symptoms can be ignored. The test results are shown in the following table:

Tabel 7. Inner VIF

	VIF
Competitive Advantage -> Business Performance	1,399
Digital marketing -> Business Performance	1,682
Marketing Innovation -> Business Performance	1,749

Source: Processed primary data, 2024

In the presented Inner VIF table, the VIF values for **Competitive Advantage**, **Digital Marketing**, and **Marketing Innovation** are **1.399**, **1.682**, and **1.749** respectively. All these values are below the threshold of 5, indicating that multicollinearity symptoms can be disregarded. In other words, there is no multicollinearity among the variables being studied.

Goodness of Fit Evaluation

The Goodness of Fit (GoF) Index is a comprehensive evaluation of the model, which includes an assessment of both the measurement model and the structural model (inner model). The GoF index can only be calculated for reflective measurement models, by taking the square root of the geometric mean of the average communality and average R-squared using the following formula:

GoF = $\sqrt{\overline{AVE} \; x \; \overline{R^2}}$

GoF value ranges from 0 to 1, where a value of 0-0.25 is categorized as small, 0.25-0.36 as moderate, and above 0.36 as large or good.

Table 8. R Square

	R-square
Business Performance	0,233

Source: Processed primary data, 2024

From the table, the average AVE value and the average R Square value can be calculated. The AVE value can be found in Table 2.

$\overline{AVE}$ = (0,627 + 0,589 + 0,600 + 0,585) / 4 = 0,6005

R^2 = 0,233

GoF = $\sqrt{\overline{AVE} \; x \; R^2}$

GoF = $\sqrt{0,6005 \text{ x } 0,233}$

GoF = 0,374

The calculation of the GoF value resulted in 0.374, which indicates that the GoF falls into the large or good category.

Hypothesis Testing: Direct Effect Test

Direct effect testing in the evaluation of the inner model is conducted to determine the extent of the influence of exogenous variables on endogenous variables. In this study, the path coefficients are calculated using the bootstrapping method. The results of the testing can be seen in the following table.

Tabel 9. P Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Marketing Innovation -> Business Performance	0,033	0,038	0,062	0,530	0,596
Digital marketing -> Business Performance	0,297	0,300	0,055	5,421	0,000
Competitive Advantage -> Business Performance	0,241	0,241	0,052	4,617	0,000

Source: Research Results

The results of the testing indicate that digital marketing and competitive advantage have a significant impact on business performance, with P-values of 0.000 each, which are well below the threshold of 0.05. This suggests that both variables have a strong contribution to the business performance of MSMEs in Yogyakarta. This indicates that effective digital marketing strategies can enhance the visibility and competitiveness of MSMEs. Thus, digital marketing is not only a promotional tool but also a means to develop better relationships with

customers and improve overall business performance. The study also shows that competitive advantage has a strong contribution to business performance. By leveraging competitive advantage, MSMEs can increase customer loyalty and create mutually beneficial long-term relationships. Additionally, competitive advantage contributes to improved operational efficiency, which positively impacts profitability.

However, marketing innovation shows a different result. With a P-value of 0.596, which is greater than 0.05, it can be concluded that marketing innovation does not significantly affect business performance. This suggests that, although marketing innovation is important, in the context of this study, other factors such as competitive advantage and digital marketing are more dominant in influencing business performance. Marketing innovations developed in MSMEs in Yogyakarta do not have a significant impact on business performance, this can be caused by limited financial resources, limited human resources in terms of marketing knowledge and capabilities, businesses that are more oriented towards production and competition factors. This finding is in line with a number of studies that emphasize that innovation is not a determinant of successful business performance (Muis et al., 2022); (Yaskun et al., 2023).

Further analysis shows that competitive advantage has a path coefficient of 0.241, while digital marketing has a path coefficient of 0.297. This indicates that improvements in these two variables can significantly contribute to enhancing business performance.

R Square Test

R square represents the extent to which endogenous variables can be explained by one or more exogenous and other endogenous variables. An R square value of 0.75 indicates substantial (high) impact, 0.50 indicates moderate impact, and 0.25 indicates weak impact. The variation in the Business Performance variable that can be explained by the Marketing Innovation, Digital Marketing, and Competitive Advantage variables is 0.228, which indicates a weak impact.

CONCLUSION

This study reveals a significant relationship between digital marketing, competitive advantage and MSMEs business performance. Digital marketing has a great opportunity to support the improvement of MSME business performance because it is able to reach a wide market, is efficient, strengthens interactions between sellers and buyers and provides a lot of convenience in business transactions. This suggests that effective digital marketing strategies can enhance MSMEs business performance. Other disclosures show that competitive advantage is able to put MSMEs in a strong position in the competition, which will have an impact on their business performance. Although marketing innovation is very important in supporting business sustainability, this study has proven to be insignificant in driving increased performance of MSMEs.

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