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## The Influence of Personal Selling, Innovation Capacity, and Distribution Effectiveness on the Marketing Performance of MSMEs with a Competitive Environment as a Moderation Variable

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**Abstract** This study aims to analyze the influence of personal selling, innovation capacity, and distribution effectiveness on the marketing performance of MSMEs, as well as the role of moderating the competitive environment. This study uses the Structural Equation Modeling (SEM) approach with 387 MSME respondents in Indonesia. The results showed that personal selling and innovation capacity had a positive and significant influence on marketing performance, while distribution effectiveness did not show a significant influence. The competitive environment plays a significant moderating variable on the influence of innovation capacity but does not moderate the relationship between personal selling and distribution and marketing performance. These findings indicate that to improve marketing performance, MSMEs need to focus on personal selling strategies and product innovation, especially in markets with a high level of competition. This research also provides recommendations for MSMEs to improve their distribution strategies and better adapt to the development of marketing technology.

**Keywords:** Personal selling, Innovation, Distribution, Marketing, MSMEs.

### 1. INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) play an important role in the national economy, especially in developing countries such as Indonesia (Wahyudi et al., 2024). They not only create jobs but also contribute greatly to the country's Gross Domestic Product (GDP). According to data from the Indonesian Ministry of Cooperatives and MSMEs, more than 60% of Indonesia's GDP comes from the MSME sector (Ramdlaningrum et al., 2022; Tambunan, 2024). However, with technological advances and increasingly dynamic changes in consumer behaviour, MSMEs face major challenges in maintaining and improving their marketing performance. In the context of marketing, marketing performance refers to the success of an effort in achieving marketing goals which is measured from various aspects, such as increased sales, market share, and consumer loyalty (Jung & Shegai, 2023). Optimal marketing performance is one of the factors that can ensure the sustainability of MSME businesses during increasingly fierce market competition (Purnamasari et al., 2024). Along with the times, marketing is no longer only about trying to sell products but also involves more complex strategies, such as increasing product innovation, direct selling (personal selling), and distribution effectiveness (Dwivedi et al., 2021).

One of the marketing strategies that is widely applied by MSMEs is personal selling (Bintari et al., 2021). Personal selling is a sales approach in which there is direct interaction between sellers and potential customers, intending to influence consumer purchase decisions personally (Firmansyah et al., 2019). In the context of MSMEs, personal selling is considered an effective method because MSME actors often have limitations in using expensive promotional media, such as advertisements on television or print media (Mutiah et al., 2024; Ramdlaningrum et al., 2022). Through personal selling, MSMEs can build closer relationships with consumers, understand their needs directly, and provide the right solutions for each of these needs. Research shows that personal selling has a significant influence on improving marketing performance, especially in building customer loyalty (Lukitaningsih et al., 2023; Nurlinda et al., 2023). This loyalty is very important for MSMEs, as retaining existing customers is often cheaper and more effective compared to attracting new customers. In addition, personal selling allows for two-way communication between sellers and buyers, so that complaints or special requests from customers can be handled quickly (Ananda, 2022; Mujianto et al., 2023). However, as competition in the market increases, personal selling alone may not be enough to ensure the success of MSMEs in the long term. There needs to be a combination with other factors, such as product innovation and distribution effectiveness, so that MSMEs can compete better (Hendra et al., 2022; Oktaria et al., 2024).

Product and service innovation is the key to the success of a business, including MSMEs (Akbarina et al., 2024). Innovation capacity refers to the ability of a business to create new products or services, improve existing products, or find new ways to run its business operations. Innovation is not only important to differentiate MSME products from competitors, but also to meet the evolving needs of consumers (Anzules-Falcones & Novillo-Villegas, 2023; Rochmah, 2020). In the context of marketing, innovation allows MSMEs to offer unique added value to their consumers. For example, innovations in the form of more attractive product packaging, better after-sales service, or even more flexible payment methods, can provide their appeal to consumers. In addition, with innovation, MSMEs can continue to grow and adapt to market changes (Maidah et al., 2023; Yeo et al., 2020; Zahrah, 2024). Without innovation, MSMEs are at risk of being left behind by competitors who are faster to adapt to change. Previous research has shown that innovation has a significant relationship with marketing performance (Farida & Setiawan, 2022; Octasyilva et al., 2022). High innovation capacity allows MSMEs to create more competitive products, increase customer satisfaction, and ultimately, drive increased sales and consumer loyalty (Ohara & Astutik, 2024). However, innovation capacity

must also be supported by an effective distribution strategy so that these innovative products can reach consumers on time and in optimal conditions (Mahmudah & Muhtarom, 2024).

One of the biggest challenges faced by MSMEs, especially those operating in remote areas or having limited access to infrastructure, is the distribution problem (Fathurrahman & Fitri, 2024). Distribution effectiveness refers to the ability of a business to ensure that its products can reach consumers in an efficient and timely manner (Ding et al., 2023). In the context of MSMEs, effective distribution is very important because most MSMEs do not have a wide distribution network like large companies (Arifin et al., 2021; Pedraza, 2021; Widjaja, 2024). Ineffective distribution can cause various problems, such as delays in delivery, product damage during the delivery process, to increased logistics costs which ultimately have an impact on the selling price of products. Therefore, MSMEs need to find ways to improve the effectiveness of their distribution to compete with larger businesses (Donyavi et al., 2024). Increasing the effectiveness of distribution can be done through various ways, such as establishing cooperation with third parties (third-party logistics), utilizing technology to monitor distribution channels, or even establishing distribution centres in strategic locations (Tiwari et al., 2023). By increasing the effectiveness of distribution, MSMEs can not only improve their marketing performance but also increase customer satisfaction because products can arrive quickly and in good condition (Susanti et al., 2023).

In addition to internal factors such as personal selling, innovation capacity, and distribution effectiveness, the competitive environment is also an external factor that affects the marketing performance of MSMEs (Agus et al., 2023; Srimulyani et al., 2023). The competitive environment refers to the market conditions in which MSMEs operate, including the intensity of competition between business actors, the market strength of competitors, and changes in consumer behaviour triggered by market dynamics (Tarihoran et al., 2023). In a highly competitive market, MSMEs often have to face large competitors who have greater resources, wider access to the market, and the ability to offer products at lower prices (Fathurrahman & Fitri, 2024; Hariyanti & Kristanti, 2024). Therefore, MSMEs need to be more careful in managing their marketing strategies to survive during fierce competition (Hendra et al., 2022; Sutrisno et al., 2023). The competitive environment can also act as a moderation variable that affects the relationship between personal selling, innovation capacity, distribution effectiveness, and marketing performance (Crick et al., 2024; Slater & Narver, 1994b). In a fiercely competitive environment, the impact of personal selling or innovation on marketing performance may be stronger, because MSMEs need to fight harder to retain customers and attract new customers (Muis et al., 2024; Natoil et al., 2023). Conversely, in a low-competition

environment, the impact of these factors may not be as significant, as MSMEs have more room to move without pressure from competitors (Bekti Karnowati et al., 2021; Yahaya & Nadarajah, 2023).

### **Research Questions**

Based on the description above, several research questions can be formulated as follows:

1. Does personal selling have a significant influence on MSME marketing performance?
2. How does innovation capacity affect the marketing performance of MSMEs?
3. Does distribution effectiveness play an important role in improving MSME marketing performance?
4. To what extent does the competitive environment moderate the influence of personal selling, innovation capacity, and distribution effectiveness on MSME marketing performance?

### **Research Objectives**

This study aims to test and analyze the influence of personal selling, innovation capacity, and distribution effectiveness on MSME marketing performance. In addition, this study also aims to identify the role of the competitive environment as a moderation variable in the relationship between these factors and the marketing performance of MSMEs.

### **Benefits**

This research is expected to contribute both theoretically and practically. Theoretically, this research is expected to enrich the literature on MSME marketing strategies, especially related to the influence of personal selling, innovation capacity, and distribution effectiveness. Practically, the results of this study are expected to provide recommendations to MSME actors in improving their marketing performance through the implementation of more effective strategies during increasingly fierce market competition.

### **Theoretical review**

#### **1. Marketing Performance Theory**

Marketing performance refers to the success of a company or venture in achieving marketing goals which is measured through various indicators such as market share, sales growth, consumer loyalty, and profitability level (Katsikeas et al., 2017). Marketing performance is considered a key measure in evaluating the effectiveness of the marketing strategy implemented by the company (Zahara et al., 2023). In the context of MSMEs, marketing performance is influenced by their ability to respond to market needs, competitiveness against competitors, and their ability to adjust marketing strategies according to the dynamics of the business environment (Natoil et al., 2023; Susanti et al., 2023). Kotler

and Keller state that marketing performance focuses not only on the end result such as sales, but also on the process of how the company builds relationships with customers, creates value, and maintains market share (Kotler & Armstrong, 2018). This is very important for MSMEs who often face limited resources in carrying out large-scale marketing activities.

Commonly used marketing performance indicators include:

- a. Sales growth.
- b. Customer satisfaction and loyalty.
- c. Marketing campaign effectiveness.
- d. Increased market share.

## 2. Personal Selling

Personal selling is one of the direct marketing strategies where salespeople interact face-to-face with potential customers to influence their purchase decisions (Adewale et al., 2019; Firmansyah et al., 2019). Personal selling allows companies to build a more personal relationship with customers, which in turn can increase customer loyalty and facilitate better communication between the company and consumers (Itani et al., 2019; Marlina et al., 2024). According to Lamb, Hair, and McDaniel (2011), personal selling has advantages in terms of flexibility, because salespeople can adjust the approach according to customer needs and preferences. In the context of MSMEs, personal selling is often used because small businesses usually rely more on direct interaction with customers, both in the form of on-site sales and through direct communication with regular customers (Yi et al., 2021).

The theory of personal selling emphasizes the importance of several stages in the sales process:

- a. Prospecting: Identifying potential customers.
- b. Approach: Approach and build initial relationships with potential customers.
- c. Presentation: Conveying product information and explaining its benefits in detail.
- d. Handling Objections: Addressing customer doubts or objections.
- e. Closing the Sale: Closing the transaction and getting a commitment from the customer.
- f. Follow-up: Maintain good relationships with customers to increase loyalty.

Previous research has shown that personal selling has a positive impact on marketing performance, especially in increasing sales and customer satisfaction. However, the effectiveness of personal selling relies heavily on the salesperson's ability to understand customer needs and offer the right solution (Adewale et al., 2019).

### 3. Innovation Capacity

Innovation capacity refers to a company's ability to create new products or services, as well as improve existing business processes to create added value for consumers. Innovation is one of the main factors that differentiate companies in an increasingly competitive environment (Moreira et al., 2024; Rajapathirana & Hui, 2018). According to Schumpeter (1934), innovation is the process of breaking down old ways of doing things and replacing them with new, more effective, and efficient methods (Callegari & Nybakk, 2022). Innovation capacity is measured through how well a company can adapt to market changes, introduce new products or services, and create better solutions for consumer needs. Innovation includes several aspects, such as product innovation, process innovation, technological innovation, and marketing innovation (Ahmed et al., 2020; Rajapathirana & Hui, 2018). In the context of MSMEs, innovation is essential to maintain competitiveness in the midst of changing markets and dynamic customer needs. Rogers (1995) in his theory of innovation diffusion, stated that the ability of companies to adopt and develop innovation is a determining factor in marketing success. MSMEs that have a high innovation capacity are better able to create unique products, adapt to market trends, and increase customer satisfaction, which ultimately contributes to improving marketing performance (Maksum et al., 2020; Sastradinata et al., 2024; Tryon, 2016).

### 4. Distribution Effectiveness

Distribution is a key element in marketing, which includes the process of how a product moves from the producer to the consumer. Distribution effectiveness refers to a company's ability to ensure products are available in the right place, at the right time, and in the right conditions, so that they can meet market demand (Czinkota et al., 2020; Stobbe, 2008). According to Kotler and Armstrong (2018), effective distribution is crucial in creating a competitive advantage, as products that are readily available to consumers will increase the chances of purchase (Kotler & Armstrong, 2018). Inefficient distribution can lead to a decrease in consumer satisfaction, as delays in delivery or poor product availability can negatively impact the consumer experience (Vrhovac et al., 2024).

In the context of MSMEs, the biggest challenge in distribution is the limitation of infrastructure and a wide distribution network. Many MSMEs do not have access to large distribution channels as large companies do, so they need to find ways to ensure that their products remain accessible to consumers, for example by partnering with third-party logistics service providers or using online platforms for product distribution (Kuleh et al., 2023; Yanurida & Istania, 2023; Yoshino, 2016). Distribution effectiveness also plays an important

role in reducing operational costs and improving business efficiency. Efficient distribution allows products to get to market at lower costs, faster times, and less risk of product damage (Yaiprasert & Hidayanto, 2024).

## 5. Competitive Environment

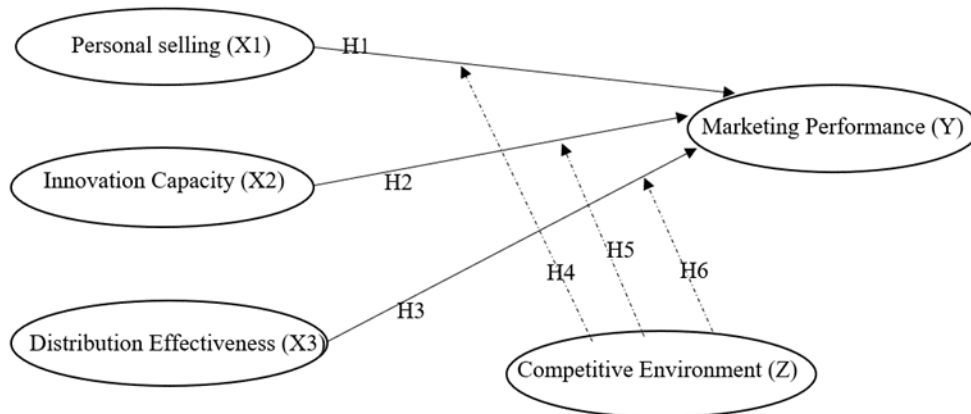
The competitive environment is an external factor that includes the market conditions in which the company operates, including the level of competition between business actors, the market strength of competitors, as well as changes in consumer preferences. The competitive environment affects the strategies that companies must take to survive and grow in the market (Crick et al., 2024; Farida & Setiawan, 2022).

According to Porter (1980) in the Five Competitive Forces model, competition in the market can come from several sources (Juhari et al., 2018; Omsa, 2017):

- a. Competition among existing companies: The more competitors there are in the market, the tougher the competition faced by the company.
- b. Threat of new entrants: The potential entry of new competitors into the market can increase the intensity of competition.
- c. Threat of substitute products: The presence of alternative products or services can reduce a company's market share.
- d. Supplier's bargaining power: The greater the supplier's power in controlling the price and supply of raw materials, the higher the pressure the company faces.
- e. Buyers' bargaining power: Consumers who have a lot of options can put pressure on the price and quality of the product.

The increasingly fierce competitive environment forces MSMEs to continue to innovate and find ways to differentiate their products from competitors. During intense competition,

MSMEs need to be more flexible in responding to changes in market demand and must be able to manage operational costs efficiently.



**Figure 1** Conceptual Framework

Based on the formulation of the problem that has been submitted, the following are hypotheses that can be proposed:

- H1: Personal Selling has a positive and significant influence on MSME Marketing Performance.
- H2: Innovation Capacity has a positive and significant influence on MSME Marketing Performance.
- H3: Distribution Effectiveness has a positive and significant influence on the Marketing Performance of MSMEs.
- H4: The Competitive Environment moderates the influence of Personal Selling on MSME Marketing Performance.
- H5: The Competitive Environment moderates the influence of Innovation Capacity on MSME Marketing Performance.
- H6: The Competitive Environment moderates the influence of Distribution Effectiveness on MSME Marketing Performance.



## 2. RESEARCH METHODS

This study uses the Structural Equation Modeling (SEM) approach to test the influence of Personal Selling, Innovation Capacity, and Distribution Effectiveness on MSME Marketing Performance, as well as examine the role of moderation in the Competitive Environment (Larios-Francia & Ferasso, 2023). SEM was chosen because it can analyze complex relationships between variables and allows the testing of research models with multiple independent, dependent, and moderate variables simultaneously.

### 1. Research Design

This study uses a causal research design that aims to examine the cause-and-effect relationship between variables. SEM allows simultaneous analysis of multiple causal relationships and moderation in a structured manner, resulting in more comprehensive and accurate research results.

### 2. Population and Sample

- a. Population: The population of this study is MSME actors in Indonesia who are engaged in various industrial sectors and apply marketing strategies based on personal selling and product innovation.
- b. Sample: Sample determination using purposive sampling with the following criteria:
  - 1) MSMEs that have been operating for at least 2 years.
  - 2) MSMEs that have a marketing strategy that prioritizes personal selling.
  - 3) MSMEs that implement innovation in their products or services.
  - 4) MSMEs that use a structured distribution network.

The sample size was determined using the minimum rule for SEM, which is 387 respondents. SEM requires an adequate sample size so that the model estimation results are more stable and can be generalized.

### 3. Instrument and Measures

Data were collected using a questionnaire with a Likert scale of 5 points (1 = strongly disagree, 5 = strongly agree). The variables measured include:

- Personal Selling: Measured by several items such as the frequency of direct interaction with customers, the effectiveness of salespeople, and the ability to build relationships with customers.
- Innovation Capacity: Measured through items related to product development, the level of adaptation to market changes, and the creation of innovations.

- Distribution Effectiveness: Measured through indicators of delivery timeliness, product availability in the market, and logistics efficiency.
- Competitive Environment: Measured based on the intensity of market competition, the number of competitors, and the ability of MSMEs to compete.
- Marketing Performance: Measured by indicators of increased sales, customer satisfaction, and market share growth.

#### 4. Data Analysis

The data analysis process is carried out through the following SEM stages:

##### a. Uji Asumsi SEM:

- Normality: To ensure that the distribution of data follows the normal distribution, a multivariate normality test is performed using skewness and kurtosis.
- Multicollinearity Test: Uses Variance Inflation Factor (VIF) to ensure that there is no multicollinearity relationship between independent variables.
- Outliers: Outlier detection is done using Mahalanobis Distance.

##### b. Measurement Model: In SEM, the initial stage is to perform a Confirmatory Factor Analysis (CFA) to ensure that each construct (latent variable) is validly measured by its indicators. CFA is used to test the validity and reliability of research instruments.

- Construct Validity: Measured through a loading factor (standard  $> 0.5$ ) to ensure that each indicator can reflect the latent variable well.
- Construct Reliability: Measured using Composite Reliability (CR) and Average Variance Extracted (AVE). A CR value of  $> 0.7$  and an AVE of  $> 0.5$  indicates good reliability.

##### c. Structural Model: After the measurement model is declared valid and reliable, the structural model is estimated to test the causal relationship between the variables. The structural model was tested by estimating the value of the path coefficient and statistical significance (p-value).

- Direct Effects: Testing the direct relationship between Personal Selling, Innovation Capacity, and Distribution Effectiveness to Marketing Performance.
- Moderation Effect: To examine the effect of moderation of the Competition Environment on the relationship between independent variables and Marketing Performance.

d. Goodness-of-Fit Test: SEM requires several measures of model fit to ensure the estimated model matches the data. Some of the match sizes used include:

- Chi-Square ( $\chi^2$ ): Smaller values indicate a better match.
- Goodness of Fit Index (GFI): A  $\geq$  value of 0.90 indicates a good fit.
- Comparative Fit Index (CFI): A value of  $\geq$  0.90 indicates a fit model.
- Root Mean Square Error of Approximation (RMSEA): A  $\leq$  value of 0.08 indicates a good match.

#### 5. Path analysis: direct hypothesis result

Hypothesis testing is carried out based on t-statistics and p-value values. The hypothesis is accepted if the p-value  $< 0.05$  which indicates that the relationship between the variables is significant. Hypothesis testing involves. TIPE MODERASI: 1. PURE MODERASI : (b2 non significant); (b3 significant) 2. QUASI MODERASI: (b2 significant); (b3 significant) 3. POTENSI MODERASI: (b2 non significant); (b3 non significant) 4. PREDIKTOR MODERASI: (b2 significant); (b3 non significant)

### 3. RESULTS AND DISCUSSION

There are three measurement criteria, namely Convergent Validity, Validity of Discrimination, and Composite Validity, the measure of individual reflection is said to be high if it correlates more than 0.7 with the constructed being measured. However, according to Chin as quoted by (Ghozali & Latan, 2015), an outer loading value between 0.5 – 0.6 is considered sufficient to meet the convergent validity requirements.

Table 1. Confirmatory factor Analisis of the measurement model

Constructs and Scale items	Item Code	Factor Loading	CR	AVE	Cronbach's Alpha
Personal Selling					
Salespeople are friendly and introduce themselves to consumers	PSX1.1	0.646	0.894	0.585	0.861
Salespeople provide information about the product	PSX1.2	0.806			
Salespeople provide catalogues and explain product advantages to consumers	PSX1.3	0.779			
Salespeople can provide solutions to consumer complaints about products	PSX1.4	0.807			
Salespeople can influence consumers to make purchases	PSX1.5	0.758			
Salespeople inform consumers to submit complaints to customer service	PSX1.6	0.779			
Innovation Capacity					

Constructs and Scale items		Item Code	Factor Loading	CR	AVE	Cronbach's Alpha
I think MSMEs have innovation in organizational culture	KIX2.1	0.806	0.912	0.635	0.892	
I think MSMEs use knowledge from different resources	KIX2.2	0.807				
I think MSMEs prioritize employee and customer involvement	KIX2.3	0.822				
Each business actor must understand the existing values and how they must behave or behave.	KIX2.4	0.638				
Business actors must know, the information they can get to gain understanding, learning, and experience.	KIX2.5	0.852				
Customers who feel engaged will be more likely to buy, promote, and show their loyalty to a single product or brand.	KIX2.6	0.838				
<b>Distribution Efficacy</b>						
My business has close access to the highway	ESX3.1	0.693	0.945	0.590	0.936	
In the delivery of our products on time	ESX3.2	0.769				
Our product variety is diverse	ESX3.3	0.769				
If any product is expired, we will replace it immediately	ESX3.4	0.663				
Cooperation between outlets is well-established	ESX3.5	0.755				
The service at the outlet is very friendly and good	ESX3.6	0.816				
We accept criticism and suggestions about shipping	ESX3.7	0.813				
My business has a large location	ESX3.8	0.787				
My business has a clean environment.	ESX3.9	0.842				
My business has a safe and comfortable environment	ESX3.10	0.839				
My business has a private vehicle for the delivery of goods.	ESX3.11	0.759				
My business has more than one unit of vehicle as a means of transportation for the delivery of goods	ESX3.12	0.690				
<b>Marketing Performance</b>						
The frequency (number of times) the distributor has a relationship with the outlet.	KPY1.1	0.774	0.925	0.606	0.907	
How many years has an outlet (outlet owner or orderer) sold the company's products purchased from the company	KPY1.2	0.849				
How much trust the outlet has in salespeople or other field officers of the company	KPY1.3	0.792				
How many visits are made to consumers	KPY1.4	0.802				
Payment period given to consumers	KPY1.5	0.810				
Policy for consumers to return purchased goods	KPY1.6	0.767				
Salesperson's ability to master the product	KPY1.7	0.718				
The percentage of sales growth that a company generates by comparing sales in a particular year with the previous year	KPY1.17	0.707				
<b>Competitive Environment</b>						

Constructs and Scale items	Item Code	Factor Loading	CR	AVE	Cronbach's Alpha
Many new producers have almost the same product	LPZ1.1	0.754	0.933	0.665	0.915
Raw material prices continue to increase	LPZ1.2	0.774			
There is no availability of substitute raw materials	LPZ1.3	0.791			
Changes in regulations from the government	LPZ1.4	0.863			
The abundance of similar products on the market	LPZ1.5	0.852			
The price competition is very tight	LPZ1.6	0.872			
There are rules in the community	LPZ1.7	0.794			

Source: Data processed in 2024

Based on the results of the confirmatory factor analysis (CFA) listed in Table 1 on the measurement model, several important findings were obtained. In the Personal Selling construct, Cronbach's Alpha value of 0.861 and Composite Reliability (CR) of 0.894 indicate good reliability and measurement consistency. All loading factors are above 0.6, with an AVE of 0.585, which indicates that the convergence validity has been well met. Furthermore, in the Innovation Capacity construct, an excellent reliability value is shown by Cronbach's Alpha of 0.892 and CR of 0.912. The loading factor ranges from 0.638 to 0.852, and the AVE is 0.635 which indicates that this construct can explain more than 63% of the variances. In the Distribution Effectiveness construct, the reliability results were very high with Cronbach's Alpha values of 0.936 and CR of 0.945, indicating excellent consistency in measurements. The loading factor of all items above 0.6 and an AVE of 0.590 also indicates that convergent validity is met. Meanwhile, the Marketing Performance construct has excellent reliability with Cronbach's Alpha of 0.907 and CR of 0.925, as well as good convergence validity with AVE of 0.606. All items in this construct contribute positively to their measurements. Finally, in the Competitive Environment construct, Cronbach's Alpha value of 0.915 and CR of 0.933 indicate an excellent level of reliability. The loading factor is above 0.7 with an AVE of 0.665, indicating good convergence validity. Overall, all the constructs in this measurement model show good reliability and validity, which means that the instrument can accurately and consistently measure each construct studied.

Table 2. R Square

	R Square	R Square Adjusted
Kinerja Pemasaran (Y)	0.725	0.720

Source: Data processed in 2024

Nilai R Square Adjusted sebesar 0,720 menunjukkan bahwa setelah menyesuaikan dengan jumlah variabel independen dalam model, 72,0% variasi dalam Kinerja Pemasaran masih dapat dijelaskan. Penyesuaian ini mengurangi bias yang mungkin muncul karena penambahan variabel yang tidak signifikan. berdasarkan Nilai R Square Adjusted maka dapat disimpulkan jika variabel endogen mampu menjelaskan variabel eksogen sehingga model dapat diterima.

Table 3. Fit Summary

	Saturated Model	Estimated Model
SRMR	0.064	0.064
d_ ULS	3.219	3.182
d_ G	1.305	1.306
Chi-Square	2759.750	2750.695
NFI	0.775	0.775

Source: Data processed in 2024

Based on the results of the model evaluation using several goodness-of-fit indexes, several things can be concluded. The SRMR (Standardized Root Mean Square Residual) value in the estimated model and the saturated model is the same, which is 0.064, which indicates that the model has a good fit because the SRMR value is below the threshold of 0.08. In addition, the d\_ ULS (Squared Euclidean Distance) value in the saturated model was 3.219 and in the estimated model was 3.182, as well as the d\_ G (Geodesic Distance) value was almost the same (1.305 in the saturated model and 1.306 in the estimated model), indicating that the difference between the two models was not significant, so the estimated model was quite good in representing the data. The Chi-Square value in the saturated model of 2759.750 and the estimated model of 2750.695 indicates that the difference between the two models is very small, so the estimated model is close to the saturated model. The same NFI (Normed Fit Index) value on both models, which is 0.775, indicates that this model has a moderate fit level as it is close to a value of 0.8, although it is not in the high fit category (usually above 0.9). Overall, the estimated model has a fairly good fit with the data, although there is still room for improvement on some fit indices such as the NFI that have not yet reached the ideal number.

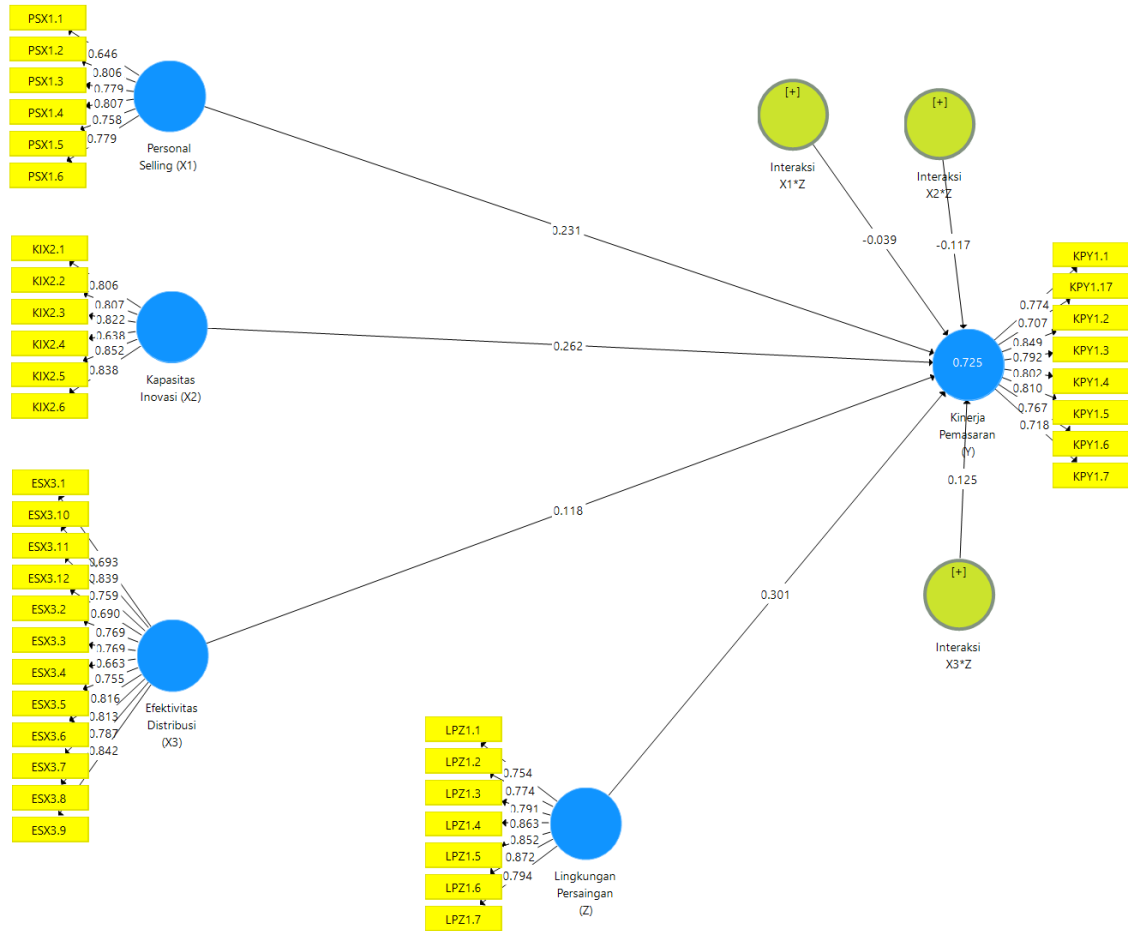


Figure 2. Model Path MSEM

Source: Output PLS 2024

Table 4. Test of Hypothesis of Relationship between Variables

	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Result
Personal Selling (X1) -> Marketing Performance (Y)	0.231	4.082	<b>0.000</b>	Accepted
Innovation Capacity (X2) -> Marketing Performance (Y)	0.262	4.012	<b>0.000</b>	Accepted
Distribution Effectiveness (X3) -> Marketing Performance (Y)	0.118	1.587	<b>0.113</b>	Rejected
Competitive Environment (Z) -> Marketing Performance (Y)	0.301	4.307	<b>0.000</b>	Accepted

Source: Primary data processed 2024

Based on the results of the hypothesis test in Table 3, there are several important findings regarding the relationship between variables:

1. Personal Selling (X1) -> Marketing Performance (Y):

The Original Sample (O) value was 0.231 with a T-statistic of 4.082 and a P value of 0.000, indicating that the influence of personal selling on marketing performance was significant. With a very small P value (< 0.05), the hypothesis is accepted, which means that personal selling has a significant positive impact on marketing performance.

2. Innovation Capacity (X2) -> Marketing Performance (Y):

The innovation capacity has an Original Sample (O) of 0.262 with a T-statistic of 4.012 and a P value of 0.000. This shows that innovation capacity has a significant positive influence on marketing performance. The hypothesis is accepted, and it confirms that high innovation in the company can improve marketing performance.

3. Distribution Effectiveness (X3) -> Marketing Performance (Y):

The relationship between distribution effectiveness and marketing performance showed an Original Sample (O) of 0.118, a T-statistic of 1.587, and a P value of 0.113. Since the P value is greater than 0.05, the hypothesis is rejected, suggesting that the effectiveness of distribution has no significant effect on marketing performance in this model.

4. Competitive Environment (Z) -> Marketing Performance (Y):

The competitive environment showed a significant influence on marketing performance with the Original Sample (O) of 0.301, the T-statistic of 4.307, and the P value of 0.000. This hypothesis is accepted, which means that the higher the competition in the environment, the greater the influence it has on improving marketing performance.

Table 5. Variable Path Coefficients of Moderation

	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Result
X1*Z Interaction -> Marketing Performance (Y)	-0.039	0.832	<b>0.405</b>	Rejected
X2*Z Interaction -> Marketing Performance (Y)	-0.117	2.276	<b>0.023</b>	Accepted
X3*Z Interaction -> Marketing Performance (Y)	0.125	1.767	<b>0.078</b>	Rejected

Source: Primary Data processed in 2024



Based on the results in Table 4 which shows the analysis of the coefficient of the moderation variable path, here is the interpretation:

1.  $X1*Z$  (Personal Selling) Interaction  $\rightarrow$  Marketing Performance (Y):

The Original Sample (O) was -0.039 with a T-statistic of 0.832 and a P value of 0.405. Because the P value is greater than 0.05, the interaction between personal selling and the competitive environment has no significant effect on marketing performance. Thus, this hypothesis is rejected.

2.  $X2*Z$  Interaction (Innovation Capacity \* Competitive Environment)  $\rightarrow$  Marketing Performance (Y):

The Original Sample (O) was -0.117 with a T-statistic of 2.276 and a P value of 0.023. Because the P value is less than 0.05, the interaction between innovation capacity and the competitive environment has a significant effect on marketing performance. This hypothesis is accepted, suggesting that the competitive environment moderates the influence of innovation capacity on marketing performance.

3.  $X3*Z$  Interaction (Distribution Effectiveness \* Competitive Environment)  $\rightarrow$  Marketing Performance (Y):

The Original Sample (O) was 0.125 with a T-statistic of 1.767 and a P value of 0.078. Since the P value is greater than 0.05, the interaction between the effectiveness of the distribution and the competitive environment is not significant. This hypothesis is rejected, suggesting that the competitive environment does not moderate the relationship between distribution effectiveness and marketing performance.

#### **4. DISCUSSION**

##### **Personal Selling has a positive and significant influence on the Marketing Performance of MSMEs.**

Personal selling is one of the direct marketing strategies where salespeople interact face-to-face with potential customers. A relevant theory comes from (Kotler & Armstrong, 2018), which state that personal selling can increase consumer loyalty and sales through a close personal relationship between sellers and customers. Personal selling allows for more effective two-way communication, as well as providing an opportunity for salespeople to tailor their approach to each consumer's individual needs (Obeten et al., 2023). In this study, personal selling is measured through several indicators, such as the frequency of interaction between salespeople and customers, the ability of salespeople to convey product information, and their

ability to handle complaints and build long-term relationships with consumers (Crosby et al., 1990; Terho et al., 2022).

Previous research has shown that personal selling contributes significantly to increased sales and consumer loyalty (Belinda & Subagyo, 2023; Fortunata et al., 2023). This is also consistent with the results of this study, where personal selling has been proven to have a significant influence on the marketing performance of MSMEs. The personal relationship between the seller and the customer allows for greater trust, which in turn increases consumer satisfaction and loyalty. These findings support the importance of personal selling for MSMEs, especially due to their limited resources to conduct large-scale marketing campaigns such as advertisements in print or television media (Kurniadi & Rana, 2023; Udayana et al., 2021). Personal selling provides flexibility for MSMEs to personalize their messages, making them more effective in building long-term relationships with customers.

### **Innovation Capacity has a positive and significant influence on MSME Marketing Performance.**

Innovation capacity refers to a company's ability to develop new products or services, as well as improve existing operational processes. Schumpeter (1934) in innovation theory states that innovation is the key to creating added value and gaining a competitive advantage in the market (Callegari & Nybakk, 2022). Rogers (1995) also explained that innovation plays an important role in the diffusion of new products in the market, which can help companies attract and retain customers (Dibra, 2015). Innovation capacity is measured based on indicators such as the ability of MSMEs to develop new products, improve business processes, and adapt to market changes. The focus of measurement lies in how well MSMEs can meet consumer needs through product and service innovation they offer (Hanfan, 2021; Kaukab, 2024; Prakasa et al., 2022).

Research conducted by Calantone, Cavusgil, and Zhao (2002) shows that innovation has a direct influence on improving marketing performance (Saunila, 2020; Vijande et al., 2022). The innovations carried out by companies allow them to compete better in a competitive market, as well as provide unique added value to consumers. The results of this study support previous research that shows that innovation plays an important role in improving marketing performance (Huang, 2023). MSMEs that can innovate in their products and services are better able to attract new consumers and retain existing customers, especially in a constantly changing and dynamic market. Innovation is a significant differentiating factor, helping MSMEs compete with larger companies (Maidah et al., 2023; Zahrah, 2024).

### **Distribution Effectiveness has a positive and significant influence on MSME Marketing Performance.**

Distribution effectiveness includes the ability of companies to ensure that their products reach consumers in an efficient and timely manner (Kotler & Armstrong, 2018). In the context of MSMEs, effective distribution is very important because limited infrastructure or a wide distribution network can be an obstacle to reaching consumers. Distribution effectiveness is measured through indicators such as delivery timeliness, product availability in the market, and efficiency in the logistics process. MSMEs often have to rely on cooperation with third parties or use technology to improve the effectiveness of their distribution. Previous research has shown that effective distribution can increase customer satisfaction and increase sales (Mahmudah & Muhtarom, 2024). However, the results of this study show that the effectiveness of distribution does not have a significant effect on the marketing performance of MSMEs. The rejection of this hypothesis may be due to the limited infrastructure conditions in many regions where MSMEs operate. While effective distribution is important, challenges such as logistical limitations or access to markets can reduce the impact of distribution on marketing performance. Therefore, for MSMEs, the distribution factor may not be as strong as innovation or personal selling in directly influencing marketing performance.

### **The Competitive Environment moderates the influence of Personal Selling on MSME Marketing Performance.**

The competitive environment reflects the intensity of competition in the market, which can affect the effectiveness of a company's marketing strategy. Porter (1980) stated that in a market with fierce competition, companies must be more aggressive in using marketing strategies to maintain their market share. The competitive environment is measured through indicators such as the number of competitors, the strength of the competitor's market, and changes in government regulations that affect the operations of MSMEs (Galvin et al., 2020; Porter, 1991). Research by (Slater & Narver, 1994a; Zhang et al., 2020) shows that the competitive environment can moderate the relationship between marketing strategy and company performance. However, in this study, the competitive environment does not moderate the influence of personal selling on the marketing performance of MSMEs. The rejection of this hypothesis suggests that, despite the increasingly competitive environment, personal selling still has a constant influence on marketing performance. Personal selling may depend more on salespeople's ability to build personal relationships with customers than on external market conditions.

### **The Competitive Environment moderates the influence of Innovation Capacity on MSME Marketing Performance.**

Innovation is often more needed in a competitive market to create differentiation and maintain a competitive advantage. The innovation diffusion theory by Rogers (1995) emphasizes the importance of innovation in expanding market share and retaining customers. The interaction between innovation capacity and the competitive environment is measured to see whether the intensity of competition strengthens or weakens the influence of innovation on marketing performance (Vagnani & Volpe, 2017). Previous research by (Huang, 2023; Hurtado-Palomino et al., 2022) showed that innovation has more impact on company performance in a competitive environment. The results of this study are consistent with these findings, where the competitive environment moderates the influence of innovation capacity on marketing performance. These results show that in a highly competitive environment, innovation is becoming increasingly important to win the competition. MSMEs that can innovate are more likely to survive and thrive in a tight market, as innovation allows them to offer products that are more in line with consumer needs and different from competitors.

### **The Competitive Environment moderates the influence of Distribution Effectiveness on MSME Marketing Performance.**

Effective distribution is becoming increasingly important in a highly competitive environment, where consumers have a lot of choices and demand fast and efficient delivery (Kotler & Armstrong, 2018). The interaction between distribution effectiveness and the competitive environment was measured to see if the competitive environment strengthened the relationship between effective distribution and marketing performance. Previous Research: Several studies have shown that effective distribution can provide a competitive advantage in highly competitive markets (Garrido-Vega et al., 2023; Handoyo et al., 2023). However, in this study, the moderation of the competitive environment was not significant. The rejection of this hypothesis suggests that while effective distribution is important, its effect on marketing performance may not be moderated by the competitive environment. This can be attributed to the fact that distribution is only one of the many factors that affect marketing performance in a highly competitive environment, and perhaps the role of distribution is more pronounced on the operational aspect than directly on improving marketing performance.

## **5. CONCLUSION**

The results of this study show that personal selling and innovation capacity have a positive and significant influence on the marketing performance of MSMEs. Personal selling helps improve personal relationships with consumers, while innovation capacity drives the creation of more competitive products. On the other hand, distribution effectiveness does not show a significant influence on marketing performance. The competitive environment moderates the influence of innovation capacity on marketing performance but does not moderate the relationship between personal selling and distribution and marketing performance.

### **Implications and Outlook**

This research provides insight that MSMEs need to focus on improving personal selling strategies and innovation capacity to improve marketing performance, especially during fierce market competition. Consistent innovation and effective personal selling will help MSMEs compete with larger companies and attract new customers while retaining existing ones. The prospect is that MSMEs that successfully adopt this approach will be better able to survive and thrive in an era of increasingly dynamic competition. In addition, the importance of more effective distribution must still be considered, although this study did not show a significant influence, because good distribution will support the speed of product access to consumers.

### **Research Limitations and Further Studies**

This study has several limitations, including limited sample coverage for MSMEs in Indonesia, which may not be representative of conditions in other countries. In addition, the insignificant distribution effectiveness in this study can be caused by infrastructure factors that have not been sufficiently taken into account. Further studies could expand on this research by taking into account additional variables such as digitalization of distribution or more complex logistics partnerships. The next study can also explore the influence of growing digital marketing strategies on MSMEs and their marketing performance.

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