

# THE INFLUENCE OF PRODUCT INNOVATION, HR COMPETENCE, AND MARKETING PERFORMANCE ON THE FINANCIAL PERFORMANCE OF MSMEs IN THE AGRICULTURAL

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## Abstract

**Background:** Many MSMEs are switching to online businesses and utilizing digital technology to maintain their businesses.

**Purpose:** This study aims to determine and examine the effect of product innovation, HR competency, and marketing performance on the financial performance of MSMEs in the Agricultural Sector in Semarang City after the Covid-19 pandemic with digitalization as a mediating variable.

**Design/methodology/approach:** This study uses quantitative methodology and a causal associative approach. Data was collected through an online questionnaire distributed to MSME owners in the Agricultural Sector via WhatsApp, with questions filtered based on respondent characteristics. The sampling technique used was random sampling. The number of samples in this study was 150 business owners. Data analysis used partial least squares-structural equality modeling (PLS-SEM).

**Findings/Results:** The results of this study indicate that product innovation, marketing performance, and digitalization have a significant effect on financial performance. Meanwhile, HR competency has had no significant effect on the financial performance of MSMEs in the Agricultural Sector in Semarang City after the COVID-19 pandemic. Digitalization has been proven to mediate the influence of product innovation, HR competency, and marketing performance on the financial performance of MSMEs in the Agricultural Sector in Semarang City.

**Conclusion:** Product innovation, marketing performance, and digitalization have a significant effect on financial performance. Meanwhile, HR competency has not had a significant effect on the financial performance of MSMEs in the agricultural sector in Semarang City since the COVID-19 pandemic. Digitalization is proven to mediate the influence of product innovation, HR competency, and marketing performance on the financial performance of MSMEs in the Agricultural Sector in Semarang City.

**Originality/value (State of the art):** State of the art in the era of digital transformation. Given that digitalization is increasingly becoming an important part of the global economy, this study is relevant to the current trend of digital technology adoption by MSMEs. This study can broaden the understanding of how small and medium-scale MSMEs can utilize digitalization to improve their competitiveness and financial performance, which is a growing research area globally.

**Keywords:** digital transformation, HR competency, marketing performance, MSME finance, product innovation

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## INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a crucial role in driving economic growth. They contribute greatly to increasing productivity and economic performance (Chatra et al. 2024). According to data from the Indonesian MSME Association (Akumindo), before the Covid-19 pandemic, MSMEs contributed around 60% of the Gross Domestic Product (GDP). However, the COVID-19 pandemic had a major impact on the MSME sector due to the social and economic restrictions implemented by the government (Afkar & Fauziah, 2023; Riyanti & Harta, 2023). However, MSMEs have proven to be a sector that adapts quickly to pandemic conditions, with many turning to online businesses and utilizing digital technology to survive (Setyawati et al. 2023). Based on data from the Indonesian BDS Association (2020) in Handayani et al. (2021), only 3.6% of MSMEs experienced an increase in sales during the pandemic, while 55.2% experienced a decline, 4.5% were stagnant, and 36.7% recorded no sales at all. The Bank Indonesia Survey (2020) also showed a sharp decline in MSME performance with negative credit growth of -1.18%. In 2021, MSME growth only increased by 0.4%, slightly better than before the pandemic, but this increase was not significant (databoks.katadata.co.id, 2021). MSME income decreased by 84.20% as a result of the social restriction policy. A rapid study from LIPI (2020) in Maduwiyanti & Andayani, (2021) noted that 94.69% of MSMEs experienced a decline in sales, with declining operating profits due to high production costs and low sales.

The scientific status of this research. Research on product innovation, human resource (HR) competency, marketing performance, and financial performance of MSMEs with digitalization as a mediating variable is a relevant topic in the current era of digital transformation. The global trend toward digitalization has driven an increasing number of studies focusing on how MSMEs can utilize digital technology to improve their competitiveness (Muliadi, 2021). However, many studies still focus on the direct influence of digitalization on financial performance, with few examining the role of digitalization as a mediating variable in linking aspects such as product innovation, HR competency, and marketing performance with financial performance. In this context, this research enters into a growing discourse, especially in management and business research, regarding the adoption of digital technology

by MSMEs. Wicaksono et al. (2023), the creation of high performance certainly has factors that influence it. Entrepreneurship for MSMEs is the ability to be creative, realize innovation, and take advantage of opportunities for success (Sanawiri & Iqbal, 2018 in Hasanah et al. 2024). One of the strategic criteria for business development is increasing educational content through digital marketing on social media (Putri et al. 2024). This digitalization is very beneficial for MSME owners, especially in marketing and making online sales (Irianto et al. 2022). This is one alternative solution to developing MSMEs in the future. Similar research was also conducted by Febriyantoro & Arisandi (2018) which explained that MSME actors said that the use of digitalization in online marketing and sales helps MSMEs to inform and interact directly with consumers. Purwana et al. (2017) explained that digital marketing is an MSME effort to introduce a brand using digital media that can appropriately reach MSME consumers. Digital transformation and breakthrough innovations that contain concern for the environment (Sijabat & Hardianawati, 2024). Sudirjo (2023), companies that succeed in making breakthroughs in green innovation have the opportunity to offer new products that have not been offered by their competitors, thereby increasing their competitive advantage.

The position of this research towards previous research is: (1) Previous research on Product Innovation and Financial Performance. This research extends previous research by examining how digitalization can strengthen the effect of product innovation on MSME financial performance. (2) Research on HR Competence. This study places digitalization as a mediating variable, suggesting that HR competence supported by effective digitalization will have a greater impact on financial performance. (3) Marketing Performance and Digitalization. This research brings a new perspective by showing how marketing digitalization can play an important role in strengthening the influence of marketing performance on MSME financial results. (4) Digitalization as a Mediating Variable. This study contributes by showing how digitalization can link various internal factors (innovation, HR, marketing) with financial performance. This provides added value in MSME management research in the digital era. Research Contribution. This study fills a gap in the literature by offering a more comprehensive model involving the mediating role of digitalization, which has not been widely explored empirically in MSMEs at the local level such as Semarang City. By focusing

on this variable, this study adds to the scientific discourse on how MSMEs can more effectively use digitalization as a strategic tool in improving financial performance, through increasing product innovation, HR competency, and marketing performance.

The problem-solving approach in this study is in the following steps: (1) Theoretical and Conceptual Approach. (2) Data Analysis - Mediation Model. Testing Direct Effect and Indirect Effect (Mediation). This study aims to examine the influence of product innovation, HR competence, and marketing performance on the financial performance of MSMEs in the Agricultural Sector in Semarang City after the Covid-19 pandemic with digitalization as a mediating variable

## METHODS

This research was conducted in Semarang City in 2023. The research uses a quantitative and causal associative approach. Primary data are collected directly by researchers through surveys. The sample was selected using random sampling, which is a type of probability sampling that ensures that everyone in the target population has an equal chance of being selected. To produce a representative sample of the entire population of 250 MSME business actors, this random sampling was carried out based on the Slovin formula, so that the number of samples in this study was 150 MSME business actors. The Likert scale was used in this study as a measurement instrument, and each respondent's response was assessed on a 4-level scale. Online questionnaires were sent to MSME actors via WhatsApp with questions filtered based on respondent characteristics. The data analysis technique uses Partial Least Squares-Structural Equation Modeling (PLS-SEM). Instrument tests include convergent validity, discriminant, and AVE tests in addition to composite reliability and Cronbach's alpha. The technique used in data analysis is Structural Equation Modeling (SEM), which can analyze latent variables, indicator variables, and measurement errors directly. There are two stages in using the PLS evaluation model, namely the outer model or measurement model and the inner model or structural model. If the probability value  $\leq \alpha$  (0.05) and the t-statistic value  $\geq t$ -table (1.96), then the test criteria are applied to ensure whether the exogenous variable has a significant effect on the endogenous variable.

## Impact of Product Innovation on the Financial Performance of MSMEs

Sudjatmoko et al. (2023), innovation strategy is very important for the survival and growth of an organization because it drives the expansion and growth of the company and increases its prospects for future success. Competitive pressures force business actors to continue to innovate to maintain their business because competitors will try to imitate their innovations (Desmiyawati et al. 2023). In addition, innovation can be generated through the development of simple but effective marketing strategies or by cutting production costs while maintaining product quality. Innovation is not only limited to operational procedures but also extends to the physical design of the product (Pusung et al. 2023). Research by Chaniago (2022); Chatra et al. (2024), Dewantoro et al. (2023), Yanti et al. (2024), product innovation affects financial performance. H1: product innovation affects financial performance.

## The Influence of HR Competence on MSME Financial Performance

One of the main components that can be used to improve the professionalism of MSMEs is human resources. This is because individual participation in running a business in a business unit affects it (Sunarti et al. 2023). However, HR is also a key component that allows MSMEs to take advantage of the potential for product innovation to develop and improve the quality of their goods by estimating consumer demand (Ahmad & Fatmawati, 2023). Sales growth, capital growth, recruiting more people each year, market and marketing growth, and growth in operating profit/profit are metrics used to assess performance (Safkaur & Sagrim, 2019). Research by Costa & Xiongying (2021); Sunarti et al. (2023), Zakaria et al. (2018) that HR competence does not affect the financial performance of MSMEs. H2: HR competence does not affect the financial performance of MSMEs.

## The Influence of Marketing Performance on MSME Financial Performance

Marketing performance is the third element that influences the financial performance of MSMEs. This flexibility is an important marketing tool to meet changing consumer demands and improve business results (Natoil et al. 2023). MSMEs must be able to improve their marketing performance and ultimately

gain a competitive advantage by combining marketing innovation (Sumaryanto & Widajanti, 2023). The design of the compensation package is one of the factors that motivate people to give the best performance for the company, (Wijaya et al. 2023). According to (Haris, 2023), digital marketing strategies, such as social media platforms and websites, have become a practical choice for MSMEs with limited promotional resources. Mulyadi et al. (2021); Haris (2023); Marjukah (2022), marketing performance influences financial performance. H3: marketing performance influences the financial performance of MSMEs.

### **The Impact of Digitalization on MSME Financial Performance**

MSMEs will benefit from digitalization because they can become more competitive and able to adapt to market and economic changes. Digitalization is also a dynamic capability that allows MSMEs to continue to adapt and innovate, provide competitive advantages, and improve performance sustainably. Through digitalization, MSMEs can more quickly understand changes in consumer behavior, market trends, and business dynamics. Research by Satrianto et al. (2023); Desmiyawati et al. (2023); Nur & Made (2024) that digitalization has a significant impact on MSME performance. H4: digitalization has an impact on MSME financial performance.

### **The Influence of Digitalization Mediating Product Innovation on MSME Financial Performance**

Investment in digitalization for MSME business operations will have a positive impact on their product innovation. Digital transformation can also act as a mediator, assuming that changes from traditional behavior to the digital sector will facilitate event analysis and contribute to increasing MSME product innovation. Research by Manalu & Adzimatunur (2024); Zainurrafiqi & Gazali (2024) that digitalization can mediate the influence of product innovation on MSME financial performance. To meet new customer demand, MSMEs need to improve its digital competence and expertise. H5: digitalization can mediate the influence of product innovation on MSME financial performance

### **The Influence of Digitalization on Human Resource Competence Mediating MSME Financial Performance**

In a dynamic environment and with the rapid development of digitalization, human resources are needed who can recognize and take advantage of opportunities. Human resources have an important role in the success of the MSME digitalization process because they can provide the necessary skills, which are often a challenge for MSMEs, especially in the trade and craft sectors. Research by Kmecová et al. (2021); Putra et al. (2023) states that digitalization can mediate the influence of human resource competence on the financial performance of MSMEs. H6: digitalization can mediate the influence of human resource competence on the financial performance of MSMEs

### **The Influence of Digitalization on Marketing Performance Mediating MSME Financial Performance**

Digital innovation has significant potential to improve MSME marketing performance. In increasingly tight business competition, in the ever-growing digital era, MSMEs must utilize digital technology and media to reach a wider market, increase interaction with customers, and strengthen their marketing effectiveness. Research by Guo et al. (2020); Utama & Indarwati (2023), digitalization can mediate the influence of marketing performance on MSME financial performance. H7: digitalization can mediate the influence of marketing performance on MSME financial performance

In Figure 1, the context of research on product innovation, HR competency, and marketing performance on the financial performance of MSMEs in Semarang City with digitalization as a mediating variable, the research framework will include the relationship between the main variables analyzed, namely: (1) The Effect of Product Innovation on Financial Performance.. (2) The Effect of HR Competence on Financial Performance. (3) The Effect of Marketing Performance on Financial Performance. (4) The Role of Digitalization as a Mediator, namely: (a) Digitalization Mediation between Product Innovation and Financial Performance. (b) Digitalization Mediation between HR Competence and Financial Performance. (c) Digitalization Mediation between Marketing Performance and Financial Performance.

## RESULTS

### Analysis Outer Model (Measurement Model)

#### Convergent validity, AVE, and Composite Reliability

Table 1, each indicator's outer loading value in the previously mentioned table is greater than 0.70, demonstrating the indicator's dependability in gauging MSME's financial performance in Pamekasan Regency. The degree of reliability is indicated by both Cronbach's alpha value and the composite reliability value, both of which are greater than 0.70. It was determined that every variable was dependable and that the construct reliability of each indicator varied. Each of these indicators meets the requirements for strong convergence. After all, the degree of convergence is also visible because all of the AVE values show > 0.5. Table 2, as stated in the table above, the AVE values of MSME's financial performance, Product Innovation, HR Competence, Marketing Performance, and

Digitalization all yield more than 0.5 and pass the test of discriminant validity, which demands that the square root of the AVE value exceed the correlation of the latent constructs. At that point, the aforementioned variables are accepted. To sum up, the research data model meets the good criteria, and depending on the findings of the discriminant validity test, can be further developed.

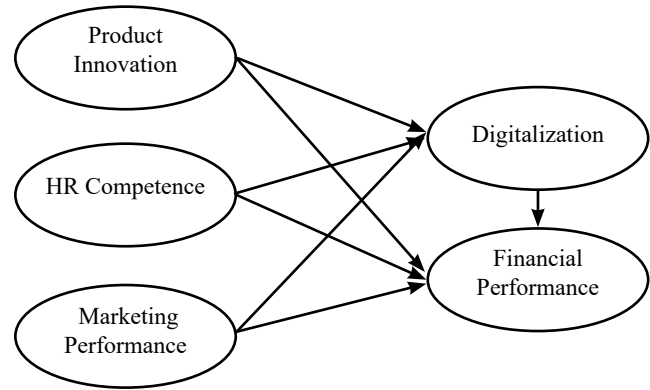


Figure 1. Research framework

Table 1. Outer loadings, cronbach's alpha, composite reliability, and average variance extracted

| Variable                   | Item Measurement | Outer Loadings | Cronbach's Alpha | Composite Reliability | AVE   |
|----------------------------|------------------|----------------|------------------|-----------------------|-------|
| Product Innovation (X1)    | PI.1             | 0.841          | 0.882            | 0.915                 | 0.729 |
|                            | PI.2             | 0.861          |                  |                       |       |
|                            | PI.3             | 0.858          |                  |                       |       |
|                            | PI.4             | 0.856          |                  |                       |       |
| HR Competence (X2)         | HRC.1            | 0.824          | 0.843            | 0.893                 | 0.677 |
|                            | HRC.2            | 0.807          |                  |                       |       |
|                            | HRC.3            | 0.813          |                  |                       |       |
|                            | HRC.4            | 0.846          |                  |                       |       |
| Marketing Performance (X3) | MP.1             | 0.870          | 0.896            | 0.927                 | 0.760 |
|                            | MP.2             | 0.899          |                  |                       |       |
|                            | MP.3             | 0.838          |                  |                       |       |
|                            | MP.4             | 0.880          |                  |                       |       |
| Digitalization (Z)         | D.1              | 0.921          | 0.911            | 0.936                 | 0.786 |
|                            | D.2              | 0.835          |                  |                       |       |
|                            | D.3              | 0.895          |                  |                       |       |
|                            | D.4              | 0.893          |                  |                       |       |
| Financial Performance (Y)  | FP.1             | 0.897          | 0.914            | 0.939                 | 0.795 |
|                            | FP.2             | 0.888          |                  |                       |       |
|                            | FP.3             | 0.931          |                  |                       |       |
|                            | FP.4             | 0.848          |                  |                       |       |

**Analysis Model Structural (Inner Model)**

R- Square

Table 3, the R-square findings indicate that the influence of Product Innovation ( $X_1$ ), HR Competence ( $X_2$ ), Marketing Performance ( $X_3$ ), and Digitalization ((Z) on MSME's financial performance (Y) with a value of 0,535, or 53,5% falls into the moderate category. While other variables not examined may have an impact on 46,5%. The Digitalization (Z) R-square value was 0.448, indicating that 44,8% of the Digitalization was impacted by Product Innovation ( $X_1$ ), HR Competence

( $X_2$ ) and Marketing Performance ( $X_3$ ). While factors not included in this study had an impact on the remaining 55,2%.

Path Coefficients

Figure 2, one method used to determine the correlation between the variables was bootstrapping. When the t-statistic value and the probability value are both less than or equal to the t-table (1.96) and alpha (0.05), the test criteria are satisfied. It is claimed that exogenous factors significantly affect endogenous variables.

Table 2. Discriminant Validity-Fornell Larcker

|                            | FP    | PI    | HRC   | MP    | D     |
|----------------------------|-------|-------|-------|-------|-------|
| Financial Performance (FP) | 0.891 |       |       |       |       |
| Product Innovation (PI)    | 0.690 | 0.854 |       |       |       |
| HR Competence (HRC)        | 0.688 | 0.811 | 0.823 |       |       |
| Marketing Performance (MP) | 0.594 | 0.712 | 0.845 | 0.872 |       |
| Digitalization (D)         | 0.559 | 0.585 | 0.627 | 0.755 | 0.887 |

Table 3. R-Square

|                           | R-Square (R2) | R-Square Adjusted | Conclusion |
|---------------------------|---------------|-------------------|------------|
| Financial Performance (Y) | 0.535         | 0.512             | Valid      |
| Digitalization (Z)        | 0.448         | 0.419             | Valid      |

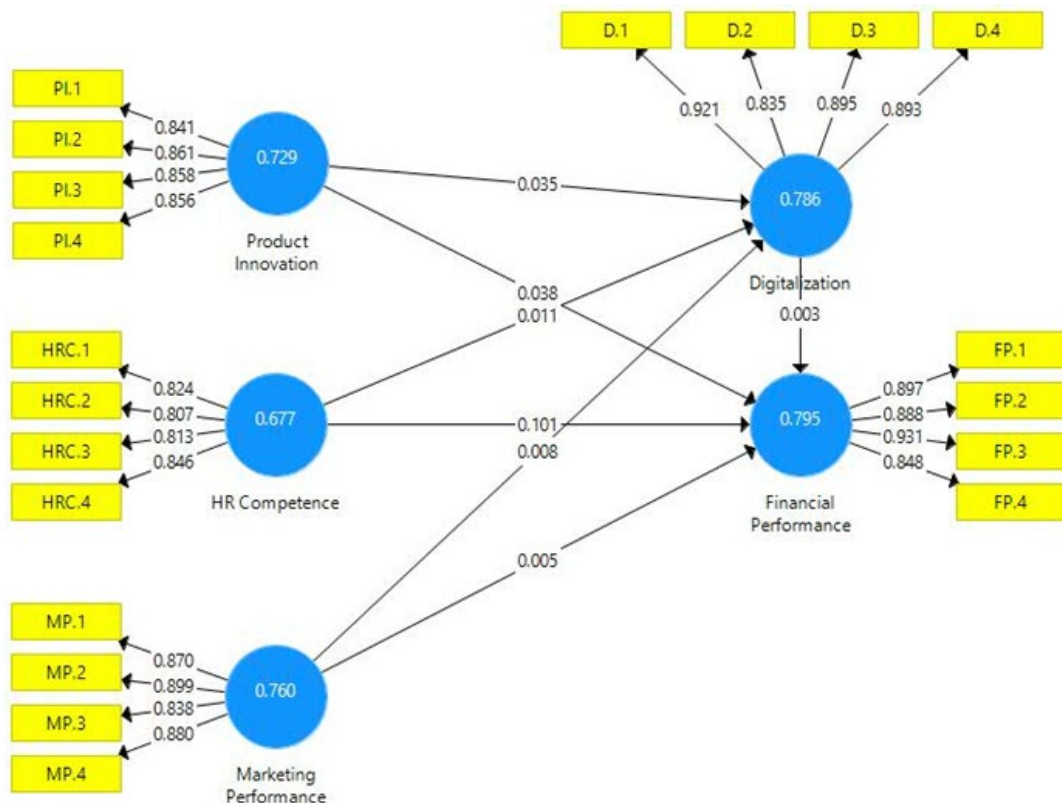


Figure 2. Bootstrapping Results

The test findings are shown in Table 4. With a p-value of  $0,038 < 0,05$  and a t-statistic of 2,681, the first hypothesis indicates that product innovation significantly affects MSME's financial performance in Pamekasan Regency. The second hypothesis demonstrates that using p-value  $0,101 > 0,05$  and t-statistics 0,564, HR competence did not significantly affect financial performance. The third hypothesis demonstrates that marketing performance significantly affects financial performance, with t-statistics of 2,050 and p-value  $0,005 < 0,05$ . By t-statistics 2,446 and a p-value of  $0,003 < 0,05$ , the fourth hypothesis demonstrates that digitalization has a significant impact on financial performance. The fifth hypothesis which has t-statistics 2,629 and p-value of  $0,035 < 0,05$ , demonstrates that digitalization can mediate the effect of product innovation on financial performance. On the other hand, the results of the sixth hypothesis test show that digitalization can mediate the relationship between HR competence and financial performance with t-statistics 2,011 and a p-value of  $0,011 < 0,05$ . The seventh hypothesis test results show that digitalization can mediate the relationship between marketing performance and financial performance, with a t-statistic of 3,385 and a p-value of  $0,008 < 0,05$ .

### **Impact of Product Innovation on MSME Financial Performance**

Based on the results of data analysis, product innovation has a significant impact on MSME financial performance with a t-statistic of 2.681 and a p-value of  $0.038 < 0.05$ . MSMEs perform better when companies innovate more on their products. Innovation is very important during the COVID-19 pandemic because MSMEs will not be able to survive without it. In addition, MSMEs can maintain and improve their performance by introducing new products or changing their business models in response to market developments. The findings of this study are in line with previous research conducted by Chaniago Research (2022); Chatra et al. (2024), product innovation has a significant effect on financial performance. Meanwhile, Daswal et al. (2023); Komariah et al. (2022) found that product innovation does not have a significant effect on the financial performance of SMEs. Due to the COVID-19 pandemic, entrepreneurs are under pressure to meet demand, so they have to use more creative products when conducting marketing campaigns. Businesses are competing to better serve customer needs to survive the economic downturn caused by the Covid-19 pandemic.

### **The Influence of HR Competence on MSME Financial Performance**

Based on the results of data analysis, HR Competence does not have a significant effect on MSME financial performance with a t-statistic of 0.564 and a p-value of  $0.101 > 0.05$ . The ability of MSMEs to increase productivity which will have an impact on profit is highly dependent on the capacity of their human resources, both hard skills and soft skills. Meanwhile, increasing productivity and MSME profits can be a benchmark for success or increasing operational performance. When MSME actors use non-formal experience and training, not just formal education, to acquire these skills as a whole. Only more theoretical than practical instructions and knowledge can be obtained through formal education. The findings of this study are consistent with several previous empirical studies, including those conducted by (Costa & Xiongying, 2021; Sunarti et al. 2023) whose research results found that HR competency had no significant effect on MSME financial performance. This study contradicts Naz et al. (2016); Rasyid et al. (2023); Millendra & Marwan (2022), human resource competency has a significant effect on financial performance, and research by Sunarti et al. (2023) shows that HR competency has no significant effect on MSME financial performance.

### **The Influence of Marketing Performance on MSME Financial Performance**

Based on the results of data analysis, marketing performance has a significant effect on MSME financial performance with a t-statistic of 2.050 and a p-value ( $0.004 < 0.05$ ). One of the advantages of digital marketing is that turnover income will remain constant. In addition, digital marketing often offers a more cost-effective substitute for traditional marketing tactics. Digital marketing is often more cost-effective than traditional marketing strategies. The MSME sector has benefited from the implementation of digital marketing strategies, which have increased profitability and market share. The findings of this study are in line with previous studies conducted by (Haris, 2023; Marjukah, 2022), marketing performance has a significant effect on financial performance. However, contrary to research by Sumaryanto & Widajanti (2023), marketing performance has no significant effect on the financial performance of SMEs.

Table 4. Hypothesis Test Results

|   | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics ( O/STDEV ) | P Values | Information  |
|---|---------------------|-----------------|----------------------------|--------------------------|----------|--------------|
| Product Innovation (X1) → Financial Performance (Y)                         | 0.165               | 0.175           | 0.064                      | 2.681                    | 0.038    | H1-Accepted  |
| HR Competence (X2) → Financial Performance (Y)                              | 0.088               | 0.080           | 0.157                      | 0.564                    | 0.101    | H2- Accepted |
| Marketing Performance (X3) → Financial Performance (Y)                      | 0.143               | 0.148           | 0.045                      | 2.050                    | 0.005    | H3-Accepted  |
| Digitalization (Z) → Financial Performance (Y)                              | 0.119               | 0.154           | 0.086                      | 2.446                    | 0.003    | H4-Accepted  |
| Product Innovation (X1) → Digitalization (Z) → Financial Performance (Y)    | 0.298               | 0.320           | 0.113                      | 2.629                    | 0.035    | H5-Accepted  |
| HR Competence (X2) → Digitalization (Z) → Financial Performance (Y)         | 0.245               | 0.242           | 0.110                      | 2.011                    | 0.011    | H6-Accepted  |
| Marketing Performance (X3) → Digitalization (Z) → Financial Performance (Y) | 0.275               | 0.253           | 0.077                      | 3.385                    | 0.008    | H7-Accepted  |

### Impact of Digitalization on MSME Financial Performance

Looking at the results of the data analysis, digitalization has a significant impact on the financial performance of MSMEs with a t-statistic of 2.446 and a p-value of  $0.003 < 0.05$ . This means that the greater the MSME's finances, the greater the technological innovation. MSMEs will benefit from digitalization because they become more competitive and able to adapt to market and economic changes. One type of dynamic capability that can help MSMEs adapt and innovate consistently is digitalization. MSMEs that utilize digitalization effectively will gain a competitive advantage, be more adaptive to change, and be able to improve their performance over time. Thanks to digitalization, MSMEs can more quickly and accurately understand changes in consumer behavior, market trends, and the business environment. The findings of this study are in line with previous studies conducted by (Desmiyawati et al. 2023; Nur & Made, 2024) which found that digitalization has a significant impact on MSME performance. However, contrary to Adebisi & Adekola (2016); Mutoharoh et al. (2020) showed that digitalization has an insignificant impact on MSME financial performance.

### The Effect of Digitalization Mediating Product Innovation on MSME Financial Performance

Based on the research results, digitalization can mediate the effect of product innovation on MSME financial performance with a t-statistic of 2.628 and a p-value of  $0.035 < 0.05$ . Digitalization investment to run MSME business activities will have a positive impact on their product innovation. Searching for information by having good digitalization will increase the company's sales level with the help of easy digital access. When MSMEs carry out digital transformation related to billing, it can help connect foresight capabilities with product innovation performance. Digital transformation can be used as a mediation by assuming that changes in traditional behavior with more use of the digital sector will make it easier to analyze events that occur and have an impact on increasing MSME product innovation. This is by research (Manalu & Adzimatunur, 2024; Zainurrafiqi & Gazali, 2024) which states that digitalization can significantly mediate the effect of product innovation on MSME financial performance. To meet new customer demands, SMEs need to enhance their digital competencies and skills.

### The Influence of Digitalization on Human Resource Competence Mediating MSME Financial Performance

Based on the research results, digitalization can mediate the influence of human resource competence on MSME



financial performance with a t-statistic of 2.011 and a p-value of  $0.011 < 0.05$ . Given the dynamic environment and the rapid pace of digitalization, human resources are needed who can see and capture opportunities. Human resources play a major role in the success of MSME digitalization efforts because they can provide the employees or skills needed for this process, which can be difficult for MSMEs in the trade and craft industries in particular. This is by research (Kmecová et al. 2021; Putra et al. 2023) which states that digitalization can significantly mediate the influence of HR competency on MSME financial performance. Seeing the potential market opportunities that exist, MSMEs need to develop reliable HR in adapting new technologies.

### **The Influence of Digitalization on Marketing Performance Mediating the Financial Performance of MSMEs**

Based on the research results, digitalization can mediate the influence of marketing performance on the financial performance of MSMEs with a t-statistic of 3.385 and a p-value of  $0.008 < 0.05$ . Digital innovation has great potential to improve the marketing performance of MSMEs. In addition, the importance of developing digital innovation as a strategy to improve the marketing performance of MSMEs. MSMEs need to continue to adapt to changes in digital trends that occur to optimize innovation and increase their competitiveness. In the ever-growing digital era, MSMEs need to utilize digital technology and digital media to reach a wider target market, optimize interactions with customers, and increase the effectiveness of their marketing. Research-based view theory states that companies will succeed in their business competition and have healthy financial performance if they can use their strategic assets, both tangible and intangible assets, effectively and efficiently (Pujiastuti, 2024). This is by research (Guo et al. 2020; Utama & Indarwati, 2023), digitalization can significantly mediate the influence of marketing performance on the financial performance of MSMEs.

### **Managerial Implications**

The Importance of Product Innovation in Increasing Competitiveness. Implement regular market research to understand consumer needs and preferences. Developing HR Competence in the Digital Era. Optimizing Digital Marketing to Improve Marketing Performance. The Role of Digitalization as a Connector between Marketing Performance, HR, and Product Innovation with

Financial Performance. Measuring and Monitoring Financial Performance Integrated with Digitalization. MSME management must use digital technology to monitor financial performance in real-time and more transparently. This allows for more precise and faster decision-making. Integrate a “digital accounting system” that allows MSMEs to monitor cash flow, profits, and expenses more easily and accurately. Use financial analysis software to understand business trends and performance and to make better financial planning. Conduct regular evaluations of the impact of digitalization on financial performance and identify areas for improvement.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

The results of the study can be concluded that product innovation, marketing performance, and digitalization have a significant effect on financial performance, while HR competency does not have a significant effect on the financial performance of MSMEs in Semarang City after the COVID-19 pandemic. The financial performance of MSMEs improves along with increasing product innovation, marketing effectiveness, and digital innovation. The phenomenon of poor financial performance is caused by HR who in theory give positions to people who are not experts in their fields. However, this is not by the financial performance of small and medium enterprises. Digitalization has been proven to be able to mediate the influence of product innovation, HR competency, and marketing performance on the financial performance of MSMEs.

### **Recommendations**

In order to develop their business, MSMEs need to be more sensitive to advances in innovative technology and also be open to learning to utilize it. This will certainly have a significant impact on the development of their business if MSME actors can capture these opportunities. To remain competitive, innovate in both product and service categories. Thus, the performance of MSMEs will be maintained. Based on the limitations of the results of this study, suggestions for further research related to the development of MSMEs through the use of innovative technology, namely identifying: (1) Factors Inhibiting Technology Adoption. (2) The Role of Training and Technical Assistance. (3) Analysis

of the Impact of Technology on MSME Performance. (4) The Role of Government Policy in Supporting Technological Innovation. (5) Innovation in Products and Services, and (6) Case Studies of MSME Success.

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