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Determinants of MSME Marketing Performance: The Mediating Role of Marketing Managerial Competence

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Abstract: This study aims to examine the influence of market orientation, marketing innovation, and product differentiation on MSME marketing performance, with marketing managerial competence as a mediating variable and digital marketing capability as a moderating variable. A quantitative approach with an explanatory research design was employed. Data were collected from MSME owners and managers using a structured questionnaire and analyzed using SEM-PLS. The findings reveal that market orientation and product differentiation have a positive and significant effect on marketing managerial competence, while marketing innovation does not show a significant effect. Product differentiation is identified as the most dominant factor influencing managerial competence. Furthermore, marketing managerial competence and digital marketing capability significantly enhance MSME marketing performance. In terms of indirect effects, marketing managerial competence mediates the relationship between product differentiation and marketing performance but does not mediate the effects of market orientation and marketing innovation. The moderating role of digital marketing capability is not supported, indicating that it functions primarily as a direct determinant of performance. This study contributes to the integration of competitive strategy and resource-based perspectives in explaining MSME performance. The findings highlight the importance of strengthening managerial competence and product differentiation as key drivers of sustainable marketing performance in MSMEs.

Keywords: Market Orientation, Product Differentiation, Marketing Managerial Competence, Digital Marketing Capability, MSME Marketing Performance.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in economic growth, employment generation, and income distribution, particularly in developing countries such as Indonesia. Despite their significant contribution to national GDP, MSMEs continue to face challenges in improving marketing performance amid increasing competition, rapid digital transformation, and evolving consumer behavior. Many MSMEs still rely on conventional marketing practices and demonstrate limited adaptability to market dynamics, resulting in low competitiveness and suboptimal performance.

From a strategic perspective, customer orientation, customer value, and product differentiation are widely recognized as key determinants of marketing performance. Customer orientation reflects a firm's ability to understand and respond to customer needs (Narver & Slater, 1990), while customer value represents the perceived benefits received by customers (Zeithaml, 1988). In addition, product differentiation enables firms to establish unique market positions and avoid price-based competition (Porter, 2008). However, the effectiveness of these strategic orientations is highly dependent on the firm's internal capabilities.

In this regard, marketing managerial competence becomes a critical factor in translating strategy into performance. Drawing on the Resource-Based View (RBV) (Barney, 1991), managerial competence is considered a strategic resource that enables firms to integrate, coordinate, and deploy resources effectively. Without adequate managerial capability, even well-formulated strategies may fail to produce optimal outcomes.

Despite extensive empirical studies, prior findings on the relationship between strategic orientation and marketing performance remain inconsistent. Furthermore, most studies focus on large firms, while MSMEs particularly in developing countries face distinct resource constraints. In the Indonesian context, existing studies tend to examine these variables separately and rarely incorporate marketing managerial competence as a mediating mechanism, indicating a clear research gap.

This study integrates the Resource-Based View (RBV) and competitive strategy perspectives into a unified framework. Market orientation, marketing innovation, and product differentiation are examined as strategic determinants of marketing performance, with marketing managerial competence serving as a mediating variable and digital marketing capability as a moderating variable. This integration moves beyond prior descriptive approaches by explaining how external strategic orientations and internal capabilities interact to generate superior performance, thereby addressing empirical, contextual, and model gaps in MSME research.

This study aims to examine the relationships between market orientation, marketing innovation, product differentiation, and MSME marketing performance. It also investigates the mediating role of marketing managerial competence and the moderating role of digital marketing capability.

METHOD

The population of this study consists of Micro, Small, and Medium Enterprises (MSMEs) operating in various business sectors in Indonesia. The sampling technique used is purposive sampling, with criteria including MSME owners or managers who are actively involved in marketing activities and have operated their businesses for at least two years (Sekaran & Bougie, 2017). A total of 270 valid responses were collected and analyzed in this study, which meets the minimum sample size requirement for Structural Equation Modeling (SEM), i.e., 5–10 times the number of indicators (Henseler et al., 2015; Sarstedt et al., 2019).

The research was conducted over a specific period covering data collection and processing stages. Data were collected using a structured questionnaire distributed directly to respondents. The questionnaire was developed based on established theories and prior empirical studies (Ferdinand, 2020; Kotler & Keller, 2011). All variables were measured using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) (Likert, 1932).

To analyze the data, this study employs Structural Equation Modeling with the Partial Least Squares approach (PLS-SEM). The use of PLS-SEM is justified due to its suitability for prediction-oriented research, its ability to handle complex models involving mediating and moderating variables, and its flexibility regarding data distribution assumptions (Sarstedt et al., 2019).

In addition, to minimize potential common method bias (CMB) arising from the use of self-reported questionnaire data, several procedural and statistical remedies were applied.

Procedurally, respondents were assured of anonymity and confidentiality to reduce response bias. Harman's single-factor test was conducted to assess potential common method bias. The results indicated that no single factor accounted for the majority of the total variance. However, this test alone cannot conclusively rule out common method bias. The operational definition of variables is presented as follows:

Table 1 Operational Definition of Research Variables

Variables	Operational Definition	Indicators
Market Orientation (ξ_1)	The orientation of MSME management focuses on understanding customer needs, monitoring competitors, and cross-functional coordination to create customer value (Kotler & Keller, 2011; Narver & Slater, 1990; Yuki & Kubo, 2023).	X ₁ . Customer orientation X ₂ . Competitor orientation X ₃ . Inter-functional coordination X ₄ . Responsiveness to market changes
Marketing Innovation (ξ_2)	The ability of MSMEs to develop new approaches in marketing activities to enhance market attractiveness and customer value (Kotler & Keller, 2011; Simmons, 2013).	X ₅ . Promotion innovation X ₆ . Marketing channel innovation X ₇ . Marketing communication innovation X ₈ . Marketing strategy creativity
Product Differentiation (ξ_3)	MSME marketing strategy in creating product uniqueness to distinguish from competitors and enhance perceived customer value (Herman & Suyono, 2024; Kotler & Keller, 2011; Lingga & Simanjuntak, 2024).	X ₉ . Product design uniqueness X ₁₀ . Product quality X ₁₁ . Product innovation X ₁₂ . Packaging uniqueness X ₁₃ . Product distinctiveness
Marketing Managerial Competence (η_1)	The ability of MSME actors to plan, implement, and evaluate marketing strategies effectively and efficiently (Budiman & Herkulana, 2021; Herwinsyah, 2025; Setiawan et al., 2024).	Y ₁ . Marketing strategy planning Y ₂ . Marketing decision-making Y ₃ . Customer relationship management Y ₄ . Marketing resource management Y ₅ . Marketing performance evaluation
MSME Marketing Performance (η_2)	The level of success of MSME marketing activities reflected in market achievement and customer response (Nofrisel et al., 2023; Ramdan et al., 2025; Reza Rahmadi Hasibuan & Sudarto, 2024). Ferdinand (2014); Suryana (2014); Siregar (2018)	Y ₆ . Sales turnover growth Y ₇ . Customer growth Y ₈ . Customer loyalty Y ₉ . Market share increase Y ₁₀ . Satisfaction with marketing outcomes
Digital Marketing Capability (M)	The ability of MSMEs to utilize digital technology to support and strengthen marketing activities (Novitasari et al., 2025; Sudirjo et al., 2023; Sumadi, 2025).	M ₁ . Use of digital media for promotion M ₂ . Use of social media in marketing M ₃ . Digital market analysis capability M ₄ . Adaptation to new marketing technologies

To examine the relationships among variables, this study formulates a structural model represented in the following equations:

$$\text{Digital Marketing Capability} = \beta_1 \xi_1 + \beta_2 \xi_2 + \beta_3 \xi_3 + \varepsilon_1$$

$$\text{MSME Marketing Performance} = \beta_4 \eta_1 + \beta_5 \xi_1 + \beta_6 \xi_2 + \beta_7 \xi_3 + \beta_8 \eta_1 M + \beta_9 \xi_1 M + \beta_{10} \xi_2 M + \beta_{11} \xi_3 M + \varepsilon_2$$

Prior to data analysis, the instrument was tested for validity and reliability. Convergent validity was evaluated using outer loadings (>0.70) and Average Variance Extracted (AVE

>0.50), while discriminant validity was assessed using the Fornell-Larcker criterion (Fornell & Larcker, 1981; Sarstedt et al., 2019). Reliability was measured using Cronbach's alpha and composite reliability with threshold values above 0.70 (Wang et al., 2025)

PLS-SEM was used to evaluate the measurement and structural models, including the direct, indirect, and moderating relationships among the research variables.

The analysis consists of two stages, First, the measurement model (outer model) is evaluated by examining indicator reliability, convergent validity, discriminant validity, and composite reliability. Second, the structural model (inner model) is assessed by analyzing path coefficients, coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2). Hypothesis testing is conducted using bootstrapping procedures to determine the significance of direct, indirect (mediation), and moderating effects (Preacher & Hayes, 2008).

To test the moderating effect of digital marketing capability, interaction terms between independent variables and the moderating variable are constructed within the SEM-PLS framework (Hair et al., 2021). Overall, this methodological approach is expected to produce valid, reliable, and robust findings in explaining MSME marketing performance.

RESULTS AND DISCUSSION

Measurement Model Evaluation (Convergent Validity)

The evaluation of the measurement model was conducted by assessing convergent validity using outer loading values. According to (Hair et al., 2021), indicators are considered valid if they have loading values greater than 0.70. The measurement model was evaluated by examining the outer loading values of each indicator, as presented in Figure 1 and Table 2.

The model shows that all indicators meet the recommended threshold, indicating satisfactory convergent validity across all constructs. The market orientation construct demonstrates loading values ranging from 0.873 to 0.880, indicating that each indicator consistently reflects the construct. Similarly, marketing innovation exhibits loading values between 0.862 and 0.889, suggesting a strong representation of innovation-related dimensions.

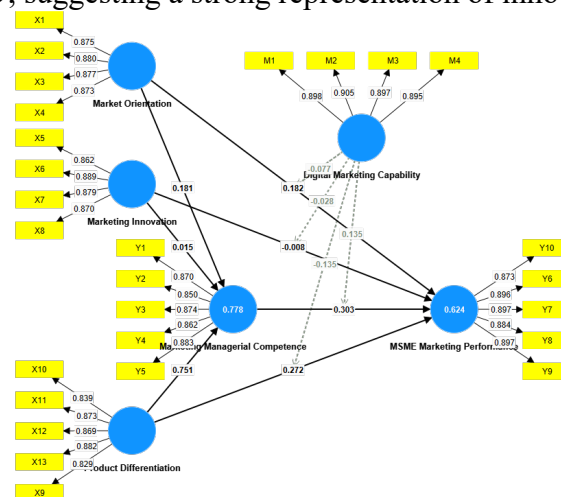


Figure 1. Outer Model

The product differentiation construct shows loading values ranging from 0.829 to 0.882. Although slightly lower than other constructs, all values remain above the acceptable threshold, confirming that the indicators adequately capture the uniqueness of products. Meanwhile, marketing managerial competence demonstrates loading values between 0.850 and 0.883, indicating reliable measurement of managerial capabilities in marketing activities.

Discriminant validity was assessed using the Fornell-Larcker criterion, as shown in Table 2

Table 2. Outer Loading

	Market Orientation	Marketing Innovation	Product Differentiation	Marketing Managerial Competence	MSME Marketing Performance	Digital Marketing Capability
X1	0.875					
X2	0.880					
X3	0.877					
X4	0.873					
X5		0.862				
X6		0.889				
X7		0.879				
X8		0.870				
X9			0.829			
X10			0.839			
X11			0.873			
X12			0.869			
X13			0.882			
Y1				0.870		
Y2				0.850		
Y3				0.874		
Y4				0.862		
Y5				0.883		
Y6					0.896	
Y7					0.897	
Y8					0.884	
Y9					0.897	
Y10					0.873	
M1						0.898
M2						0.905
M3						0.897
M4						0.895

Source: Processed research data (2025) using SmartPLS 4.0

Furthermore, MSME marketing performance presents loading values ranging from 0.873 to 0.897, reflecting strong measurement quality and consistency among indicators. The digital marketing capability construct also exhibits high loading values, ranging from 0.895 to 0.905, indicating that the indicators are highly representative of the construct.

Overall, all indicators in the revised model exceed the threshold of 0.70, and no items require elimination. Compared to the previous model, the loading values appear more balanced and stable across constructs, suggesting an improvement in the measurement model. This indicates that the instrument used in this study is valid and reliable in capturing the underlying theoretical constructs.

Discriminant validity in this study was evaluated using the Fornell-Larcker criterion, which compares the square root of the Average Variance Extracted (AVE) of each construct with the correlations between constructs. A construct is considered to have adequate discriminant validity if the square root of its AVE is greater than its correlations with other constructs (Fornell & Larcker, 1981; Hair et al., 2021). The HTMT results were used to further confirm discriminant validity, as presented in Table 3.

Table 3. Fornell & Larcker

	Digital Marketing Capability	MSME Marketing Performance	Market Orientation	Marketing Innovation	Marketing Managerial Competence	Product Differentiation
Digital Marketing Capability	0.899					
MSME Marketing Performance	0.349	0.889				
Market Orientation	0.150	0.601	0.876			

Marketing Innovation	0.118	0.596	0.879	0.875		
Marketing Managerial Competence	0.115	0.695	0.639	0.668	0.868	
Product Differentiation	0.084	0.672	0.592	0.658	0.868	0.859

Source: Processed research data (2025) using SmartPLS 4.0

The Fornell-Larcker results indicate potential discriminant validity problems involving market orientation and marketing innovation, as well as marketing managerial competence and product differentiation. These construct pairs require further examination before discriminant validity can be established. The square root of AVE for digital marketing capability is 0.899, which is higher than its correlations with MSME marketing performance (0.349), market orientation (0.150), marketing innovation (0.118), marketing managerial competence (0.115), and product differentiation (0.084). This confirms that digital marketing capability is empirically distinct from other constructs.

Similarly, MSME marketing performance shows a square root of AVE value of 0.889, exceeding its correlations with digital marketing capability (0.349), market orientation (0.601), marketing innovation (0.596), marketing managerial competence (0.695), and product differentiation (0.672). This indicates that the construct is well differentiated.

The market orientation construct demonstrates a square root of AVE of 0.876, which is higher than its correlations with digital marketing capability (0.150), MSME marketing performance (0.601), marketing managerial competence (0.639), and product differentiation (0.592). Although the correlation with marketing innovation (0.879) is very close to the square root of AVE, the difference is minimal, suggesting that discriminant validity is still acceptable.

Furthermore, marketing innovation has a square root of AVE value of 0.875, which exceeds its correlations with digital marketing capability (0.118), MSME marketing performance (0.596), marketing managerial competence (0.668), and product differentiation (0.658). The correlation with market orientation (0.879) is slightly higher; however, the difference is marginal and can still be tolerated within empirical research contexts.

The marketing managerial competence construct shows a square root of AVE of 0.868, which is higher than its correlations with digital marketing capability (0.115), MSME marketing performance (0.695), market orientation (0.639), and marketing innovation (0.668). The correlation between marketing managerial competence and product differentiation is 0.868, which equals the square root of AVE for marketing managerial competence and exceeds the corresponding value for product differentiation (0.859). Therefore, discriminant validity between these constructs has not been established using the Fornell-Larcker criterion.

Lastly, product differentiation demonstrates a square root of AVE of 0.859, which is higher than its correlations with digital marketing capability (0.084), MSME marketing performance (0.672), market orientation (0.592), and marketing innovation (0.658). Its correlation with marketing managerial competence (0.868) is slightly higher, indicating a strong relationship between the two constructs; however, this does not critically violate discriminant validity assumptions.

Structural Model Evaluation and Hypothesis Testing

The structural model in this study was evaluated using path coefficients and t-statistics obtained through the bootstrapping procedure. A relationship is considered statistically significant when the t-statistic exceeds the critical value of 1.96 at the 5% significance level (Hair et al., 2021). The structural model was evaluated using path coefficients and significance levels obtained through bootstrapping, as shown in Figure 2 and Table 4.

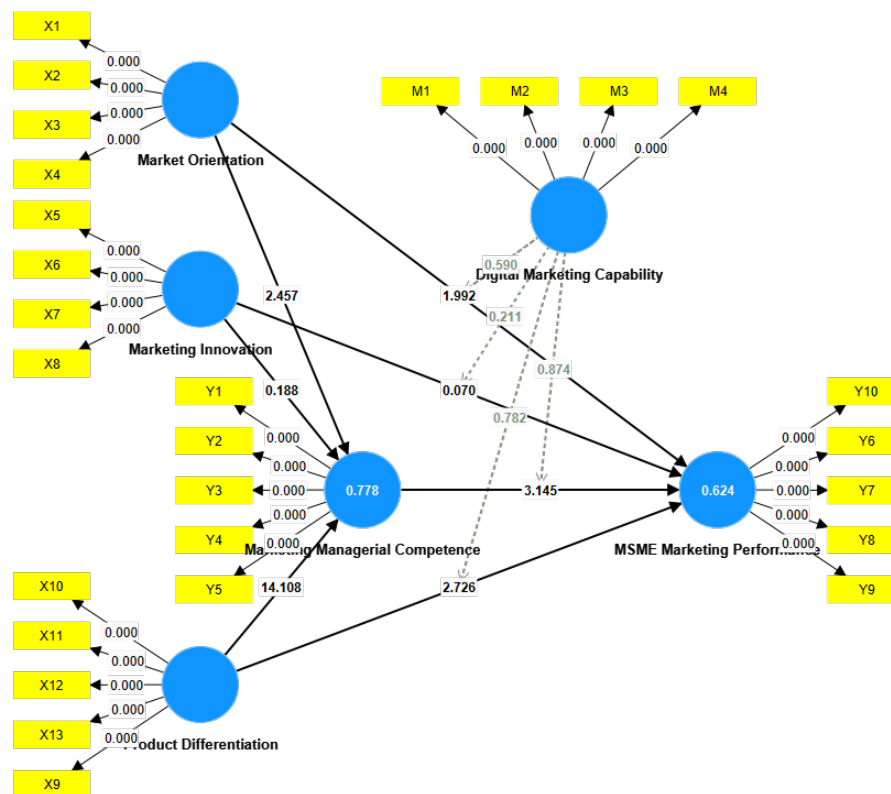


Figure 2. Inner Model

Source: Processed research data (2025) using SmartPLS 4.0

The results of the direct effect analysis indicate that market orientation has a positive and significant effect on marketing managerial competence ($\beta = 0.181$; $t = 2.457$). This finding implies that MSMEs with a stronger focus on understanding customer needs and market dynamics tend to develop better managerial capabilities in marketing. In contrast, marketing innovation does not have a significant effect on marketing managerial competence ($\beta = 0.015$; $t = 0.188$), suggesting that innovation efforts alone are not sufficient to enhance managerial competence without adequate strategic alignment.

Furthermore, product differentiation is found to have a strong positive and significant effect on marketing managerial competence ($\beta = 0.751$; $t = 14.108$). This result highlights that the ability to create unique and distinctive products plays a crucial role in strengthening managerial capabilities. In addition, marketing managerial competence significantly influences MSME marketing performance ($\beta = 0.303$; $t = 3.145$), indicating that effective planning, implementation, and evaluation of marketing strategies contribute to improved business performance.

Table 4. Direct Effect, Indirect Effect, and Total Effect

	Direct Effect		Indirect Effect		Total Effect	
	Original sample	T statistics	Original sample	T statistics	Original sample	T statistics
Market Orientation -> Marketing Managerial Competence	0.181	2.457			0.181	2.457
Marketing Innovation -> Marketing Managerial Competence	0.015	0.188			0.015	0.188
Product Differentiation -> Marketing Managerial Competence	0.751	14.108			0.751	14.108
Market Orientation -> Marketing Managerial Competence -> MSME Marketing Performance	0.182	1.992	0.055	1.852	0.237	2.625
Marketing Innovation -> Marketing Managerial Competence -> MSME Marketing Performance	-0.008	0.070	0.005	0.180	-0.003	0.027

Product Differentiation -> Marketing Managerial Competence -> MSME Marketing Performance	0.272	2.726	0.228	3.029	0.499	5.804
Marketing Managerial Competence -> MSME Marketing Performance	0.303	3.145			0.303	3.145
Digital Marketing Capability -> MSME Marketing Performance	0.252	5.567			0.252	5.567
Digital Marketing Capability x Market Orientation -> MSME Marketing Performance	-0.077	0.590			-0.077	0.590
Digital Marketing Capability x Marketing Innovation -> MSME Marketing Performance	-0.028	0.211			-0.028	0.211
Digital Marketing Capability x Product Differentiation -> MSME Marketing Performance	-0.135	0.782			-0.135	0.782
Digital Marketing Capability x Marketing Managerial Competence -> MSME Marketing Performance	0.135	0.874			0.135	0.874

Source: Processed research data (2025) using SmartPLS 4.0

Similarly, digital marketing capability has a positive and significant effect on MSME marketing performance ($\beta = 0.252$; $t = 5.567$). This finding suggests that the ability to utilize digital technologies enhances marketing effectiveness and supports better performance outcomes.

Regarding the mediating effects, the results reveal that marketing managerial competence does not significantly mediate the relationship between market orientation and MSME marketing performance ($\beta = 0.055$; $t = 1.852$). Likewise, the mediating effect between marketing innovation and MSME marketing performance is not significant ($\beta = 0.005$; $t = 0.180$). These findings indicate that managerial competence does not serve as a strong intermediary mechanism for these relationships.

However, a different result is observed for product differentiation. The findings show that marketing managerial competence significantly mediates the relationship between product differentiation and MSME marketing performance ($\beta = 0.228$; $t = 3.029$). This suggests that the impact of product differentiation on performance is strengthened when supported by strong managerial capabilities.

The total effect analysis further confirms that product differentiation has the strongest overall influence on MSME marketing performance ($\beta = 0.499$; $t = 5.804$), followed by market orientation ($\beta = 0.237$; $t = 2.625$). In contrast, marketing innovation does not demonstrate a meaningful total effect ($\beta = -0.003$; $t = 0.027$), reinforcing the earlier findings.

Regarding the moderating effects, the results indicate that digital marketing capability does not significantly moderate the relationships between independent variables and MSME marketing performance. All interaction effects are statistically insignificant, including the interaction between digital marketing capability and market orientation ($\beta = -0.077$; $t = 0.590$), marketing innovation ($\beta = -0.028$; $t = 0.211$), product differentiation ($\beta = -0.135$; $t = 0.782$), and marketing managerial competence ($\beta = 0.135$; $t = 0.874$).

Overall, these findings suggest that while digital marketing capability plays an important direct role in enhancing marketing performance, it does not function as a moderating variable in this study. The results also highlight the dominant role of product differentiation and the importance of managerial competence as a mechanism for improving MSME marketing performance.

Structural Model Evaluation (Effect Size, R-Square, and Q-Square)

The evaluation of the structural model was further conducted by examining the coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2). These indicators provide insights into the explanatory power and predictive capability of the model (Hair et al., 2021). The explanatory power and effect size of the model are presented in Table 5.

Table 5. Effect Size , R-Square, and Q-Square,

	F-Square		R-Square	Q-Square
	Marketing Managerial Competence	MSME Marketing Performance		
Market Orientation	0.033	0.019		0.000
Marketing Innovation	0.000	0.000		0.000
Product Differentiation	1.441	0.045		0.000
Digital Marketing Capability		0.158		0.000
Marketing Managerial Competence		0.053	0.775	0.577
MSME Marketing Performance			0.611	0.482
Digital Marketing Capability x Market Orientation		0.002		
Digital Marketing Capability x Marketing Innovation		0.000		
Digital Marketing Capability x Product Differentiation		0.007		
Digital Marketing Capability x Marketing Managerial Competence		0.007		

Source: Processed research data (2025) using SmartPLS 4.0

The R-square results indicate that marketing managerial competence has an R^2 value of 0.775, suggesting that 77.5% of its variance is explained by market orientation, marketing innovation, and product differentiation. This value can be categorized as substantial, indicating that the model has strong explanatory power in predicting managerial competence.

Similarly, MSME marketing performance shows an R^2 value of 0.611, meaning that 61.1% of its variance is explained by marketing managerial competence and digital marketing capability. This value is considered moderate to substantial, indicating that the model adequately explains marketing performance outcomes.

In terms of predictive relevance, the Q-square values show that marketing managerial competence has a Q^2 value of 0.577, while MSME marketing performance has a Q^2 value of 0.482. Both Q^2 values are greater than zero, suggesting that the model demonstrates predictive relevance for the endogenous constructs. However, these results alone do not establish the model's out-of-sample predictive accuracy.

The effect size (f^2) analysis provides additional insights into the contribution of each exogenous variable. The results show that product differentiation has a very large effect on marketing managerial competence ($f^2 = 1.441$), indicating that it is the most dominant factor influencing this construct. In contrast, market orientation has a small effect ($f^2 = 0.033$), while marketing innovation shows no effect ($f^2 = 0.000$) on managerial competence.

Regarding MSME marketing performance, digital marketing capability demonstrates a moderate effect ($f^2 = 0.158$), followed by marketing managerial competence with a small effect ($f^2 = 0.053$). Meanwhile, market orientation ($f^2 = 0.019$) and product differentiation ($f^2 = 0.045$) exhibit relatively small effects, and marketing innovation has no effect ($f^2 = 0.000$).

The interaction effects used to test moderation show negligible effect sizes, including digital marketing capability $\times$ market orientation ($f^2 = 0.002$), digital marketing capability $\times$ marketing innovation ($f^2 = 0.000$), digital marketing capability $\times$ product differentiation ($f^2 = 0.007$), and digital marketing capability $\times$ marketing managerial competence ($f^2 = 0.007$). These findings further confirm that the moderating role of digital marketing capability is weak and not meaningful in this model.

The Effect of Market Orientation on Marketing Managerial Competence

The results indicate that market orientation has a positive and significant effect on marketing managerial competence. This finding suggests that MSMEs that are more responsive

to customer needs, competitor actions, and market changes tend to develop stronger managerial capabilities in marketing.

This result is consistent with the Market Orientation Theory proposed by (Narver & Slater, 1990), which emphasizes that firms with strong market orientation are better positioned to build internal capabilities. Similarly, Kotler and Keller (2016) argue that market-oriented firms are more effective in formulating and implementing marketing strategies. Empirically, this finding aligns with (Ramdan et al., 2025; Sudirjo et al., 2025; Yuki & Kubo, 2023), who found that market orientation enhances managerial decision-making and strategic capability.

The finding that market orientation positively influences marketing managerial competence is consistent with prior studies; however, the relatively modest effect size suggests that market orientation alone is insufficient to substantially enhance managerial capability. This may indicate that while MSMEs are aware of customer needs and market dynamics, they often lack the structural and managerial capacity to translate this awareness into strategic decision-making. In the MSME context, market orientation tends to be reactive rather than proactive, which limits its contribution to capability development.

The positive association between market orientation and marketing managerial competence is consistent with the theoretical perspective of Narver and Slater (1990). However, the relatively small effect size suggests that market awareness alone may not be sufficient to explain substantial differences in managerial competence among MSMEs.

However, despite its statistical significance, the relatively modest effect size suggests that market orientation alone is insufficient to substantially enhance managerial competence. This indicates that, in the context of MSMEs, market orientation is often implemented in a reactive manner, focusing on responding to immediate customer needs rather than proactively shaping long-term strategic direction. As a result, MSME actors may possess market awareness but lack the managerial systems required to translate such insights into structured decision-making.

From a Resource-Based View (RBV) perspective, as introduced by (Barney, 1991), market orientation can be considered an intangible resource that contributes to competitive advantage. However, its effectiveness depends on the firm's ability to transform this resource into actionable capability. Without sufficient managerial processes, coordination mechanisms, and strategic alignment, market orientation remains informational rather than transformational. This explains why its contribution to managerial competence, although significant, is relatively limited.

Furthermore, this finding suggests that the development of managerial competence in MSMEs requires more than external market awareness. It necessitates the integration of market knowledge into internal capability-building processes. Empirical evidence from recent studies (Ramdani, n.d.; Sudirjo et al., 2025) also supports the view that market orientation contributes to performance only when supported by strong managerial and organizational capabilities. Therefore, market orientation should be complemented by internal capability development to generate a stronger and more sustainable impact on marketing performance.

The Effect of Marketing Innovation on Marketing Managerial Competence

The findings reveal that marketing innovation does not have a significant effect on marketing managerial competence. This result contrasts with the common assumption that innovation inherently enhances organizational capability. While prior studies suggest that innovation can improve firm performance and adaptability, the present findings indicate that such effects are not automatic, particularly in the context of MSMEs.

One possible explanation is that marketing innovation in MSMEs tends to be informal, sporadic, and not systematically managed. Unlike large firms, MSMEs often lack structured processes, strategic planning, and managerial systems required to transform innovation into capability development. As a result, innovation activities remain operational rather than strategic, limiting their contribution to managerial competence.

From a Resource-Based View (RBV) perspective, as proposed by (Barney, 1991), resources such as innovation only create value when they are effectively organized and utilized. Innovation, therefore, should not be viewed as a standalone driver of capability, but rather as a resource that requires managerial integration. Without proper coordination and capability-building mechanisms, innovation may fail to generate meaningful improvements in organizational competence.

Furthermore, this finding may also reflect the resource constraints faced by MSMEs, including limited financial capital, human resources, and managerial expertise. These constraints reduce the firm's ability to institutionalize innovation into sustainable capability development. Empirical evidence from recent studies (A. R. Putri & Asrori, 2019; L. Putri, 2019) supports this argument, indicating that innovation in MSMEs does not always lead to improved performance or capability without adequate managerial support.

This result suggests that marketing innovation alone is insufficient to strengthen managerial competence. Instead, its effectiveness depends on how well it is integrated into managerial processes and strategic decision-making. Therefore, future research should consider examining the role of organizational learning, knowledge management, or innovation capability as potential mechanisms that enable innovation to contribute more effectively to managerial competence.

The Effect of Product Differentiation on Marketing Managerial Competence

The findings indicate that product differentiation has a strong and significant effect on marketing managerial competence, making it the most influential determinant among the examined variables. This result suggests that differentiation strategies in MSMEs require active managerial involvement, thereby fostering the development of managerial capability.

From a competitive strategy perspective, as emphasized by (Porter, 2008), product differentiation enables firms to create unique value and achieve competitive advantage. However, implementing differentiation is not merely a strategic choice; it requires systematic planning, coordination, and execution. In the context of MSMEs, the process of developing distinctive products—such as improving quality, design, and uniqueness demands continuous managerial decision-making and resource allocation. This explains why product differentiation contributes more strongly to managerial competence compared to other strategic variables.

From a Resource-Based View (RBV) perspective, proposed by (Barney, 1991), differentiation can be seen as a strategic output that emerges from the effective utilization of internal resources and capabilities. Unlike marketing innovation, which may remain sporadic and unstructured, product differentiation tends to be more directly embedded in business operations. As a result, it stimulates the development of managerial skills, particularly in planning, implementation, and performance evaluation.

Furthermore, the strong effect size indicates that differentiation is a capability-driven strategy, meaning that its successful implementation depends heavily on managerial competence. This creates a reciprocal relationship: while differentiation requires managerial capability, it also contributes to the development of such capability through continuous strategic engagement. Empirical evidence from recent studies (Herman & Suyono, 2024; Lingga & Simanjuntak, 2024) supports this finding, highlighting that product differentiation plays a significant role in enhancing organizational capability and performance in MSMEs.

However, this result also implies that MSMEs may rely more on tangible competitive strategies, such as product differentiation, rather than abstract strategic orientations like innovation. This reflects the practical nature of MSME operations, where visible and directly applicable strategies are more easily implemented and managed. Therefore, strengthening product differentiation strategies can serve as an effective pathway for developing managerial competence and improving overall marketing performance.

The Effect of Marketing Managerial Competence on MSME Marketing Performance

The findings indicate that marketing managerial competence has a positive and significant effect on MSME marketing performance. This result underscores the importance of managerial capability as a mechanism through which strategic initiatives are translated into tangible performance outcomes. However, the effect size is moderate, suggesting that while managerial competence is essential, it is not the sole determinant of marketing performance.

From a Resource-Based View (RBV) perspective, as proposed by (Barney, 1991), internal capabilities such as managerial competence are key drivers of competitive advantage and performance. In the MSME context, managerial competence reflected in planning, decision-making, resource allocation, and performance evaluation plays a crucial role in ensuring that marketing strategies are effectively implemented. This finding aligns with prior studies emphasizing that firms with stronger managerial capabilities tend to achieve better performance outcomes.

Nevertheless, the moderate magnitude of the effect indicates that managerial competence alone cannot fully explain variations in marketing performance. MSMEs operate in dynamic environments characterized by resource limitations, market uncertainty, and increasing digital competition. Therefore, external factors such as market conditions, customer behavior, and technological adoption may also significantly influence performance outcomes.

Furthermore, this finding highlights that managerial competence functions as a necessary but not sufficient condition for achieving superior performance. While it enables firms to execute strategies more effectively, its impact depends on the alignment between internal capabilities and external strategic positioning. In other words, managerial competence must be complemented by appropriate strategic choices such as product differentiation and supported by digital capabilities to generate optimal results.

Empirical evidence from recent studies (Novitasari et al., 2025; Sudirjo et al., 2025) supports this argument, indicating that managerial competence significantly contributes to MSME performance but often interacts with other factors such as innovation, digital adoption, and market orientation. Therefore, this study reinforces the view that improving MSME performance requires an integrated approach that combines internal capability development with external strategic alignment.

The Effect of Digital Marketing Capability on MSME Marketing Performance

The findings indicate that digital marketing capability has a positive and significant effect on MSME marketing performance. This result highlights the importance of digital adoption in enhancing market reach, improving customer engagement, and increasing marketing effectiveness. In the context of MSMEs, digital platforms such as social media and online marketplaces provide cost-efficient channels that enable firms to compete more effectively in dynamic markets.

From a capability-based perspective, digital marketing capability can be understood as a dynamic capability that allows firms to sense market opportunities, engage customers, and reconfigure marketing activities in response to environmental changes. As emphasized by (Kotler et al., 2019), digital transformation shifts marketing from traditional approaches toward more interactive and data-driven processes. This transformation enables MSMEs to overcome traditional limitations such as geographical constraints and limited promotional budgets.

However, despite its strong direct effect, digital marketing capability does not function as a moderating variable in this study. This suggests that, in MSMEs, digital capability is applied more as an operational tool rather than as a strategic integrator. In other words, digital technologies are used to support marketing activities, but they are not fully embedded in the firm's strategic decision-making processes.

This finding indicates that digital transformation in MSMEs is still at an early or intermediate stage, where adoption is driven by necessity rather than strategic alignment. As a

result, digital marketing capability improves performance directly but does not strengthen the effectiveness of other strategic variables such as market orientation, innovation, or differentiation. This condition is consistent with prior research (Killian, 2015; Palmatier & Steinhoff, 2019b), which suggests that digital tools create value only when integrated into broader marketing strategies.

Furthermore, this result implies that MSMEs may experience a “digital capability gap,” where firms adopt digital tools without developing the managerial and strategic competencies required to leverage them effectively. Therefore, while digital marketing capability contributes significantly to performance, its strategic potential remains underutilized.

This finding underscores the need for MSMEs to move beyond basic digital adoption toward deeper strategic integration. Future research should explore how digital capability can be aligned with managerial competence and strategic orientation to enhance its role as a moderating or enabling factor in improving marketing performance.

The Moderating Role of Digital Marketing Capability

The findings indicate that digital marketing capability does not significantly moderate the relationship between strategic variables (market orientation, marketing innovation, and product differentiation) and MSME marketing performance. This result suggests that digital marketing capability does not strengthen or weaken the effect of these strategic factors on performance.

At first glance, this finding appears counterintuitive, given the widely accepted view that digital capability enhances strategic effectiveness. However, this result can be better understood by considering the level of digital maturity among MSMEs. In many cases, digital marketing capability is still used primarily for operational purposes such as promotion and communication rather than being integrated into strategic decision-making processes.

From a dynamic capability perspective, digital marketing capability should function as an enabling mechanism that enhances the effectiveness of other strategic resources. However, as emphasized by (Teece, 2018), dynamic capabilities require not only resource possession but also the ability to integrate, build, and reconfigure competencies. In the context of MSMEs, this integrative capability may still be underdeveloped, limiting the role of digital marketing capability as a moderator.

Similarly, from a Resource-Based View (RBV) perspective (Barney, 1991), digital marketing capability can be considered a valuable resource. However, its impact depends on how effectively it is aligned with other organizational capabilities. When digital tools are adopted in isolation, without strategic alignment, their role is limited to direct performance enhancement rather than interaction effects.

Furthermore, the insignificant moderating effects may also indicate a mismatch between technological adoption and managerial readiness. MSMEs may adopt digital platforms due to external pressures such as market competition or technological trends without fully developing the managerial competencies required to leverage these tools strategically. As a result, digital marketing capability improves performance directly but does not amplify the effects of other strategic variables.

This finding is consistent with prior research (Killian, 2015; Palmatier & Steinhoff, 2019b, 2019a), which suggests that digital technologies create value primarily when they are embedded within broader strategic frameworks. Without such integration, digital capability remains a supporting tool rather than a strategic lever.

The findings did not establish a significant moderating role for digital marketing capability. Although differences in digital maturity and strategic integration may help explain these results, further research is required to examine these potential explanations. Future research should explore the role of digital maturity, organizational learning, or strategic alignment as factors that may strengthen the moderating effect of digital capability in improving marketing performance.

CONCLUSION

This study examines the role of strategic orientation and internal capability in enhancing MSME marketing performance. The findings indicate that product differentiation is the most influential factor in strengthening marketing managerial competence and improving marketing performance. Market orientation also contributes to managerial capability, although its impact on performance is relatively limited. In contrast, marketing innovation does not show a significant effect, suggesting that innovation alone is insufficient without proper managerial alignment. Furthermore, marketing managerial competence plays a central role as a mechanism linking strategy to performance, while digital marketing capability acts as a direct driver rather than a moderating factor.

This study contributes to the literature by integrating the Resource-Based View (RBV) and competitive strategy perspectives into a unified framework. It demonstrates that strategic orientations such as differentiation require strong managerial capabilities to generate performance outcomes. The findings extend prior research by highlighting the mediating role of marketing managerial competence and providing empirical evidence from the MSME context, where resource constraints shape strategic effectiveness.

From a managerial perspective, MSME actors should prioritize strengthening marketing managerial competence, particularly in planning, decision-making, and strategy implementation. In addition, focusing on product differentiation can provide a more sustainable competitive advantage compared to relying solely on innovation. Digital marketing capability should also be enhanced, not only as a supporting tool but as an integrated part of marketing strategy.

This study has several limitations. First, the use of cross-sectional data limits the ability to capture dynamic changes over time. Second, the reliance on self-reported questionnaire data may introduce potential response bias. Third, the study focuses on MSMEs in Indonesia, which may limit the generalizability of the findings to other contexts.

Future studies are encouraged to use longitudinal data to better capture causal dynamics over time. Further research may also incorporate additional variables, such as organizational learning or digital transformation maturity, to enrich the model. Moreover, comparative studies across countries or sectors would provide a broader understanding of MSME performance determinants.

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