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Determinants of MSMEs Performance: The Role of Social Capital, Product Innovation, And Digital Marketing Effectiveness

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ABSTRACT: The acceleration of the performance of Micro, Small, and Medium Enterprises (MSMEs) plays a crucial role in local economic growth; however, business actors are often faced with limitations in technology adoption and network strengthening. This study aims to analyze the partial effects of social capital, product innovation, and digital marketing on MSME performance. The research employed a quantitative method, with data collected through the distribution of questionnaires to 98 MSME owners in Bayan District as respondents. Data analysis was conducted using multiple linear regression analysis. The results indicate that social capital, product innovation, and digital marketing each have a positive and significant partial effect on MSME performance. Increased trust within business networks, creativity in product differentiation, and the consistent use of digital platforms have proven to be key factors in boosting sales performance and expanding market reach. The implications of this research emphasize the growth and sustainability of MSMEs in Bayan District which are highly dependent on a combination of strong social capital, product creativity, and technological adaptation so as not to be left behind and lose competitiveness in the rapidly growing digital market.

KEYWORDS: Social Capital; Product Innovation; Digital Marketing; MSMEs Performance.

INTRODUCTION

Performance is one of the fundamental aspects that determine the success of an organization in achieving its stated goals and objectives. The importance of performance within an organization cannot be ignored, as good performance will contribute to the organization's sustainability and growth amidst increasingly fierce competition. This concept is also applied in business growth, particularly in the case of MSMEs (Micro, Small, and Medium Enterprises). MSMEs play a crucial role as drivers of the local economy, providing employment, and driving innovation. In many cases, this sector is the backbone of the economy, especially in developing countries, where MSMEs contribute a significant proportion to Gross Domestic Product (GDP). However, despite their significant contribution, many MSMEs face serious challenges such as limited access to innovation, technology, and markets. Therefore, optimal MSME performance will not only increase their competitiveness but also contribute to overall economic stability.

According to Wahyono (2002), business performance is a concept used to measure a company's performance in the market for its products. Meanwhile, according to Darmanto (2018:15), MSME performance is the level of goal achievement based on predetermined objectives. According to Darmanto (2018:15), several indicators for measuring MSME performance include high sales growth, a constant increase in customers, sales targets met, broader marketing reach, and higher profit growth.

One factor influencing MSME performance is social capital. Social capital plays a crucial role in improving performance, especially in the context of organizations and MSMEs. Social capital refers to the network of relationships, trust, norms, and values that exist within a community or organization. This includes the ability of individuals to work together to achieve common goals, as well as access to resources that cannot be obtained individually. The impact of social capital on performance is significant. First, social capital creates bonds between individuals that encourage cooperation. In MSMEs, strong relationships between owners, employees, and customers can improve operational efficiency and product innovation. Furthermore, with a strong social network, individuals or organizations can have better access to information, business opportunities, and financial support. This is especially important for MSMEs, which often operate with limited resources.

According to Woolcook (1998), social capital is the degree of social cohesion within a community. Social capital refers to resources that emerge from social relationships formed between individuals or groups within a society, which can then be used to achieve collective goals. Indicators of social capital, according to Woolcook (1998), include social bonding, social bridging, and social linking. According to Florin et al. (2003), social capital within organizational members can enhance their ability to share knowledge and provide ideas among one another. This social capital can enhance a business's ability to gather resources that can improve business performance. Meanwhile, according to Putnam (1993), social capital is a characteristic of social organizations, such as networks, norms, and social trust that facilitate coordination and cooperation for mutual benefit.

Another factor influencing MSME performance is product innovation. According to Nasution (2005), product innovation is a new product or service introduced to the market. Nasution (2005) also states that product innovation is categorized into new products, new product lines, additions to existing product lines, improvements and revisions to existing products, and cost reductions. Meanwhile, according to Myers and Marquis in Kotler (2007), product innovation is a combination of various processes that influence each other. Therefore, innovation is not the concept of a new idea, a new discovery, or the development of a new market, but rather a reflection of all these processes. Indicators for measuring product innovation, according to Nasution (2005), include product quality, product variants, product style, and design. Product innovation has a significant influence on MSME performance (Chow & Utama, 2023). Therefore, an MSME owner is expected to have good innovation capabilities in the products offered, such as introducing and modifying more innovative products. They also have the capacity to design unique and useful products for customers. Innovation needs to be carried out well to get the desired results and improve business performance.

In addition to social capital and product innovation, digital marketing also influences the performance of MSMEs. Chaffey (2016) states that digital marketing describes the management and implementation of marketing using electronic media, or the application of digital technology that forms online channels to the market (websites, email databases, digital TV and through various other recent innovations including blogs, feeds, podcasts, and social networks) that contribute to marketing activities. Meanwhile, according to Saputra & Ardani, (2020) digital marketing is a category in the world of marketing that is useful in advertising a product or service and to reach potential buyers through digital media as a means of communication. According to Ramdhani et al., (2022) marketing a product digitally through e-commerce influences increased sales because its marketing reach becomes wider, thus leading to improved performance of MSMEs. According to Chaffey (2016) there are three indicators to measure digital marketing: Search Engine Marketing (SEM), Interactive advertising, and Social media marketing.

Based on the results of previous research presented by Agyapong et al. (2017), social capital has a positive and significant effect on the performance of MSMEs. However, this study also examined the mediating role of innovation in the relationship between social capital and performance. Innovation was observed to act as a partial mediator in the relationship between social capital and performance. The results of the study indicate the important role of social capital and innovation in the success of micro, small, and medium enterprises (SMEs) in developing countries, as well as the fact that managers and owners of these businesses need to pay attention to these concepts and utilize them to their advantage.

Ooi (2023) in his study explains how social capital helps small manufacturing firms innovate, and how innovation, in turn, improves their environmental performance. Based on data collected from 203 Malaysian small manufacturers and analyzed using partial least squares structural equation modeling (PLS-SEM), the findings emphasize the important roles of social capital, process innovation, and digital innovation in improving the environmental performance of small firms. Both process innovation and digital innovation mediate the relationship between social capital and environmental performance, with digital innovation having a stronger influence.

In their study, Sharabati et al. (2024) stated that digital marketing has been identified as a significant driver of MSME performance, particularly through customer engagement and market expansion. This study focuses on the impact of digital marketing strategies on MSME performance, including online advertising, social media marketing, search engine optimization (SEO), and customer engagement through digital channels. Further analysis was conducted by examining the mediating effect of digital transformation on the relationship between digital marketing and firm performance. The theoretical lens in this study is the Technology Acceptance Model (TAM), which argues that technology adoption depends on perceived use and perceived usefulness.

Although numerous studies have examined the factors influencing MSME performance, most previous studies have focused on only one or two variables in isolation, or positioned one variable as a mediator between social capital and performance. Therefore, this study offers novelty by comprehensively integrating these four variables to analyze their influence on performance. This study fills an important gap by examining the synergistic effects of social capital, product innovation, and digital marketing on MSME performance, particularly in the context of small regions with potential for MSME growth. This study presents novelty by integrating these variables into a unified framework and provides practical implications for enhancing MSME competitiveness in the digital economy.

This study aims to analyze the influence of social capital, product innovation, and digital marketing on the performance of MSMEs. The findings are expected to contribute theoretically to the management literature and practically to improving the quality of MSMEs through strong social capital, developing product innovation, and digital marketing with targeted and measurable marketing strategies.

LITERATURE REVIEW

Resource-Based View (RBV) Theory

This theory was developed by Barney (1991) who stated that companies can achieve competitive advantage and superior performance if they have valuable, rare, inimitable, and organized resources, also known as the VRIO framework. This theory argues that internal resources are the main key for companies to achieve sustainable competitive advantage and high business performance. This changes the way businesses view things, if conventional theory always looks at external opportunities and threats (external factors), RBV actually invites companies to look within themselves (internal factors). Social capital is seen as a non-physical internal resource (network, trust, relationships) that is rare and difficult for competitors to imitate. Product innovation and digital marketing capabilities are valuable strategic assets for creating new value for consumers. The synergy of these three variables forms a bundle of resources that drives business performance.

MSMEs Performance

Successful entrepreneurs generally possess competencies demonstrated by their attitudes and behaviors in running a business. Focused attitudes and behaviors can help someone achieve desired results. The term "performance" is derived from the word "job performance," which refers to the actual work or accomplishments achieved by an individual. Meanwhile, business performance refers to the results achieved by a company, both in terms of quality and quantity, over a specific period of time (Romansyah, 2012). According to Darmanto (2018) MSME performance is the level of achievement of goals based on previously set goals, while according to Wahyono (2002) business performance is a concept for measuring a company's performance in the market for products.

Performance is a function of the interaction between ability (A), motivation (M), and opportunity (O), which can be expressed as performance = f (A x M x O). This means that performance is a function of ability, motivation, and opportunity. The expectation of achieving performance is characterized by their motivation to succeed. Furthermore, this success is inseparable from the role of perseverance and strong commitment, as well as a strong desire and entrepreneurial orientation.

Social Capital

According to Woolcock (1998), social capital is the degree of social cohesion within a community. Social capital refers to the resources that emerge from social relationships formed between individuals or groups within a society, which can then be used to achieve collective goals. Social capital includes elements such as trust, norms, and networks that support cooperation and social solidarity, thus playing a vital role in economic and social development. Social capital is defined as all of a company's resources accumulated through a network of relationships with other companies. Organizational social capital plays a significant role in increasing business excellence. Therefore, social capital is the primary asset that MSMEs must possess, thereby enhancing their entrepreneurial spirit and enabling them to operate their businesses (Hadi & Purwati, 2020).

Social capital has become an important topic in analyzing company or organizational development. Several experts have suggested that individuals and organizations that are heavily involved in various social networks are more likely to access the resources and benefits inherent in these social relationships for the benefit of the company. Several studies have been conducted to explain the phenomenon of social capital in the context of organizational performance, and the breadth of a network is positively related to sales performance (Safii & Anom, 2021).

Florin et al. (2003) stated that social capital within organizational members can enhance their ability to share knowledge and provide ideas among one another. Furthermore, social capital can enhance a business's ability to gather resources, which can improve business performance. Safii & Anom (2021) stated that social capital promotes and improves MSME performance by developing and maintaining good relationships both internally and externally. Specifically, Akintimehin et al. (2019) explained how social capital can improve business performance. They stated that businesses can access credit support from creditors, obtain valid market information, and receive referrals from loyal customers if they possess social capital from external parties. Research conducted by Andardinata & Iskandar (2024), Supriandi (2022), Sianipar and Soraya (2024), Safii &

Anom (2021), and Nadia (2023) found that social capital has a positive and significant effect on MSME performance. Based on the hypotheses described above, the first hypothesis proposed is as follows:

H1: Social capital has a positive effect on MSMEs performance.

Product Innovation

According to Nasution (2005), product innovation is a new product or service introduced to the market. Nasution defines innovation as the implementation of new ideas in products, processes, marketing, and organizations to increase customer value and contribute to business performance and effectiveness. Market globalization presents a challenge for every company to continuously innovate in order to offer unique and superior products and services. The introduction of new products plays a crucial role in increasing company profitability. Leading organizations are well-versed in building innovation-based organizations. Innovation can be implemented comprehensively across product, process, administration, and technology aspects, while always being grounded in market conditions, thereby achieving organizational performance and realizing marketing performance (Raharso, 2006).

Innovation is a mechanism for companies to adapt to a dynamic environment. Therefore, companies are required to be able to create new thoughts and ideas by offering innovative products and improving services that can satisfy customers (Prakosa, 2005). Meanwhile, product innovation is one of the impacts of rapid technological change, and high product variety will determine marketing performance. Rapid technological advances and high levels of competition require every company to continuously innovate products, which ultimately will improve marketing performance (Hurley and Hult, 1998).

Product innovation is divided into three types: new innovations to the world, new innovations for the domestic or local market, and new innovations for the company (Fagerberg, 2005). In the context of micro-enterprises, product innovation primarily refers to processes, products, or organizational innovations that are new to the company (Rooks, 2009). Yam (2009) states that product innovation is one of the factors influencing a company's business performance.

Chow & Utama (2023) stated that product innovation has a significant impact on MSME performance. Therefore, MSME owners are expected to have strong innovation capabilities in the products they offer, such as introducing and modifying more innovative products and having the capacity to design unique and useful products for customers. Innovation must be implemented effectively to achieve the desired results and improve business performance. According to Dewantoro et al. (2023), products with attractive and creative innovations will sell well in the market, thereby improving MSME performance. This suggests that product innovation plays a crucial role in determining performance improvement. Research conducted by Chow & Utama (2023), Lorensa & Hidayah (2022), Yanti et al. (2024), Effendi et al. (2023), and Maisaroh et al. (2022) found that product innovation has a positive and significant impact on MSME performance. Based on the hypotheses described above, the second hypothesis proposed is as follows:

H2: Product innovation has a positive effect on MSMEs performance.

Digital Marketing

According to Chaffey and Chadwick (2016), digital marketing is the application of internet technology, combined with conventional communications, to achieve marketing objectives. This can be achieved by expanding information about customer profiles, habits, beliefs, and loyalty levels. Then, it combines customized communications and online services according to each individual's needs (Chaffey, 2009). Meanwhile, according to Firmanda & Lukiastuti (2022), digital marketing techniques have the power to reimagine several aspects of traditional marketing communications and media channels, thus expanding the marketing mix.

According to Chaffey (2013), digital marketing is the use of technology to assist marketing activities that seek to expand customer awareness by responding to customer demand. These marketing activities are supported by the use of technology. Websites, blogs, and other social media platforms are typically types of online marketing activities controlled by companies. These are online pursuits undertaken by the company's most important stakeholders, namely employees and customers. Marketing that includes branding marketing activities that utilize several web-based media such as blogs, websites, email, Adwords, or social networks is known as digital marketing (Ridwan & Tarigan, 2009). Sawicky (2016) defines digital marketing as the exploitation of digital technology used to create channels that reach potential recipients to achieve company goals through more effective consumer satisfaction.

Ramdhani et al. (2022) stated that digital product marketing through e-commerce increases sales due to its broader reach, which ultimately improves the performance of MSMEs. According to Althafa et al. (2023), digital marketing certainly has an impact on businesses. By expanding the market, increasing brand awareness and customer loyalty, businesses can increase the number of customers who purchase their products or services. With an increasing number of customers, more products or services are sold, thus improving business performance. Research conducted by Yanti et al. (2024), Andriyani et al. (2023), Rosita et al. (2024), Rahmadian & Nuraeni (2024), and Farahiyah & Haryadi (2024) found that digital marketing has a positive and significant impact on MSMEs performance. Based on the hypotheses described above, the third hypothesis proposed is:

H3: Digital marketing has a positive effect on MSME performance

METHODOLOGY

Population and Sample

The population in this study was all MSMEs that are members of the MSME Association in Bayan District, Purworejo Regency. Bayan District was chosen as the research location because it has a strategic advantage as a pilot center for inclusive economic empowerment and the achievement of fostered villages that are recognized as one of the best MSMEs at the district level. In this study, the sampling technique used was proportional sampling, and 98 MSMEs entrepreneurs were obtained as respondents.

Data Collection Procedures and Instrumentation

This type of research is quantitative research using a survey method with the help of a questionnaire. A questionnaire was used to collect primary data at the research site. The questionnaires were distributed to each business location and completed directly by respondents. The questionnaire's questions were graded by respondents using a Likert scale, which ranged from 1 for strongly disagreeing to 5 for agreeing. The indicators and statements in the questionnaire for each variable are as follows:

Table. 1. The indicators and statements in the questionnaire

Variables	Indicators	Statements
MSMEs Performance	Sales Growth	My business experienced an increase in sales both in terms of number of units and rupiah value.
	Increased Customers	My business has experienced an increase in the number of customers
	Sales Targets	The predetermined sales and production targets are achieved every year.
	Profit Growth	My business profit growth has increased from year to year.
Social Capital	Social Bonding	My business gets support from the local community
	Sosial Bridging	I have good relationships with government agencies and the business community.
	Social Linking	I have a wide social network ranging from ordinary to middle and upper class levels.
Product Innovation	Product Quality	The product has better quality than similar products on the market.
	Product Variants	The product has a wider variety of choices than competitors.
	Product Style and Design	I create product designs that are attractive and differentiate themselves from competitors.
		I continually update my product designs to meet customer demand.
Digital Marketing	Search Engine Marketing	I use paid advertising (Google Ads, etc.) to attract visitors to my website/business.
	Interactive Advertising	Advertisements for products contain interactive elements (quizzes, videos, etc.) to attract consumers' attention.
	Social Media Marketing	Product marketing uses advertising features on all social media platforms (Facebook, Instagram, TikTok, etc.)

Data Analysis Techniques

The data analysis used in this study wask multiple linear regression analysis. Multiple linear regression analysis is an analysis used to determine the effect of independent variables on the dependent variable. In this study, multiple linear regression analysis was used to determine the effect of independent variables, namely social capital, product innovation, and digital marketing, on the dependent variable, namely MSME performance. Data analysis was performed using computer assistance through the SPSS 27.0 For Windows program.

RESEARCH RESULTS

Respondent Characteristics

The respondents used in this study were MSMEs in Bayan District, Purworejo Regency, with a sample size of 98 respondents. Respondent characteristics in this study consisted of respondent name, gender, age,length of business, and moonthly income. The results of the respondent characteristics are as follows:

Table 2. Respondent Characteristics

No.	Characteristics	Category	Percentage
1.	Gender	Laki-laki	44,9%
		Perempuan	55,1%
2.	Age (Yr)	>20	2%
		21-30	32,7%
		31-40	25,5%
		41-50	32,7%
		51-61	7,1%
3.	Length of Business (Yr)	>5	44,7%
		6-10	33,6%
		11-15	17,7%
		16-25	4%
4.	Monthly income (Rp)	< 2.500.000	55,8%
		>2.500.000– 5.000.000	30,5%
		>5.000.000–7.500.000	8,4%
		>7.500.000–10.000.000	2,1%
		>10.000.000	3,2%

Source: primary data processed, 2026

Table 2 shows the characteristics of respondents based on gender. The total sample taken in this study was 98 respondents. It can be seen that the number of male respondents was 44.9%, while the number of female respondents was 55.1%. The respondents' ages ranged from 20 to 50 years old. The length of business for the MSME actors surveyed is mostly 1-5 years, which is considered relatively new. Meanwhile, the majority of MSME actors earn less than IDR 2,500,000 per month, accounting for 55.8%.

Instrument Test Results

Test the research instrument using validity and reliability tests. The validity test is used to measure whether a questionnaire is valid or not, and it is considered valid if the instrument can be used to measure what it is supposed to measure. The validity test in this study uses the product moment correlation formula. The assessment criteria are that a statement item is considered valid if it has a product moment correlation coefficient value exceeding 0.3 (Sugiyono, 2019). The results show that all statement items in the questionnaire have a person correlation value of more than 0.3, which means they are valid.

In a reliability test, a questionnaire is said to be reliable if a person's answers to the statements are consistent or stable over time (Ghozali, 2018:45). A construct or variable is considered reliable if it provides a Cronbach's Alpha value >0.7. The reliability test results show that all variables have a Cronbach’s Alpha value > 0.7 and a Cronbach’s Alpha If Item Deleted > 0.7, so it can be said that the statements used in the questionnaire are reliable. This means that the questionnaire items used in the study can provide consistent results over time, with similar answers among respondents involved in filling out the questionnaire.

Determination Coefficient Test Results

The results of the determination test are shown in the following table 3.

Table 3. Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	**Std. Error of the Estimate**
1	.538[a]	.289	.266	2.26138
a. Predictors: (Constant), digital_marketing, social capital, product innovation				

Source: primary data processed, 2026

An Adjusted R Square value of 0.266 shows that the independent variables, namely Social Capital, Product Innovation, and Digital Marketing, are able to explain 26.6% of the variation or contribution to the dependent variable, which is MSMEs Business Performance.

Multiple Linear Regression Test Results

The results of the multiple linear regression test in this study can be seen in the following table:

Table 4. Multiple Linear Regression Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	**Sig.**
		Beta	Std. Error	Beta		
1	(Constant)	6.996	1.919		3.646	**.000**
	Social Capital	.367	.154	.222	2.379	**.019**
	Product Innovation	.229	.104	.209	2.197	**.030**
	Digital Marketing	.398	.126	.297	3.163	**.002**
a. Dependent Variable: MSME Performance						

Source: primary data processed, 2026

Based on Table 4, the multiple linear equation model can be written as follows: $Y = 0.222X1 + 0.209X2 + 0.297X3$

The multiple linear regression equation above can be interpreted as follows:

b1 = 0.222, the social capital variable (X1) has a positive regression coefficient. This result indicates that the social capital variable has a positive effect on MSME performance (Y). This means that the better the social capital possessed by MSME actors, the better their performance will be.

b2 = 0.209, the product innovation variable (X2) has a positive regression coefficient. This result indicates that the product innovation variable has a positive effect on MSME performance (Y). This means that the better the product innovation implemented by MSMEs, the better their performance will be.

b3 = 0.297, the digital marketing variable (X3) has a positive regression coefficient. This result indicates that the digital marketing variable has a positive effect on MSME performance (Y). This means that optimal use of digital marketing can improve the performance of MSMEs.

Based on multiple linear regression analysis, it is known that the P-value of the social capital variable (X1) is 0.019 (<0.05) and a positive beta (b1 = 0.222), so it can be concluded that the social capital variable has a positive effect on the performance of MSMEs, providing empirical support for Hypothesis 1. On the influence of product innovation on the performance of MSMEs, the P-value of the product innovation variable (X2) is 0.030 (<0.05) and also have a positive beta (b2 = 0.209), so it can be concluded that the product innovation variable has a positive effect on the performance of MSMEs, which means that hypothesis 2 is supported. While digital marketing affects the performance of MSMEs at a P-value of 0.002 (<0.05) and have a positive beta (b3 = 0.297), providing empirical support for Hypothesis 3.

DISCUSSION

The study show that social capital has a positive effect on MSME performance, therefore, the better the social capital possessed by MSMEs in Bayan District, Purworejo Regency, the better their performance will be. The first hypothesis in this study was proven because respondents considered that with support from the community in running their businesses, having good relationships with government agencies and business communities, having a wide social network from the ordinary to the middle and upper classes could improve the performance of MSME actors. The results of this study align with the Resource-Based View theory, which posits that companies can achieve competitive advantage and superior performance if they possess valuable, rare, inimitable, and organized resources. Internal resources are key to achieving sustainable competitive advantage and high business performance. Social capital is viewed as a non-physical internal resource (network, trust, relationships) that is rare and difficult for competitors to imitate. This study corroborates previous research conducted by Andardinata & Iskandar (2024), Supriandi (2022), and Sianipar and Soraya (2024), which showed that social capital has a positive and significant effect on MSMEs performance.

Furthermore, the result also show that product innovation has a positive and significant effect on MSME performance. This means that the better the product innovation carried out by MSME actors, the more their performance will also improve. This is because respondents assessed that products with better quality, a variety of choices, consistently creating attractive product designs, and updating product designs to meet customer demand can improve the performance of MSMEs in Bayan District. The results of this study are also in line with the Resource-Based View theory, where product innovation is an internal resource in the form of a valuable strategic asset for creating new value for consumers. The acceptance of the second hypothesis in this study confirms the results of previous studies conducted by Chow & Utama (2023), Lorensa & Hidayah (2022), and Yanti et al. (2024), which showed that product innovation has a positive and significant effect on MSMEs performance.

This study also found that digital marketing has a positive effect on the performance of MSMEs, indicated that the more optimal use of digital marketing can improve the performance of MSMEs in Bayan District. The proof of the third hypothesis in this study shows that respondents assess the use of paid advertising (Google Ads, etc.) to attract visitors to business websites, the use of advertisements containing interactive elements to attract attention, and using advertising features on all social media platforms can improve the performance of MSMEs in Bayan District. Therefore, when linked to the Resource-Based View theory, digital marketing capabilities, such as product innovation, are internal resources that are valuable strategic assets for creating new value for consumers. Digital marketing has an impact on a business, namely by expanding the market, increasing brand awareness and customer loyalty, and increasing the number of customers. With an increasing number of customers, the number of products or services sold increases, thereby improving the performance of the business. The acceptance of the third hypothesis (H3) in this study confirms the results of previous studies conducted by Yanti et al. (2024), Andriyani et al. (2023), Rosita et al., (2024) which showed that digital marketing has a positive and significant effect on the performance of MSMEs.

CONCLUSION

Based on the results of data analysis, this study concludes that social capital, product innovation, and digital marketing partially have a positive and significant effect on the performance of MSMEs in Bayan District. In social capital, social relationships, trust, and strong networks between business actors have been proven to be able to significantly increase the efficiency and performance of MSMEs. With product innovation, the ability of business actors to create uniqueness, improve quality, and update product variations has been proven to successfully boost sales performance. Meanwhile, in digital marketing, the effective use of social media, e-commerce, and digital marketing strategies has been proven significant in expanding market reach and increasing MSMEs revenue. The results of this study are also in accordance with the Resource-Based View Theory which argues that internal resources are the main key for companies to achieve sustainable competitive advantage and high business performance.

The results of this study imply that the growth and sustainability of MSMEs in Bayan District are highly dependent on a combination of strong social capital, product creativity, and technological adaptation. Optimal business performance improvements cannot be achieved solely by relying on conventional methods. If these three aspects are ignored, MSMEs in Bayan District could potentially be left behind and lose competitiveness in the rapidly evolving digital market.

SUGGESTION

This research has been attempted to be as optimal as possible in accordance with scientific principles, but still has several limitations as follows: a). Geographical limitations, where the location of this research is limited only to the scope of the Bayan District area, so that the generalization of research results is not necessarily completely the same if applied to other areas with different cultural characteristics, infrastructure, or business ecosystems. b). Variable limitations, where the factors studied to measure the performance of MSMEs in this study are limited to only three variables (social capital, product innovation, and digital marketing) with a relatively small Adjusted R Square value. c). Potential for subjective bias, data collection relies entirely on questionnaire instruments filled out independently by respondents. This opens up a gap for subjective bias, where business actors tend to provide ideal assessments compared to real conditions in the field. Therefore, suggestions for further research are as follows: a) Expanding the research focus beyond just one sub-district to include districts, across regions, or conducting comparative studies between MSMEs in coastal/rural areas and MSMEs in urban areas. This is important to test the consistency of the variable's influence and produce conclusions that can be generalized more broadly. b) Using other important variables that have not been studied, such as access to capital, financial literacy, entrepreneurial characteristics, or business legality. c) Using a mixed method approach, namely complementing the quantitative questionnaire with in-depth interviews and direct observations in the field. This is important for triangulating data to validate whether the questionnaire answers align with the actual operational conditions of MSMEs.

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