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# The Influence of Product Quality and Digital Marketing on the Performance of SMEs (A Case Study of SMEs Supported by the Representative Office of Bank Indonesia in South Sumatra Province)

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**Abstract---***This research explores the intricate dynamics between product quality, digital marketing strategies, and Small and Medium Enterprises (SMEs) performance. The study focuses on the entire population of 43 SMEs affiliated with the Representative Office of Bank Indonesia in South Sumatra Province in 2022. These SMEs benefit from comprehensive guidance provided by Bank Indonesia consultants and actively participate in mentoring programs spanning both conventional and Sharia SME schemes, reflecting a census-based sample selection. The findings derived from multiple linear regression analysis underscore a noteworthy positive and significant impact of product quality and digital marketing on SME performance. In a marketplace saturated with similar products in South Sumatra Province, SMEs must cultivate distinctive attributes that resonate with the local community, thus enhancing their competitive edge. Additionally, the geographical remoteness of SMEs from the city center emerges as a pivotal factor influencing their performance. This remoteness not only affects production logistics but also poses challenges to sales, thereby shaping the overall performance landscape of these enterprises. In essence, this research contributes valuable insights into the multifaceted relationship between product quality, digital marketing strategies, and the performance of SMEs, particularly those aligned with Bank Indonesia in South Sumatra Province. The findings offer actionable intelligence for SMEs and policymakers to navigate the evolving business landscape, emphasizing the need for unique value propositions and strategic geographical considerations in enhancing SME competitiveness and sustainability.*

**Keywords---***Competitiveness, digital marketing, MSME performance, product quality, SMEs performance.*

**Introduction**

Micro-enterprises are productive businesses owned by individuals and business entities that meet the criteria for micro-enterprises as regulated by the law. Small businesses are independent, productive economic enterprises operated by individuals or business entities, not subsidiaries or branches of medium or large enterprises, meeting the criteria for small businesses as defined by the law. Medium-sized enterprises are independent, productive economic enterprises operated by individuals or business entities that are not subsidiaries or branches of small or large enterprises, meeting the criteria for medium-sized enterprises as defined by the law (Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises (MSMEs)). In the Indonesian economy, micro, small, and medium enterprises (MSMEs) constitute the largest group of businesses and have proven resilient to various economic crises. Strengthening micro, small, and medium-sized business groups involving many sectors has become necessary. The criteria for businesses classified as micro, small, and medium enterprises have been regulated by law. The development of MSMEs is strategically essential for driving the national economy, and their crucial role lies in stimulating economic dynamism. Their flexibility and efficiency allow MSMEs to adapt to changing business environments better than larger companies. Since the monetary crisis that began in 1997, nearly 80% of large businesses experienced bankruptcy and conducted massive layoffs.

In contrast, MSMEs remained resilient during the crisis despite their limitations. MSMEs play a significant role in reducing unemployment, and layoffs have forced the affected workers to consider the MSME sector. Developing the private sector is undoubtedly necessary. MSMEs play a vital role in business development in Indonesia and serve as the foundation for the growth of large enterprises. It is crucial to recognize that the development of MSMEs is not solely the Government's responsibility; MSMEs, as the developed party, can collaborate with the Government to advance together. Note: This is an English translation for clarity, and some adjustments have been made for readability. Please review the translation and make any further edits or adjustments as needed.

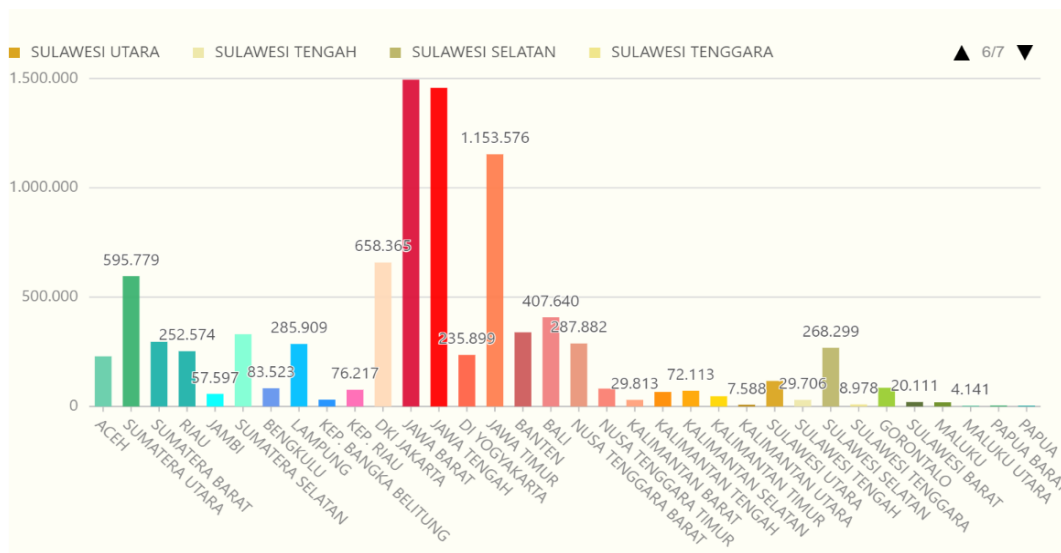


Figure 1. Total MSMEs in Indonesia 2010-2023  
 Source: Directorate General of State Assets – Ministry of Finance, 2023

The data in Figure 1, indicates that throughout 2022, the world and Indonesia will experience a global economic recession in 2023. According to Finance Minister Sri Mulyani, Indonesia's economy faces rapid and fundamental changes, driving a more stable economic condition amidst the current global recession. In general, economic recession is defined as a situation where a country's economy experiences a decline based on Gross Domestic Product (GDP), unemployment rates, and adverse economic value for two consecutive quarters. The current global economic conditions are challenging (Afina, 2023).

Indonesia has faced similar difficult times, such as the monetary crisis of 1998 and the COVID-19 pandemic. MSMEs have been at the forefront, playing a crucial role in the growth of the Indonesian economy. MSMEs are an integral part of Indonesia's independent economy and have significant potential to improve the population's welfare, as seen in their role in economic redistribution for small communities, poverty eradication, and generating foreign

exchange for the country. According to data from the Ministry of Cooperatives and Small and Medium Enterprises (KUKM), in 2022 there were 9.1 million MSME players in Indonesia, totalling 99 million (Afina, 2023).

Based on the data in Figure 1, it is evident that the total number of MSMEs in Indonesia from 2010 to 2023 is highest in West Java and Central Java. North Sumatra has the highest number of MSMEs in Sumatra, while South Sumatra is still below North Sumatra. This indicates that in South Sumatra, the number of MSMEs is still the highest in the Sumatra region and suggests an area for the Government to enhance the growth and development of MSMEs in South Sumatra.

Micro, small, and medium enterprises (MSMEs) play a crucial and strategic role in Indonesia's economic structure by contributing significantly to the gross domestic product (61.1%), employment (97.1%), and exports (14.4%). Bank Indonesia, as the central bank, strives to make the best contributions to enhance the role of MSMEs in the economy. The development of MSMEs by Bank Indonesia is aligned with its responsibilities and in line with the bank's vision, mission, and strategic programs. The focus is on (<https://www.bi.go.id>, 2023); 1) We support the supply-side efforts to control inflation, especially volatile food inflation. 2) We are promoting the export potential of MSMEs and supporting tourism to reduce the current account deficit. 3) We are improving MSMEs' financial access to support the financial system's stability.

Bank Indonesia's role in macroprudential policy implementation, especially in promoting intermediation functions and improving financial access, also involves MSME development. One primary concern for Bank Indonesia regarding MSMEs is financial access. MSMEs have a significant role in the Indonesian economy, contributing significantly to GDP formation and employment. They are believed to have high economic resilience, serving as pillars for financial system stability and the economy. However, MSME development faces various challenges, including limited financial access due to MSMEs' inability to produce financial reports, which are crucial for financial institutions to assess creditworthiness. In response, Bank Indonesia, as the central bank, strives to contribute by implementing policies to enhance MSME development and improve financial access. Additionally, the development of MSMEs by Bank Indonesia aims to enhance the managerial capacity, human resource skills, and innovation of MSMEs (<https://www.bi.go.id>, 2023).

The scope of MSME product development includes developing volatile food products, local economic development, and the Bank Indonesia Entrepreneur (WUBI) program. In terms of accelerating access, development is driven by financial, market, knowledge network, innovation, and digitalization access. Support from infrastructure and institutions also impacts the formation of an optimal MSME ecosystem, including regulatory/policy support, inclusive finance, consumer protection, education/literacy, business models, monitoring, evaluation, and institutional strengthening and information systems. In addition to these aspects, strengthening corporatization, improving information and data accuracy, optimizing intensive coordination between ministries/agencies, increasing the utilization of innovation and technology, and creating a supportive ecosystem are factors driving the success of MSME development in Indonesia, continually built by Bank Indonesia (<https://www.bi.go.id>, 2023).

Since its launch on May 14, 2020, the National Movement for MSMEs (Gernas BBI) has significantly impacted the national economy, achieving increased sales and MSME onboarding. Specifically, as of October 2022, Gernas BBI has recorded 20.6 million MSME merchants onboarded to the digital platform. Moving forward, MSME development will continue to be promoted to realize competitive and superior Indonesian MSMEs, both domestically and internationally, supporting national economic recovery (<https://www.bi.go.id>, 2023).

In addition to the Government and MSMEs, the Banking sector plays a crucial role in various financing aspects, especially in lending and banking policy formulation. Furthermore, domestic and foreign investors' role in providing funds or capital must be considered. The Government must address three classic issues that often impact MSMEs: market access, capital, and technology. Overall, several factors need to be considered in developing MSME business units, including working conditions, new business promotion, access to information, financing access, market access, improvement of product quality and human resources, availability of business development services, cluster development, business networks, and competition (metadata.co.id, 2023).

Bank Indonesia provides training and mentoring facilities, including utilizing marketing methods on social media and marketplaces. In line with this, according to the Head of the Department of MSME Development and Consumer Protection at BI, Budi Hanoto, to encourage MSMEs to go digital, BI collaborates with various marketplaces as platforms to market MSME products. One of BI's partners is Shopee, with a collaboration agreement signed in July. Shopee is an international marketplace, and through this collaboration, information about BI-supported MSME products is expected to spread quickly to foreign markets (<https://www.bi.go.id>, 2023).

Hanoto states that Indonesian MSME products already have the quality that meets consumer needs, and BI supports market expansion to increase revenue. "Of course, to increase revenue," he said. In this collaboration, BI-supported MSMEs will gain the necessary skills in digital marketing, from knowledge about digital marketing

patterns to understanding the characteristics of consumers in the digital world, which differ from conventional consumers (<https://www.bi.go.id>, 2023).

## Research Methods

This study adopts a mixed-methods research approach to delve into the dynamic interplay between product quality, digital marketing strategies, and the performance of Small and Medium Enterprises (SMEs) associated with the Representative Office of Bank Indonesia in South Sumatra Province. The research population encompasses all SMEs under the purview of Bank Indonesia in the region, justifying a census approach for comprehensive insights. Quantitative data will be gathered through a structured survey questionnaire administered to SME owners, featuring Likert scales and closed-ended questions to quantify responses regarding product quality, digital marketing practices, and various performance indicators (Esubalew & Raghurama, 2020; Behl et al., 2022).

Concurrently, qualitative insights will be sought through in-depth interviews and focus group discussions with a subset of SME owners and stakeholders. These qualitative methodologies aim to unravel the nuanced dimensions of product quality and the strategies employed in digital marketing. Thematic analysis will be applied to extract meaningful patterns and themes from the qualitative data, providing a rich, contextual understanding that complements the quantitative findings (Sitompul et al., 2021).

The study's independent variables include product quality and digital marketing, while the dependent variable is SME performance. This performance will be assessed through diverse indicators, including financial metrics, market share, customer satisfaction, and growth parameters. Quantitative analysis will use descriptive statistics, correlation analysis, and regression analysis, leveraging statistical software such as SPSS for robust data interpretation.

Throughout the research process, ethical considerations will take precedence. Participants will be informed of the study's purpose, their rights, and the voluntary nature of their involvement. Strict adherence to ethical guidelines, including maintaining confidentiality and obtaining informed consent, will be a cornerstone of this study.

While the study offers valuable insights, it is essential to acknowledge its limitations, such as the potential for response bias in surveys and the subjective nature of qualitative data. The research scope is confined to SMEs affiliated with Bank Indonesia in South Sumatra, emphasizing the need for cautious generalization. Nonetheless, this study aspires to contribute nuanced findings that bridge the gap between academia and practical applications, offering actionable insights for SMEs in the ever-evolving business landscape.

## Result and Discussion

The research outcomes shed light on the intricacies of factors influencing the performance of Micro, Small, and Medium Enterprises (MSMEs), particularly those under the auspices of Bank Indonesia (BI) in South Sumatra Province. The constant value of 1.571 serves as a baseline indicator, reflecting the inherent performance of MSMEs when not subjected to the influences of product quality and digital marketing. This foundational metric provides a benchmark for interpreting the subsequent regression coefficients.

Delving into the specifics, the regression coefficient for the product quality variable stands at 0.505, accompanied by a robust t-value of 4.547. This robust statistical output unequivocally signifies a positive and significant impact of product quality on MSME performance. The implication is clear: as BI-supported MSMEs elevate the quality of their products, a commendable positive influence permeates their overall performance. This highlights the strategic importance of prioritizing and enhancing product quality to fortify competitiveness and foster consumer satisfaction among these enterprises (Guan et al., 2006; Falcicola et al., 2020).

Equally noteworthy is the examination of the regression coefficient for the digital marketing variable, which yields a value of 0.310 and a corresponding t-value of 2.623. This outcome underscores a significant positive association between digital marketing efforts and MSME performance. The inference is compelling — a heightened engagement in digital marketing activities correlates positively with an augmented performance trajectory for MSMEs. In an era dominated by digitalization and evolving consumer behavior, this finding underscores the pivotal role of leveraging digital platforms for promoting and sustaining the growth of MSMEs.

In summation, these research findings underscore the dual significance of product quality and digital marketing in shaping the performance landscape of BI-supported MSMEs in South Sumatra Province. Beyond their academic contributions, these insights carry practical implications for BI and policymakers. They pinpoint specific areas where targeted support and interventions can be employed to enhance the performance and resilience of MSMEs further, contributing to the broader economic landscape in the region (Insch & McBride, 2004; Čater & Čater, 2010).

The constant value indicates a positive value of 1.571. This suggests that MSME performance is considered without the influence of product quality and digital marketing; the MSME performance variable is 1.571. The

regression coefficient value for the product quality variable is 0.505, with a t-value of 4.547, indicating that product quality positively affects MSME performance. This suggests that higher product quality will positively impact the product quality in BI-supported MSMEs. The regression coefficient value for the digital marketing variable is 0.310, with a t-value of 2.623, indicating that digital marketing positively affects MSME performance. This suggests that higher levels of digital marketing activities will positively impact, meaning higher digital marketing in BI-supported MSMEs (translated from <https://www.bi.go.id>, 2023).

### *Discussion*

#### *Influence of Product Quality on MSME Performance*

The study indicates a positive and significant influence of product quality on MSME performance, aligning with previous research (Khumaidah, 2023; Primadhita et al., 2023; Ernita & Suseno, 2023; Harini & Rahmayuna, 2023; Olshavsky & Miller, 1972; Nindhita et al., 2022; Lailla & Sriminarti, 2022; Oktahirsa et al., 2021; Prihatini et al., 2021; Saefudin et al., 2023; Tirtayasa et al., 2021; Suchánek et al., 2014; Aristha, 2020; Lakhali & Pasin, 2008). This suggests that higher product quality positively impacts the performance of MSMEs.

The results further reveal that product quality, encompassing dimensions such as performance, appearance, reliability, compliance with specifications, service, and perceived quality, is critical. However, the study indicates that the products produced by MSMEs under the study are not the primary choice for consumers, with a relatively low score of 3.62. This might be attributed to the intense competition among MSMEs in South Sumatra, particularly in Palembang, providing consumers with numerous options. To address this, MSMEs affiliated with the Bank Indonesia Representative Office in South Sumatra must enhance their product appeal to become the preferred choice among consumers (Melović et al., 2020; Kim et al., 2021).

On a positive note, the study identifies that MSME products have successfully contributed to increasing consumer and tourism attractiveness, earning the highest score of 4.46. Incorporating the Bank Indonesia logo on the products of MSMEs affiliated with the Bank Indonesia Representative Office in South Sumatra creates a unique appeal for consumers, building a positive image among the public.

#### *Influence of Digital Marketing on MSME Performance*

Similarly, the study shows a positive and significant influence of digital marketing on MSME performance, aligning with previous research (Pelsmacker & Tilburg, 2023; Sudirjo, 2023; Khumaidah, 2023; Mehralian & Khazaee, 2022; Tolstoy et al., 2022; Algumzi, 2022; Mechman et al., 2022; Marjukah, 2022; Lailla & Sriminarti, 2022; Effendi, 2022; Onyango, 2021; Prasad et al., 2001; Prihatini et al., 2021; Kaharuddin, 2021; Marjukah et al., 2021; Huda, 2021; Tirtayasa et al., 2021; Orzan, 2020; Phiri, 2020; Kawira et al., 2019; Marpaung & Sibarani, 2018). This suggests that an effective digital marketing strategy positively impacts the performance of MSMEs.

The study delves into various dimensions of digital marketing, including product, price, place, and promotion. However, it highlights a challenge regarding the accessibility and location of MSMEs, with a lower score of 3.62. The remote location of MSMEs in the outskirts of Palembang, such as in Kertapati, may hinder accessibility for consumers, especially those residing in the city center. Additionally, the study indicates challenges related to the parking facilities, limiting the ease with which consumers can reach and explore these MSMEs. To enhance digital marketing effectiveness, MSMEs must address these location-related challenges and consider strategic measures to attract more consumers (Mason et al., 2015; Bouwman et al., 2019).

### **Conclusion**

In summary, this study illuminates the pivotal role of product quality and digital marketing in shaping the performance of Micro, Small, and Medium Enterprises (MSMEs) associated with the Bank Indonesia Representative Office in South Sumatra. The research underscores product quality's vivacious and significant influence on MSME performance, emphasizing the need for continuous improvement to meet consumer preferences in a highly competitive market. Notably, incorporating the Bank Indonesia logo on products emerged as a distinguishing factor, contributing to increased attractiveness for local consumers and tourists.

Similarly, the study highlights the crucial impact of digital marketing on MSME performance. Effective digital marketing strategies were found to be associated with enhanced business outcomes. However, challenges related to the remote locations of these enterprises were identified, underscoring the importance of addressing accessibility issues to maximize the impact of digital marketing efforts.

Moving forward, recommendations include a concerted focus on product quality enhancement, strategic digital marketing initiatives, and addressing accessibility challenges. Collaboration with Bank Indonesia provides a valuable platform for MSMEs to leverage branding and support in these endeavors. Combining quality improvements, targeted marketing, and strategic considerations, this holistic approach is essential for the sustained growth and competitiveness of MSMEs in South Sumatra. The study's findings offer valuable insights for policymakers, business owners, and stakeholders seeking to foster the region's resilience and prosperity of MSMEs.

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