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The Effect of Product Quality, Product Innovation, Capital and Marketing Strategy on the Development of MSMEs in Simalungun Regency Trade

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Abstract:

This research investigates the influence of product quality, product innovation, capital, and marketing strategy on the development of micro, small, and medium enterprises (MSMEs) in trade districts. The study aims to determine whether these factors significantly contribute to MSME development. The population and sample were selected using purposive sampling. Data were collected through questionnaires and analyzed using SPSS software. The results of simple regression analysis show that product quality, capital, and marketing strategy have a significant influence on the development of MSMEs. However, product innovation does not have a significant influence on MSME development.

Keywords: *Product Quality; Product Innovation; Capital; Marketing Strategy*

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are one of the most significant pillars supporting the Indonesian economy. MSMEs not only contribute to the creation of job opportunities but also help in improving the standard of living for many communities. According to Kuswardani et al. (2024), MSMEs are involved in a variety of economic sectors, with production and commercial activities contributing directly to regional and national economic growth. In Simalungun Regency, especially in the Trade District, MSMEs have great potential to grow and provide a real contribution to the local economy. However, in reality, the development of MSMEs in this area still faces various obstacles that hinder their maximum growth.

One of the main challenges faced by MSMEs in Trade District is the issue of product quality. Product quality is one of the determining factors in increasing consumer satisfaction and loyalty (Kuspriyadi et al., 2023). MSMEs with high product quality have better competitiveness in the market, especially amid increasingly fierce competition. However, many MSMEs in this region still find it difficult to implement

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standardization and quality control processes due to limited human resources and technological capabilities. As a result, MSMEs often experience fluctuations in customer trust and satisfaction.

In addition to product quality, product innovation also plays a central role in the sustainability of MSMEs. Castilla-Vergara & García-Pérez de Lema (2021) emphasize that innovation is not only related to creating new products but also involves improvements to existing products to adapt to market changes. Unfortunately, MSMEs in Trade District still experience limitations in innovating due to insufficient capital and access to appropriate technology (Damanik & Aisyah, 2024). Even though several studies, such as Indriyani & Shan (2024), have proven that innovation has a positive impact on competitive advantage, its application in MSMEs at the regional level has not been optimal.

Capital is another crucial factor in MSME development. The availability of adequate capital allows MSMEs to expand production capacity, develop marketing strategies, and invest in technology and human resources. However, limited access to capital sources is still a classic obstacle for MSMEs in Simalungun Regency (Simbolon et al., 2025). These capital constraints ultimately hinder business expansion and innovation efforts. According to Barney (1991), capital, along with other strategic resources, forms the basis of a company's sustained competitive advantage.

Furthermore, the application of an effective marketing strategy has not been fully utilized by MSMEs in this region. In the digital era, business competition increasingly demands that MSME players master digital marketing platforms such as social media, websites, and e-commerce (Wasik et al., 2023). However, many MSME actors still rely on conventional promotion methods, which are no longer effective in reaching a wider market. This is supported by research from Mousa et al. (2021), which shows that optimal marketing investment can increase business value and reduce business risk.

Research gap exists because previous studies tend to examine the influence of individual variables, such as innovation on MSME performance (Ambarwati et al., 2024; Tirtayasa & Rahmadana, 2023) or product quality and digital marketing (Kuspriyadi et al., 2023), separately. Research specifically integrating the variables of product quality, product innovation, capital, and marketing strategy simultaneously on MSME development, especially in regional contexts like Simalungun Regency, is still limited. This gap indicates the importance of comprehensive research in exploring these relationships.

The novelty of this research lies in integrating the four variables comprehensively in the context of MSMEs in Trade District, Simalungun Regency, by considering the regional socio-economic background, which differs from urban MSMEs or those in other sectors. Furthermore, this study provides an empirical contribution to MSME development strategies at the regional level, offering practical recommendations that can be applied by stakeholders in Simalungun Regency.

Based on the phenomena and research gap described, this study is urgently needed to provide a deeper understanding of the factors influencing MSME development. The output of this research is expected to provide input for MSME practitioners and local government in formulating appropriate strategies to strengthen MSME sustainability and growth.

Thus, the purpose of this research is to analyze the influence of product quality, product innovation, capital, and marketing strategy on the development of MSMEs in Trade District, Simalungun Regency. By identifying which variables have a significant impact, this study is expected to offer strategic recommendations to improve MSME performance and competitiveness in the future.

2. Theoretical Background

The Effect of Product Quality on MSME Development

Product quality is a key factor in attracting and retaining customers, especially for MSMEs that are still in the process of building market trust. According to Kuspriyadi et al. (2023), product quality has a direct influence on improving MSME performance because it creates value that exceeds customer expectations. This is reinforced by Barney's (1991) *Resource-Based View (RBV)* theory, which explains that superior resources—such as consistently high product quality—can provide a sustainable competitive advantage. High-quality products not only increase consumer purchasing decisions but also encourage repeat purchases and positive word of mouth, which are critical for MSME growth in competitive markets. Therefore, maintaining product quality is one of the primary strategies that MSMEs must adopt to sustain and enhance business development.

Hypothesis 1 (H1): *Product quality affects the development of MSMEs in Simalungun Regency Trade District.*

The Effect of Product Innovation on MSME Development

In today's dynamic business environment, creativity and innovation are critical, especially in developing new products or improving existing ones. Castilla-Vergara & García-Pérez de Lema (2021) highlight that product innovation significantly contributes to MSME performance by offering unique products that differentiate from competitors. Furthermore, Khalikussabir & Sudarmiatin (2024) emphasize that product innovation acts as a catalyst for MSMEs to expand into new markets and strengthen their position in competitive environments. However, MSMEs often face obstacles in implementing innovations due to resource limitations (Damanik & Aisyah, 2024). Nevertheless, through continuous innovation, MSMEs can enhance product uniqueness, adapt to consumer preferences, and increase added value, which will ultimately boost development.

Hypothesis 2 (H2): *Product innovation affects the development of MSMEs in Simalungun Regency Trade District.*

The Effect of Capital on MSME Development

Capital is a fundamental element in supporting MSME growth. Adequate capital enables businesses to operate efficiently, expand, and innovate. Research by Simbolon

et al. (2025) proves that capital significantly influences MSME income, allowing entrepreneurs to optimize production processes, procure raw materials, and improve product quality. This view aligns with Barney's (1991) theory that access to strategic resources, such as financial capital, strengthens a business's ability to compete. Moreover, access to capital increases flexibility in implementing long-term strategies and reduces financial vulnerability. Therefore, capital availability is not only important in the initial business phase but also crucial for sustainable business growth.
Hypothesis 3 (H3): *Business capital affects the development of MSMEs in Simalungun Regency Trade District.*

The Effect of Marketing Strategy on MSME Development
An effective marketing strategy determines the extent of market reach and consumer engagement achieved by MSMEs. Ambarwati et al. (2024) explain that competitive advantage can be achieved through product innovation and creativity, supported by strategic marketing efforts. Similarly, Wasik et al. (2023) emphasize that optimizing marketing strategies—especially through digital channels such as social media and e-commerce—significantly improves MSME performance and market competitiveness. Unfortunately, many MSMEs in regional areas still rely on conventional marketing, which limits growth potential. By implementing modern, technology-based marketing strategies, MSMEs can enhance product visibility, build brand awareness, and ultimately improve sales and business development.
Hypothesis 4 (H4): *Marketing strategy affects the development of MSMEs in Simalungun Regency Trade District.*

3. Methodology

The research we did this time used a Quantitative method where the data we got in the following study was data such as numbers analyzed using research statistics. The object in the following study is applied to MSMEs which are located in Simalungun Regency Trade. The research time starts in 2023. The population taken is the MSMEs in Simalungun Regency Trade. The sample applied in the following study was selected using a Purposive sampling strategy, which means that the sample selection system coincides with specific considerations. This method is suitable for quantitative research that does not aim to generalize. The criteria for determining the sample were carried out using the Slovin formula, and the results obtained through this calculation were 100 research samples. The data category applied is Primary data, which is information obtained directly through the source. There is primary data, namely by distributing questionnaires (Questionnaires) through Google Forms or online surveys to participants to collect insights from MSME actors based on predetermined questions with a Likert scale. Then SPSS version 20 is used to process all data obtained from the questionnaire. The research intends to investigate how product quality, product innovation and marketing strategies affect the development of Simalungun Regency Trade MSMEs.

4. Empirical Findings/Result

Instrument Test

Validity test

Validity checking is carried out to determine the accuracy of the measuring instrument used as a variable measurement. Questionnaires are considered valid if each statement is able to explain the measurement of aspects.

Table 1. Validity Test Results

Variable	R_{Count}	R_{Table}	Sig	Information
Product Quality	0,835	0,195	0,000	Valid
	0,805	0,195	0,000	Valid
	0,796	0,195	0,000	Valid
Product Innovation	0,815	0,195	0,000	Valid
	0,847	0,195	0,000	Valid
	0,832	0,195	0,000	Valid
Capital	0,830	0,195	0,000	Valid
	0,828	0,195	0,000	Valid
	0,813	0,195	0,000	Valid
Development Strategy	0,806	0,195	0,000	Valid
	0,846	0,195	0,000	Valid
	0,749	0,195	0,000	Valid
MSME Development	0,801	0,195	0,000	Valid
	0,870	,0,195	0,000	Valid
	0,879	0,195	0,000	Valid

Based on the table above, it can be concluded that all the Rcounts of each variable exceed 0.195 in the Rtable. Therefore, it can be concluded that all independent and dependent variables are valid.

Reliability Test

This test is applied to assess an indicator through a variable in a questionnaire. If the response given through the statement items on the questionnaire remains or does not change, then the questionnaire can be trusted (Ghozali, 2018).

Table 2. Reliability Test Results

Variable	Reliability Value	Standard	Information
Product Quality (X1)	0,741	0,6	Reliable
Product Innovation (X2)	0,773		Reliable
Capital (X3)	0,753		Reliable
Development Strategy (X4)	0,718		Reliable
MSME Development (Y)	0,797		Reliable

From the attached data, it is known that Croncbach's alpha is the dependent and independent variables, namely product quality (X1), product innovation (X2), capital (X3), marketing strategy (X4) and MSME development (Y) > 0.60. So all independent and dependent variables in the following research are reliable.

Classical Assumption Test

Normality Test Results

Data normality analysis is applied in determining whether a linear regression pattern is normally distributed or not (Ghozali, 2018).

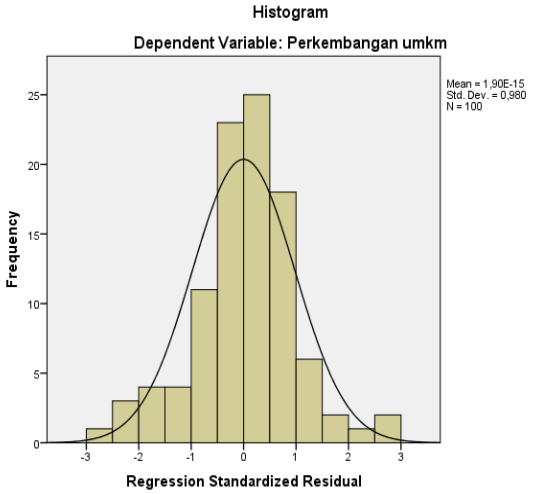

Figure 1. Histrogram Graph

From the illustration, it appears that the curve has a bell shape and does not deviate to the left or right. This indicates that the data has completed the requirements of normality.

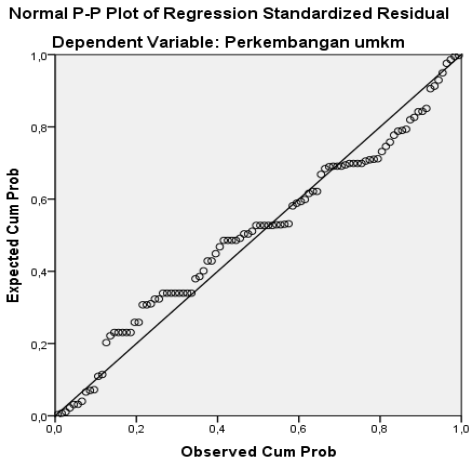

Figure 2. Normal Probability Plot Graph

Based on the picture, proving that the points are scattered in the diagonal area of the line trailing the data along the diagonal line, it can be concluded that it fulfills the assumption of normality.

Table 3. Normality testing statistical analysis of one-sample-smirnov (k s) test.

		Unstandardized Residual
N		100
Normal Parameters[a,b]	Mean	0E-7

	Std. Deviation	,77905651
Most Extreme Differences	Absolute	,094
	Positive	,084
	Negative	-,094
Kolmogorov-Smirnov Z		,938
Asymp. Sig. (2-tailed)		,343

a. Test distribution is Normal.

b. Calculated from data.

The attached study output can be seen that the residual data is Asym. Sig (2-tailed) of 0.343 > 0.05. Then the conclusion is drawn if the data used in the following study is normal distribution.

Test of Multicollinearity

Multicollinearity analysis aims to evaluate the similarity between independent variables in the regression pattern. If no similarity is found between these variables, the regression pattern can be considered feasible (Ghozali, 2018).

Table 4. Results of the Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Product Quality	,546	1,832
	Product Innovation	,578	1,729
	Capital	,794	1,260
	Development Strategy	,742	1,348

Through the attached test, it can be seen that the Stastik Collinearity data is Tolerance and VIF. Tolerance value of quality 0.546 VIF 1.832 innovation 0.578 VIF 1.729 capital 0.794 VIF 1.260 and marketing strategy 0.742 VIF 1.348 because the acquisition of tolerance > 0.100 and the number of VIF < 10.00 so that there is no sign of multicollinearity.

Test of Heteroscedasticity

The following test is carried out in order to identify when there is a difference in variability in residuals between one observer and another (Ghozali, 2018).

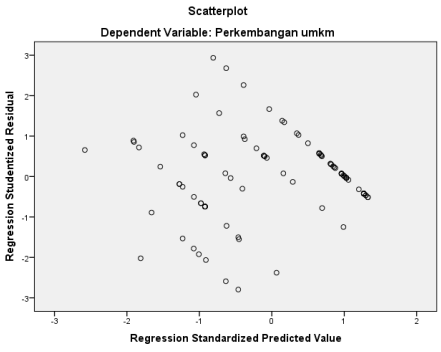

Figure 3. Scatterplot Test

From the Scatterplot test, it shows that the Scatterplot diagram of the independent variables does not form a certain pattern and spreads. Through that it can be stated that there is no heteroscedasticity problem.

Table 5. Glesjer Test

Model		T	Sig.
1	(Constant)	4,747	,000
	Product Quality	-1,130	,261
	Product Innovation	,634	,527
	Capital	-2,125	,036
	Development Strategy	-,550	,584

Based on the test table, it proves that the amount of significance (sig). For product quality (X1), product innovation (X2), capital (X3) and marketing strategy (X4) > 0.05 then it is concluded that there is no problem in this test.

Multiple Linear Regression Analysis

Multiple linear regression analysis is one of the statistical methods used to measure the effect of more than one independent variable on one dependent variable simultaneously. This approach allows researchers to evaluate the extent to which the independent variables together contribute to the variation that occurs in the dependent variable. In addition, this technique is also useful in identifying which variable most dominantly influences the observed results.

Table 6. Multiple Linear Regression Results

Coefficients[a]

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	1,611	,892
	Product Quality	,372	,075
	Product Innovation	-,036	,065
	Capital	,387	,081
	Development Strategy	,192	,063

Explanation of the regression table:

1. The constant value is 1.611 which has a positive value. This proves that when product quality, product innovation, capital, marketing strategies and the development of MSMEs tend to be positive.
2. This coefficient shows that each unit increase in the product quality variable will increase the development of MSMEs by 0.372, assuming other variables remain constant. The higher the quality of the products submitted, the higher the development of MSMEs achieved.
3. The product innovation regression equation is obtained with a coefficient of -0.036 which has a negative value. This means that the higher the product innovation, the development of MSMEs tends to decrease, with the assumption that other variables remain constant.
4. This coefficient indicates that each one unit increase in the variable will increase the development of MSMEs by 0.387, with other variables remaining

constant. The availability of sufficient capital will encourage the growth of MSMEs.

5. This coefficient proves that each one unit increase in the marketing strategy will increase the development of MSMEs by 0.192, with the assumption that other variables remain constant. The implementation of an effective marketing strategy will contribute to an increase in the development of MSMEs.

Hypothesis Testing

Simultaneous Test (F Test)

The f statistical analysis is performed in order to prove that all the independent variables included in the pattern affect the dependent variable simultaneously. The following evaluation standard also uses a significance level of 0.05. If the significance gain is more than 0.05 then the study model is not suitable for use (Ghozali, 2018).

Table 7. F Test Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	155,154	4	38,789	61,327	,000[b]
	Residual	60,086	95	,632		
	Total	215,240	99			

From the table above, it can be seen that the significance of 0.000 < 0.05 and f count 61.327 > f table value 2.47. This indicates that the study accepted H5. With that, it is concluded that there is a significant impact through product quality, product innovation, capital, and marketing strategies on improving MSMEs.

Partial Effect Test (T-test)

The t statistical analysis is applied to understand the impact of each independent variable on the dependent variable. The following evaluation is carried out under the condition that if the acquisition of significance < 0.05, then the hypothesis is approved, and if the acquisition of significance > 0.05, as a result the hypothesis is canceled (Ghozali, 2018).

Table 8. T Test Result

Model		T	Sig.
1	(Constant)	1,807	,074
	Product Quality	4,990	,000
	Product Innovation	-,548	,585
	Capital	4,780	,000
	Development Strategy	3,051	,003

1. From the table, it can be seen that the t count of the product quality variable is 4.990, the capital variable is 4.780, the marketing strategy is 3.05 > T table is 1.985. Obtaining sig product quality 0.00, capital 0.00 and marketing strategy 0.003 < 0.05, so it is concluded that product quality, capital and marketing strategies all affect the development of MSMEs.
2. From the table, it can be seen that the t count of the product innovation variable is -0.548 > t table of 1.985 and the sig of product innovation is 0.585 > 0.05. So

it is concluded that product innovation does not affect the development of MSMEs.

Determination Coefficient Test

The coefficient of determination (adjusted R) assesses the extent to which the ability of the pattern and explains the variance of the dependent variable. The acquisition of this coefficient ranges from 0 to 1 (0 < R > 1), the closer to one value, the greater the contribution of the independent variable in telling the facts needed to estimate the variance of the independent variable (Ghozali, 2018).

Table 9. Coefficient of determination test results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,849[a]	,721	,709	,795	2,328

In the attached table, the amount of R-Square is 0.721, indicating that 72.1% of the variable development of MSMEs can be described through variables of product quality, product innovation, capital, and marketing strategy. The remaining 27.9% is influenced by factors outside the following research model.

5. Discussion

The Effect of Product Quality on MSME Development

The findings of this study confirm that product quality has a positive and significant impact on the development of MSMEs in Simalungun Regency. This is in line with the argument presented by Kuspriyadi et al. (2023), who emphasized that superior product quality is one of the determining factors for MSMEs to strengthen their competitiveness in the market. High product quality not only creates added value but also builds consumer trust, which is essential for MSMEs that are still in the growth stage. Barney's (1991) Resource-Based View (RBV) theory also reinforces that quality products are part of the internal resources that can form a sustainable competitive advantage. MSMEs that consistently maintain the quality of their products are better positioned to gain customer loyalty and develop stronger market share. Thus, improving product quality becomes a fundamental strategy in achieving sustainable MSME growth.

The Effect of Product Innovation on MSME Development

On the other hand, the study reveals that product innovation has not shown a significant influence on the development of MSMEs in this context. This finding is supported by research from Indriyani & Shan (2024), who argue that although product innovation is often seen as a strategic step to increase competitiveness, its effectiveness depends on how well the innovation is integrated into the MSME's overall business strategy. Similarly, Castilla-Vergara & García-Pérez de Lema (2021) highlight that innovation alone is not sufficient if it is not supported by risk management, creative processes, and marketing capabilities. The insignificant influence in this study may stem from the fact that many MSMEs have not yet been able to translate innovation into concrete market advantages. Limited access to

technology, insufficient innovation capacity, or lack of creative processes could be contributing factors. This suggests that while innovation has the potential to support MSME growth, it requires stronger support from other operational aspects, such as marketing and capital management.

The Effect of Capital on MSME Development

Capital is confirmed to have a strong positive impact on MSME development. Sufficient capital allows MSMEs to expand production capacity, invest in equipment, improve product quality, and optimize distribution channels. Research by Simbolon et al. (2025) supports this finding by stating that capital access is essential for MSMEs to grow sustainably. Furthermore, Barney (1991) argues that financial resources are among the critical assets that give businesses flexibility in strategic decision-making. For MSMEs, capital serves as a driver to maintain business operations, innovate, and respond to market dynamics more effectively. Without adequate capital, MSMEs often experience stagnation due to their inability to scale up production or penetrate new markets. This highlights the importance of expanding access to funding and financial literacy for MSME actors in order to foster business growth.

The Effect of Marketing Strategy on MSME Development

Marketing strategy also plays a critical role in MSME development. This research confirms that MSMEs that implement effective marketing strategies have better opportunities to increase their market reach and sales. Wasik et al. (2023) emphasize that optimizing digital marketing strategies, such as leveraging social media, e-commerce platforms, and interactive promotions, can significantly improve business performance. Similarly, Ambarwati et al. (2024) show that creativity in marketing efforts can build competitive advantage for MSMEs. However, one of the challenges still faced by many MSMEs in regional areas is the lack of mastery of digital marketing skills. Therefore, capacity building in digital marketing becomes urgent to ensure MSMEs can maximize available market opportunities. Effective marketing strategies, especially when combined with high product quality, can position MSMEs more strategically in an increasingly competitive marketplace.

The Combined Effect of Product Quality, Product Innovation, Capital, and Marketing Strategy on MSME Development

Overall, this study shows that MSME development in Simalungun Regency is more influenced by fundamental factors such as product quality, capital, and marketing strategies. Meanwhile, product innovation does not yet demonstrate a substantial role in driving growth. This finding is aligned with the arguments of Damanik & Aisyah (2024), who highlight that innovation needs to be complemented by strong entrepreneurial marketing practices to generate real competitive advantages. Additionally, the systematic review by Nasir et al. (2024) reveals that innovation's influence is often indirect and mediated by other factors like competitive advantage or firm capabilities. The insignificant role of product innovation in this study suggests that innovation alone is insufficient when MSMEs lack supporting resources or when innovations are not effectively commercialized. The implication is clear: MSMEs need to strengthen their basic business pillars first—product quality, capital availability, and marketing competence—before focusing extensively on innovation

strategies. By doing so, they will be better prepared to turn innovation into tangible business growth.

6. Conclusions

Based on the results of the data analysis conducted, it can be concluded that product quality has a positive and significant influence on the development of MSMEs. The higher the quality of the products offered, the greater the possibility of small and medium enterprises to grow and survive in market competition. Good quality increases customer satisfaction, strengthens business image, and ultimately encourages consumer loyalty.

Furthermore, the research findings show that product innovation does not have a significant influence on the development of MSMEs in the context of this study. Although innovation is often considered an important element in competitive advantage, in practice not all MSME actors are able to implement innovation optimally. This could be due to limited resources, lack of access to technology, or low understanding of the importance of innovation in business development.

Capital has a positive and significant influence on the development of MSMEs. Adequate capital provides flexibility in managing business operations, expanding production capacity, and opening up opportunities for expansion. In line with this, marketing strategies are also proven to have a significant influence on the development of MSMEs. Marketing strategies that are well-targeted and adaptive to market trends enable MSMEs to reach a wider range of consumers, increase sales, and strengthen their position in the market.

Based on the results of this study, MSMEs are advised to prioritize improving product quality and managing capital wisely, while continuing to evaluate and update marketing strategies to remain relevant to market needs. Although product innovation did not show a significant effect, businesses are still encouraged to conduct gradual product development as part of a long-term effort.

The government is expected to expand access to business financing through low-interest loan schemes and provide relevant training and mentoring for MSME players. Future researchers are expected to develop this research by adding other variables such as entrepreneurial characteristics, digitalization, business environment, or government regulations, as well as considering a case study approach to gain a more in-depth and contextual understanding of the factors that influence the overall growth of MSMEs.

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