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THE EFFECT OF INTERNAL CONTROL, MARKETING STRATEGY, AND PRODUCT INNOVATION ON FINANCIAL PERFORMANCE OF FOOD AND BEVERAGE UMKM

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Abstract: This study aims to analyze in depth the influence of internal control, marketing strategy, and product innovation on the financial performance of food and beverage UMKM in Purbalingga Regency. This study provides deeper insight into the factors that influence the financial performance of UMKM, as well as providing practical recommendations for UMKM actors to improve their performance. This study uses a quantitative approach with an associative method to analyze the relationship between internal control, marketing strategy, and product innovation on the financial performance of food and beverage UMKM in Purbalingga Regency. Data were collected using a questionnaire. The analysis technique applied is Structural Equation Modeling (SEM) using SmartPls software. The results of the analysis show that Internal Control is acceptable, which means that the factor has a significant effect on the financial performance of MSMEs. On the other hand, marketing strategy has a positive role but does not have a significant effect, and product innovation does not show a positive and insignificant role. Therefore, MSMEs are advised to stabilize internal control, improve digital marketing strategies, and develop product innovation. Further research is needed to explore other factors that affect the financial performance of MSMEs.

Keywords: Internal Control, Marketing Strategy, Product Innovation, Financial Performance, MSMEs.

1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy. According to data from the Coordinating Ministry for Economic Affairs, MSMEs contribute more than 60% to the national Gross Domestic Product (GDP) and provide approximately 97% of jobs nationwide (Kementerian Koordinator Bidang Perekonomian Indonesia, 2024). MSME classification is regulated in Law Number 20 of 2008, which categorizes MSMEs into micro enterprises with a maximum annual turnover of IDR 300 million, small enterprises with a turnover of IDR 300 million to IDR 2.5 billion, and medium enterprises with a turnover of IDR 2.5 billion to IDR 50 billion (Kementerian Sekretariat Negara, 2008). The MSME sector also encompasses various types of businesses, such as trade, services, manufacturing, and culinary, which continue to grow in line with domestic and international market needs. Purbalingga Regency in Central Java has significant potential for MSME development. Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy. According to data from the Coordinating Ministry for Economic Affairs, MSMEs contribute more than 60% to the national Gross Domestic Product (GDP) and provide approximately 97% of jobs nationwide (Coordinating Ministry for Economic Affairs, 2024). This potential is supported by the diversity of local products and the high public interest in entrepreneurship. However, challenges such as limited access to financing, low product innovation capabilities, and a lack of effective marketing strategies remain major obstacles to increasing the competitiveness of MSMEs in this region.

The urgency of this research lies in the fact that despite the large number of MSMEs in Purbalingga, their contribution has not yet maximally impacted the income of residents, especially business owners. One of the causes is weak internal control, which leads to operational inefficiencies and the lack of targeted marketing strategies to expand market share. Furthermore, product innovation is still limited to a small scale, making it difficult to compete with products from other regions or even imports. Most MSMEs in Purbalingga are still oriented towards the local market without significant product diversification. Financial performance is one of the main indicators for assessing a business's success. Financial performance reflects a company's ability to manage resources to achieve profitability and long-term stability. Factors such as sound internal control, effective marketing strategies, and relevant product innovation significantly influence the financial performance of MSMEs. However, many MSMEs in Indonesia, including Purbalingga, still face obstacles in achieving optimal financial performance due to weak financial management and a lack of knowledge about modern business strategies.

Previous research has shown mixed results regarding these variables. For example, several studies found that strong internal controls improve financial reporting quality and transparency, thereby strengthening the financial performance of MSMEs (Nshimiyimana, 2024). Conversely, weaknesses in internal controls can increase financial risk and hinder operational efficiency (Dauda, 2024). Appropriate marketing strategies, particularly those based on technology and digital marketing, can increase MSME competitiveness (Do & Nguyen, 2020), although if not implemented properly, they can have an insignificant impact on financial performance (Onsongo et al., 2020). Product innovation is a crucial element in driving MSME growth, especially when carried out sustainably and based on market research (Wu & Zeng, 2022). Unplanned innovation can lead to wasted resources and inefficient increases in production costs. The purpose of this study is to analyze in depth the influence of internal controls, marketing strategies, and product innovation on the financial performance of food and beverage MSMEs in Purbalingga Regency. The selection of the title and location of this research is based on the great potential of the MSME sector in Purbalingga, as well as the need to understand the factors that can improve their financial performance in facing existing challenges. Thus, the results of this study are expected to make a significant contribution to the development of MSMEs in Purbalingga Regency and provide guidance for government policies to support the growth of this sector.

This study utilizes the Resource-Based View (RBV) theory, which states that a company's competitive advantage depends on valuable, rare, difficult-to-imitate, and non-substitutable internal resources (Barney, 1996). In the context of this research, the RBV is used to understand how internal control, marketing strategy, and product innovation contribute to improving MSME financial performance. Internal control is a strategic resource that supports operational efficiency and financial transparency in MSMEs. A sound internal control system can improve the accuracy of financial reports and reduce the risk of fraud (Aripradono, 2022). With more effective financial management, MSMEs can allocate resources more optimally, thereby increasing profitability. Innovative marketing strategies are a key resource in increasing MSME competitiveness. Digital-based marketing strategies, such as social media and e-commerce, can expand market reach and increase customer loyalty (Sulistiyani & Setyadi, 2021). From an RBV perspective, a marketing strategy based on market research is a unique capability that enables MSMEs to maintain a competitive advantage. Product innovation plays a crucial role in maintaining the competitiveness of food and beverage MSMEs. Innovation enables MSMEs to adapt to market trends, increase product value, and strengthen business attractiveness (Lubis, 2023). In the RBV, unique and sustainable product innovation becomes a difficult-to-imitate resource, thus providing a long-term competitive advantage.

H1: Internal control has a positive effect on the financial performance of MSMEs Research shows that effective internal control can reduce the risk of errors in financial reporting and improve the accuracy of financial information, which in turn contributes to better financial performance (Bidin et al., 2024).

H2: Marketing strategy has a positive effect on the financial performance of MSMEs This hypothesis states that implementing effective marketing strategies, including digital marketing, will contribute to improving the financial performance of MSMEs. Research shows that MSMEs that optimize digital marketing strategies can reach a wider market and increase sales (Ahmad & Dewi, 2023).

H3: Product innovation has a positive effect on the financial performance of MSMEs This hypothesis argues that continuous product innovation will improve the competitiveness and financial performance of MSMEs. Research shows that MSMEs that invest in product innovation can attract more customers and increase sales. Product innovation can also help MSMEs meet changing market needs, thereby increasing customer satisfaction and profitability (Widodo et al., 2024).

2 Research Methods

This research methodology was designed using a quantitative approach, a choice based on the objective of testing the causal relationship between independent variables (internal control, marketing strategy, and product innovation) and the dependent variable (financial performance of MSMEs). The quantitative approach, as explained by (Sugiyono, 2013), allows for the identification of causal relationships between research variables, which is particularly relevant in the context of food and beverage MSMEs in Purbalingga. The analytical technique applied was Structural Equation Modeling (SEM) using SmartPls software, which can examine complex causal relationships between variables in this study.

The study population included all MSMEs in the food and beverage sector in Purbalingga Regency, with a total of 567 active MSMEs according to data from the Integrated Business Service Center (PLUT) 2024. The sample was selected using purposive sampling, with the criteria being MSMEs that had been operating for at least two years, acted as producers, and had active employees. From this population, 104 samples were obtained, which were considered sufficiently representative. Data collection was conducted using a questionnaire consisting of two main sections. The first section covered general characteristics of the respondents, such as business age, number of employees, and type of business. The second section contained questions measuring the research variables using a 1–5 Likert scale (1 = Strongly Disagree, 5 = Strongly Agree).

3 Research Results

3.1 Respondent Characteristics

Table 2 shows that the majority of food and beverage MSMEs in this study came from Purbalingga District (17%), followed by Kemangkon District (10%) and Kalimanah District (9%), while other districts had a smaller distribution. In terms of business age, the majority of MSMEs had been operating for four years (36.5%), followed by businesses that were two years old (30%) and three years old (25%). No MSMEs were only one year old, while only a small proportion had been operating for five years (9%). Based on business type, the majority of MSMEs were in the food sector (80%), while beverage businesses accounted for only 4%, and a combination of food and beverage businesses accounted for 16%. All MSMEs acted as producers (100%), and all respondents had active employees (100%). This data reflects that the majority of MSMEs were in the growth stage with a small scale, a predominance in the food sector, and a high level of awareness of the importance of financial record-keeping. This is relevant to evaluate the influence of internal control, marketing strategy, and product innovation on the financial performance of MSMEs.

3.2 Measurement Model

Table 3 shows the measurement model analysis conducted by examining the correlation loading factor. Validity is considered if the value is greater than 0.7. Loadings of 0.5 or 0.6 are acceptable if the research is still in the early stages of developing a measurement scale, while the minimum Average Variance Extracted (AVE) is 0.50 (Chin, 2010). The measurement model can advance to the inner model stage if it meets the validity and reliability criteria. Not all indicators passed the first round. Internal Control Indicators A2 and A4 had loading factor values that did not meet the criteria, namely <0.5.

3.3 Discriminant Validity

In Table 4, all the AVE (Fornell-Larcker Criterion) roots of each construct are greater than their correlations with other variables. For example, for variable X1, the AVE value is 0.731. This value of 0.731 is greater than its correlations with other constructs, namely 0.675 with X2, 0.662 with X3, and 0.229 with Y1. Similarly, for other latent variables, the AVE ROOT value is greater than the correlation with other constructs. Because all latent variables have AVE ROOT values greater than their correlations with other constructs, the discriminant validity requirement for this model is met.

3.4 Inner Model Test

3.4.1 Model R-Square Value

Table 5 shows that internal control (X1), Marketing Strategy (X2), and Product Innovation (X3) show a value of 0.060. This value means that the financial performance variable (Y) is explained 6% by internal control (X1), marketing strategy (X2), and product innovation (X3). Meanwhile, other variables not the focus of this study contribute 94% to financial performance (Y).

3.4.2 Hypothesis Testing

H1 Internal control has a positive effect on financial performance. The results of the hypothesis test indicate that internal control has a positive and significant effect on the financial performance of MSMEs (Original Sample (O) = 0.294, T Statistics = 2.372, P Value = 0.009). Thus, the first hypothesis in this study is accepted. This finding confirms the importance of an effective internal control system in improving the financial performance of MSMEs. A strong internal control system contributes to increased financial reporting accuracy, regulatory compliance, and operational efficiency, which in turn increases the profitability and financial stability of MSMEs. This finding aligns with the Resource-Based View (RBV) theory, which emphasizes that a company's internal resources, including a robust internal control system, can be a source of competitive advantage and improve financial performance (Committee of Sponsoring Organizations of the Treadway Commission, 2013). Previous research by Bidin et al. (2024), also supports this finding, showing that effective internal control can reduce the risk of errors in financial reporting and improve the accuracy of financial information, which contributes to better financial performance. The study by (Nshimiyimana, 2024) also underlines the important role of internal control in improving the quality of financial reporting and transparency, which in turn strengthens the financial performance of MSMEs.

H2 Marketing strategy has a positive effect on financial performance

The results of the hypothesis test indicate that marketing strategy does not have a significant effect on the financial performance of MSMEs (Original Sample (O) = 0.028, T Statistics = 0.148, P Values = 0.441). Therefore, the second hypothesis in this study is rejected. These results indicate that the marketing strategies currently implemented by MSMEs have not had a significant impact on their financial performance. Several factors may explain this finding, including ineffective strategy implementation, changing consumer preferences, or high levels of competition in the market. In the context of the RBV, these findings suggest that marketing capabilities that are not well managed or not adapted to changes in the business environment will not significantly contribute to the competitive advantage and financial performance of MSMEs.

Research by Onsongo et al. (2020) also found similar results, indicating that suboptimal implementation of marketing strategies can have an insignificant impact on financial performance. However, it is important to note that a study by Ahmad & Dewi (2023) showed that utilizing digital marketing strategies can expand market reach and increase sales. This indicates that appropriate marketing strategies, particularly those utilizing digital technology, remain relevant in improving the financial performance of MSMEs.

Furthermore, recent research by Diantini et al. (2025) shows that the use of social media can increase customer loyalty and sales. Therefore, MSMEs need to evaluate and adjust their marketing strategies to ensure that they align with market trends and provide significant added value to customers. This indicates that appropriate marketing strategies, particularly those utilizing digital technology, remain relevant in improving the financial performance of MSMEs. Furthermore, recent research by Diantini et al. (2025) shows that utilizing social media can increase customer loyalty and sales. Therefore, MSMEs need to evaluate and adapt their marketing strategies to ensure they align with market trends and provide significant added value to customers.

H3 Product innovation has a positive effect on financial performance

The results of the hypothesis test indicate that product innovation does not significantly influence the financial performance of MSMEs (Original Sample (O) = -0.126, T Statistics = 0.808, P Values = 0.210). Consequently, the third hypothesis in this study is rejected. This result may indicate that product innovation undertaken by MSMEs has not been effective in increasing competitiveness or meeting market needs. From a RBV perspective, this finding underscores the importance of continuous product innovation based on in-depth market research. Innovation that is not well-planned or not aligned with customer needs will not significantly contribute to MSME financial performance.

Research by (Wu & Zeng, 2022) emphasizes that product innovation is a vital element in driving MSME growth, especially if it is carried out sustainably and based on in-depth market research. Conversely, poorly planned innovation can lead to wasted resources and inefficiently increased production costs. Furthermore, a study by (Widodo et al., 2024) states that investing in product innovation can attract more customers and increase sales, as well as help MSMEs meet dynamic market needs. Based on these findings, MSMEs need to adopt a more strategic approach to product innovation, focusing on a deep understanding of customer needs and market trends.

Overall, the results of this study highlight the importance of internal control as a key factor in improving the financial performance of MSMEs. Meanwhile, marketing strategy and product innovation, although important, did not significantly impact MSME financial performance in the context of this study. The implication of these findings is that MSMEs need to prioritize strengthening their internal control systems to ensure operational efficiency, financial reporting accuracy, and regulatory compliance. Furthermore, MSMEs need to reevaluate their marketing and product innovation strategies to ensure that these efforts align with market needs and provide significant added value to customers. Further research is needed to explore other factors that may influence MSME financial performance, as well as to better understand how marketing strategies and product innovation can be implemented more effectively in the MSME context. Collaboration with government agencies, educational institutions, and the private sector can also provide valuable support to MSMEs in improving their financial performance.

4 Conclusions And Suggestion

This study shows that internal control has a significant positive effect on the financial performance of food and beverage MSMEs in Purbalingga. Marketing strategy has a positive but insignificant effect, and product innovation does not show a positive or significant effect. Therefore, MSMEs are advised to stabilize internal control, improve digital marketing strategies, and develop product innovation. Further research is expected to explore other factors influencing MSME financial performance, such as variables related to the RBV theory.

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