

The Effect of Employee Engagement, Marketing Capability and Innovation on Sustainable Customer Loyalty among MSMEs Customers in Indonesia

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ABSTRACT. The competitive landscape of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia underscores the importance of sustained customer loyalty as a strategic imperative for growth and resilience. This research explores the dynamic relationship between employee engagement, marketing capability, innovation, and their combined impact on sustainable customer loyalty in the Indonesian MSME sector. A sample of 275 respondents provided insights into their demographic profile and perceptions. The study used SPSS version 26 software in analyzing the data, including instrument tests, classical assumption tests, and hypothesis testing regarding the positive influence of employee engagement, marketing capability, and innovation on sustainable customer loyalty. The findings strongly support these relationships, highlighting the importance of employee engagement, marketing capability, and innovation as drivers of sustained customer loyalty. The implications of these findings extend to MSMEs practitioners, policymakers, and academics, emphasizing the need for strategic investments in these critical areas to enhance the long-term growth and sustainability of the MSME sector in Indonesia.

Keyword: Employee Engagement; Marketing Capability; Innovation; Sustainable; Customer Loyalty; MSMEs

JEL Classification: M14, M3

INTRODUCTION

MSMEs in Indonesia play a crucial role in the country's economy, contributing significantly to job creation, income generation, and overall economic growth. They substantially impact Indonesia's GDP and help diversify the country's economic base. MSMEs contribute around 61% to Indonesia's GDP and absorb 97% of the workforce from the total national workforce absorption (Triha et al., 2023). Micro-businesses account for 92% of the workforce, small businesses for 5%, and medium-sized businesses for 3% of the total MSMEs workforce (Suhaili & Sugiharsono, 2019). The Indonesian government recognizes the importance of MSMEs and has implemented various policies to support their growth, such as inclusive financing, suspension of credit, and lower interest expenses (N. T. P. Sari & Kusumawati, 2022). Additionally, adopting digital transactions via IoT e-commerce has helped MSMEs increase their sales and adapt to the changing business landscape (Asad et al., 2022). However, despite their significant contribution to the GDP, MSMEs in Indonesia still need help in terms of competitiveness, especially in the export market. Indonesia's export performance exhibits a relative lag compared to other Southeast Asian nations such as Thailand and the Philippines (Suharyati, 2020). To improve their competitiveness, it is essential to strengthen innovation and entrepreneurship among MSMEs (Suharyati, 2020). In conclusion, MSMEs are vital for the Indonesian economy and global economic stability. They contribute significantly to the country's GDP and workforce absorption. However, to further enhance their competitiveness and impact on the economy, it is crucial to support innovation and entrepreneurship among MSMEs and help them adapt to the rapidly changing business environment.

However, in this competitive business environment, MSMEs' viability and expansion are inextricably related to their capacity to draw in and keep devoted clients (Dvouletý & Blažková, 2021; Koffi et al., 2021). It is a strategic imperative, not just a transactional goal, to pursue long-term customer loyalty. It includes the creation of durable connections with clients who routinely pick a certain company above its rivals, supporting revenue growth and market resiliency (Abdul-Talib & Sa'id, 2021; Abidin et al., 2022; Satria et al., 2022). The present study aims to examine the intricate dynamics that influence the sustained loyalty of clients within the context of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. The present study emphasizes three pivotal dimensions: employee engagement, marketing competency, and innovation, which have garnered significant scholarly attention in contemporary business literature. These characteristics can significantly influence a company's ability to cultivate and sustain customer loyalty.

Employee engagement plays a crucial role in the achievement of organizational success. Engaged employees exhibit emotional dedication to their tasks, express a sincere concern for the objectives of the organization, and display a willingness to exert additional effort to meet customer satisfaction (Antony, 2018). The correlation between employee engagement and client loyalty is important within Micro, Small, and Medium Enterprises (MSMEs). Employees actively involved and committed to their work are more inclined to deliver exceptional customer service, resulting in enhanced client experiences and subsequently fostering customer loyalty (Pratomo et al., 2023). Marketing capability refers to an organization's ability to plan, execute, and manage its marketing activities effectively. It encompasses various aspects, including market analysis, customer segmentation, product development, pricing strategies, and promotional efforts (Khouroh et al., 2020; D. Sari et al., 2023; Weaver, 2020). Effective marketing capability attracts new customers and ensures that existing customers remain satisfied and loyal (Phiri, 2020). Innovation plays a pivotal role in the contemporary business landscape (Hanifah et al., 2019; Indra et al., 2021; Iskandar et al., 2023; Kim & Lim, 2017). For MSMEs, innovation can manifest in various forms, such as new product development, process improvements, or novel business models. Innovative MSMEs are better positioned to adapt to changing customer preferences and market dynamics, fostering customer loyalty through continued value creation.

While the individual impact of employee engagement, marketing capability, and innovation on customer loyalty has been explored in the literature, there still needs to be more comprehensive studies that simultaneously examine the interplay among these factors within the context of Indonesian MSMEs. This research seeks to address this gap by investigating how these three critical elements interact and jointly influence sustainable customer loyalty among MSME customers in Indonesia.

LITERATURE REVIEW

Employee Engagement and Customer Loyalty

Within MSMEs, increasing employee engagement is crucial for increasing client loyalty. Employees who are emotionally invested in their jobs, devoted to the organization's objectives, and driven to delight consumers are said to be engaged. Numerous studies have emphasized how employee involvement increases client loyalty (Chi & Gursoy, 2009; Kurdi et al., 2020). Employee engagement increases the likelihood that outstanding customer service will be provided, which improves customer loyalty and satisfaction. Through positive interactions and experiences, devoted, loyal staff tend to develop loyal consumers (Dotson & Allenby, 2010; Jyoti & Sharma, 2012). Understanding how engaged employees influence customer loyalty in the context of MSMEs in Indonesia is crucial for achieving long-term sustainability and growth.

H1: Employee Engagement is predicted to have a positive and significant effect on Sustainable Customer Loyalty for MSME Customers in Indonesia

Marketing Capability and Customer Loyalty

Marketing capability refers to an organization's ability to effectively plan, execute, and manage marketing activities to achieve its objectives. This includes market analysis, customer segmentation, product development, pricing strategies, and promotional efforts. Effective marketing capability can significantly influence customer loyalty (Jung & Shegai, 2023; Purwanti et al., 2022). MSMEs with solid marketing capabilities are better equipped to understand their customers' needs, tailor their products or services accordingly, and communicate value propositions effectively. This, in turn, leads to improved customer satisfaction and loyalty (Kar & Harichandan, 2022; Kumar et al., 2013). In the Indonesian MSME sector, where competition is fierce and customer preferences are diverse, the role of marketing capability in fostering customer loyalty is of paramount importance.

H2: Marketing Capability is predicted to have a positive and significant effect on Sustainable Customer Loyalty for MSME Customers in Indonesia

Innovation and Customer Loyalty

Innovation is a key driver of business success in the modern era. MSMEs that embrace innovation are more likely to adapt to changing customer preferences and market dynamics, leading to enhanced customer loyalty. Innovative MSMEs can introduce new products or services that cater to evolving customer needs, differentiate themselves from competitors, and create a unique value proposition (Zouari & Abdelhedi, 2021). Moreover, innovations in customer service and engagement can further strengthen the bond between the business and its customers (Azmy, 2021; Qin et al., 2022). Understanding how innovation influences customer loyalty is essential for driving sustainable growth and competitiveness within the Indonesian MSME context.

H3: Innovation is predicted to have a positive and significant effect on Sustainable Customer Loyalty for MSME Customers in Indonesia

Interplay among Employee Engagement, Marketing Capability, and Innovation

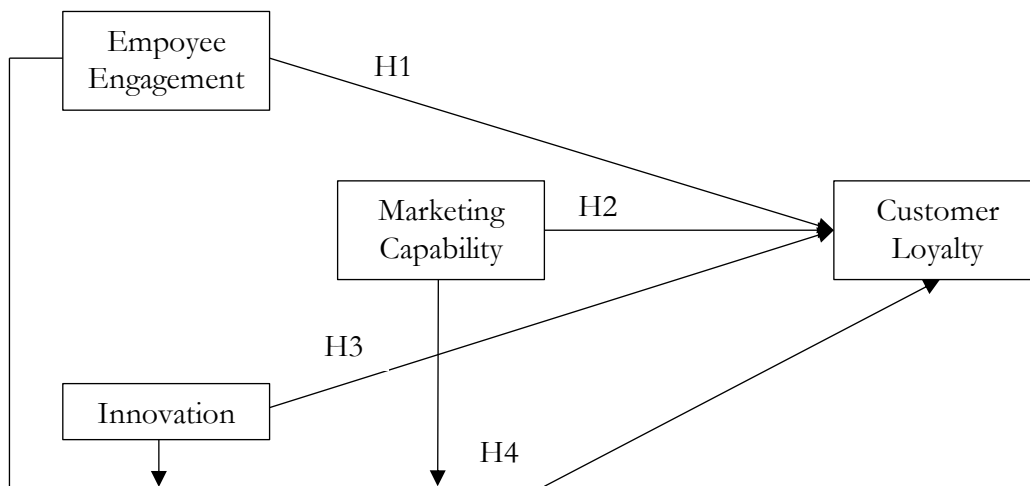
Although the literature has established the independent effects of employee engagement, marketing prowess, and innovation on consumer loyalty, the interaction between these characteristics remains a subject of current study. Scholars have acknowledged that these factors influence consumer loyalty in a way that is interrelated rather than mutually exclusive (Fahma Diena Achmada et al., 2022; Jung & Shegai, 2023; Mu, 2013; Phiri, 2020; Weaver, 2020). By generating original ideas and actively engaging in the innovation process, engaged employees, for instance, can foster innovation inside a company (Abu-Rumman et al., 2021; Fanggidae et al., 2023). Similar to how marketing ability may boost employee engagement, it can do so by giving staff members the skills and tools they need to interact with customers successfully (Bal et al., 2013; Maisoni et al., 2019; Nugroho, 2023). To create a comprehensive framework for sustainable growth, it is essential to comprehend how these aspects interact and collectively affect customer loyalty in the particular context of Indonesian MSMEs.

H4: Employee Engagement, Marketing Capability, and Innovation is predicted to have a positive and significant effect on Sustainable Customer Loyalty for MSME Customers in Indonesia

Gaps in the Literature and Conceptual

Although there exists a considerable amount of scholarly literature on the topics of employee engagement, marketing competence, innovation, and customer loyalty in isolation, there is a discernible void in the academic discourse concerning their collective influence within the particular setting of Indonesian micro, small, and medium enterprises (MSMEs). The primary objective of this study is to address the existing gap in knowledge by examining the intricate relationship between these characteristics and their combined impact on the establishment of durable client loyalty.

Figure 1. Conceptual Framework



Source: processed by author

Figure 1. Conceptual Framework

METHODS

This research employs a quantitative methodology to examine the correlation between employee engagement, marketing capability, innovation, and sustained customer loyalty among Indonesia's micro, small, and medium enterprises (MSMEs) consumers. The selection of quantitative research was based on its capacity to methodically gather and analyze numerical data, enabling the

application of statistical testing to hypotheses and the objective examination of correlations (Creswell, 2013). The present study employs a combination of descriptive and explanatory research methodologies. The study commences by providing an overview of the existing conditions about employee engagement, marketability, innovation, and consumer loyalty within the context of Indonesian Micro, Small, and Medium Enterprises (MSMEs). Subsequently, the paper elucidates the interrelationships between these variables and their impact on customer loyalty.

Sampling

The researchers employed a stratified random sample technique to choose participants for the study. The target population consists of clients of Micro, Small, and Medium Enterprises (MSMEs) from various industries and geographic regions in Indonesia. The sample size will be determined through statistical power analysis, taking into account many criteria, including the required level of confidence, margin of error, and anticipated effect size. A total of 300 questionnaires were disseminated, and 275 were subsequently collected, indicating that this study encompassed a sample size of 275.

Data Collection Instruments

Structured Questionnaire: Primary data will be collected using a structured questionnaire. This questionnaire will include Likert-scale items related to employee engagement by (Ahmed et al., 2020; Fidyah & Setiawati, 2020), marketing capability by (D. Sari et al., 2023; Wardaya et al., 2019), innovation (Aljuboori et al., 2021; Cui et al., 2022), and customer loyalty by (Syahlani et al., n.d.; Vilkaite-Vaitone & Skackauskiene, 2020). The questionnaire will be designed to capture respondents' perceptions and attitudes.

Secondary Data: Complementing the primary data, secondary data from industry reports, government statistics, and market data will be collected to provide context for the study and validate the findings.

Data Analyst

To examine the link between the independent factors (staff engagement, marketing capability, and innovation) and the dependent variable (durable customer loyalty), the collected data will be examined using IBM SPSS Statistics Version 26. Before the research instruments can be approved and used, they must pass validity and reliability testing. The data instruments' accuracy and dependability were examined. Researchers will also perform descriptive analysis to see how clients usually feel about the research variables in addition to employing the validity test to conduct more analysis. Data on research variables are processed using SPSS 26 program (Ghozali, 2018). Some of the analytical approaches that will be employed include traditional assumption tests like the data normality test, multicollinearity test, and heteroscedasticity test. The hypothesis testing analysis encompasses tests for partial, simultaneous, and coefficient of determination.

RESULT AND DISCUSSION

Table 1 explains that this demographic data provides valuable insight into the composition of the research sample, showing a balanced representation of gender, diverse age groups, educational backgrounds, income levels and geographic locations. This diversity enhances the study's ability to draw meaningful conclusions and make recommendations that can be applied more broadly in the Indonesian MSME context.

Table 1. Demographic Respondent

Gender	Number of Responden	%	Age (Years)	Number of Responden	%
<i>Male</i>	137	49,82%	18-24	45	16,36%
			25-34	79	28,73%
			35-44	62	22,55%
<i>Female</i>	138	50,18%	45-54	54	19,64%
			> 55	34	12,73%
Education Level	Number of Responden	%	Mountly Income (IDR)	Number of Responden	%
High School	38	13,82%	Less than 2.000.000	64	23,27%
Bachelor's Degree	118	42,91%	2.000.000 – 4.999.999	81	29,45%
Master's Degree	89	32,36%	5.000.000 – 9.999.999	65	23,64%
Doctoral Degree	30	10,91%	10.000.000 and above	65	23,64%
Geographic Distribution					
	Number of Responden	%		Number of Responden	%
Jakarta and Banten	79	28,73%	Bali and Nusa Tenggara	33	12,00%
			Kalimantan	15	5,45%
Java (Central, West and East Java)	92	22,45%	Sulawesi	21	7,64%
Sumatra	20	7,27%	Maluku and Papua	15	5,45%

Source: Primary Data (2023)

Table 2. Statistics Descriptive

Variable	Mean	Deviation	Min	Max
Employee Engagement	4.56	0.89	3.12	5.00
Marketing Capability	3.92	1.14	2.15	5.00
Innovation	4.21	0.98	3.67	5.00
Sustainable Customer Loyalty	4.67	0.75	3.45	5.00

Source: Primary Data (2023)

Tabel 2 the descriptive statistics reveal essential insights into the four critical variables of your study. Overall, the respondents tend to exhibit relatively high levels of employee engagement, innovation, and sustainable customer loyalty, while marketing capability falls into a moderate range. The variations in scores suggest that there is diversity within the sample, which can be further explored in the analysis to understand the factors contributing to these levels and their impact on sustainable customer loyalty in Indonesian MSMEs.

Table 3. Validity and Reliability

Variable	Code Item	R- count	R Table	Variable	Total Item	Cronbach's Alpha
Employee Engagement	X1.1 – X1.8	0,678- 0,928		Employee Engagement	8	0,861
Marketing Capability	X2.1 – X2.7	0,815- 0,937	0,117	Marketing Capability	7	0,769
Innovation	X3.1 – X3.6	0,810- 0,874		Innovation	6	0,791
Sustainable Customer Loyalty	Y1 – Y 8	0,609- 0,782		Sustainable Customer Loyalty	8	0,780

Source: Primary Data (2023)

The findings of the comparison between r-count and r-table on each statement item on the study variable are shown in Table 1 above. The indicator is valid using Sig if the r-count value is higher than the r-table value. (2-tailed) at a significant level of 0.05 or 5% (Ghozali, 2018). The r-table value of 275 samples with a 5% significance level is 0.117. It is known that all of the variables in table 3 have Cronbach's alpha values greater than 0.7. As a result, every statement item relating to employee engagement, job satisfaction, employee retention, and employee performance is dependable.

The traditional assumption test, shown in Table 4 as normality, multicollinearity, and heteroscedasticity. The information above demonstrates that it satisfies the criteria for passing the traditional assumption test (Ghozali, 2018). The significant value in the Asymp column of the Kolmogorov-Smirnov test demonstrates the normalcy test's validity. Sig (2-tailed) = 0.201, which is greater than 0.05. The tolerance value and Variance Inflation Factors (VIF), which demonstrate that all study variables have a tolerance value > 0.10 and a VIF 10.00, demonstrate the multicollinearity test and demonstrate that there is no multicollinearity in the regression model.

Using the heteroscedasticity test, a significance value greater than 0.05 is displayed. These findings support the hypothesis that heteroscedasticity does not occur in the regression equation model. Given that the value of each obtained significance is larger than 0.05.

Table 4. Classical Assumption Test

Variable	Normality	Multicollinearity	Heteroscedasticity
Employee Engagement		Tolerance = (0,582, VIF= 2,012)	Sig = 0,119
Marketing Capability	Asymp. Sig (2-Tailed) = 0.201	Tolerance = 0,560, VIF= 2,276)	Sig = 0,428
Innovation		Tolerance (0,482, VIF= 2,200)	Sig = 653

Source : Primary Data (2023)

Table 5. Multiple Regression Analysis

Model	Coefficients				
	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	T	
(Constant)	12.261	4.857		4.613	.001
Employee Engagement	.797	.108	.693	6.822	.000
Marketing Capability	.479	.106	.289	.833	.000
Innovation	.561	.136	.431	.265	.002

a. Dependent Variable: Sustainable Customer Loyalty

Source : Primary Data (2023)

The results of the multiple regression coefficient table are shown in table 5, and the following multiple regression equation is obtained: The equation ($Y = 12.261 + 0.797 X_1 + 0.479 X_2 + 0.561 X_3 + e$) leads to the conclusion that the independent variables (marketing innovation, employee involvement) have a considerable impact on long-term client loyalty.

Table 6. Simultan Test and Coefficient Determination

Simultan	Test	Coefficient of Determination
F court	Sig	R-Squared
427.519	0.000	0.560

Source : Primary Data (2023)

According to Table 6. When the computed f value produced by the analysis lowers the significance value below 0.05 or 0.05, indicating that it satisfies the requirements to be stated to be significant,

simultaneous testing or a *f* test gives confirmation in this study. Based on Tables 5 and 6, it can be stated that the hypotheses of this study project, which comprise H1 to H4, are accepted. R Square is 0.560, or 56%, where the variables of employee engagement, marketing capability, and innovation effect the increase in sustainable customer loyalty by 56%.

Employee Engagement and Customer Loyalty provide strong empirical support for the positive relationship in Indonesian MSMEs. Engaged employees are more likely to demonstrate commitment to their work, leading to improved customer service and better customer experience (Fahma Diena Achmada et al., 2022; Vorina et al., 2017). These findings underscore the importance of fostering employee engagement as a strategy to build sustainable customer loyalty.

The positive relationship between marketing capability and sustained customer loyalty suggests that MSMEs in Indonesia can significantly influence customer loyalty through effective marketing practices. Strong marketing capabilities enable businesses to align their offerings with customer needs, ultimately leading to increased customer satisfaction and loyalty (Phiri, 2020; Weaver, 2020). This emphasizes the importance of investing in marketing expertise and resources to drive long-term growth and sustainability (Juniarso et al., 2022; Supriandi, 2022).

The findings of this study confirm the importance of innovation in influencing sustainable customer loyalty among MSMEs in Indonesia. Innovative businesses are better positioned to adapt to dynamic market conditions and meet evolving customer preferences (Reficco et al., 2021; Suharyati, 2020; Yuniarty et al., 2022). By continuously delivering value through innovation, these businesses create the foundation for sustaining customer loyalty (Maming & Ardhiyansyah, 2022; Saad et al., 2022).

Afterwards, the findings from this study have significant implications for MSMEs, practitioners and policymakers in Indonesia. Engaging employees, developing marketing capabilities, and encouraging innovation can be a strategic imperative for businesses looking to increase sustainable customer loyalty. MSME owners and managers can use these insights to inform their strategies and investments. Additionally, policymakers can consider initiatives that support MSMEs in developing these critical factors. Creating an environment conducive to employee engagement, providing access to marketing resources, and encouraging innovation can contribute to the overall growth and sustainability of the MSME sector in Indonesia.

CONCLUSION

In summary, this research has provided insights into the determinants that impact the long-term loyalty of micro, small, and medium enterprise (MSME) consumers in Indonesia. By thoroughly examining employee engagement, marketing competence, and innovation, we have discovered their distinct and combined effects on consumer loyalty within this ever-changing business landscape. This research's findings undeniably establish a favorable correlation between employee engagement, marketing capabilities, innovation, and lasting consumer loyalty. Engaged employees with effective marketing capabilities and a culture of innovation contribute significantly to creating lasting customer relationships. The findings underscore the strategic importance of these factors for Indonesian MSMEs looking to thrive in a competitive landscape. In essence, this research reinforces the idea that employee engagement, marketability, and innovation are not just individual components of a business strategy but interconnected elements that collectively form the foundation of sustainable customer loyalty. As the MSME sector in Indonesia evolves, businesses that capitalize on these elements will be better equipped to face future challenges and opportunities, driving growth, resilience, and prosperity.

It is essential to acknowledge some of the limitations of this study. While this research design allowed for exploring relationships, it did not demonstrate causal relationships. Future research could use longitudinal or experimental methods to provide more robust causal evidence.

In addition, this study relied on self-reported data, which may introduce response bias. Combining self-reported data with objective measures, such as financial performance metrics, may provide a more comprehensive understanding of the variables under study.

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