THE ROLE OF MARKETING CAPABILITY: DIGITAL MARKETING ON MARKETING PERFORMANCE MICRO SMALL ENTERPRISE

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Abstract

MSE in Indonesia needs more resources, comprehensive market access, and low marketing expertise. Effective adoption and utilization of digital marketing strategies are critical for MSE to improve marketing performance and remain competitive. MSEs can enhance their marketing capabilities by adopting and utilizing digital marketing strategies. This study explores marketing capabilities in digital marketing relationships and marketing performance on MSE. Data collection was carried out by spreading surveys and obtained from 178 respondents who were micro and small-scale food and beverage entrepreneurs who used social media in their marketing campaigns. Data is processed using smartPLS. The results of this study show that digital marketing significantly affects marketing capabilities and marketing performance in MSE. Marketing capabilities have a significant effect on MSE's marketing performance. In addition, marketing capabilities mediate the relationship between digital marketing and marketing performance.

Keywords: digital marketing, marketing capabilities, entrepreneurial orientation, marketing performance. Micro and Small Enterprises

INTRODUCTION

Micro and small enterprises (MSEs) face unique challenges in today's highly competitive business landscape. These companies need to develop and leverage their marketing capabilities to thrive and succeed. Marketing capability refers to an MSE's ability to create a marketing plan, then implement it and create a marketing strategy to achieve the marketing objectives of the MSE (Vorhies &; Morgan, 2005). In the digital era, adopting and utilising effective digital marketing strategies have become very important for MSEs to improve their marketing performance and remain competitive.

Social media platforms are an important aspect of digital marketing for SMEs in Indonesia. According to data from the Indonesian Internet Service Providers Association (APJII), in 2022, the number of Internet users in Indonesia will reach 210 million or represent a penetration rate of around 77% of the population (APJII, 2022). With this rapid growth in internet penetration, social media has become an integral part of daily life for many Indonesians. According to data from the Indonesian Internet Service Providers Association (APJII), as of 2022, there are around 164 million social media users in Indonesia (Widi, 2023). This presents an excellent opportunity for MSEs to engage with their target audience, expand market reach and drive customer acquisition through social media marketing.

Despite the potential benefits, many MSEs in Indonesia still need help utilising social media effectively for marketing purposes. Limited digital marketing knowledge, lack of resources,

lack of technical expertise and absence of a structured marketing approach hinder their ability to fully utilise social media platforms (Jarvinen et al., 2012; Olazo, 2022). Therefore, understanding the role of marketing capabilities, especially digital marketing capabilities, and their impact on MSE marketing performance is very important in this context.

One of the key advantages of digital marketing capabilities for MSEs lies in their ability to provide cost-effective marketing opportunities. Unlike traditional marketing channels that often require significant financial investments, social media marketing allows MSEs to reach consumers widely at a relatively low cost (Hanna et al., 2011). By utilising social media platforms effectively, MSEs can target specific customer segments, tailor their marketing messages, and generate higher customer engagement. This information allows MSEs to fine-tune their marketing strategies, improve customer targeting, and create personalised experiences, ultimately improving their marketing performance.

This study examines the relationship between marketing capabilities, focusing on digital marketing, and MSE marketing performance outcomes. By investigating this relationship, the study aims to provide information on how MSEs can improve their marketing capabilities by adopting and utilising effective digital marketing strategies. The findings of this study will explain the importance of digital marketing capabilities in driving marketing performance results for MSE in Indonesia.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Digital Marketing

Digital marketing has become integral to micro, small business (MSE) marketing strategies. It refers to the use of digital channels, such as websites, social media platforms, search engines, and email, to promote products or services, engage with customers, and drive business growth. Digital marketing makes MSE reach a broader range of customers, increase its products' visibility, and cost-effectively increase customer engagement (Chaffey &; Ellis-Chadwick, 2019).

Marketing Capabilities

Marketing capabilities are essential for the success of micro-small enterprises (MSEs). Marketing capability refers to an MSE's ability to create a marketing plan, then implement it and create a marketing strategy to achieve the marketing objectives of the MSE (Vorhies &; Morgan, 2005). In the context of MSE, marketing capabilities become even more important because these companies often operate with limited resources and face unique challenges. Marketing capabilities include understanding the market and implementing the marketing mix (Day, 1994; Vorhies & Morgan, 2003).

Marketing Performance

Marketing performance is an important aspect of business success because it measures a company's marketing activities in achieving its goals. Evaluation of marketing results is carried out by looking at marketing performance indicators. Marketing performance can be evaluated

by profits, increased sales transactions, customer numbers, and brand visibility (Slater & Narver, 1994; Odom et al., 2016).

Digital marketing allows MSEs to collect information about customer preferences and market trends so that MSEs can develop and improve their products or services and set prices (Pratono, 2018). By leveraging digital channels, MSEs can effectively communicate features, benefits, and product differentiation to their target audience.

H1: Digital marketing has a significant positive effect on marketing capabilities

Digital marketing allows MSEs to target and engage with their customers. Through an effective digital marketing strategy, MSE can attract new customers, increase customer growth rates and grow customer loyalty. MSEs that can manage social media well will increase marketing performance (Odom et al., 2016).

H2: Digital marketing has a significant positive effect on marketing performance

Marketing performance is an essential indicator of business success and the effectiveness of MSE's marketing activities. Marketing capabilities enable MSEs to develop and implement effective marketing strategies, leading to increased sales, customer growth and profitability (Vorhies & Morgan, 2003).

H3: Marketing capability has a significant positive effect on marketing performance

Marketing capability represents the collective knowledge, skills, and resources within an MSE to perform practical marketing activities. Marketing capabilities include product, pricing, research market information, promotion, venue, and mixed marketing management capabilities (Day, 1994; Vorhies & Morgan, 2003). By improving marketing capabilities, MSE can leverage digital marketing strategies and achieve better results in marketing performance.

H4: Marketing capabilities have a significant positive effect on mediating the influence of digital marketing on marketing performance
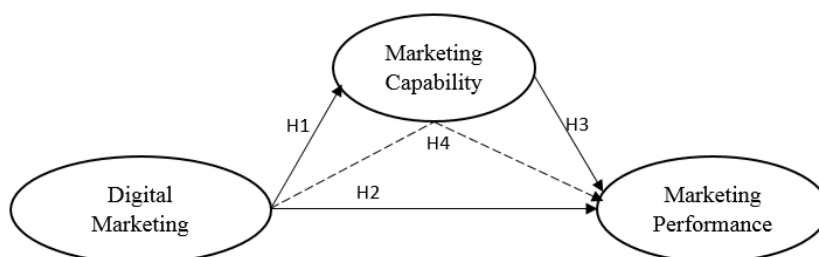

Figure 1: Research Model

METHOD

This study was conducted to explain the relationship between variables. Data were collected from primary data through questionnaires. This study uses purposive sampling to obtain samples, where samples are selected based on specific criteria (Cooper & Schindler, 2014).

The object of this study is micro and small culinary entrepreneurs. The criteria for selected respondents are micro and small culinary entrepreneurs who use social media in their marketing campaigns. The number of respondents to this study was 178.

Reliability tests are carried out by looking at the values of Cronbach Alpha and Composite Reliability compared to a minimum value above 0.70. The convergent validity test looks at AVE values above 0.5 (Hair, 2006). Discriminant validity is done by looking at the square root value of AVE compared to the correlation between constructs.

RESULT

Discriminant, convergent and reliability validity testing was performed using smartPLS 3.0. The PLS method is used because of its small sample size (Chin et al., 2003). The reliability test results were carried out by looking at the values of Cronbach Alpha and Composite Reliability and showed values above 0.70. The results of convergent validity testing show AVE values above 0.5. The results of the discriminant validity test showed that the square roots of each construct of AVE were consistently greater than the correlation of variables.

Table 1: Measurement Model

Construct		Loading	Cronbach Alpha	Composite Reliability	AVE	R^2
Digital Marketing	DM1	0.78	0.92	0.94	0.69	
	DM2	0.86				
	DM3	0.83				
	DM4	0.87				
	DM5	0.82				
	DM6	0.83				
	DM7	0.83				
Marketing Capability	MC1	0.89	0.93	0.95	0.80	0.56
	MC2	0.86				
	MC3	0.92				
	MC4	0.92				
	MC5	0.86				
Marketing Performance	MP1	0.93	0.94	0.96	0.86	0.44
	MP2	0.93				
	MP3	0.92				
	MP4	0.91				

Table 2: Descriptive and Correlations

	Mean	SD.	Digital Marketing	Marketing Capability	Marketing Performance
Digital Marketing	3.38	0.789	**0.835**		
Marketing Capability	3.49	0.923	0.751	**0.897**	
Marketing Performance	3.45	0.746	0.630	0.611	**0.928**

Note: The square root of the AVE is in bold

Based on the results of hypothesis tests conducted with smartPLS are shown in Table 3. Measurement of the path coefficients and their significance, the results show Digital marketing

has a significant positive relationship with marketing capability and marketing performance (β = 0.75, p < 0.05 and β = 0.39, p < 0.05   ), thus supporting H1 and H2. Marketing capability has a significant positive relationship with marketing performance (β = 0.31, p < 0.05, thus supporting H3. The results show that marketing capability mediates the significant relationship between digital marketing and marketing performance (β = 0.23, p < 0.05) positively; hence H4 was also supported.

Table 3: Hypothesis Test

Structural relationships	Std. Est.	t-value	p	Remarks
DM→MC	0.751	18.714	0.000	H1(+) Supported
DM→MP	0.394	3.473	0.001	H2(+) Supported
MC→MP	0.315	2.854	0.004	H3(+) Supported
DM→MC→MP	0.237	2.920	0.004	H4(+) Supported

Note: critical value (α = 0.05) = 1.645

DISCUSSION

These findings support all proposed hypotheses, revealing significant positive relationships among these variables. Digital marketing contributes to marketing capabilities. This suggests that organisations investing in digital marketing activities are more likely to develop vital marketing capabilities. Digital marketing allows organisations to improve their marketing strategies, reach a broader range of consumers, and gather valuable customer information (Dwivedi, 2021). As a result, organisations that effectively leverage digital marketing platforms are better equipped to develop and leverage their marketing capabilities. The results showed that digital marketing also contributed to marketing performance. Digital marketing allows organisations to attract potential customers and engage with existing customers effectively (Chaffey &; Ellis-Chadwick, 2019). By implementing a digital marketing strategy, organisations can achieve higher marketing performance in sales.

Marketing capabilities contribute to marketing performance. Strong marketing capabilities allow for delivering customer value that leads to improved marketing performance (Morgan et al., 2009). The competitive advantage increases and achieves improved marketing performance by developing and improving their marketing capabilities. Digital marketing affects marketing capabilities, which in turn affects marketing performance. Digital marketing activities provide opportunities to acquire market information and develop customer-centric strategies (Strauss &; Frost, 2016). By leveraging digital marketing capabilities, MSEs can improve their overall marketing performance. These findings support the idea that companies that invest in digital marketing and develop strong marketing capabilities are more likely to achieve good marketing results.

CONCLUSION

This study explores the role of marketing capabilities on digital marketing relationships in influencing the marketing performance of micro-small enterprises (MSEs). The findings show a significant positive relationship between digital marketing and marketing performance and

the mediating role of marketing capabilities in this relationship. The results highlight the importance of leveraging digital marketing strategies to enhance marketing capabilities, which, in turn, leads to improved marketing performance for MSEs.

This research has important implications for MSEs and digital marketing practitioners. First, MSEs must realise the importance of digital marketing as a tool to improve their marketing performance. By undertaking digital marketing strategies and tactics, MSEs effectively reach their target audience and engage customers more personally. Second, the study highlights the importance of improving marketing capabilities in MSEs. Focusing on improving product quality, competitive pricing, conducting market research, implementing effective promotional strategies and managing MSE distribution channels can strengthen marketing capabilities.

Further, the study emphasises that MSEs integrate digital marketing efforts with developing their marketing capabilities. By leveraging digital platforms, MSE can collect customer information, target specific market segments, create engaging content, and measure marketing performance. This integration can result in an increase in the number of customers, an increase in sales, and an increase in profitability for MSEs.

Future research may delve deeper into the moderation factors influencing the relationship between digital marketing, marketing capabilities, and marketing performance. Factors such as industry type and market demographics can shape the effectiveness of digital marketing strategies in different MSE contexts. In addition, the role of customer engagement and content marketing in the context of digital marketing for MSE deserves further exploration.

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