




Marketing and IT capability as mediators: The role of digital marketing and orientation on SMEs marketing performance

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ABSTRACT

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Keywords

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The aim of this research is to examine the correlation linking digital marketing and the digital sphere orientation on marketing performance of MSMEs in Indonesia. Then, how information technology capabilities and marketing capabilities can be mediating variables between these three variables. This research uses a quantitative approach. This research falls under the category of exploratory research. The population in this study was 2,766; the research sample came from 338 MSMEs that are Go-Food partners spread across 4 districts on the island of Madura, Indonesia. The findings of the study indicate that digital marketing and digital orientation significantly influence the marketing performance of MSMEs. Information technology and marketing capabilities can be mediating and are variables that support other variables. The impact of this research is practical for Small and Medium Enterprises because, by improving marketing performance, they can maximize and develop their marketing capabilities. Information technology and marketing capability are widely used in research involving large companies. This research brings information technology capability within the scope of MSMEs because digital marketing has been widely applied to improve marketing performance. Then, this research has a practical implication to contribute to the role of information technology and marketing capability to answer how digital marketing impacts marketing performance.

Contribution/Originality: IT and marketing capability are widely used in research involving large companies. This research brings its capability within the scope of MSMEs because digital marketing has been widely applied to improve marketing performance. This research contributes to the role of it and marketing capability in the relationship between digital marketing and marketing performance.

1. INTRODUCTION

The use of digital technology in marketing, or what is known as digital marketing, has changed the conceptualization, characteristics, and procedures for marketing strategies, both in large companies and small and medium businesses. Currently, the public has adopted digital marketing as a popular marketing medium to support various marketing activities (Djakasaputra et al., 2021). Furthermore, digital marketing is described as the synergy between marketing strategies that utilize technology through the internet, smartphones, visual advertisements, and various other electronic media (Thaha, Maulina, Muftiadi, & Alexandri, 2021) and promotion of products and services utilizing digital platforms for communication (Halik, Halik, Nurlia, Hardiyono, & Alimuddin, 2021).

The ever-changing dynamic of digital marketing has important characteristics in developing and implementing effective marketing strategies (Nuseir & Aljumah, 2020). Effectiveness of digital marketing is further bolstered by the increasing number of internet users in Indonesia. In 2018, the count stood at 95.2 million, marking a 13.3% growth from 2017. By 2019, it surged to 107.2 million users, a 12.6% increase. Projections estimate that by 2023, the internet user count will reach around 150 million (Yasri & Budiarti, 2020). Digital marketing impacts the performance of MSMEs (Umar, Sugiharto, & Hartanto, 2020). This exerts a dominant influence on the performance of MSMEs in Indonesia (Halik et al., 2021). We expect the increasing adoption of digital marketing by MSMEs to positively impact Indonesia's economic growth. This is because MSMEs can serve as a contributing factor to the country's economic transformation and expansion (Daud et al., 2021).

Previous research states that there is an influence between digital orientation and MSME (Joensuu-Salo, Sorama, Viljamaa, & Varamäki, 2018) explaining that marketing capability functions as a mediating variable and plays an important role in a company's success in foreign markets. In addition, this capability has a significant impact on MSME business performance (Riswanto, Hurriyati, Wibowo, & Gaffar, 2019). Marketing capabilities refer to the ingrained habits within an organization that serve as the foundation for various marketing activities, including pricing, product development, communication, and distribution (Murray, Gao, & Kotabe, 2011). Capability is a critical factor in creating a competitive advantage having a positive impact on SMEs performance (Acikdilli, Mintu-Wimsatt, Kara, & Spillan, 2020).

Various technologies can increase research and development activities among MSMEs when operating in international markets (Davicik, Cardinali, Sharma, & Cedrola, 2021). Besides that, the positive impact of technological capabilities on company performance is significant (Chu, Chi, Wang, & Luo, 2019). Theodosiou, Kehagias, and Katsikea (2012) also found a connection between marketing capabilities and company performance. This reinforces that marketing and technological capabilities can function as mediating variables in this study.

The performance of MSMEs is a highly relevant component in assessing the success, concept, and execution of business (Prastiwi & Rohimat, 2020). Generally, management divides business operations into four categories: marketing, human resources, finance, and operations. However, there is a significant research gap in the field of digital marketing, particularly in understanding digital marketing among MSMEs in India (Pradhan, Nigam, & Tiwari, 2018), as well as recommendations for future research that explores factors that can improve the marketing performance of MSMEs in Indonesia (Prastiwi & Rohimat, 2020).

Marketing and IT capabilities play an important role in the relationship between digital marketing and marketing performance, according to the research. One previous study showed that marketing capability has an effect on the growth of MSMEs (Joensuu-Salo et al., 2018). This research focuses on the capabilities of MSMEs in the marketing aspect. In the current digital era, there is a need for research that focuses on IT capability within the scope of MSMEs in order to complement the results of previous research and find implications that can be applied to MSMEs. The aim of this research is to examine the correlation linking digital marketing and the digital sphere orientation on marketing performance of MSMEs in Indonesia. Then, how IT capabilities and marketing capabilities can be mediating variables between these three variables. This research organizes its segments in the following manner: The second part offers a literature review, the third part shows design and research approach, the fourth part showcases the data analysis and results, and the fifth part encompasses the discussion and concluding remarks.

2. LITERATURE REVIEW

2.1. Marketing Performance

Davicik and Sharma (2016) use three indicators in marketing performance, including market share, productivity, and product quality. Marketing performance indicators are diverse and include aspects outside of marketing. Therefore, it is necessary to develop theoretical concepts that organize marketing performance indicators in an operational manner.

Based on previous research, Halik et al. (2021) and Kaur (2017) show that there is a gap to conduct research that focuses on measuring marketing performance for MSMEs because in this research the success of MSME performance is measured through financial performance indicators, so that it can contribute to future knowledge in the form of various marketing performance indicators that are appropriate for MSMEs in particular. in Indonesia.

2.2. Digital Marketing

Srividhya (2019) and Bala and Verma (2018) demonstrate that website elements and the internet can facilitate the implementation of efficient and effective digital marketing strategies. For instance: search engine marketing (SEM), social media marketing (SMM), search engine optimization (SEO), online advertising, email marketing, e-newsletters, affiliate marketing, content marketing, digital public relations, and so forth.

Fahmi, Mustofa, Rochmad, Sulastrri, and Wahyuni (2021) revealed in their research that digital marketing Digital marketing has various objectives, including enhancing consumer engagement with the company, increasing revenue, reducing distribution and promotion costs, boosting brand awareness, growing the customer database, strengthening CRM (Customer Relationship Management), and improving supply chain capabilities by adding more agents or partners. These goals also serve as benchmarks for measuring marketing performance.

According to Halik et al. (2021) the performance measurement of digital marketing can be conducted through several aspects, such as cost per transaction, level of interactivity, incentive programs, and website design.

1. Cost/transaction is a promotional technique that prioritizes a high level of efficiency with the aim of reducing costs and time.
2. The Incentive Program is an interesting program that provide an advantage in every promotion carried out.
3. Site design is related to digital marketing displays that can provide positive value for the company.
4. Interactive is a two-way influence between companies and consumers, allowing them to receive good and clear information from each other.

Based on the previous studies; Gibson (2018) and Fahmi et al. (2021) show that this research can contribute knowledge about digital marketing derivatives that focus on engagement through the trend of MSMEs becoming Go-Food partners, where through the concept of online food delivery service we can see the extent regarding the impact of digital marketing on marketing performance.

2.3. Digital Orientation

The application of digital technology aims to produce innovative products, services, and solutions that serve as a reference for the company's digital orientation (Khin & Ho, 2019). Therefore, digitally oriented companies have the ability to adopt the latest digital technology and leverage it for product development. As a result, companies that are digitally oriented tend to be more open to new technology and accommodate digital initiatives or ideas quickly (Khin & Ho, 2019).

Digitalization is changing the way companies create value (Autio, Sapienza, & Almeida, 2000). Digital technology and infrastructure have a broad impact on society, where several effects arise from digitalization, such as transformation in organizational learning, digital innovation, organizational skills, business environment, and organizational structure (Kuusisto, 2017). Meanwhile, marketing capabilities influenced by digital orientation are important when companies or MSMEs begin to grow and develop, because the larger size of MSMEs makes it possible to have more market segments that can be reached and analyzed (Joensuu-Salo et al., 2018).

2.4. Marketing Capabilities

Marketing capabilities can support companies to discover symptoms about changes in market dynamics, examples like actions taken by competitors and developments and changes in technology (Wilson & Briscoe, 2003). This allows the company to maximize its capabilities, including utilizing resources from partners to generate

corporate value and project as well as anticipate consumer needs (Parida, Sjödin, & Reim, 2019). Marketing capabilities can also support companies in developing new displays and attributes, especially using smart digital marketing (Low, Ullah, Shirowzhan, Sepasgozar, & Lin Lee, 2020). In addition to meeting consumer demand, marketing capabilities also aim to stabilize the position, maintain the existence of products and brands, and survive in the competitive world of digital marketing (Wang, 2020).

Previous literature explains that marketing capabilities represent research within the scope of marketing resources (Davicik & Sharma, 2016). Previous research has identified several constructs that influence marketing performance, including advertising intensity, imitability, and marketing innovation (Davicik & Sharma, 2016). Marketing capabilities are quite varied between retailers, MSMEs, and companies, where everything depends on the resources, strategic orientation, and research and development of each business unit (Davicik & Sharma, 2016).

2.5. IT Capabilities

Information technology capability is considered a capability to maximize company information and technology-based facilities and infrastructure (Chu et al., 2019). In addition, Nwankpa and Datta (2017) define it as the ability of a company to effectively depict and implement its available information technology resources, thereby maximizing value and supporting the company's objectives.

Based on the study that had been conducted by Bataineh et al. (2015) IT capability measurement indicators for MSME performance can be measured through three indicators, including information technology infrastructure, proactive attitude in information technology, and business scope. Here is a detailed explanation of each indicator:

1. Information technology infrastructure relates to the availability of resources, assets, and data that a company possesses to support its business operations.
2. Proactive attitude in information technology refers to the individual's or IT staff's approach towards change, adaptability to technology, and the ability to analyze opportunities in the future.
3. Business tenure refers to the duration or age of a business or enterprise.

3. METHODOLOGY

3.1. Research Design

This study employs a quantitative methodology and falls under the category of exploratory research. The previous study mostly used SEM-PLS model using SMART-PLS software. The sampling method used in this research employs non-probability sampling where the samples used are not random and are based on the researcher's subjectivity. Meanwhile, in this research, the sampling technique includes purposive sampling criteria.

3.2. Data Collection

This study collected data using non-probability sampling and purposive sampling and employed SEM (Structural Equation Modeling using AMOS 3.0 software. The population in this study was 2,766; the research sample came from 338 MSMEs that are Go-Food (Online food delivery) partners spread across the districts of Bangkalan, Sampang, Pamekasan, and Sumenep, which are districts on the island of Madura, Indonesia.

4. DATA ANALYSES AND RESULTS

4.1. Measurement Model Test

The next step involves building a research model within the AMOS 23 software. The model developed for this study aligns with theories and conceptual frameworks from earlier research. Figure 1 illustrates this model using AMOS 23 software.

The AMOS 23 software necessitates variance estimation within the constructed research model. The tested research model, displayed in Figure 1, undergoes evaluation. An illustration of the results from testing this research model, particularly the calculation of degrees of freedom (df), is presented in Figure 1 as follows:

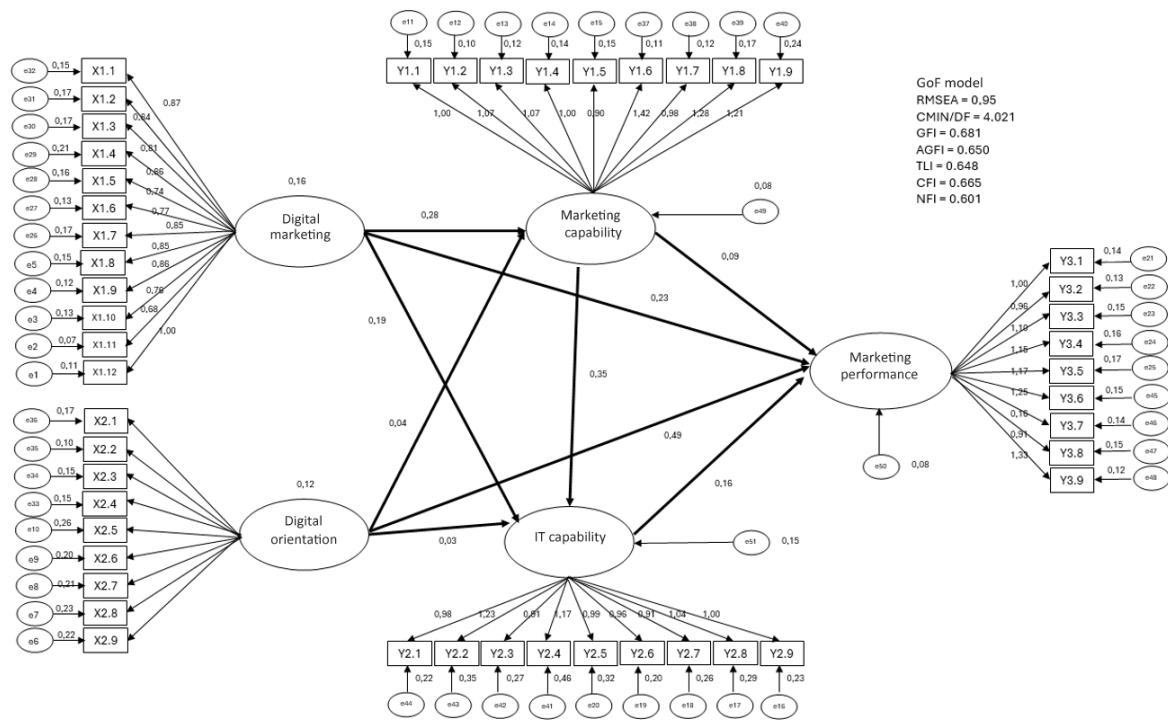


Figure 1. The Results of the overall goodness of fit model test.

Checking the R-square value is an initial step in evaluating the SEM model for each dependent latent variable. The estimation results of R-square are displayed in Table 1 using AMOS.

Table 1. Value of R square.

Variable	R square
Marketing capabilities	0.170
IT capabilities	0.086
Marketing performance	0.382

Essentially, this study involves three variables influenced by other factors. the r square value of the marketing capability variable is 0.170 or 17.0%. This indicates that digital marketing and digital orientation variables significantly explain 17.0% of the marketing capability's variability, while other factors not addressed in this study influence the remaining variability. Meanwhile, the R square value of the IT capabilities variable is 0.086, or 8.6%. This indicates that collectively, the contribution of digital marketing, digital orientation, and marketing capability variables to the variability of it capabilities is 8.6%. Other factors outside the scope of the studied variables influence the remaining variability.

The R square value of the marketing performance variable is 38.2% or 0.382. this indicates that the it capabilities and marketing capabilities variables together explain about 38.2%, of the marketing performance variable, while factors outside the scope of this study influence the remaining portion.

4.2. Model Fit Test

Following the measurement model's completion, the next step is to test the model's suitability. Three different types of fit indices were used in this analysis: parsimony, incremental, and absolute fit indices. This aligns with Hair,

Hult, and Ringle (2020) assertion that CFA (Confirmatory Factor Analysis) necessitates at least one fit index from each category meeting specific index criteria. Table 2 provides the model's criteria and corresponding critical values for the data compatibility.

Table 2. Evaluation of goodness of fit indices criteria.

Goodness of fit indices	Cut-off value	Model results	Information
RMSEA	≤ 0.08	0.095	Marginal fit
CMIN/DF	≤ 5.00	4.021	Good fit
GFI	$0.90 \leq GFI < 1.00$	0.681	Marginal fit
AGFI	$0.90 \leq AGFI < 1.00$	0.650	Marginal fit
TLI	$0.90 \leq TLI < 1.00$	0.648	Marginal fit
CFI	$0.90 \leq CFI < 1.00$	0.665	Marginal fit
NFI	$0.90 \leq NFI < 1.00$	0.601	Marginal fit

As indicated in Table 3, it's evident that the model is deemed appropriate for utilization. All goodness of fit values satisfy the criteria of one good fit condition, while the remaining meet the marginal fit condition. In empirical studies, researchers aren't obliged to meet every goodness of fit criterion; it's contingent on individual judgment. The marginal value signifies the model's suitability concerning the absolute fit and incremental fit criteria. Despite being near the goodness of fit criteria, it is viable for further analysis. Consequently, the model overall aligns with the data and warrants further examination.

4.3. Hypothesis Testing

This study's empirical model allows us to examine the proposed hypotheses by assessing the path coefficients within the structural equation model. Table 3 illustrates the outcomes of hypothesis testing through the assessment of p-values. A p-value below 0.05 indicates a significant relationship between the variables.

After ensuring that the model used in this analysis fits, the next step is to test the extent of the relationship and significance between variables in this research. The testing of the AMOS program give us results from the structural equation model, showing that there is a link between exogenous, endogenous, and mediating variables. Following the comprehension of the relationship descriptions among the research variables, the subsequent presentation will cover the outcomes of hypothesis testing. The results of the SEM analysis will display the coefficient values of the relationships between the mentioned variables, as well as the significance of the hypothesis testing results in Table 3.

Table 3. Path coefficient values and hypothesis testing.

Category		Estimate	S.E.	C.R.	P	
Marketing capabilities	<---	Digital marketing	0.276	0.050	5.552	0.000
IT capabilities	<---	Digital marketing	0.044	0.066	0.661	0.508
Marketing capabilities	<---	Digital orientation	0.185	0.054	3.410	0.000
IT capabilities	<---	Digital orientation	0.033	0.073	0.458	0.647
Marketing performance	<---	Marketing capabilities	0.088	0.070	1.247	0.212
Marketing performance	<---	IT capabilities	0.156	0.051	3.030	0.002
Marketing performance	<---	Digital marketing	0.234	0.053	4.457	0.000
Marketing performance	<---	Digital orientation	0.490	0.072	6.847	0.000
IT capabilities	<---	Marketing capabilities	0.349	0.096	3.636	0.000

5. DISCUSSION

This study examines digital marketing strategies implemented by MSMEs in Madura Island across various regencies, including Bangkalan, Sampang, Pamekasan, and Sumenep. The marketing and information technology capabilities are key factors in the success of marketing performance for each MSME in utilizing business resources.

The influence of the digital marketing on marketing capabilities is one of the variables tested in this research and contributes to the theory. These two variables show a positive influence, but there has been no previous research that has shown the influence of these variables. Several previous studies discussed digital marketing and marketing capabilities variables separately in connection with other variables. For example, there is previous research that examines the influence of digital marketing on dynamic capability (Wardaya, Sasmoko, So, & Bandur, 2019) and IT adoption (Yoga, Korry, & Yulianti, 2019). Meanwhile, research on marketing capabilities variables that influence market orientation (Acikdilli et al., 2020) performance of exports (Murray et al., 2011) international R&D (Davicik & Sharma, 2016).

Previous research Chinakidzwa and Phiri, (2020); Masrianto, Hartoyo, and Hasanah (2021) and Wang (2020) also studied the study of digital marketing and marketing capabilities under the term “digital marketing capabilities.” Digital marketing capabilities are defined as all abilities or capabilities that contribute to market performance through the same method or means. In addition, large companies are well-versed in and have implemented marketing capabilities. Meanwhile, it is still relatively small for small companies (Khan, 2017) specifically in the context of digital marketing (Chinakidzwa & Phiri, 2020). This implies that digital marketing encompasses both digital marketing strategies and marketing capabilities. Thus, the results of this research have implications for strengthening future research theory, which raises the digital marketing capabilities variable.

The second theoretical implication comes from testings the influence of digital marketing on IT capabilities which shows there is no influence between the two variables. Therefore, a dimension emerged in marketing called digital marketing. Digital marketing is marketing that focuses mostly on digital media such as smartphones and computers. Based on the findings of this study, it can be inferred that marketing and technology are different from the situation of MSMEs on Madura Island, indicating that marketing is not fully dependent on technology or has not yet optimized information technology capabilities.

The third theoretical implication comes from testing the influence of digital orientation on IT capabilities which shows that there is no influence between these two variables. There is still no previous research that directly tests the influence of these two variables. Digital Capability can be defined as a company's ability to develop, maintain, and explore human capital and knowledge assets to interact with a certain set of technologies (Saputra, Sasanti, Alamsjah, & Sadeli, 2021). Based on this definition, digital capability relates to a company's ability to develop and explore resources in general (marketing, HR, finance, production) using a certain set of technologies. If related to the marketing context, digital capability speaks about the company's ability to develop and explore everything that focuses on marketing. Meanwhile, in this research, IT capabilities are defined as IT capabilities which are considered the company's ability to deploy company information and technology-based resources (Chu et al., 2019).

At first glance, digital capability and IT capability have similar concepts, namely regarding the scope of a company's ability to explore its resources through information and technological assets. However, if connected with the results of this research and the theoretical explanation in the previous paragraph, it confirms that digital capability and IT capability are variables that have different concepts.

Digital orientation is a company's strategic orientation that focuses on changes brought by digital technology such as social networks, mobile applications, and digital processes (Kindermann et al., 2021). The results of this research suggest that a company's strategic orientation towards digital technology is not solely dependent on its capability and readiness in information technology. The results of this research also raise the assumption that MSMEs on Madura Island, which are the object of research, do not yet have a strategic orientation in terms of digitalization or readiness of information technology resources.

The implication of the results of this research for the Resource Based View grand theory is that marketing capabilities and IT capabilities as MSME capabilities originating from the internal environment have supported improving marketing performance. This reinforces the resource-based view concept that resources and assets owned

by MSMEs can enhance marketing performance, leading to competitive advantages through marketing capabilities. However, in this context, IT capability does not align with the RBV theory.

6. CONCLUSION

The research results confirm the research hypothesis, demonstrating the influence and significance of all variable relationships. IT capability is the main problem faced by MSMEs in Madura. This is because the implementation of IT capabilities is still not optimal, the attitudes and behavior of MSME actors are still not responsive and adaptive, and there are limited human resources specifically to optimize digital marketing.

7. IMPLICATION

The implication of the results of this research for the broad concept of Market-Oriented Approach is that digital marketing and digital orientation as MSME strategies to respond to the market and success markers for MSME performance in Madura can also stem from external environmental factors. Information and trends developing in the external environment become digital marketing program ideas, which can later have an impact on increasing sales.

8. LIMITATION AND FUTURE RESEARCH AGENDA

The recommendation that can be given is that MSME actors or managers are also expected to have adaptive attitudes and behavior in responding to technological information. The many application platforms that facilitate marketing activities, such as marketplaces, social media, instant messaging, and streaming media, can be used as a development tool for MSMEs to increase digital marketing activities. As well as government involvement in facilitating literacy and understanding of IT capabilities for MSMEs.

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Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.

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