

## Digital marketing, digital orientation, marketing capability, and information technology capability on marketing performance of Indonesian SMEs

Mohammad Hamim Sultoni<sup>ab\*</sup>, Sudarmiatin<sup>a</sup>, Agus Hermawan<sup>a</sup> and Sopiah<sup>a</sup>

<sup>a</sup>Universitas Negeri Malang, Indonesia

<sup>b</sup>Institut Agama Islam Negeri Madura, Indonesia

### CHRONICLE

### ABSTRACT

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This research analyzes the effect of digital marketing, digital orientation, marketing capabilities, and information technology capabilities on marketing performance of Indonesian SMEs. The methods are quantitative methods and data analysis techniques using AMOS 23 software based on Structural Equation Modeling (SEM). The method of selecting the sample uses the purposive sampling methods. The study uses data based on questionnaires to 338 SMEs respondents in Madura, Indonesia. The results of data analysis show that the digital marketing had a positive and significant effect on the marketing performance, the digital orientation had a positive and significant effect on the marketing performance, marketing capabilities had a positive and significant effect on the marketing performance and information technology capabilities had a positive and significant effect on the marketing performance. The theoretical implication of the research is that it finds additional knowledge of marketing strategy in the field of small medium enterprise. Then, marketing management by integrating marketing capabilities and information technology to optimize digital marketing on SMEs marketing performance.

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## 1. Introduction

The development of the digital era today has transformed various functions and lines of business. One of them is the transformation in the scope of marketing. Digitalization of marketing or commonly called digital marketing has changed the concept, characteristics, and form of marketing strategy both within the scope of companies and SMEs. Digital Marketing is currently a marketing medium that is in great demand by the public to support various sales activities (Djakasaputra et al., 2021). In addition, digital marketing is described as a collaboration of marketing efforts with the use of technology through internet media, mobile phones, display advertising, and other electronic media (Thaha et al., 2021) and promotional activities of both products and services using digital media (Halik et al., 2021).

Digital marketing is dynamic and has the characteristics needed for the development and implementation of effective marketing strategies (Nuseir & Aljumah, 2020). The effectiveness of digital marketing is also supported by the growth in the number of internet users in Indonesia, wherein 2018 it was 95.2 million, growing 13.3% from 2017. Meanwhile, in 2019 it grew 12.6% to 107.2 million users. In 2023, the number of internet users is predicted to reach 150 million users (Yasri & Budiarti, 2020). Digital marketing has a relationship with the performance of SMEs (Umar et al., 2020) and has a dominant influence on the performance of SMEs in Indonesia (Halik et al., 2021). The number of SMEs that start using digital marketing, will certainly have a positive influence on economic growth in Indonesia because SMEs can be one of the factors in economic change and growth in Indonesia (Daud et al., 2021). Digital Orientation is defined as a company's commitment through the application of digital technology to support product and service innovation (Khin & Ho, 2019). The concept of digital orientation is oriented

\* Corresponding author.

E-mail address: [mohammad.hamim.2004139@students.um.ac.id](mailto:mohammad.hamim.2004139@students.um.ac.id) (M. H. Sultoni)

toward the company's technology about the capabilities and digital adoption of new technologies used in product development (Joensuu-Salo et al., 2018). Digital orientation in the context of SMEs consists of market orientation, entrepreneurial orientation, and learning orientation (Quinton et al., 2018). So that the use of digital orientation variables in SMEs research studies is less familiar and more dominated by variables of E-commerce relationship with market orientation (Octavia et al., 2020), digital and environmental orientation (Ardito et al., 2021), and strategic orientation in digital start-up (Guo et al., 2020). According to Joensuu-Salo (2018) there is a relationship between digital orientation and SMEs performance, wherein his research marketing capability as a mediation variable and holds a crucial factor in the success of foreign markets for companies, as well as a significant effect on the business performance of SMEs (Riswanto et al., 2019). Marketing capabilities are defined as organizational routines necessary for marketing mix activities such as pricing, product development, communication, and distribution (Murray et al., 2011). Capabilities are factors that support competitive advantage and have a positive effect on performance (Acikdilli et al., 2020).

Previous research has shown that various technology capabilities can increase R&D activities in SMEs in the international market (Davicik et al., 2021). Meanwhile, the technology capabilities relationship has a positive impact on the company's performance (Chu et al., 2019) as well as marketing capabilities on the company's performance (Theodosiou et al., 2012). This is what strengthens that marketing and technology capabilities can be mediation variables in this study. SMEs Performance or business performance of SMEs is an important element to measure the success of business activities, concepts, and implementation (Prastiwi & Rohimat, 2020). Business activities in general in management functions are grouped into marketing, human resources, financial and operational activities. There is a research gap in digital marketing, where there is still a lack of research into digital marketing in SMEs in India (Pradhan et al., 2018) as well as upcoming research recommendations that explore factors that can improve the marketing performance of SMEs in Indonesia (Prastiwi & Rohimat, 2020).

## **2. Literature review and hypothesis**

### *2.1 Digital Marketing on Marketing Performance*

Digital marketing aims to achieve various goals, including increasing consumer interaction with companies, increasing sales revenue, reducing distribution and promotion costs, increasing brand awareness, improving customer databases, strengthening consumer relationship management (CRM), and improving supply chain capabilities by increasing the number of agents/partners. Some of these goals are also a reference to the success of a marketing performance (Djakasaputra et al., 2021). Marketing performance can be measured through several things including, increasing sales volume, promotion, advertising, product quality, price, and others. Research by Arifin (2021) shows that digital marketing significantly affects marketing performance through the quality of services in the digital era. The effect of digital marketing on marketing performance has a positive impact (Umar et al., 2020; Halik et al., 2021; Yasri & Budiarti, 2020).

**H<sub>1</sub>:** *Digital Marketing has a positive impact on the marketing performance.*

### *2.2 Digital Orientation on Marketing Performance*

Boucken and Barwinski (2020) identified that there are three influences and benefits of digital orientation in its application to SMEs. First, SMEs can obtain efficient results from digital orientation-based strategies with a commitment to transform all resources, values, and comprehensive strategies towards digital. Second, the level of SMEs competition when facing large companies. Third, digital orientation can help SMEs to find new connections so that they can optimize the market globally. Several research of the influence of digital orientation relationship on marketing performance was also strengthened by empirical research by Ardito et al., (2021) showing that digital orientation has an impact on products and innovation processes and the performance of SMEs in North America. Other research strengthens the relationship between digital orientation and marketing performance (Octavia et al., 2020; Khin & Ho, 2019; Nasiri et al., 2021; Quinton et al., 2018).

**H<sub>2</sub>:** *Digital Orientation has a positive impact on marketing performance.*

### *2.3 Marketing Capability on Marketing Performance*

Marketing Capabilities can help companies feel and respond to market changes, such as competitor movements as well as the evolution and technological revolution (Wilden & Gudergan, 2015). This allows organizations to leverage partner capabilities and resources to create corporate value and predict and anticipate consumer demand (Parida et al., 2019). The results of research conducted by Gaye (2020) stated that there is an influence between market orientation, and marketing capabilities positively on marketing performance. Other research that strengthens the relationship between marketing capabilities and marketing performance is that Dynamic Capability has a positive effect on Digital Marketing Capability, and Digital Marketing Capability has a positive effect on SMEs Performance (Wardaya et al., 2019), and a significant relationship between marketing capabilities, market orientation to business performance (Riswanto et al., 2019).

**H<sub>3</sub>:** *Marketing Capability has a positive impact on marketing performance.*

### 2.4 Information Technology Capability on Marketing Performance

Companies can improve their business performance by increasing IT capability to increase revenue, reduce costs, and both (Al-Ansari et al., 2013). Information Technology Capabilities (IT Capabilities) are defined as a company's ability to acquire, expand, connect and reform the company's information-based technology resources aimed at improving the efficiency and operational business strategy (Bassellier et al., 2001). The results of a previous study by Ho-Chang Cae (2014) stated that there is a relationship between IT capabilities and business performance, in this case marketing. Benchmark the relationship by analyzing the ratio of profit and cost in each sample of the company. Other studies have also concluded a relationship between the two variables (Astuti et al., 2020; Tan et al., 2009; Al-Ansari et al., 2013).

**H4:** *Information Technology Capability has a positive impact on marketing performance.*

### 3. Method and Analysis

This study uses quantitative methods and uses the Structural Equation Modelling (SEM) data analysis method with the AMOS 23 software. The method of selecting the sample is based on the purposive sampling methods. The data collection technique used a questionnaire with a Likert scale of 1-5.

Questionnaires were sent to 338 SMEs respondents in Madura, Indonesia. As an operational definition, digital marketing is an integrated marketing tool or strategy to attract, engage and reach consumers on the internet using several channels such as content marketing, influencer marketing, Search Engine Optimization (SEO), social media, and online advertising. Digital marketing measurement can be done through several indicators such as cost/transaction, interactive, incentive program, and site design (Chung et al., 2020), (Gibson, 2018), (Fahmi et al., 2021). Digital orientation is described as the company's commitment to the application of digital technology to deliver innovative products, services, and solutions. Digital-oriented SMEs can apply new digital technologies and use them in product development consisting of external environmental pressures, organizational characteristics, and individual characteristics (Quinton et al., 2018; Joensuu-Salo et al., 2018; Kuusisto, 2017). Furthermore, marketing capabilities as organizational routines are necessary for marketing mix activities, such as price, product development, communication, and distribution. SMEs marketing ability refers to their ability to influence marketing performance through advertising intensity, marketing innovation, and imitability (Davcik et al., 2021; Autio, 2012; Herhausen et al., 2020). Information Technology Capabilities (IT Capabilities) is defined as a company's ability to acquire, expand, connect, and reform the company's information-based technology resources aimed at improving the efficiency and operational strategy of a business. Measurement of IT Capabilities using indicators including IT Infrastructure, IT proactive stance, and business spanning (Wang et al., 2020). Then, marketing performance is the success rate of performance, including success in strategy implementation, sales growth, and company profit (Ng et al., 2017; Kaur, 2017; Hult et al., 2008).

#### 3.1 Convergent validity

Table 1 shows that all measurements have passed the threshold values recommended by Suh and Han (2002) for factor loadings to be above 0.6, composite reliability values are bigger than 0.7 and average variance extracted values above 0.5.

**Table 1**  
Convergent validity results

Latent Variable	Measurement Item	Loading	(CR)	(AVE)
1. Digital Marketing	X1.1	0.665	0.845	0.922
	X1.2	0.622		
	X1.3	0.663		
	X1.4	0.602		
	X1.5	0.587		
	X1.6	0.645		
	X1.7	0.672		
	X1.8	0.659		
	X1.9	0.739		
	X1.10	0.636		
	X1.11	0.799		
	X1.12	0.761		
2. Digital Orientation	X2.1	0.75	0.803	0.899
	X2.2	0.681		
	X2.3	0.722		
	X2.4	0.787		
	X2.5	0.653		
	X2.6	0.616		
	X2.7	0.666		
	X2.8	0.551		
	X2.9	0.597		

**Table 1**  
Convergent validity results (Continued)

Latent Variable	Measurement Item	Loading	(CR)	(AVE)
3. Marketing Capability	X3.1	0.616	0.794	0.900
	X3.2	0.723		
	X3.3	0.699		
	X3.4	0.629		
	X3.5	0.594		
	X3.6	0.69		
	X3.7	0.657		
	X3.8	0.682		
	X3.9	0.595		
4. Information Technology Capability	X4.1	0.649	0.771	0.900
	X4.2	0.64		
	X4.3	0.577		
	X4.4	0.569		
	X4.5	0.577		
	X4.6	0.654		
	X4.7	0.579		
	X4.8	0.615		
	X4.9	0.637		
5. SMEs Marketing Performance	Y1.1	0.706	0.827	0.899
	Y1.2	0.717		
	Y1.3	0.738		
	Y1.4	0.736		
	Y1.5	0.734		
	Y1.6	0.772		
	Y1.7	0.695		
	Y1.8	0.614		
	Y1.9	0.83		

Note: (CR: Composite reliability), (AVE: Average variance extracted)

### 3.2 Discriminant validity

Average Variance Extracted (AVE) could be used to test the discriminant validity (Fornell & Larcker, 1981). Table 2 shows that all correlation values are suitable for discriminant validity because less than the square root of average variance extracted values.

**Table 2**  
Discriminant validity

Variable	AVE
1 Digital Marketing	0.922
2 Digital Orientation	0.899
3 Marketing Capability	0.900
4 IT Capability	0.900
5 SMEs Marketing Performance	0.899

### 3.3 Goodness of Fit

Table 3 shows full model test was conducted to find out how far the model formed met the criteria for Goodness of Fit and will explain in table as follow,

**Table 3**  
The results of goodness of fit

Goodness of Fit Index	Cut of value	Results	Evaluation
RMSEA	$\leq 0.08$	0,096	Marginal Fit
CMIN/DF	$\leq 5.00$	4,086	Good Fit
GFI	$0.90 \leq \text{GFI} < 1.00$	0,675	Marginal Fit
AGFI	$0.90 \leq \text{AGFI} < 1.00$	0,645	Marginal Fit
TLI	$0.90 \leq \text{TLI} < 1.00$	0,640	Marginal Fit
CFI	$0.90 \leq \text{CFI} < 1.00$	0,657	Marginal Fit
NFI	$0.90 \leq \text{NFI} < 1.00$	0,593	Marginal Fit

### 3.4 Structural model and hypotheses testing

After assuring all validities prior to test hypotheses are met. The researchers test the hypotheses and find out that all hypotheses were supported. "Digital Marketing ( $\beta = .232$ ,  $p < 0.05$ ), "Digital Orientation" ( $\beta = .489$ ,  $p < 0.05$ ), "Marketing Capabilities" ( $\beta = .116$ ,  $p < 0.05$ ), "IT Capabilities", ( $\beta = .160$ ,  $p < 0.05$ ) are positively and significantly affecting "SMEs Marketing Performance". Thus, H1, H2, H3, and H4 were supported.

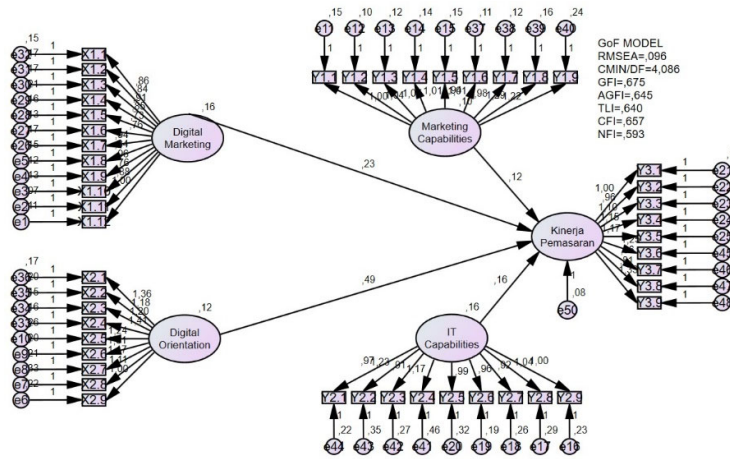


Fig. 2. Structural model for testing the hypotheses

Table 4

The summary of hypotheses testing

	Estimate	S.E.	C.R.	P-value
Marketing Performance ← Marketing Capabilities	.116	.059	1.984	.047
Marketing Performance ← IT Capabilities	.160	.049	3.288	.001
Marketing Performance ← Digital Marketing	.232	.048	4.795	.000
Marketing Performance ← Digital Orientation	.489	.071	6.940	.000

4. Discussion

4.1 The Effect of Digital Marketing on Marketing Performance of SMEs

There is a positive and significant influence between digital marketing on SMEs Marketing Performance. This is strengthened by the results of the discussion about the value of sig.  $0.000 < 0.05$ . This means that  $H_0$  is rejected and  $H_a$  is accepted. This can be supported by the results of research by Umar et al. (2020), Halik et al. (2021), and Yasri and Budiarti (2020) which state that digital marketing influences improving the performance of SMEs which is characterized by increased sales and market share. The use of digital marketing as one of the strategies for improving marketing performance is one way to be able to reduce costs to be more efficient (Chung et al., 2020), digital marketing helps SME owners to increase their product sales to consumers (Syazali et al., 2019). Digital marketing also makes it easier for SME owners to communicate with consumers (Gibson, 2018). Furthermore, digital marketing can also be a medium to strengthen the relationship between SMEs and consumers (Amelda et al., 2021).

4.2 The Effect of Digital Orientation on Marketing Performance of SMEs

There is a positive and significant influence between digital orientation on SMEs Marketing Performance. This is strengthened by the results of the discussion obtained by the value of sig.  $0.000 < 0.05$  indicates that  $H_0$  is rejected and  $H_a$  is accepted. This is in line with previous research which states that digital orientation can have a positive influence on the marketing performance of SMEs (Ardito et al., 2021; Octavia et al., 2020; Khin & Ho, 2019; Nasiri et al., 2021; Quinton et al., 2018). Boucken and Barwinski (2020) identified that there are three benefits of digital orientation in application to SMEs. First, SMEs can obtain efficient results from digital orientation-based strategies with a commitment to transform all resources, values, and strategies toward digital. Second, increase the competitive advantage of SMEs when facing large companies. Third, digital orientation can help SMEs to find new connections so that they can optimize the market globally.

4.3 The Effect of Marketing Capabilities on Marketing Performance of SMEs

There is a significant influence between marketing capabilities variables on SMEs Marketing Performance. This is strengthened by the results of the discussion about the value of sig.  $0.047 < 0.05$ . This is in line with previous research which states that marketing capabilities can have a positive influence on the marketing performance of SMEs (Wardaya et al., 2019; Riswanto et al., 2019). Marketing Capabilities include 3 indicators including advertising intensity, marketing innovation, and imitability. Advertising intensity is the ability of SMEs to compile advertising programs periodically, the ability to adjust ads to existing trends, and implement advertisements regularly (Davcik et al., 2021). Marketing innovation is the ability of SMEs to respond to the latest marketing strategy trends, innovate quickly and implement innovations by the planned concept (Autio, 2012). Meanwhile, imitability is the ability of marketing in creating unique marketing programs, not easily imitated, and innovating quickly to marketing programs that have been imitated (Herhausen et al., 2020; Wang, 2020).

#### 4.4. The Effect of Information Technology Capabilities on Marketing Performance of SMEs

There is a significant influence between information technology capabilities on SMEs Marketing Performance. This is strengthened by the results of the discussion that the value of sig.  $0.001 < 0.05$  indicates that  $H_0$  is rejected and  $H_a$  is accepted. This can be supported by the results of research which state that information technology capabilities have a positive influence on the marketing performance of SMEs (Astuti et al., 2020; Al-Ansari et al., 2013). IT Capabilities is the company's ability to optimally visualize and deploy available IT resources to generate value and support enterprise goals (Nwankpa & Datta, 2017). The success of SME marketing performance affects various aspects including IT facilities that can support marketing activities, being able to adapt to technological developments, and being able to implement IT in its business in a sustainable manner (Lester & Tran, 2008).

#### 5. Conclusion

Based on the data analysis has shown that digital marketing has a positive and significant effect on the SMEs marketing performance. It's also the effect of digital orientation on the SMEs marketing performance. Then, marketing capabilities and information technology capabilities variables have a positive and significant effect on the SMEs marketing performance. The theoretical implication of the research is that it finds additional knowledge of marketing strategy in the field of small-medium enterprise by integrating information technology and marketing capabilities to optimize digital marketing on marketing performance. Further research can develop this research by examining other factors that can affect marketing performance. Future studies can also use other methods and objects of research, for example through in-depth interviews with customers or small businesses in addition to Madura Island, Indonesia. Thus, the information obtained is more varied and produces a broader discussion about marketing and small-medium enterprise.

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