

Direct And Indirect Effect Of Marketing Capabilities On The Performance Of MSMEs

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Abstract: This research aims to determine whether the use of social media can improve marketing capabilities and performance of MSMEs, marketing capabilities improve MSME performance and the mediating role of marketing capabilities of the use of social media and MSME performance. The dimensions for measuring social media use are marketing, relationships and services, information search, cost-effectiveness, and Compatibility. The quantitative research approach involves 230 respondents who are MSME actors in Indonesia. The hypothesis analysis method for this research uses the Partial Least Square-Structural Equation Modeling (SEM-PLS) method. The findings of this research indicate that the use of the social media platforms WhatsApp, Instagram, Facebook, TikTok, and Telegram, as well as the fifth dimension used to measure social media use, also influences social media use. The results of marketing capability mediating between social media use and MSME performance have a positive and mediating influence.

Keywords: Social Media Usage; Marketing Capabilities; Performance of MSMEs.

Abstract: Tujuan penelitian ini adalah untuk mengetahui apakah penggunaan media sosial dapat meningkatkan kapabilitas pemasaran dan kinerja UMKM, kapabilitas pemasaran meningkatkan kinerja UMKM dan peranan pemediasian dari kapabilitas pemasaran dari penggunaan media sosial dan kinerja UMKM. Dimensi untuk mengukur social media usage yaitu marketing, relation and sevice, information search, cost effectiveness, and compatibility. Pendekatan penelitian yaitu pendekatan kuantitatif, melibatkan 230 responden yang merupakan pelaku UMKM di Indonesia. Metode analisis hipotesis penelitian ini menggunakan metode Partial Least Square-Structural Equation Modeling (SEM-PLS). Hasil temuan penelitian ini menunjukkan bahwa penggunaan platform media sosial WhatsApp, Instagram, Facebook, TikTok, Telegram, dan X (Twitter) memiliki pengaruh positif terhadap kapabilitas pemasaran dan kinerja UMKM, dan kapabilitas pemasaran memiliki pengaruh positif terhadap kinerja UMKM. Kelima dimensi yang digunakan untuk mengukur social media usage juga mempengaruhi social media usage. Hasil dari kapabilitas pemasaran menjadi pemediasi antara penggunaan media sosial dan kinerja UMKM memiliki pengaruh positif dan memediasi.

Keywords: Penggunaan Media Sosial; Kapabilitas Pemasaran; Kinerja UMKM.

INTRODUCTION

MSMEs play a significant role in Indonesia's economic growth, with the number of business actors reaching 66 million in 2023. The contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reaches 61 per cent, equivalent to IDR 9,580 trillion (Kadin. id, 2024). The Indonesian Chamber of Commerce and Industry (Kamar Dagang Indonesia—KADIN) and the Indonesian Government have encouraged improving the performance of national MSMEs through strategies for implementing digitalisation to increase competitiveness, become global players, export-oriented, increase the number of jobs, increase income and create new businesses (Dar & Mishra, 2020; Omar et al., 2020; Sopa



et al., 2021; Susanto et al., 2023). Even though MSMEs make a substantial contribution to Indonesia's GDP (Dirgiatmo et al., 2019; Wiwoho et al., 2020; Susanto et al., 2023), there is a decreasing trend in the contribution of MSMEs to GDP in 2020, namely 61.070 per cent, whereas in 2017 it was 61.410 per cent (Liputan6.com, 2021). This trend of decreasing contribution is very worrying for the country's economy.

The critical role of MSMEs in the Indonesian economy makes research focusing on MSMEs more beneficial for the future. So that MSMEs in Indonesia can compete with local and international products. Because local products are now in great demand by people in various countries (Kadin. id, 2024). With the existence of social media, it is hoped that MSMEs can optimise their use to make it easier to enter the global market because it is possible that with the help of technology, it will make it easier for MSMEs to develop their products. On the other hand, if MSMEs cannot optimise Internet use with social media, the products offered will experience a periodic decline.

This decline is due to many factors, one of which is the use of marketing media that is not optimal and the management of marketing capabilities that are less effective, so the performance of MSMEs is not optimal and experiences a decline (Bhatti et al., 2019; Tarsakoo & Charoensukmongkol, 2020; Susanto et al., 2023). Social media has emerged from both managerial and academic circles as a new challenge for business sustainability and MSMEs growth. Social media has changed consumer behaviour and marketing practices significantly; there is rapid development because everyone can easily access the Internet anywhere and anytime (Khanom, 2023). So, the latest definition of social media is how companies reach, interact and communicate with their customers; companies are also considering increasing the budgeted costs in the coming year for managing and using social media (CMO, 2018) because companies use social media as a marketing strategy and think that the platform is cheaper and can reach more consumers.

Several business experts realise the importance of social media for the business sustainability of MSMEs (Jabbour et al., 2019). There are problems for MSMEs in adopting social media usage, such as strategic preparation and the need for knowledge and understanding of social media (Susanto et al., 2023). Also, there is another problem: MSMEs find it difficult to control their brand image because consumers can freely give good or bad comments on their social media platforms (Susanto et al., 2023). MSMEs must understand how to plan and optimise social media platform strategies to improve their business performance (Tarsakoo & Charoensukmongkol, 2020). Indonesia's most frequently used social media are WhatsApp, Instagram, Facebook, TikTok, Telegram, X (Twitter), and others (We Are Social, 2024).

Social media usage is a form of internet marketing that applies various social media networks to achieve marketing communication and branding objectives, as a media for connecting with, the media for search information, a low-cost way of promotion, and for Compatibility (Dodokh and Al-Maaitah, 2019). The use of social media for marketing is an activity that involves sharing content, videos and images socially for marketing purposes (Bhatti et al., 2019). Based on the diffusion of innovations (DOI) theory, social media usage can be a resource and can be adopted to develop new capabilities, effective marketing, and innovation (Odoom et al., 2017). It is known that most MSMEs run businesses with limited resources and require business innovation to achieve competitiveness and sustainable MSME performance (Tarsakoo & Charoensukmongkol, 2020). Social media usage is expected to build brand awareness for consumer knowledge and information, gain and retain customers, carry out promotions at low costs, and interact directly with customers (Adnan et al., 2020).





According to experts, the marketing cost to promote products or services is expensive (Cheung et al., 2020). The solution is using social media because they do not require a large budget (Odoom et al., 2017). Experts have recommended social media usage as a platform that can reduce marketing costs and be efficient for marketers. The more MSMEs promote their products on social media platforms; the more consumers are free to make shopping choices (Tarsakoo & Charoensukmongkol, 2020). Like the endorsement concept, if one group of consumers promotes some products, it will easily attract other potential consumers. So, the costs incurred are relatively low (Ebrahim, 2020). Most social media registration is free if there are costs related to the operational use of social media to create status messages, post the products/promotions offered, and answer customer comments (Cheung et al., 2020). Social media is a low-cost marketing platform, but the consumer reach is more expansive, not only local consumers but also from various geographical distances (Khanom, 2023).

The marketing paradigm has developed rapidly in recent years, as can be seen from technological advances and the role of social media usage in marketing strategies (Qalati et al., 2021). Social media usage is identified as an effective platform for increasing MSMEs' marketing capabilities and has the potential to provide valuable market information in filling MSMEs' resource gaps (Omar et al., 2020; Susanto et al., 2023). According to experts, marketing capabilities and social media usage can influence the performance of MSMEs (Susanto et al., 2023). Large companies and developed countries widely research the role of marketing capabilities and social media usage, but the role of these factors in developing countries needs to be addressed (Tarsakoo & Charoensukmongkol, 2020; Susanto et al., 2023).

Marketing capabilities have been suggested and shown that a company can use marketing capabilities to strengthen its competitive position and provide customer value to maintain its customer relationships and commitment (Omar et al., 2020). Conceptually, marketing capabilities represent a company's ability to better understand and predict customer needs than its competitors and connect effectively with its customers. Therefore, MSMEs need marketing capabilities to connect and establish a strong relationship with MSMEs' performance (Susanto et al., 2023; Ngo, 2024). According to experts, marketing capabilities tend to play a role as a mediator of social media use on performance influencers (Tarsakoo & Charoensukmongkol, 2020; Susanto et al., 2023; Ngo, 2024), and its role has also not been explored in the context of developing countries (Dirgiatmo et al., 2019; Wiwoho et al., 2020). Therefore, this research expands our understanding of the role of marketing capabilities in MSMEs' performance. Furthermore, using social media provides extensive opportunities for MSMEs to increase their competitiveness in the social media environment, primarily through social media such as WhatsApp, Instagram, Facebook, TikTok, Telegram, and X (Twitter).

MSMEs can use social media to identify opportunities and give new product ideas, improve customer relationships, and expand collaboration within and between the company and other parties (Khanom, 2023). In addition, social media plays a role in building consumer relationships (Wales et al., 2021). Such statements emphasise the importance of social media in marketing capabilities (Appel et al., 2020). This interesting fact has been ignored in many previous research (Dirgiatmo et al., 2019; Susanto et al., 2019; Wiwoho et al., 2020; Wales et al., 2021; Susanto et al., 2023; Ngo, 2024). Based on these problems, the researcher aims to provide findings on the influence of social media use on marketing capabilities and MSME performance and examine the impact of marketing capabilities on MSME performance. Finally, researchers will test the role of the mediating variable, namely marketing capability, in the relationship between social media usage and MSME



performance. The author hopes to answer existing research questions so that there is novelty in this research.

THEORETICAL REVIEW

Diffusion of Innovations (DOI) theory. Research on adopting and using technological innovation generally uses DOI theory (Odoom et al., 2017). The process of spreading innovation (products, services, ideas, information, or practices that are considered new by MSMEs consumers) within a business among people over time, resulting in adoption and use for some purpose. Innovations can be regarded as new not based on the date they were created but based on their implementation and can be seen from their competitive advantages (Odoom et al., 2017).

Innovations can be easily implemented with observable results, easy for potential users to try, and suit their needs; the change in traditional media in MSMEs marketing to the use of social media as internet-based technology is a fundamental feature of the Diffusion of Innovations (DOI) theory (Odoom et al., 2017). Social media is an extension of traditional media that uses a more sophisticated set of tools, techniques and technologies for connecting, building relationships and social interaction. There are new things in conventional media used by companies through expanding marketing activities with social media usage.

Social media usage. It is a link that can determine the distance between MSME owners and your customers' social media, which is used to reach targets as quickly as possible (Levin, 2020). Social media is the right way to introduce products/services from MSMEs to the younger generation, homemakers, workers, or retirees. MSME owners can use social media to respond directly to their consumers because they can provide positive comments or complaints, which can be used by MSME owners for evaluation (Lina & Permatasari, 2020). Social media is a platform that creates conversations and influences consumer behaviour, such as buying products, subscribing to certain services, and joining online communities and other consumers. MSME owners can adopt social media to generate value for customers and a channel for distributing electronic word of mouth about a product from a particular brand (Tarsakoo & Charoensukmongkol, 2020). Traditional marketing requires significant investments, while social media does not require large investments, thus providing a substantial opportunity for MSMEs to access large groups of target customers constrained by budgets (Charoensukmongkol & Sasatanun, 2017).

Marketing capability. Marketing capability is the formulation of marketing strategies effectively, using the resources owned by MSMEs and the market and allocating resources such as labour, finance, and other resources. The company's ability to develop social media marketing strategies tailored to the target market and allocate appropriate resources to social media (Tarsakoo & Charoensukmongkol, 2020). MSME players with high marketing capabilities can create more effective marketing programs on social media to compete with competitors and adapt to environmental conditions more quickly. Marketing capability is the marketer's ability to make appropriate decisions, such as when to promote, interact, and respond. The existence of marketing capabilities makes it easier for MSMEs to introduce products, interact with customers directly, and find out customers' needs and desires (Susanto et al., 2023). MSME players who implement optimal marketing capability can outperform MSMEs that only focus on operational capabilities, are oriented towards long-term business development, and can survive in the future.



MSMEs performance. It combines three parts of the company: financial performance, return performance to capital owners, and marketing performance (product introduction in the market). MSME performance assesses MSMEs' ability to achieve their business goals, as seen from financial management and product position in the market. So that MSME players can achieve sales targets, compete with other business people, have stable profitability, and tend to increase (Rogo et al., 2017).

Social media usage and marketing capability. Social media is a tool that must be incorporated into existing strategies and used to support business goals (Cheung et al., 2020). There is potential business value to be gained from social media. Still, many companies need to realise the business value of using social media because they need to define that value (Khanom, 2023). Social media platforms provide new opportunities for businesses to improve the competitive position of MSMEs through new and interactive ways, resulting in social media being widely adopted as a business tool in the twenty-first century (Cheung et al., 2020). Based on research by (Odoom et al., 2017), which examines the factors that encourage MSMEs to use social media, social media is considered compatible, interactive, and practical and ultimately can influence MSMEs in their marketing capabilities. Social media usage allows marketers to build brand awareness, share knowledge and information, acquire and retain customers, initiate low-cost promotions, engage with customers interactively, and provide opportunities for customers to disseminate information through social media platforms (Adnan et al., 2020).

According to (Susanto et al., 2023), regarding the benefits of social media usage and identifying adequate resources to increase the marketing capabilities of MSMEs with limited resources. Social media usage has the potential to provide valuable market information to fill MSMEs' resource gaps and reduce uncertainty by leveraging their real-time market knowledge, resource matching capabilities, networking, social media customer relationship management, product and service co-creation, and marketing capabilities overall (Omar et al., 2020). According to (Khanom, 2023), using social media has many advantages, including sharing information between users and companies and functioning as a new marketing strategy for companies to achieve MSMEs performance. Based on the findings above, our hypothesis is:

H1: Social media usage positively influences marketing capability.

Marketing capability and MSMEs performance. The development of the digital world in the last decade has influenced the business industry in carrying out its business, both operationally and administratively, which has significantly impacted marketing practices. Marketing capabilities focus on utilising a company's marketing resources, skills, and knowledge to acquire, combine, and transform resources into products/services of value to customers (Utomo & Susanto, 2020). Marketing capabilities help companies perceive and respond to changes in the market; this includes changes in competitors' strategies and movements and technological changes that utilise company capabilities/other company resources to create value for products/services (Cortez & Hidalgo, 2022). Marketing capabilities are skills and competencies that enable companies to understand customer and market needs through interaction (Susanto et al., 2023). MSMEs' marketing capabilities can effectively implement strategies to suit market conditions and achieve optimal MSME performance (Elsharnouby and Elbanna, 2021).

Marketing capability on MSMEs performance has been studied extensively with various performance measures (Susanto et al., 2023) and is considered a determining factor



in company performance (Susanto et al., 2023; Salo et al. al., 2022). There is a relationship between marketing capabilities and MSMEs' performance when MSMEs with solid marketing capabilities are in a position to grow better and enable companies to grow faster (Sudirman et al., 2020; Salo et al., 2022). Marketing capabilities will improve the performance of MSMEs, so to optimise them, you must build strong customer relationships or create innovative business strategies (Chinakidzwa & Phiri, 2020a). With good marketing management capabilities, competency management is needed well and has uniqueness so that MSME performance is superior to its competitors (Martins, 2022). Previous research has proven that marketing capability significantly affects MSME's performance. Based on these findings, we make the following hypothesis:

H2: Marketing capability positively influences MSMEs' performance.

Social media usage and SMEs performance. Social media usage can be the most effective resource for improving MSME's performance (Susanto et al., 2023). In the MSMEs business, the main advantage is that the costs are affordable and provide solutions for MSMEs to overcome partner limitations and geographical location and connect MSMEs with consumers who cannot be reached cost-effectively. In addition, optimising social media usage creates "sustainable engagement" with consumers, provides a low-cost platform for information dissemination, collaboration, dialogue, and co-creation, and facilitates creative online content creation, interaction, and user interoperability (Adnan et al., 2020).

Social media usage has helped MSMEs reduce promotion and advertising costs to improve performance (Tajudeen et al., 2018). Most MSMEs run their businesses with limited resources and require optimisation of social media usage to achieve competitiveness and sustainable performance (Susanto et al., 2023). Several studies discuss the benefits of social media usage in improving MSMEs' performance and having a positive impact on MSMEs' performance (Dodokh et al., 2019; Susanto et al., 2023). MSMEs that optimise social media usage for their business activities can form consumer orientation, thereby increasing MSMEs sales (Amoah et al., 2021). Based on these findings, we hypothesise as follows:

H3: Social media usage positively influences MSMEs' performance.

Mediating role of marketing capability. Marketing capabilities are innovative procedures used to respond to market needs, including product, administration and marketing innovation (Bambang et al., 2021). Marketing capability is the main factor for improving company performance (Rogo et al., 2017). Company performance to achieve competitive advantage is determined by marketing capabilities (Qalati et al., 2021). In line with marketing literature, companies implementing a marketing capability strategy can gain a sustainable competitive advantage and obtain excellent company performance (Qalati et al., 2021). According to experts, company profit or profit growth is directly influenced by marketing capabilities. Social media usage can be a solution for resource efficiency, can be optimised to develop innovations and is directly related to marketing capabilities (Susanto et al., 2023). If MSMEs run businesses with limited resources, they must optimise social media usage to achieve competitiveness and sustainable performance through marketing capabilities (Omar et al., 2020; Galati et al., 2021).



Researchers have analysed several benefits of social media usage activities and optimising limited resources to increase marketing capabilities with efficient resources (Susanto et al., 2023). Marketing capability optimises company performance (Tarsakoo & Charoensukmongkol, 2020). Another study investigated the mediating effect of marketing capability on social media usage and MSME's performance (Qalati et al., 2021). In addition, marketing capability also mediates the relationship between social media usage and MSME's performance. Based on this explanation, our hypothesis is:

H4: Marketing capability mediates the relationship between social media usage and MSMEs performance.

Based on the explanation above, the research model proposed by the researcher can be seen in **Figure 1** as follows:

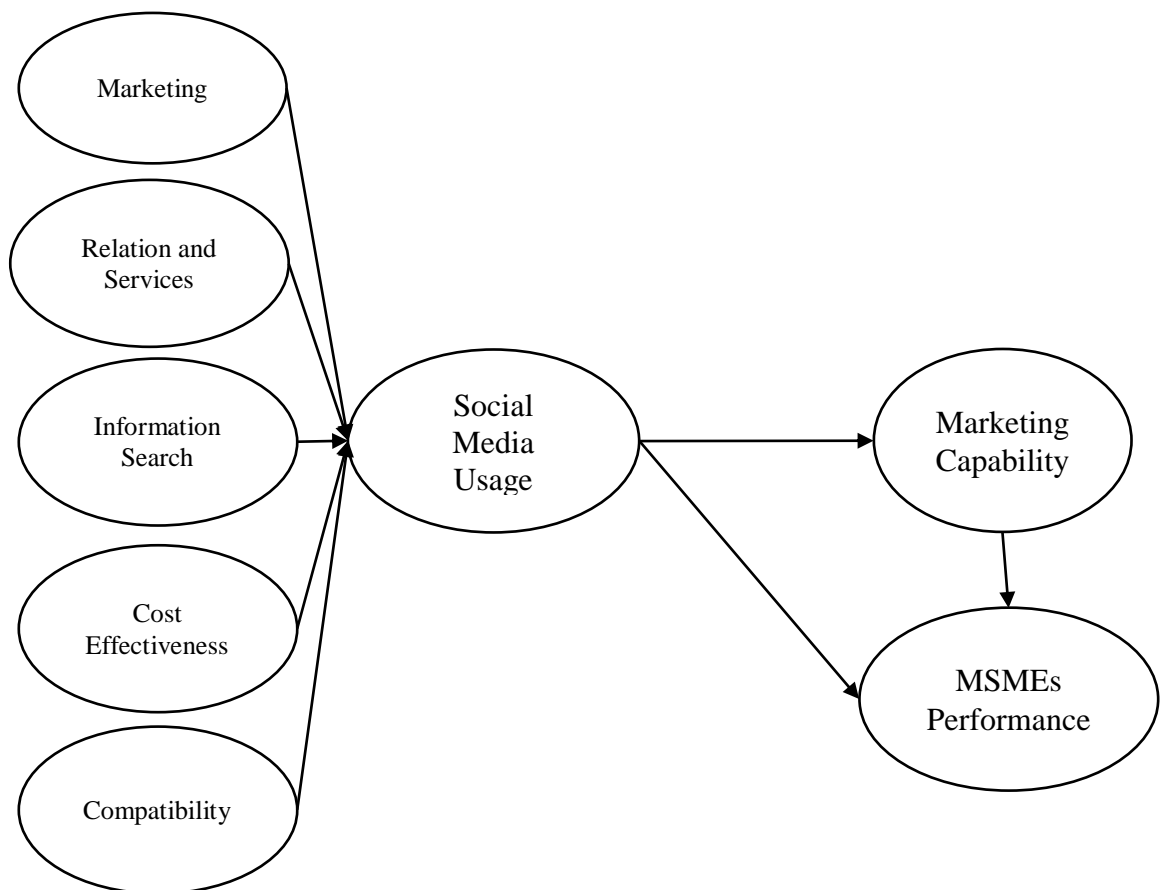


Figure 1. Research Model

Source: Developed by the researcher for this research (2024)

METHODS

Data Collection. This study uses a quantitative approach with a survey-based design. We used close-ended questions in our questionnaire. Our population consists of owners and managers of MSMEs in Indonesia. Based on (Hair et al., 2021), the minimal sample size

should be at least five up to 10 times the items we have. So, our respondents are 230 owners or managers of MSMEs. In this study, we distributed questionnaires online using *Google Forms* via Instagram, WhatsApp, or other platforms. We used a Partial Least Square-Structural Equation Modeling (SEM-PLS) approach to test the conceptual framework (See **Figure 1**) and prove our hypothesis.

Table 1. Research Instruments

Variables	Code	Items
Marketing	SM1	Promoting business with social media
	SM2	Evaluate marketing performance
	SM3	Marketing terms in social media
Information Search	IS1	Search market information from social media
	IS2	Search competitors' information from social media
	IS3	Display product catalogues on social media
Relation Services	RS1	Collect customer feedback (comments/opinions) on social media
	RS2	Customer service via social media
	RS3	Improve product quality based on customers' feedback on social media.
	RS4	Looking for new customers through social media
Cost Effectiveness	CE1	Using social media as a cost-effectiveness
	CE2	Using social media as a cost-effectiveness
	CE3	Social media is better than conventional marketing
Compatibility	C1	Social media suits our business type
	C2	Social media suits our business strategy.
	C3	Social media suits our business vision and mission.
	C4	Social media suits our IT infrastructure
Marketing Capability	MC1	Ability to identify new market opportunities
	MC2	Ability to respond to market changes
	MC3	Ability to create good relationships with customers
	MC4	Ability to maintain good relationships with customers
SMEs Performance	P1	Increased Sales
	P2	Increased number of customers
	P3	Increased brand visibility or brand awareness
Entrepreneurial Orientation	EO1	We are known as a pioneer (providing innovation) among other businesses in our area.
	EO2	We promote new products and continue to innovate business.
	EO3	Ability to take action
	EO4	Ability to seek new opportunities
	EO5	Ability to position to meet emerging demands
	EO6	Brave to take risks

Measurements. The exogenous variable we investigated in this study was Social Media Usage, the endogenous variable was MSME performance, and the mediating variable was Marketing Capabilities. In this study, we use the two-stage approach for Social Media Usage to assess the second-order constructs: Marketing, Information Search, Relation Service, Cost-effectiveness and Compatibility. The observed variables representing the latent variables are shown in the Appendix. These constructs were measured using a five-point Likert-type scale with answers ranging from 1 (strongly disagree) to 5 (strongly agree).

The social media usage, marketing capabilities, and performance of MSMEs were adapted from (Susanto et al., 2023). The items for MSMEs' performance are statements that express perceptions rather than objective measurements because we find it difficult to access financial data for MSMEs (See Table 1). The responses based on perceptions are generally considered reliable and have been shown to produce results consistent with objective measures in previous studies (Tajudeen et al., 2018). We used at least three items for each construct to ensure adequate reliability (Hair et al., 2021).

Instruments Validation. To ensure the items are valid and reliable, we need to test the convergent validity, discriminant validity (See Table 3), and reliability. But before that, we did the back-in translation to generally concur that the questionnaire was straightforward to complete, so no further modifications were made. Since we use the SEM-PLS approach, we must test the outer model (validity and reliability) and inner model (causality influence).

RESULTS

Descriptive Statistics. Based on (Hair et al., 2021), the number of respondents is at least 5 to 10 times as many items, so it is necessary to collect 230 respondents. For a 100 per cent response rate, we provide more than the minimum number of respondents. We use an online questionnaire and send it via the MSME WhatsApp Group per location. We discarded 21 questionnaires with unanswered questions (missing values) from the returned questionnaires. Based on Table 2 below, Participant Characteristics, the results show that around 98 per cent of organisations use social media such as Instagram, Facebook, and WhatsApp. In terms of business age, around 84 per cent of business people have only just set up their business, around 1 to 5 years, as many as 12 per cent have their business age 6 to 10 years, and the remaining 4 per cent have their business age more than 15 years. Based on age, respondents were dominated by 18 to 25 years old at 54 per cent; the next highest was respondents aged 26 to 33 years at 25 per cent, those aged 34 to 41 at 10 per cent and 42 to 48 years at 5 per cent. And the remaining 56 years and over 2 per cent. If we look at the age of the respondents, the dominant generation is Generation Z (18 to 25 years).

For education, it is dominated by undergraduate as much as 54 per cent, high/vocational school as much as 41 per cent, and secondary school as much 3 per cent; the rest are elementary and postgraduate with a total of 2 per cent. Based on age, it shows that most MSMEs who use social media usage to develop their business are those with undergraduate and high/vocational school education. If we look at the business fields, the most dominant ones are trading at 75 per cent and service at 10 per cent, while the rest are food and beverages, agriculture, fashion, fishery, and farm at 15 per cent. Based on this explanation, it is clear that MSME players compete to dominate trade, so development and innovation are already saturated. Lastly, all business locations are almost the same, with the most being DI Yogyakarta at 18 per cent, East Java at 15 per cent, Central Java and DKI Jakarta at 12 per cent, and West Java at 9 per cent. The remaining 34 per cent are from other regions in Indonesia (See Table 2).

Table 2. Participant Characteristic (N of 230)

Criteria	Frequency	Per centage
Using Social Media		
Yes	225	98 per cent
No	5	2 per cent



Business Age		
1 to 5 years	193	84 per cent
6 to 10 years	27	12 per cent
11 to 15 years	0	0 per cent
more than 15 years	10	4 per cent
Age		
18 to 25 years old	125	54 per cent
26 to 33 years old	55	25 per cent
34 to 41 years old	24	10 per cent
42 to 48 years old	11	5 per cent
49 to 55 years old	10	4 per cent
56 to 62 years old	4	2 per cent
more than 63 years old	1	0 per cent
Education		
Elementary	3	1 per cent
Secondary School	7	3 per cent
High/Vocational School	95	41 per cent
Undergraduate	123	54 per cent
Postgraduate	2	1 per cent
Business Fields		
Fashion	4	2 per cent
Food and Beverages	15	7 per cent
Services	24	10 per cent
Trade	174	75 per cent
Agriculture	5	2 per cent
Fishery	4	2 per cent
Farm	4	2 per cent
Business Location		
West Java	21	9 per cent
Central Java	28	12 per cent
East Java	35	15 per cent
DKI Jakarta	28	12 per cent
DI Yogyakarta	41	18 per cent
other	77	34 per cent

Source: Research Tabulation (2024)

Empirical Estimations and Result. We use the SEM-PLS approach, so we need to measure the validity and reliability. Based on the measurement test and quality criteria suggested by (Hair et al., 2021), we dropped or removed the items with a loading factor of less than 0.600 to obtain a specific model. The concurrent validity test shows that all items were valid scores with a loading factor of more than 0.600, as seen in **Table 3**, Evaluation of Measurement Model and **Figure 2** conceptual model in Smart PLS 3.0. The results are the five dimensions that measure social media use, namely marketing, relationship services, information search, cost-effectiveness and compatibility validity when viewed from the loading factor value of more than 0.600. It can also be seen from the measurement items of



the marketing capability and MSME performance variables that the factor loading value is more than 0.600. All items used in this research are valid. The reliability of this research is seen from the AVE value, where all the variables used have an AVE value of more than 0.600, which means the variables used are reliable.

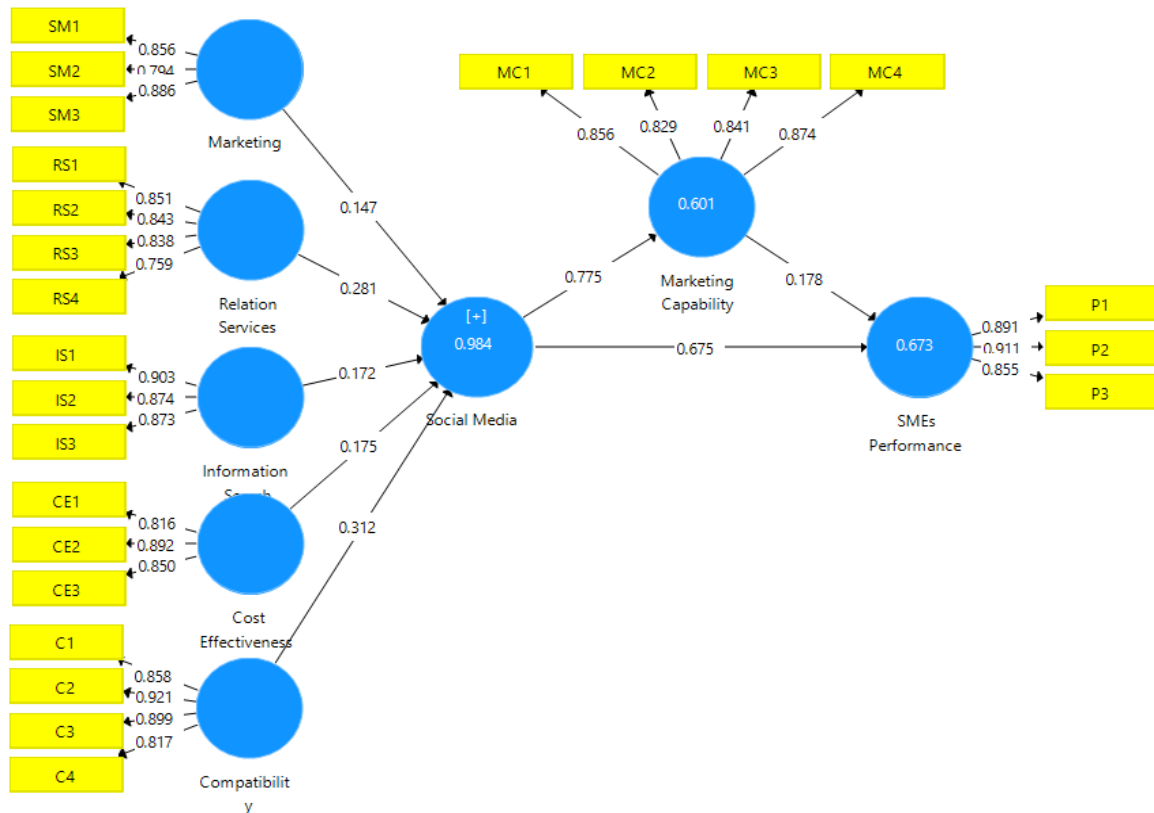


Figure 2. Conceptual Model in SMART-PLS 3.0

Source: Smart-PLS (2024)

Also, the reliability test results are shown in **Table 4.** and **Figure 2.** The discriminant validity results are shown in **Table 4.** We consider the coefficient of determination (R^2) to show the extent to which the contribution of the exogenous variable can explain variation in endogenous variables. Based on these results, all items from the variables have the highest value, which means that the items are suitable for measuring the variables used. Our result shows that the R^2 value of MSMEs performance (0.671), Social Media Usage (0.981) and Marketing Capabilities (0.599) have moderate levels of predictive accuracy. Hair et al. (2021) state that an R^2 value above 0.500 describes moderate predictive behaviour.

Table 3. Evaluation of Measurement Model

Constructs / Items	LF	CA	rho_A	CR	AVE	
Marketing	SM1	0.856	0.801	0.805	0.883	0.716
	SM2	0.794				
	SM3	0.886				
Information Search	IS1	0.903	0.860	0.862	0.914	0.781
	IS2	0.874				
	IS3	0.873				



Relation Services	RS1	0.851	0.841	0.843	0.894	0.678
	RS2	0.843				
	RS3	0.838				
	RS4	0.759				
Cost Effectiveness	CE1	0.816	0.813	0.819	0.889	0.728
	CE2	0.892				
	CE3	0.850				
Compatibility	C1	0.858	0.897	0.902	0.929	0,765
	C2	0.921				
	C3	0.899				
	C4	0.817				
Marketing Capability	MC1	0.856	0.872	0.876	0.913	0.723
	MC2	0.829				
	MC3	0.841				
	MC4	0.874				
MSMEs Performance	P1	0.891	0.863	0.865	0.917	0.786
	P2	0.911				
	P3	0.855				

We also need to examine the discriminant validity through the cross-loading value. Specifically, an indicator's out-loadings on a related construct should be greater than any cross-loadings on other constructs. **Table 4** shows that Compatibility, which consists of C1, C2, C3, and C4, has bigger loadings than other constructs (Social Media Usage, MSMEs Performance, Cost Effectiveness, Information Search, Marketing, Market Capability and Relation Services).



Table 4. Cross-Loading as a Discriminant Validity

	SMU	MSMEs Perf	Comp.	CE	IS	Market.	MarCap	RS
C1	0.831	0.624	0.859	0.716	0.722	0.717	0.640	0.729
C1	0.832	0.624	0.859	0.716	0.722	0.717	0.640	0.729
C2	0.853	0.670	0.921	0.755	0.693	0.706	0.664	0.745
C2	0.853	0.670	0.921	0.755	0.693	0.706	0.664	0.745
C3	0.812	0.641	0.898	0.727	0.625	0.694	0.588	0.690
C3	0.811	0.641	0.898	0.727	0.625	0.694	0.588	0.690
C4	0.718	0.542	0.817	0.618	0.569	0.611	0.516	0.601
C4	0.718	0.542	0.817	0.618	0.569	0.611	0.516	0.601
CE1	0.713	0.501	0.635	0.817	0.566	0.625	0.506	0.623
CE1	0.713	0.501	0.635	0.817	0.566	0.625	0.506	0.623
CE2	0.831	0.592	0.727	0.892	0.718	0.704	0.671	0.750
CE2	0.831	0.592	0.727	0.892	0.718	0.704	0.671	0.750
CE3	0.757	0.553	0.701	0.849	0.638	0.620	0.604	0.637
CE3	0.757	0.553	0.701	0.849	0.638	0.620	0.604	0.637
IS1	0.806	0.581	0.672	0.683	0.903	0.669	0.621	0.751
IS1	0.806	0.581	0.672	0.683	0.903	0.669	0.621	0.751
IS2	0.746	0.499	0.641	0.641	0.875	0.629	0.492	0.634
IS2	0.746	0.499	0.641	0.641	0.875	0.629	0.492	0.634
IS3	0.795	0.548	0.670	0.674	0.873	0.680	0.635	0.727
IS3	0.795	0.548	0.670	0.674	0.873	0.680	0.635	0.727
MC1	0.661	0.676	0.617	0.616	0.582	0.548	0.855	0.622
MC2	0.632	0.591	0.589	0.576	0.562	0.520	0.829	0.609
MC3	0.594	0.526	0.540	0.549	0.517	0.493	0.842	0.583
MC4	0.669	0.581	0.600	0.634	0.584	0.579	0.875	0.636
P1	0.591	0.889	0.579	0.523	0.470	0.506	0.566	0.575
P2	0.636	0.912	0.605	0.565	0.551	0.525	0.672	0.619
P3	0.708	0.856	0.695	0.617	0.603	0.623	0.620	0.658
RS1	0.758	0.558	0.647	0.623	0.598	0.714	0.574	0.851
RS1	0.758	0.558	0.647	0.623	0.598	0.714	0.574	0.851
RS2	0.814	0.653	0.677	0.699	0.752	0.723	0.644	0.841
RS2	0.814	0.653	0.677	0.699	0.752	0.723	0.644	0.841
RS3	0.752	0.552	0.644	0.624	0.603	0.685	0.570	0.839
RS3	0.752	0.552	0.644	0.624	0.603	0.685	0.570	0.839
RS4	0.735	0.533	0.643	0.646	0.669	0.605	0.585	0.759
RS4	0.735	0.533	0.643	0.646	0.669	0.605	0.585	0.759
SM1	0.782	0.565	0.671	0.687	0.641	0.855	0.625	0.717
SM1	0.782	0.565	0.671	0.687	0.641	0.855	0.625	0.717
SM2	0.714	0.470	0.615	0.613	0.589	0.796	0.439	0.668
SM2	0.714	0.470	0.615	0.613	0.589	0.796	0.439	0.668
SM3	0.787	0.549	0.696	0.635	0.663	0.886	0.530	0.719
SM3	0.787	0.549	0.696	0.635	0.663	0.886	0.530	0.719

Source: SmartPLS (2024)



We need to test the inner model to generate the significance of path coefficients. In this study, we use the two-stage approach for Social Media Usage to assess the second-order constructs: marketing, information search, relation service, cost-effectiveness and Compatibility. The result is presented in **Table 5**. The current study's significance level is 5 per cent with a p-value equal to or less than 0.050. The result of the path coefficients test is divided into two parts, direct effect and indirect (mediating role), presented in **Table 5**.

Table 5. Path Coefficient and Hypotheses Testing

Dimension for Social Media Usage	T Statistics	P Values	Conclusion
Marketing → Social Media	7.380	0.000	Accepted
Relation Services → Social Media	11.322	0.000	Accepted
Information Search → Social Media	9.782	0.000	Accepted
Cost Effectiveness → Social Media	9.361	0.000	Accepted
Compatibility → Social Media	11.811	0.000	Accepted

Table 5 suggests that marketing, relation services, information search, cost-effectiveness, and Compatibility are the proper dimensions for social media usage. All factors were the significant factors that influenced Social Media Usage in MSMEs. Marketing was found to be statistically significant in terms of social media usage. Social media plays a marketing strategy that has an impact and can reach customers or consumers easily anywhere and at any time without any time and place limitations. The result is consistent with (Susanto et al., 2021). Information Search and Relation Services were statistically significant in social media usage. MSMEs should obtain information from social media platforms and take appropriate action, allowing them to build a customer base and connect with customers more efficiently.

Social media also enable two-way communication with the public, so the MSMEs will find it easy to know how their customer respond. MSMEs also can use it as a medium for complaint handling. Therefore, those factors can improve business and financial performance. The result is consistent with previous studies (Susanto et al., 2023). Cost-effectiveness was found to have a significant influence on Social Media Usage. Since MSMEs have limited financial resources, they can reach many audiences through advertisements, promotions, and campaigns on Facebook, Instagram, or other platforms without massive investment, and they can even be free. The result is consistent with previous studies (Odoom et al., 2017). And the last is Compatibility. Anyone with an internet connection can use social media. Even for an MSME, too. It is compatible with existing infrastructure as the technology is straightforward and easily adaptable by anyone, even for MSMEs. The result on Compatibility was consistent with the previous studies that argue that Compatibility is a significant factor in adopting technology (Tajudeen et al., 2018).

Table 6 has two panels. Panel A shows the direct effect between latent variables; the results are significant at the 1 per cent level. Panel B shows the indirect effect or mediating role, and the result is that Marketing Capability can mediate the role of Social Media Usage on MSMEs' Performance. Further explanation will be stated in the discussion section below.

Table 6. Direct and Indirect Effects

Panel A. Direct Effect		
Social Media Usage → Marketing Capability	18.487	0.000
Marketing Capability → MSMEs Performance	2.300	0.022
Social Media Usage → MSMEs Performance	9.146	0.000
Panel B. Indirect Effects		
Social Media → Marketing Capability → MSMEs Performance	2.256	0.024

DISCUSSION

The findings reveal that Social Media Usage positively and significantly affects Marketing Capability (p-value of 0.000), indicating that **Hypothesis 1** is accepted. The finding implies that MSMEs that use social media for business purposes have better marketing capabilities. The result is consistent with previous studies (Susanto et al., 2023; Tarsakoo & Charoensukmongkol, 2020). The Resource-Based Value theory supports this finding. This theory states that valuable, rare, and inimitable (non-substitutable) resources will give the organisation a competitive advantage. In this context, those resources include many physical (financial, technological) and non-physical (human, brand and organisational cultural assets). The use of social media can give MSMEs a strong brand and be a basis for building superior marketing capabilities.

On the other hand, effective marketing capabilities can also help manage and utilise organisational resources better. For example, identifying emerging market needs can help a company allocate resources more efficiently to develop products or services that meet those needs. This is now made easier by the presence of social media, which everyone can use. Specifically, using social media can also improve the SME's financial performance (Tarsakoo & Charoensukmongkol, 2020).

Based on these results, social media is seen from five dimensions: marketing, relationship service, information search, cost-effectiveness, and Compatibility. Optimising social media can be used to introduce products and expand market reach because social media is accessed by various groups worldwide, thus strengthening the marketing capacity of MSMEs (Cortez & Hidalgo, 2022). The findings show that social media usage functions as a promotion to introduce MSME products on social media (Instagram, Facebook, Tiktok, WhatsApp, Twitter/X), provide terms that are easily recognised by consumers, and evaluate marketing performance through feedback (likes, shares, and follow-up) on social media so that you can establish and maintain relationships with customers. The use of social media can also make MSMEs closer to customers by interacting directly in cyberspace (Khanom, 2023). Social media can also be used to search for information related to products/services consumers need because today's consumers search for information on social media. When optimising social media, you can minimise the costs incurred, and the costs can be used to develop MSMEs. Effective use of social media can provide optimal results compared to traditional media (brochures, pamphlets, billboards and TV advertisements). It can give time efficiency in promotions, product branding and customer service so that it can be easy to develop MSME businesses (Omar et al., 2020).

So, when disseminating information, it must be Compatible with the reality of the products that are owned so that consumers are satisfied with the products that MSMEs offer. When MSMEs regularly use social media to collect comments/opinions about their business interests, they can buy services directly (Omar et al., 2020). Social media can make it easier





for MSMEs to search for competitor and market information and display product catalogues so they can know market changes and identify opportunities to develop MSMEs. The social media used by MSMEs is very suitable for the business they run, the business vision and mission, and the business strategies used to develop the business and establish/maintain close customer relationships.

Hypothesis 2 is supported according to the result above. Marketing Capability significantly affects MSMEs performance (p-value of 0.022). This result is consistent with the previous studies (Susanto et al., 2023). With solid marketing capabilities, MSMEs can identify new market opportunities, respond to market change quickly & precisely, and also make and maintain good customer relationships (Susanto et al., 2023). These will help to increase their brand visibility and awareness in the market. This helps MSMEs differentiate themselves from competitors and attract the attention of potential consumers. Good marketing skills can help MSMEs identify the right market segments, target potential consumers, and better communicate the value of their products or services. As a result, sales can increase due to an effective marketing strategy. (Joensuu-Salo et al., 2023) argue that it will be good for MSMEs to have a marketing capability because it is a versatile skill and enables rapid growth. When MSMEs can identify new market opportunities and respond to market changes to develop their business, this can impact increasing sales and the number of customers. MSMEs must also establish and maintain relationships with customers so that consumers know the existence of MSME products and their impact on their performance.

Concerning **Hypothesis 3**, the result suggests that Social Media Usage positively and significantly affects MSMEs' performance (p-value of 0.000). Our result is consistent with (Hamdan et al., 2019), (Susanto et al., 2023), and (Tajudeen et al., 2018). The finding implies that social media has been essential in the digital environment era for building customer trust and connecting with customers effectively and efficiently. Even since the COVID-19 pandemic era, MSMEs that have lost income have had to rack their brains about how their products can reach the hands of consumers. Then, they increasingly use social media to promote their product and as a portfolio media. This finding is supported by (Amoah et al., 2021), who state that businesses have been using social media to operate during COVID-19. So, social media usage can provide significant benefits for MSMEs, from increased brand visibility to increased sales and better market understanding. Therefore, MSMEs need to develop marketing strategies integrated with social media to support the growth and success of their business. Ease of searching for information related to market information, competitors and product catalogues can increase brand awareness and increase sales (Dodokh et al., 2019). Social media can provide information and promotions to consumers at lower costs and be time-efficient in promotions (Susanto et al., 2023). Providing the best service by providing fast service and using customer input to improve product quality can increase the number of customers who buy our products. Social media can cut promotional costs, save time, and brand products and services closer to customers.

Referring to **Hypothesis 4**, this study argues that Marketing Capability mediates the role of Social Media Usage in MSME's performance (p-value of 0.024). This result aligns with (Susanto et al., 2023), which state that marketing capabilities mediate the relationship between social media usage and MSMEs performance. MSMEs using social media correctly can identify a market opportunity, respond to market changes, and maintain good customer relationships. This result confirms the RBV theory that entrepreneurial actions for achieving preferable performance depend on how MSMEs apply and use their available resources productively (Adnan, 2020). Thus, MSMEs can survive in business competition if they can



use social media properly and have the ability to apply the marketing concept. Marketing capability is essential to success, especially in a rapidly changing and competitive business environment. Organisations with solid marketing capabilities adapt to market changes and attract new and retain existing customers. When MSMEs optimise the use of social media for marketing, which is focused on promotion, performance evaluation and making it easier for consumers to get to know them, for market and competitor search information, serving consumers by looking at consumer feedback to improve product quality, time efficiency in promotion and service, as well as adjustments to business, business strategy, vision and business mission (Qalati et al., 2021). Social media can improve MSMEs' performance by identifying new market opportunities, responding to market changes, and establishing and maintaining close customer relationships.

CONCLUSION

Based on the findings above, there is an influence between social media usage, marketing capability, and MSMEs' performance. Social media usage in research focuses on social media for marketing, social media for relations and service, social media for information search, social media for cost-effectiveness, and social media for Compatibility, which directly affect improving marketing capabilities and MSMEs performance. Based on the findings, marketing is a dimension of social media because, with social media, MSMEs can be optimised to introduce their products with a broader reach and promote them at lower costs.

The second dimension is Relationship Service; with social media, we can bring consumer interactions with MSME owners closer; when consumers feel close, they can easily interact with our products. When consumers need a product, they often search for it on social media so that when MSME owners can optimise distribution, they can easily find out about our products. MSME owners can reduce costs or expenses for higher-paid promotions because, with social media, the costs that will be spent on promotions are relatively cheaper and more affordable. When the costs incurred are relatively lower, funding from management can be used to develop MSME products so that the products offered are more innovative and varied. Lastly, Compatibility is needed for more optimal results in the appropriate use of social media for the proper target market.

MSMEs use social media platforms to optimise performance: WhatsApp, Instagram, Facebook, TikTok, Telegram, and X (Twitter). This platform has made an extraordinary contribution to developing MSMEs in Indonesia. Social media allows MSMEs to optimise marketing with a broad reach and require lower cost, interact with customers directly even though they are far away, and compare their products to increase profits. The resulting performance is even better than MSMEs that do not use social media for marketing. This research also shows that marketing capabilities directly affect the performance of MSMEs. The mediating role of marketing capabilities in social media usage and MSMEs' performance is proven in this study, which means that capabilities mediate the relationship. Based on research results, MSMEs that have operated for 1 to 5 years use social media the most to optimise their business performance.

Limitations to this research can be refined by future research; that is. First, we focus on social media usage in Indonesia, but it would be better if it were developed for application in other countries. Second, this research only focuses on the social media platforms WhatsApp, Instagram, Facebook, TikTok, Telegram, and X (Twitter); further research can add social media or focus on just a few social media. Third, social media usage can be used as



an intervening variable. Lastly, the scope of the research only focuses on micro, small, and medium enterprises (MSMEs), so the research concept can be applied to MSMEs' businesses and companies. Lastly, the number of respondents should be increased to get closer to better results based on the existing conditions of MSMEs.

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