

Effects of Digital Marketing and Service Quality Towards Business Performance That Is Mediated by Competitiveness

Ernani Hadiyati

Economic and Business Faculty, Gajayana University, Malang, Indonesia

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ABSTRACT: *The research aimed to analyze effects of digital marketing and service quality towards business performance with competitiveness as a mediating variable. The research sample involved 114 people of meatball-culinary micro entrepreneurs in Malang City, East Java Province, Indonesia. The sampling technique applied purposive sampling. Research data analysis was done with some steps including frequency distribution, validity and reliability tests, path analysis method with SPSS software and for mediation test with sobel test. The research results showed: first, that digital marketing had significant effect on business performance with the mediation of competitiveness and the partial mediation model. Second, service quality had a significant effect on business performance with the mediation of competitiveness and the full mediation model. Results of the Sobel test proved that competitiveness was the right mediating variable for digital marketing and service quality influenced business performance. The research results practically contributed ideas to meatball-culinary micro-entrepreneurs in implementing digital marketing, service quality, competitiveness and business performance.*

KEYWORDS: digital marketing, service quality, competitiveness, business performance

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are one sector that plays an important role as a buffer in facing various challenges of the global crisis. The important role was demonstrated by such enterprises' ability to absorb a large number of workers, large number of business units, increasingly-impressive export performance achievements, up to a significant contribution to GDP. MSME development is also a necessary condition for the Government to leverage national economic growth. During the Covid-19 pandemic, MSMEs in Indonesia got much affected. Based on the results of ADB survey (2020) entitled "Impact of Covid-19 on MSMEs", about 48.6% of MSMEs were temporarily closed. Meanwhile, about 30.5% of MSME domestic demand fell; 14.1% of enterprises canceled contracts with MSMEs, and 13.1% of MSMEs experienced

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delivery delays, (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2022). The data was supported by Deni Daruri's opinion (2021) stating that 82.9% of MSMEs felt the negative impact of the pandemic, and 63.9% of them were stated to suffer from decreased income by more than 30%. This condition illustrates that in marketing their products SMEs generally used digital marketing, including SMEs that produce culinary products. Digitalization of social media-based marketing has forced small and medium scale companies to immediately adapt themselves for the sake of business continuity in the future. Rahman and Hadiyati, E, et al (2020) explained that in entering the Digital Era all fields experienced changes and the economic field was no exception. In an effort to achieve increased business performance, SME entrepreneurs also pay attention to service quality which influences competitiveness. Natasha Patricia Bojorges (2017) explains that digital marketing can build market competition. On the other hand, SMEs also pay attention to service quality provided to customers. This will be able to increase competitiveness and business performance. From the results of his research Wijetunge (2016) explains that service quality and competitiveness affect business performance in SMEs. Alexander Tereshchenko (2016) also explains that the improving of service quality can increase competitiveness so that companies are able to achieve the desired business performance. Febryyanto, Febryyanto; Bernardo, Innocentius (2019). A country's competitiveness can be achieved by the accumulation of strategic competitiveness of each company (Tambunan, T.T.H., 2010; Otakar Ungerman, Jaroslava Dedkova, Katerina Gurinova, 2018).

LITERATURE REVIEW

Digital Marketing

Digital Marketing is a special term related to the marketing of products and services using digital platforms through the process of integrated digital technology for business operations to attract interested customers, to support brand maintenance and growth, to ensure customer retention and to significantly increase sales (Kanan & Li, 2017). An effective digital marketing strategy is the most common marketing method in modern technological era (Kamal, 2016). Piñeiro-Otero, T.; Martínez-Rolán, X (2016) explain that digital marketing helps negotiation process, reaches a wider range of services and reduces promotional investment costs. In his research results Moctezuma (2017) states that digital marketing strategies can increase entrepreneurs' competitiveness and success as well as a means for the empowering of SMEs to survive and achieve prestige (Moctezuma, 2017). Bermeo-Giraldo, M.C .; Valencia-Arias, A.; Ramos de Rosas, J.D.; Benjumea-Arias, M.; Villanueva Calderón, J.A. (2022) in their results of research stated that digital marketing serves for interaction with customers, access to products and access to services. Nuseir, M.T.; Aljumah, A (2020); Jaafar, N.S.; Khan, N., (2022) state that digital marketing can increase competitiveness and achieve SME business

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performance efficiently. The application of digital tools in business activities to increase business competitiveness and opportunity base for SMEs to compete more closely with larger organizations (Chapman et al., 2000). This statement is supported by the opinion of Mechman Ali et al (2021) who explains that digital marketing plays a key role in improving the performance of SME businesses. Digital marketing is the essence and core for the growth of small and medium business and a realistic way to manage expenses without having to limit product and service exposure (Chaffey, 2020). In accordance with the previous researchers' opinion, digital marketing indicators include: customer interaction, product access, service access and promotional media.

Service Quality

Goesth and Davis (2019) define service quality as a dynamic condition related to products, people, processes, environments that are able to meet and or exceed consumer expectations. Parasuraman, Zeithaml, Berry. (1988); Adebowale, A (2016) develop service quality on a multidimensional rating scale known as SERVQUAL including: tangible, reliability, responsiveness, communication, assurance, empathy. Wijetunge (2016) explains that service quality includes: tangibility provides customer confidence, adequate technical equipment, professional service. Reliability deals with skills in providing services, giving trust to customers, providing good service. Responsiveness covers with being responsive to requests, minimizing of errors in service, reducing queues. Assurance is the possession of skills in providing services, giving trust to customers, providing good and polite service. Empathy is the paying of attention to customer needs, providing appropriate services according to customer needs that affect competitiveness and business performance. In this study the service quality indicators include: Tangibility, Reliability, Responsiveness, Assurance, and Empathy.

Competitiveness

Solorzano Tomalá, Cristhian Andrés; Olives, Juan Carlos (2022) in the results of their studies stated that the linkages in business competitiveness include: product quality, service quality and price. Le Chi Cong and Dao Anh Thu (2021) think that competitiveness is determined by professional knowledge, competence of building relationship, strategic vision, building of customer relationships, and the operations management competency influences business performance. Goldberg et al. (2003) argues that the concept of competitiveness relates to aspects of competitive advantage or price competitiveness, strategic management and historical, cultural-social aspects. Man et al. (2002) also approached firm competitiveness from the perspective of price, service quality, gross profit and the ability to plan and achieve business objectives compared to industry competitors. The Ministry of National Development Planning/National Development Planning Agency (2014) explains that the competitiveness of MSMEs can include (1) excellence in utilizing resources optimally to produce products that are accepted by the market and high incomes; (2) the ability to

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grow sustainably; and (3) the ability to respond to market changes. Ahmedova (2015); Wijetunge (2016) in the results of their researches explain that competitiveness includes: price/cost, quality, delivery, dependability, product innovation, and time to market, which has effects on business performance. Neeta Baporikar (2021) from the results of her research explains that competitiveness affects business performance in SMEs. In this study, the indicators for SME competitiveness variables include: Price, product quality, product acceptance in the market.

Business Performance

Sabihain ; Januar Eko Prasetyo (2020) in the result of their researches states that company competitiveness has a positive effect on business performance that include the increasing employment, sales growth, ROI growth, revenue growth, increasing of the number of repeated purchases, increasing profits, increasing the number of customers. Wijetunge (2016) in the results of his research identified business performance indicators including: annual sales, annual profits, growth in the number of workers, investment for business. In this study, business performance indicators include: increased employment, sales growth, revenue growth, increased number of repeated purchases, increased profits, increased number of customers, increased investment for business.

Hypotheses

In accordance with the research concept framework, the hypotheses are formulated as follows:

H1: Digital marketing has a direct effect on competitiveness.

H2: Service quality has a direct effect on competitiveness.

H3: Digital marketing has a direct effect on business performance.

H4: Service quality has a direct effect on business performance.

H5: Competitiveness has a direct effect on business performance.

H6: Digital marketing influences business performance by the mediation of competitiveness

H7: Service quality influences business performance by the mediation of competitiveness.

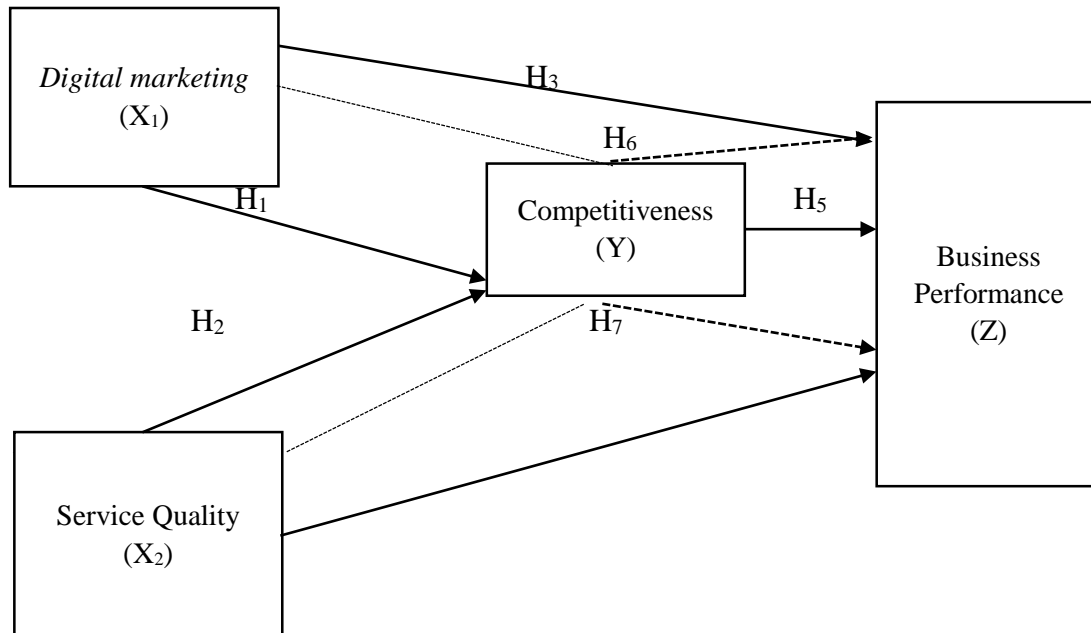


Figure 1: Conceptual Research Framework

METHODOLOGY

The research location was in Malang city. Besides being famous as a tourist city with its natural beauty, Malang is also famous for its culinary specialties, namely meatballs. This type of research was explanatory. Data measurement used a Likert scale. The type of research data was primary data obtained by field surveys. Primary data was obtained by distributing questionnaires to respondents, namely culinary-meatball micro-entrepreneurs. The number of research samples were 114 respondents. The sampling technique used a non-probability sampling method, with purposive sampling method. Data analysis method included frequency distribution, validity and reliability test, hypothesis testing with path analysis technique and mediating variable test with sobel test.

RESULTS

Frequency Distribution Test

The indicator of digital marketing variable that has the highest mean is X1.3 with value of 4.17 meaning that social media make it easier for respondents to access services. The variable item that has the lowest value is X1.4 which is equal to 3.83 meaning that respondents feel that the use of social media as a place to promote business still needs to be further improved. The results of the distribution can be explained that the digital marketing variable X1 has a mean value of 4 .07, and this figure is included in the high

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category. This shows that respondents use digital marketing by paying attention to: customer interactions, product access, access to services and promotional media, marketing content, easy access, fastest information sources and places to promote business.

The service quality variable as the indicator that has the highest mean is X2.2 with value of 4.31, which means that respondents think that the providing of services according to their capabilities is a very important point in running a business. The lowest mean value is found in question item X2.1 with value of 4.23, which means that the respondent feels that it is quite important to provide adequate facilities at the place of business. The results of the description can be explained that the variable Service Quality (X2) has a mean value of 4.27 which is included in the Very High category. This shows that respondents have service quality with indicators of tangibility, reliability, responsiveness, assurance, and empathy provided to customers.

The competitiveness variable for the indicator that has the highest mean, namely Y1.1 with value of 4.39, means that respondents think that so far the produced products have been acceptable in the market. The lowest mean value in item Y1.3 is 4.04, meaning that the respondent has always responded to changes in the market for the sold products. The results of the description can give explanation that the Y variable has a mean of 4.19 which is included in the high category. This indicates that respondents have business competitiveness through products accepted in the market, business growth and sustainability and response to market changes. The business performance variable for the indicator that has the highest mean, namely Z1.6 of 4.42, means that respondents in their business activities are able to increase profits. The item with the lowest mean is Z1.3 with value of 4.05, meaning that respondents with increased profits are also able to grow sales

Validity and Reliability Test

According to the results of the validity test, one can know that all indicators of the research variables include: digital marketing, service quality, competitiveness and business performance have a significant value of >0.05 meaning that all variable indicators are declared valid. According to the results of the reliability test, the research variable was declared reliable, namely with a Cornbach alpha value > 0.60 .

Path Analysis and Sobel Test

Path Analysis

The results of the path analysis test are shown by the results of data analysis on the variable relationship between Digital Marketing (X1) and Service Quality (X2) on Business Performance (Y), shown in table 1:

Table 1 Test Result X₁ and X₂ on Y

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	5,572	1,294		4,307	,000		
total_x1	,227	,058	,348	3,937	,000	,911	1,098
total_x2	,110	,046	,212	2,395	,018	,911	1,098

a. Dependent Variable: total __ y

In the test of variable direct influence is shown the result model equation as follows:

$$Y = 5,572 + 0,348 X_1 + 0,212 X_2 + 1,294$$

From the equations of test X₁, X₂ to Y, one can know that there is a positive and significant relationship between the Digital Marketing (X₁) and Service Quality (X₂) variables on Competitiveness (Y).

The results of the path analysis test are shown by the results of data analysis regarding the indirect relationship between variables X₁ and X₂ to Z through Y, shown in table 2 as follows:

TABEL 2 Hasil Uji X₁, X₂, Y on Z

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	14,236	1,828		7,789	,000		
total_x1	,398	,081	,406	4,934	,000	,799	1,251
total_x2	,037	,062	,048	,608	,545	,866	1,155
total_y	,487	,124	,325	3,926	,000	,790	1,266

a. Dependent Variable: total _z

The results of the path analysis test in table 2 which states the relationship of variables X₁ and X₂ to Z through Y are formulated in the following equation.

$$Z = 14,236 + 0,406 X_1 + 0,048 X_2 + 0,325 Y + 1,828$$

From the equations it can be explained that:

1. There is a positive and significant relationship between Digital Marketing variable (X₁) and Business Performance Variable (Z)
2. There is a positive but not significant relationship between the Service Quality variable (X₂) and Business Performance (Z)
3. There is a positive and significant relationship between the variable Competitiveness (Y) on Business Performance (Z)

From the equations 1 and 2 can be shown figure of path analysis as follows:

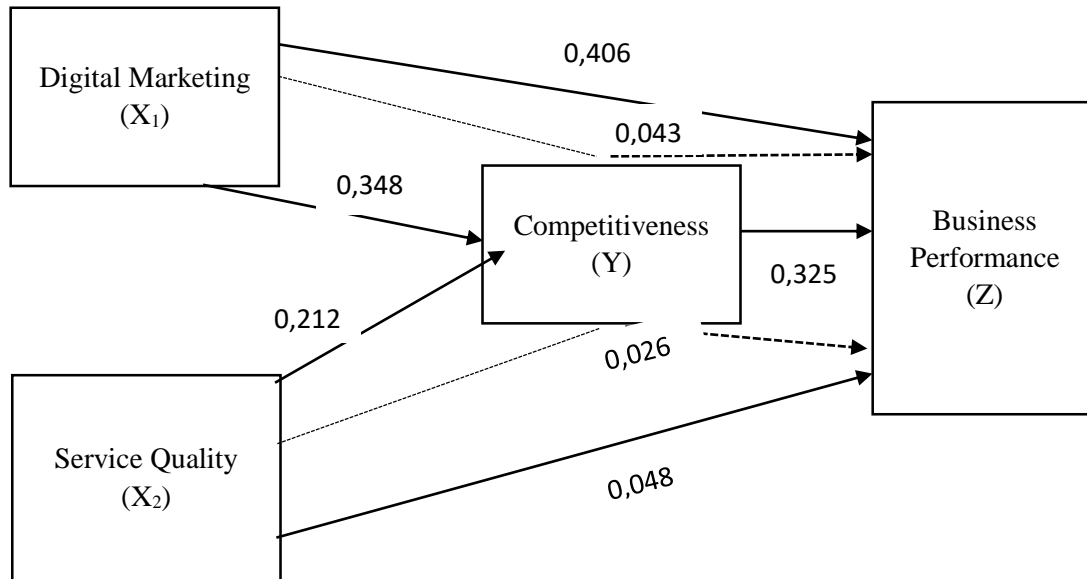


Figure 2 : Path Analysis

Table 3 Result of Path-Analysis

Variabel	Standardized	Unstandardized Coefficients (B)	Std. error	Sig. <0,05	Conclusion
X ₁ – Y	0,348	0,227	0,058	0,00	Positive and significant
X ₂ – Y	0,212	0,110	0,046	0,018	Positive and significant
X ₁ – Z	0,406	0,398	0,081	0,00	Positive and significant
X ₂ – Z	0,048	0,037	0,062	0,545	Positive and not significant
Y – Z	0,325	0,487	0,124	0,00	Positive and significant
X ₁ – Y – Z	0,348 0,124 0,043	x = =			Significant
X ₂ – Y – Z	0,212 0,124 0,026	x = =			Significant

Source: Processed Primary Data, 2022

In the results of the Path-Analysis test in table 3 there is a direct and indirect influence relationship, which explains that digital marketing (X1) has a direct effect on the

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competitiveness variable (Y); a coefficient value of 0.348 with a value of $\alpha = 0.00 (<0, 05)$, which means that between digital marketing variables (X1) and competitiveness (Y) shows a positive and significant relationship. Service Quality (X2) has a direct effect on the competitiveness variable (Y); the coefficient value is 0.212 with a value of $\alpha = 0.018 (<0.05)$, which means that between the variables X2 and Y shows a positive and significant relationship. The digital marketing variable (X1) has a direct effect on the business performance variable (Z); a coefficient value of 0.406 with a value of $\alpha = 0.00 (<0.05)$, which means that between the variables X1 and Z there is a positive and significant relationship. Digital marketing (X1) affects the business performance variable (Z) by the mediating of competitiveness (Y). The coefficient value is 0.043 and the p-value is 0.005 (<0.05) which means that digital marketing influences business performance by the mediating of competitiveness.

The service quality variable (X2) has a direct effect on the business performance variable (Z); a coefficient value of 0.048 with a value of $\alpha = 0.545 (> 0.05)$ which means that between the variables X2 and Z shows a positive but not significant relationship. Competitiveness variable (Y) has a direct effect on the business performance variable (Z), and the coefficient value is 0.124 with a value of $\alpha = 0.00 (<0.05)$, which means that the Y and Z variables show a positive and significant relationship. Service quality (X2) affects business performance (Z) by the mediation of competitiveness (Y) with a coefficient value of 0.026, α value of 0.005 (<0.05) meaning that service quality influences business performance by the mediation of competitiveness.

Sobel test

The results of the Sobel test in table 4 show that the coefficient of 2.772 means that competitiveness is the right mediation for the relationship between digital marketing and business performance as a partial mediation. Service Quality (X2) has an effect on Business Performance (Z) through the mediation of competitiveness (Y). The coefficient value is 0.026 and the p-value is 0.041 (<0.05) which means that service quality affects business performance variables by through the mediation of competitiveness. Sobel test results show a coefficient of 2,424, which means that competitiveness as the proper mediation of the relationship between service quality and business performance as a full mediation.

Table 4 . Result of Sobel Test

Variable	Sobel Test	p-value
X ₁ – Y – Z	2,77227469	0,005
X ₂ – Y – Z	2,4248673	0,041

Source: Processed Primary Data, 2022

According to the Sobel test results in Table 4, one can see that the influence of the X1 – Y – Z relationship obtained a Sobel value of 2.772 and a p-value of 0.005. This

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indicates a partial mediation relationship (part mediation), which means that digital marketing variables are able to influence good business performance variables, directly and indirectly through the mediation of competitiveness. While the effect of the relationship between X2 –Y –Z obtained a value of 2.424 and a p-value of 0.041. This indicates full mediation, which means that service quality is not able to directly influence business performance; it must be through the mediation of competitiveness variable.

DISCUSSION

The test results stated that the digital marketing variable had a significant effect on the competitiveness variable. The results of this study explain that by utilizing digital marketing the micro business of culinary meatball are able to increase the competitiveness of their businesses. Natasha Patricia Bojorges (2017); Moctezuma (2017) argue that digital marketing is able to build market competitiveness. In his research results Virgo Moctezuma (2017) explains that digital marketing has a positive and significant effect on the competitiveness of SMEs. In the results of their study Bermeo-Giraldo, M.C ., Valencia-Arias, A., Ramos de Rosas, J.D., Benjumea-Arias, M.; Villanueva Calderón, J.A. (2022) explained that during the Covid-19 period, SME entrepreneurs used digital marketing so that they were able to increase competitiveness. The results of this study also indicate that competitiveness has a significant effect on business performance. This is in accordance with the opinion of Wijetunge (2016), who in the results of his research explains that competitiveness has a significant positive effect on business performance. The results of this study also show that digital marketing has an effect on business performance. Mohammed T. Nuseira, Ahmad Aljumah (2020) states that digital marketing has a significant effect on business performance in SMEs. In the results of their research, Omar, F. I., Zan, U. M. S. M., Hassan, N. A., & Ibrahim, I. (2020) explain that digital marketing has an effect on the performance of SME businesses. Nuseir Muhammad, Ahmad Aljumi. (2020) explained that digital marketing applications through online advertising, email marketing, social media marketing have a significant and positive effect on the performance of SME businesses in the United Arab Emirates. According to the concept of the mediation model, one can explain that digital marketing has an effect on business performance, either directly or indirectly. It can be concluded that there is a part mediation model because digital marketing has an effect on business performance without going through competitiveness. This means that there is no effect for digital marketing to affect business performance when competitiveness is included as a mediating variable.

Service quality affects business performance through competitiveness. This can be explained that service quality is able to improve business performance if SME entrepreneurs have competitiveness. The mediation model is full mediation, which means that service quality is unable to influence performance without the mediation of competitiveness. The results of this study are different from the results of research by Wijetunge (2016) who explains that service quality significantly influences the

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competitiveness and business performance of SMEs. The service quality of entrepreneurs is able to improve the performance of micro business of culinary meatballs. The implementation of the results of this study explains that the quality of service provided by SME entrepreneurs gives satisfaction to culinary meatball consumers. It is recommended that SME entrepreneurs pay attention to service quality indicators in providing services.

CONCLUSIONS

This study examines digital marketing and service quality influencing business performance with competitiveness as mediation in SMEs. The results of this research explain that first, digital marketing has an effect on business performance by the mediation of competitiveness. The mediation model is the part mediation model because digital marketing affects business performance without going through competitiveness. Second, service quality influences business performance by the mediation of competitiveness. The mediation model is full mediation, which means that service quality is unable to influence business performance without the mediation of competitiveness. From this study one can conclude that even though SME entrepreneurs have paid attention to digital marketing and service quality in their business activities, they also need to increase their competitiveness to achieve the desired business performance.

RESEARCH IMPLICATIONS

The implications of the research results are: first, for SME entrepreneurs that in doing their business activities and in carrying out digital marketing, they should pay attention to service quality to achieve business performance, which are supported by competitiveness capabilities. Second: the central and regional governments in the SME empowerment program should consider digital marketing, service quality and competitiveness as an effort to improve their business performance.

FUTURE RESEARCH

This research has limitations, including: first, digital marketing used by SME entrepreneurs is only limited to WhatsApp and Instagram. This needs to be considered by further researchers, namely digital marketing using other than WhatsApp and Instagram, for example, Facebook, email and Tik-Tok. . Second, the research respondents were SME entrepreneurs who were limited to the meatball culinary business. Third, the research is only carried out in one city in Indonesia, and for further researchers it is necessary to add several cities so as to expand the research location.

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