

Digital Marketing Capability and MSMEs Performance: Understanding the Moderating Role of Environmental Dynamism

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Abstract

Objective: This study examines the influence of digital marketing capability on Micro, Small, and Medium Enterprises (MSMEs) performance and the role of environmental dynamism as a moderator in the relationship.

Design/Methods/Approach: This study adopts a quantitative approach. The research was conducted in Lamongan Regency. The research populations are managers or owners of MSMEs in the area. Using non-probability and purposive sampling techniques, this study reports the responses of 138 respondents from small and medium enterprises in Lamongan. Data were primarily gathered through self-reported online questionnaires. Partial Least Square (PLS) was then used to test the hypothesized relationships.

Findings: The results show a positive effect of digital marketing capability on MSMEs performance and that environmental dynamism strengthens the relationship between digital marketing capability and MSMEs performance.

Originality: Our study highlights the importance of focusing on digital marketing capability as a superior business strategy in responding to changes in consumer behavior. Empirical research on digital marketing capabilities in small-scale companies from the context of developing countries has not received serious attention (Chinakidzwa & Phiri, 2020b). To the best of our knowledge, this study is the first to link digital marketing capabilities to the MSMEs performance in Lamongan. Almost no previous research has examined environmental dynamism as a moderating role, especially in developing countries.

Practical/Policy Implication: the owners or managers must focus on establishing and implementing the ability to apply digital marketing effectively. Digital marketing capability becomes one of the Company's strategic sources in creating competitive advantages, contributing to better business performance. An important practical implication of this research is that when MSMEs can adapt and transform digitally, they should concentrate on increasing digital marketing capability through activities such as providing product information on digital platforms, providing online services for customer needs, and building relations and communication with online consumers. Careful consideration of a firm's digital marketing capability is needed to improve business performance.

Keywords: Digital Marketing Capability, Environmental Dynamism, MSMEs, Performance

JEL Classification: D4, D8, M30, M31



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I. Introduction

In this era of disruption, digitalization has become a strategic management problem that affects the core value proposition of large and small business operations (Blštáková et al., 2020). The presence of the Covid-19 pandemic accelerated digitalization which has spread throughout the world. The spread of digital platforms is changing consumer behaviors and the business competition map for business actors. As many as 3,79 million MSMEs in Indonesia have started to use online platforms in marketing activities, as reported by the Ministry of Cooperatives and Small and Medium Enterprises in 2020. Despite the large contribution of MSMEs to Indonesia's Gross Domestic Product (GDP), it is not reflected in the performance of MSMEs in national and international competition (Suhaili, 2019). The lack of digital literacy, technological capabilities, and low marketing access are obstacles for MSME actors to develop their businesses.

In general, the contribution of MSMEs to the economy can be observed from various regions throughout Indonesia, especially areas whose economic growth is driven by the SME sector, such as the Lamongan district and East Java province. Some of the leading sectors run by MSMEs in the Lamongan area include food and beverage, culinary, creative products, fishing, agribusiness, and others (<https://lamongankab.bps.go.id>). Although superior regional commodities have been around for a long time, business performance growth tends to be low. This is observed from the decreasing output values of micro, small, and medium industry production from 2020 to 2021 (The Head of the Lamongan Regency Cooperatives and MSMEs Service). Based on our preliminary studies, Lamongan Regency MSMEs are generally mostly engaged in home industries that adopt low-level or labour-intensive technology, produce small businesses, and use limited resources. The Head of the Lamongan Regency Cooperatives and MSMEs Service stated that around 200 MSMEs in Lamongan reported were affected by Covid-19 and in dire need of assistance to rise from economic difficulties. One of the obstacles MSMEs face in Lamongan is that they cannot use digital marketing optimally. Many MSME players still have not utilized digital technology in running their business, so their market share is still limited to the Lamongan area and several areas in East Java. Based on this phenomenon, new marketing capabilities are needed to satisfy MSME customers. The digital marketing environment is dynamic, fast-paced, and unstable because it requires dynamic and adaptive marketing capabilities. Digital marketing capabilities become a corporate strategy needed in a digital marketing environment (Cenamor et al., 2019; Chinakidzwa & Phiri, 2020a).

Digital marketing capability is the Company's ability to market its products and services using digital technology to attract customers, promote brands, retain customers, and increase sales (Chinakidzwa & Phiri, 2020a). When there are changes in the marketing environment and changes in consumer needs, marketers must find the right communication needs to satisfy their customers. One of the solutions that MSMEs can carry out is adapting digital-based marketing capabilities towards reviving business in the new normal era. (Hussain, 2021; lanenko et al., 2022). Researchers are increasingly realizing the need for a shift from a traditional marketing orientation to a digital marketing capability orientation to meet the shifting needs of consumer behaviour in the digital era (Dwivedi et al., 2021; Mehta et al., 2020).

Several researchers have proven that digital marketing capabilities can improve the performance of MSMEs (e.g., Chinakidzwa & Phiri, 2020; Apasrawirote et al., 2022; Tongdhamachart & Niyomsilpa, 2022; Martins, 2022; Tariq et al., 2022; Nuseir & Refae, 2022). However, the findings of this study are contradictory to the research conducted by Tolstoy et al. (2022), Permana et al. (2019), Murphy & Sashi (2018), and Day & Boisi (2011). They found that digital marketing capability has no significant effect on business performance; environmental changes cause significant uncertainty in the long term (Andrade et al., 2021a). Empirically a dynamic environment can strengthen or weaken the relationship between digital marketing capabilities, which include customer information, customer needs, customer relations, and customer communication on the performance of MSMEs (Sasmoko & Bandur A, 2019; Adeel Ahmed et al., 2022; Andrade et al., 2021a). Such inconsistency in the research results creates a gap to be investigated in the current research by exploring the role of environmental dynamism as a moderator of the relationship between digital marketing capabilities and the performance of MSMEs.

The development of digital marketing capabilities is a structural challenge that needs serious attention. If this continues as a challenge, it may have a negative impact on business performance and sustainability, which makes Indonesian MSMEs unprepared to face globalized world competition (Permana et al., 2019). Therefore, our study highlights the importance of focusing on digital marketing capability as a superior business strategy in responding to changes in consumer behaviour. Empirical research on digital marketing capabilities in small-scale enterprises from the context of developing countries has not received serious attention (Chinakidzwa & Phiri, 2020b). To the best of our knowledge, this study is the first to link digital marketing capabilities to the performance of MSMEs, which also include environmental dynamism as a moderating role, especially in developing countries.

Our study makes the following primary contributions: for one, it makes an important contribution to the enrichment of RBV theory, which focuses on the intangible assets of an organization (i.e., digital marketing capability). Second, this study contributes to creating a new theoretical framework on the relationship between digital marketing capability and MSMEs performance by integrating environmental dynamism as a moderator variable that has not been previously connected. Third, from the practical point of view, today's MSMEs owners need to concentrate more on increasing digital marketing capability through activities such as providing product information on digital platforms, providing online services for customer needs, and building relations and communication with online consumers. Careful consideration of a firm's digital marketing capability is needed to improve business performance.

Our article is structured as follows. The next section discusses the literature review and hypotheses development of our research. We provide theoretical and empirical justification for our hypothesis that digital marketing capability is positively related to business performance and that environmental dynamism support moderates the relationship between digital marketing capability and business performance. The subsequent section discusses our research methodology, followed by a section providing the findings of our study. The final section presents the conclusions with a discussion of the results, implications, and limitations of our study with potential future research directions.

2. Literature Review and Hypotheses Development

2.1 Resource-Based View Theory

This study claims that digital marketing capability uses Resource Based View (RBV) Theory from Barney (1991), focusing on building and developing company resources and capabilities as a strategic instrument to improve company performance. RBV focuses on the concept of difficult-to-imitate attributes of the firm as sources of superior performance and competitive advantage (Barney, 1991). A crucial characteristic of superior performance, according to RBV, is a resource that is valuable, rare, imperfectly imitable, and non-substitutable. Researchers further state that resource ownership alone is not enough; it requires converting resources into profitable values (Trainor et al., 2014). The company manages its resources and marketing capabilities to improve business performance. Academics identify digital marketing capabilities into seven categories: strategic approach, performance improvement process, purchasing management, resources and structure, data and infrastructure, integrated customer communication, and customer experience (Herhausen et al., 2020). In this study, digital marketing capability is a company's strategic resource related to the organizational capability to improve business performance and build customer relationship management. Hence, digital marketing capabilities are becoming strategic resources and can be acknowledged within the framework of the RBV theory.

2.2 Digital Marketing Capability

Digital marketing capability can be understood as the company's ability to market its products and services using digital technology to attract customers, promote brands, retain customers, and increase sales (Chinakidzwa & Phiri, 2020b). Its importance in managing digital marketing capabilities is to create superior performance compared to competitors (Herhausen et al., 2020). Sasmoko & Bandur A (2019) explained that digital marketing capability is centered on the Company's ability for consumer service activities using digital platforms, including sales, distribution, payment, marketing e-research, and functions related to business management. To achieve a competitive advantage, a B2B firm can perform a coordinated set of digital-related tasks (operational or dynamic) utilizing digital resources (Herhausen et al., 2020). Several researchers have considered it an intelligent system needed for business continuity in industry 4.0 (Tariq et al., 2022b). Through digital marketing, MSMEs can reach a wider target market relatively quickly and at a considerably low cost (Saputra et al., 2021).

Furthermore, digital marketing capability is a core competency of small companies that can provide flexibility in promotion time and delivery of goods to customers (Mansouri M, 2019). Therefore, this study defined this variable as the Company's ability to utilize digital media as part of a marketing strategy, especially market-oriented products, network distribution, and promotions. Kamboj et al. (2015); Chinakidzwa & Phiri (2020a); and Afriyie et al. (2019) state that a digital marketing capability is a capability approach in Resource Based View Theory that is capable of producing sustainable competitive advantage which will ultimately achieve superior company performance and become a superior organization.

2.3 Environmental Dynamism

Environmental dynamism refers to a rapid, unpredictable change that alters the business environment's development pattern (Frank et al., 2017; Wang, 2016). Environmental dynamism refers to the rate of change in various environmental factors over time, including changes in technology, markets, competitors, suppliers, and customers (Agyapong et al., 2020). The degree of environmental dynamism depends on how quickly and strongly the environment changes. The higher the rate of environmental change, the more dynamic the environment becomes. Thus Andrade et al. (2021a) define environmental dynamism as the frequency and intensity of environmental changes. According to Seo et al. (2020) and Agyapong et al. (2020), the environment has become more dynamic. Companies tend to experience more unpredictable, unstable, and uncertain business environments. Based on the literature above, environmental dynamism in this study is defined as the rapid and unpredictable rate of change in the business environment from time to time.

2.4 MSMEs Performance

MSMEs performance can be defined as a reflection of the success or failure of a company and also as the results achieved by the company from a series of implementation of work functions or activities within a certain period (Hunger & Wheelen, 2012) Mutegi et al. (2015) posit that the performance of MSMEs is used as a measure of success in a certain

period and can also be used as input for improvement or improvement of performance in the future. Company performance is a holistic display of a company within a certain period, resulting from company operational activities of how they could use their resources (AIMulhim, 2021). It should be measured subjectively to examine the impacts of customer orientation and additional service (Kyal et al., 2022). According to Agwu (2018), performance measurements are the process of measuring the efficiency and effectiveness of actions. Performance measurement is also defined as the activity of measuring the input, output, and activity levels of a process. Therefore, business performance in this study is the output or final result obtained by the respondent of business activities carried out for the last three years.

2.5 *The Relationship between Digital Marketing Capability and MSMEs Performance*

Digital marketing capabilities significantly encourage SME performance in the digital era (MPmar et al., 2022). The ability to apply digital marketing creates product uniqueness in the form of innovation so that it becomes a company advantage that impacts company performance (Utomo & Susanta, 2020). Digital technology has revolutionized marketing rules and caused many conventional marketing techniques to become obsolete (Nuseir & Refae, 2022). With the advent of the internet, digital marketing became a major factor for some organizations to thrive in the business world (Piñeiro-Otero & Martínez-Rolán, 2016). The advent of the internet provided the opportunity to customers. They can not only communicate with other users but also can connect to their favorite brands. The internet has created opportunities for new relationships among stakeholders (Charlesworth, 2014) and enabled consumers to access and exchange information regardless of where or when (Dwivedi et al., 2021). Thus, adaptive capabilities (e.g., digital marketing capabilities) allow marketers to see the market with an open mind, thereby increasing the reach of the marketing area (Mora Cortez & Hidalgo, 2022).

In this study, we argued that digital marketing capability improves business performance. Prior empirical and theoretical studies have investigated digital marketing capability as a practice for MSMEs positive work outcomes. In this regard, Chinakidzwa & Phiri (2020c) proposes leveraging marketing capabilities using digital platforms to significantly drive business performance to build strong customer relationships or create an innovative business strategy. Digital marketing is urgent for the success of MSMEs, namely to increase sales, reach a wider target market, and save on promotion costs (Cenamor et al., 2019). The authors conclude that digital marketing capability provides specific competencies vital to improve MSMEs performance from extreme business disruption. Research conducted by Chinakidzwa & Phiri (2020a), Sasmoko & Bandur A (2019), and Martins (2022) found that digital marketing capability shows a positive and significant effect on the MSMEs performance. The authors further posited that MSMEs managers need to manage unique competence properly to make the Company's performance superior to its competitors. Based on the findings of the empirical literature discussed above and the underpinning theories, the following hypothesis was predicted:

H1: Marketing Capability has a positive effect on MSMEs performance

2.6 *The Moderating Role of Environmental Dynamism*

The presence of the Covid-19 pandemic has given rise to new ideas or trends in the market. New ideas will change the style of the market environment, such as in choosing consumer goods in the consumer environment (MPmar et al., 2022). According to Wang (2016, MSME actors in this era of rapid and radical change will face an unstable business environment that encourages them to reconstruct their businesses to survive the pace of this dynamic environment. Environmental dynamism is an unpredictable, rapid change that changes the pattern of development of the business environment (Frank et al., 2017) and Wang, 2016).

The company environment is the whole social and physical factors considered in making decisions regarding individual behavior in organizations (Duncan, 1972). Scientists classify environmental character into stable/dynamic, simple/complex, munificent/ hostile, and integrated/diversified (Mintzberg, 1984; Dess & Beard, 1984). Dynamism is interpreted as uncertain, i.e., the degree of change and innovation or the resulting uncertainty by customer actions (Wang, 2016). High digital marketing capability becomes expensive or destructive because of maintenance costs in a relatively stable environment with no technological upgrades or just a change in customer choice (Schreyögg & Kliesch Eberl, 2007). Thus linkage between digital marketing capability and business performance can be weaker and negative. In a turbulent environment where opportunity passes quickly, and there are threat competitors, it will reduce competitive position and the potential value of current capabilities, thus requiring companies to make frequent and complex changes, so in this case, digital marketing capability has an essential role (Yuan et al., 2021).

Previous research found that environmental dynamism has a positive effect on the ability of MSME actors to implement digital marketing. Therefore, the higher the intensity of environmental dynamism, the stronger the relationship between digital marketing capabilities and MSME performance (Permana et al., 2020; Yuan et al., 2021; Andrade et al. (2021). Empirical evidence also shows that the relationship between dynamic capabilities and firm performance is not significant in a stable business environment. However, in a turbulent environment, environmental dynamism shows a positive moderating role (Dzikrina Istighfaroh & Nuraeni, 2020). The second hypothesis is therefore formulated as follows:

H2: The higher the environmental dynamism, the stronger the relationship between digital marketing capabilities and the performance of MSMEs.

The conceptual model in this study is shown in Figure 1 below.

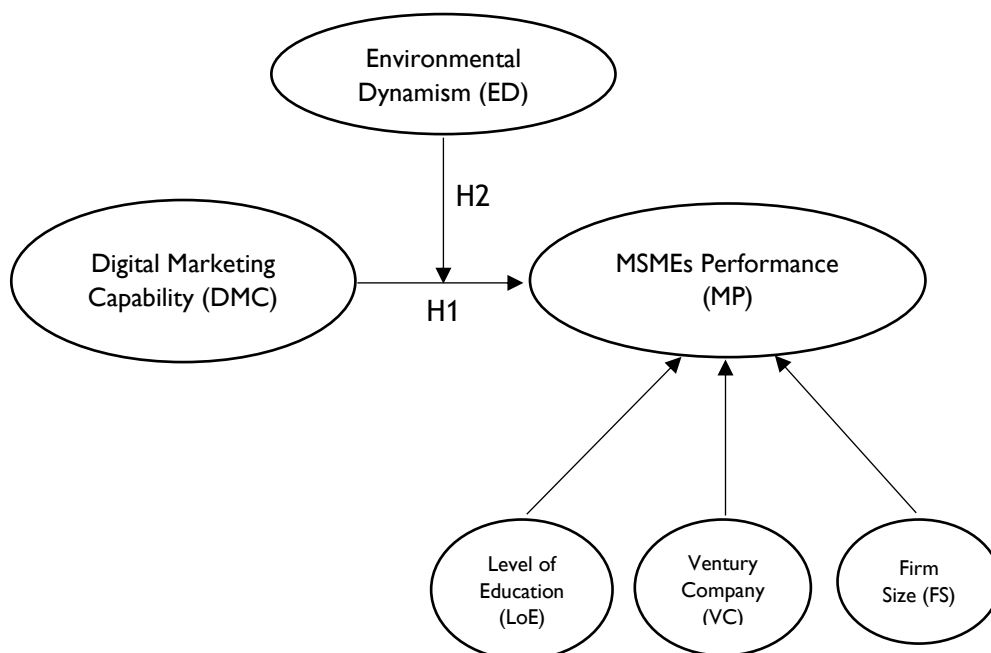


Figure 1. Research Conceptual Model

3. Method

This research type is explanatory, which aims to explain the causal relationship between variables through hypothesis testing (Sugiyono, 2015). This study uses a quantitative approach. The research was conducted in Lamongan Regency. The research populations are all the managers or owners of MSMEs in the area. The sample used in this study was taken with a non-probability sampling approach with a purposive sampling technique based on certain criteria. The sample criteria set in this study are: 1) MSMEs that have been operating for at least three years, marketing activities use digital platforms, and the criteria for MSMEs according to Law no. 8 of 2008 concerning Micro, Small, and Medium Enterprises. To determine the sample size in this study, the approach proposed by Hair et al. (2014) was used, which is the number of statements/items multiplied by 5 to 20 observations.

The number of statement items in this study is 28 statements and then multiplied by 5, with the minimum number of samples in this study being 140. The number of data analyzed was 138. The rest were not included in the analysis because of the missing value of respondents' answers and incomplete or did not meet the criteria (Wesarat et al., 2018). Data is obtained by distributing online questionnaires via Google Forms using a five-point Likert scale (from 1 = strongly disagree to 5 = strongly agree). The data analysis technique uses Partial Least Square (PLS). Model evaluation in PLS analysis is carried out in two ways: the measurement model (outer model) and the structural model (inner model). The former is a measurement model to show the relationship between variables and their indicators. While the latter indicates that between hidden or latent variables, namely between exogenous variables and endogenous variables (Hair Jr. J. E, 2021)

In this study, the independent variable is digital marketing capability, the dependent variable is MSMEs performance, and the moderation variable is environmental dynamism. We included level of education, venture certification, and firm size as control variables in our model and controlled their effects on MSMEs performance. The operational definitions of variables in this study can be seen in Table 1.

Table 1. Definition of Operational Variables

Variables	Indicator	Item	Source
Digital Marketing capability (DMC)	Customer information	DMC1. MSMEs can provide product information on digital platforms	Chinakidzwa & Phiri (2020b)
		DMC2. MSMEs are actively promoting on digital platforms	
	Customer needs	DMC3. Information on products sold is easy to find on search sites	
		DMC4. Products sold are quality and according to consumer needs	
		DMC5. MSMEs provide services to consumers as promised	
	Customer relations	DMC6. MSMEs provide fast solutions to consumer complaints	
		DMC7. MSMEs provide the right solution for consumer complaints	
		DMC8. MSMEs provide contact numbers	
		DMC9. MSMEs can respond quickly and be friendly	
		DMC10. MSMEs can build good relationships with consumers	
	Customer communication	DMC11. MSMEs always ask whether the goods have arrived or not and ask for testimonials	
		DMC12. MSMEs can explain company product information well and clearly	
		DMC13. MSMEs deliver promos, giveaways, and/or souvenirs during certain events, for example, on the Company's anniversary, Islamic and national holidays	
		DMC14. My Company provides a special price for bulk purchases	
Environmental Dynamism (ED)	Government regulations	ED1. The National Economic Recovery Program initiated by the government can improve the economic capabilities of MSMEs	Permana et al., (2019)
		ED2. The MSME Go Online program has encouraged my Company to join the digital platform	
	Consumer demand	ED3. MSMEs can meet consumer demands (such as ease of service)	
		ED4. Before deciding on a purchase, today's consumer will find out the required quality of the product from reviews on the Internet	
	Technology	ED5. The decision to Marketing products online is a form of appropriate business adaptation	
		ED6. By switching to the digital market, my Company can reach a wider range of consumers	
	Innovation	ED7. By switching to the digital market, my Company's revenue and profits are increasing	
		ED8. Innovate by creating new products like never before	

MSMEs Performance (MP)	Sales growth	ED9. Innovate by updating existing products to be better and different from others	Kyal et al. (2022)
	Marketing growth	ED10. Updating business strategies to adapt to changes	
	Profitability	MP1. Product sales have increased over the past three years	
		MP2. The product marketing area has expanded over the past three years	
		MP3. Profits have increased over the past three years	
		MP4. The amount of assets or business wealth has increased over the past three years	

4. Results and Discussion

Based on the results of research conducted on 138 respondents through distributing questionnaires to owners or managers of MSMEs in Lamongan Regency, the general profile of respondents and MSMEs characteristics are obtained and presented in Table 2.

Table 2. Profile of Respondents

Profile of Respondents		n	%
Gender	Male	54	39,4
	Female	84	60,6
Age	Below 36 years old	81	58,7
	36 – 40 years old	23	16,7
	41 – 45 years old	13	9,4
	46 – 50 years old	12	8,7
	Above 50 years old	9	6,5
Education	Junior high school	13	9,4
	Senior high school	66	47,8
	College and university	53	38,4
	Postgraduate and above	6	4,4
Firm age	Below 5 years	22	15,9
	5 – 10 years	67	48,6
	11-15 years	11	8
	16 – 20 years	25	18,1
	Above 20 years	13	9,4
Number of employees	Below 5 employees	42	30,4
	5– 19 employees	76	55,1
	20 – 99 employees	20	14,5

Source: research processed data (2022)

Based on Table 2 above, the respondents in this study were dominated by women. As many as 84 people (60.6%) and the other 54 respondents (39.4%) were men. In terms of age, it is known that most respondents are in the productive age, that is, below 37 years old, totaling 81 respondents (58.7%). While the smallest number is shown at the age above 50, amounting to 9 respondents (6.5%). Based on the level of education, the majority of respondents (66 respondents) have finished Senior High School level. Based on the firm age, most respondents have been involved in MSMEs for 5-10 years, with a percentage of 48.6% (67 respondents). Most respondents (76 respondents) have 5-19 employees and are classified as small businesses (Law No. 20 of 2008 concerning MSMEs). Based on the information in Table 2, these respondents have met the requirements and therefore were qualified respondents for the present study because they have used digital platforms in their marketing activities.

Measurement Model (Outer Model Evaluation Results)

As mentioned in the previous section, the indicators constructing the latent variables in this study are reflective, and the evaluation of the outer model used to measure the validity and reliability of these indicators is convergent validity, discriminant validity, composite reliability, and Cronbach alpha.

Validity test. The validity test in SEM is divided into convergent validity and discriminant validity. A convergent validity test can be seen from the value of the loading factor between 0.60 - 0.70, with the Average Variance Extracted (AVE) value being greater than 0,5 (Ghozali & Latan, 2012). Table 3 shows the results of the convergent validity test:

Table 3. Loading Value

Construct	Item Code	Loading Value	AVE	Conclusion		
Digital Marketing Capability (DMC)	DMC3	0,642	0,632	Valid		
	DMC4	0,823		Valid		
	DMC5	0,828		Valid		
	DMC6	0,881		Valid		
	DMC7	0,830		Valid		
	DMC8	0,724		Valid		
	DMC9	0,843		Valid		
	DMC10	0,750		Valid		
	DMC11	0,864		Valid		
	DMC12	0,778		Valid		
	DMC13	0,698		Valid		
	DMC14	0,842		Valid		
	Environmental Dynamism (ED)	ED1		0,814	0,662	Valid
		ED2		0,784		Valid
ED3		0,831	Valid			
ED4		0,808	Valid			
ED5		0,830	Valid			
ED6		0,865	Valid			
ED7		0,818	Valid			
ED8		0,857	Valid			
ED9		0,850	Valid			
ED10		0,656	Valid			
MSMEs Performance (MP)	MP1	0,893	0,716	Valid		
	MP2	0,837		Valid		
	MP3	0,899		Valid		
	MP4	0,747		Valid		
Level of Education	LoE	1,000		Valid		
Venture Certification	VC	1,000		Valid		
Firm Size	FS	1,000		Valid		

Based on the results of the convergent validity test, it is known that there are three constructs and three-variable controls. It can be seen that all constructs already have a loading value > 0.6, which means that all construct indicators are valid. The value of 0.4-0.7, according to Sholihin & Ratmono (2013), can still be maintained. However, there are 2 indicators, namely DMCI and DMC 2, must be removed from the construct because their values are <0.4.

The discriminant validity is evaluated from the cross-loading value, whose output is presented in Table 4. The table shows that the loading value of one construct is higher than that of another. In other words, the value has passed the validity of the discriminant.

Table 4. Cross Loading Value

Indicators	ED	DMC	MP
ED1	0.814	0.677	0.473
ED2	0.784	0.641	0.481
ED3	0.831	0.746	0.490
ED4	0.808	0.666	0.470
ED5	0.830	0.682	0.454
ED6	0.865	0.764	0.567
ED7	0.818	0.727	0.568
ED8	0.857	0.767	0.570
ED9	0.850	0.743	0.553

ED10	0.656	0.488	0.724
DMC3	0.507	0.642	0.455
DMC4	0.684	0.823	0.491
DMC5	0.689	0.828	0.483
DMC6	0.697	0.881	0.517
DMC7	0.661	0.830	0.476
DMC8	0.525	0.724	0.311
DMC9	0.730	0.843	0.473
DMC10	0.587	0.750	0.391
DMC11	0.798	0.864	0.570
DMC12	0.694	0.778	0.499
DMC13	0.631	0.698	0.662
DMC14	0.784	0.842	0.598
MPI	0.668	0.584	0.893
MP2	0.459	0.447	0.837
MP3	0.567	0.551	0.899
MP4	0.562	0.562	0.747

Reliability Test. The reliability test was carried out by looking at the value of Cronbach's alpha and composite reliability. A measurement can be reliable if composite reliability and Cronbach alpha have a value > 0.70 (Ghozali & Latan, 2012). Based on the results of the reliability test in Table 5, it is known that all variables have Cronbach's Alpha and composite reliability values above 0.7. This means that the research instrument is reliable.

Table 5. Cronbach's Alpha and Composite Reliability Value

Construct	Cronbach's Alpha	Composite Reliability	Conclusion
Digital Marketing Capability (DMC)	0,946	0,953	Reliable
Environmental Dynamism (ED)	0,943	0,947	Reliable
MSMEs Performance (MP)	0,866	0,877	Reliable
Level of Education	1.000	1.000	Reliable
Venture Certification	1.000	1.000	Reliable
Firm Size	1.000	1.000	Reliable

Structural Model (Inner Model Evaluation Results)

Evaluation of the structural model (inner model) was carried out to evaluate the level of accuracy of the model in the research as a whole, which was formed through several variables and their indicators. The value of R-Square (R^2) shows the strength and weakness of the influence caused by the dependent variable on the independent variable (Ghozali & Latan, 2012). The results of the structural model (inner model) test with R-Square (R^2) are shown in Table 6. It is known that the value of R^2 is 0,677. This means that MSME performance can be explained by Digital Marketing Capability (DMC) variables and Environmental Dynamism (ED) of 67,7%. While the remaining 32,3% is explained by other variables not included in the research model. Thus, the model is classified as moderate.

Table 6. R-Square Value

Construct	R Square	R Square Adjusted
MSMEs Performance (MP)	0,677	0,662

Hypothesis Testing Results

The path analysis test using SmartPLS 3.0 can be done by looking at the results of the t-statistical test values and the probability values. The hypothesis is accepted if the p-value with 5% alpha for probability value is less than 0.05 (Ghozali & Latan, 2012). The results of the hypothesis testing are shown in Figure 2 below.

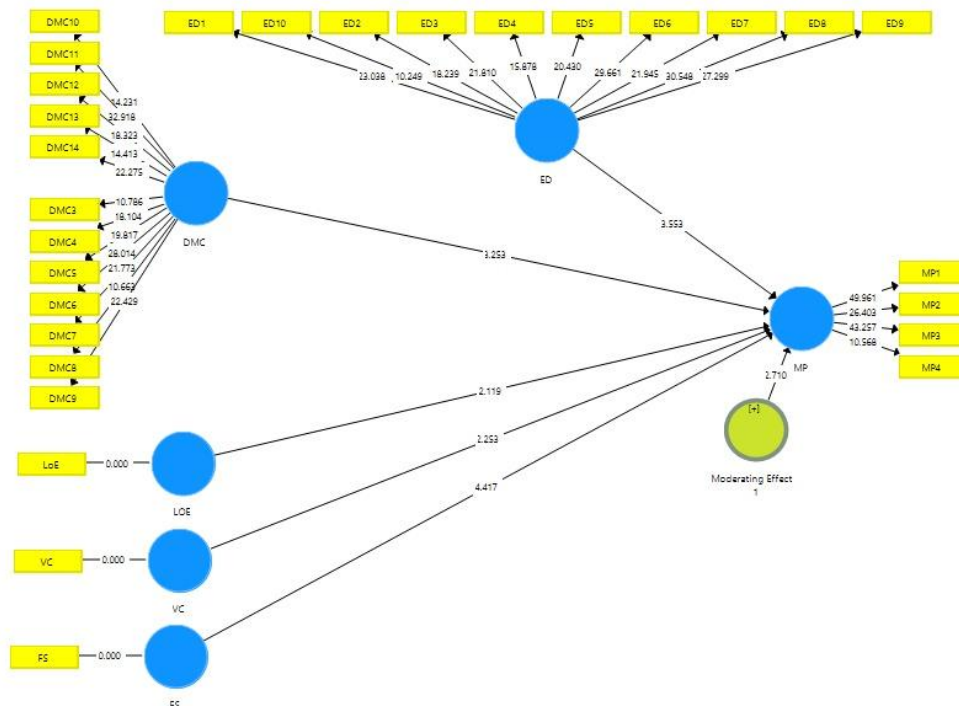


Figure 2. PLS Results of Inner Model

In sum, the results of testing the study hypotheses are summarized in Table 7, and all two proposed hypotheses are supported.

Table 7. Summary of Hypothesis Testing

Hypotheses	Path	t-Statistics	p-Value	Decision
H1	Digital Marketing Capability → MSMEs Performance	3,253	0,001	Supported
H2	Moderating Effect	2,710	0,007	Supported
	Level of Education	2,119	0,035	Supported
	Venture Certification	2,253	0,025	Supported
	Firm Size	4,417	0,000	Supported

As seen in Table 7, the effect of digital marketing capabilities (DMC) on MSMEs Performance (MP) has a t-Statistics value of 3.253. For the one-tailed hypothesis, as in this study, the t-table value is 1.64. So, the value of t-Statistics > t-Table with a p-value <0.05. This supports the first hypothesis that Digital Marketing Capability has a positive effect on MSME performance. The second hypothesis regarding the moderating effect of Environmental Dynamism (ED) on the relationship between Digital Marketing Capability (DMC) and MSMEs Performance (MP) is also supported. This is because the t-statistics value of 2.710 is greater than the t-table (1.64) with a p-value <0.05. This means that Environmental Dynamism (ED) strengthens the relationship between digital marketing capability and MSMEs performance.

The result of education level as the control variable has a p-value of below 0,005, where education level has a significant effect on MSMEs' performance, meaning that the higher the level of education, the greater the MSMEs performance. This result is in line with the Karadag (2017) research that the education level of MSME owners/managers significantly impacts financial management performance. The control variable, venture certification, has a p-value less than 0,005, which means that venture certification can encourage MSMEs performance. Venture certification, e.g., halal certification, can increase consumer trust in the brand and encourage them to increase customer satisfaction and loyalty (Ridha R, 2021). In addition, Seo et al. (2020) reveal that venture-certified firms affect SME performance. The result of testing the firm size gets a p-value less than 0,05. So, there is a positive effect of firm size on MSMEs' performance. This result is supported by Haar et al. (2022) research that the firm's ability to improve performance varies depending on the firm size. According to Seo et al. (2020), large companies tend to be more innovative than smaller ones.

Discussion

The Relationship between Digital Marketing Capability and SME Performance

The results of the study show that digital marketing capabilities have a positive effect on the performance of MSMEs. This means the better the mastery of marketing digitalization capabilities, the higher the performance level of MSMEs. Digital marketing capabilities, as measured by customer information, customer needs, customer relations, and customer communication, illustrate that most MSMEs can properly take advantage of marketing digitalization. The value of outer loading on the digital marketing capability variable shows that customer needs are paramount for MSMEs in the Lamongan district. These results show the importance of building a digital platform that suits the needs and desires of consumers. Bocken et al. (2022) stated that the rapid development of digital has influenced how consumers act and decide to buy goods. Today's consumer expectations demand services that can provide what they want quickly, easily, personalized, and detailed. In short, the ability of MSMEs to adapt and transform digitally is the key for companies facing the industrial revolution 4.0. This is reinforced by the opinion of several MSMEs owners who apply digital marketing that most of them are starting to understand the changing consumer needs and behavior trends. Therefore, they provide a digital shopping experience that satisfies their expectations. Understanding changing consumer needs is expected to help companies provide value-added, including product quality, service quality, and ease of finding products that consumers need, which can impact business performance and consumer loyalty. The key to winning the hearts of consumers and potential customers is to understand their interactions with the product. The experience of this interaction can be started by making the products and services they want easily found online.

Bocken et al. (2022) stated that the digitalization of marketing nowadays is critical for business progress. Digital marketing makes marketing activities more practical, cost-effective, and efficient (Charlesworth, 2014). Ilenko et al. (2022) found that most MSMEs managed to survive during the Covid-19 pandemic because they decided to transform into the digital world, knowing acknowledging the significant effect digital marketing capabilities could contribute on business performance. The ability of organizations to adopt digital marketing can improve long-term performance (both financial and non-financial performance) (Sasmoko & Bandur A, 2019). The use of digital marketing in MSMEs could facilitate marketing, buying and selling transactions, payments, and expanding marketing reach (Cenamora et al., 2019).

This result supports the findings of several previous empirical studies, stating that digital marketing capability is a strategic source of superior business performance (Bocken et al., 2022). The key to winning the hearts of consumers and potential customers is to understand their interactions with the product. The experience of this interaction can be started by making the products and services they want easily found online (Tolstoy et al., 2022). This shows that digital marketing capability positively affects the business performance

The Moderating Role of Environmental Dynamism

Environmental dynamism is proven to moderate the influence of digital marketing capabilities on MSMEs' performance. Our finding pinpoints that consumer demand, technology, and innovation have a major role in strengthening the influence of digital marketing capabilities on the MSMEs performance. Based on the analysis results, a positive coefficient value is obtained, meaning that if environmental dynamism increases, the influence of digital marketing capabilities on the performance of MSMEs in Lamongan will be stronger or increase. Further, the findings of this study confirm that changes in the business environment can shape the strength of MSMEs to improve their marketing digitalization skills, which ultimately impacts business performance. The owners of MSMEs in the Lamongan district tend to believe that changes in the business environment that are put to good use will be a source of strength and opportunity for SME actors. Technological developments that occur and changes in consumer behavior today have encouraged Lamongan MSMEs to start actively using digital marketing in the form of social media marketing, Web, and Marketplaces that allow consumers to buy Lamongan MSME products anywhere at competitive prices. Permana et al. (2020) stated that mastery of marketing digitalization skills could help MSMEs improve their business performance. Additionally, Andrade et al. (2021) stated that the rapid and undirected change in the business environment could form new strategies, especially marketing, that can have a positive effect on company performance. Wang (2016) also argues that changes in uncertain demand will encourage companies to improve strategies to survive and maximize profits.

Briefly stated, the result of the present study is in line with some previous studies (e.g., Andrade et al., (2021c); Yuan et al., (2021); Adeel Ahmed et al., (2022) Frank et al. (2017) who stated that environmental dynamism significantly moderated the relationship between digital marketing capability and business performance. Environmental dynamism perceived as fast and radical by MSMEs actors will increase the influence of digital marketing capabilities on performance, compared to low or slow environmental dynamism. In other words, environmental dynamism weakens the ability of MSMEs actors to utilize digital marketing.

5. Conclusions

This article aimed to test the effect of digital marketing capability on MSMEs' performance in Lamongan. In addition, environmental dynamism was treated as a moderating role. Resourced-Based View theory is used as

underpinning theoretical foundations. First, we examined the effect of digital marketing capability on MSMEs performance. Then the effect of digital marketing capability on MSMEs' performance was investigated, moderated by environmental dynamism among owners or managers of the Lamongan MSMEs.

Research findings indicate that digital marketing capabilities described through customer information, customer needs, customer relations, and customer communication have been confirmed in this study as a resource that MSMEs can develop to improve their business performance. The better the MSMEs' ability to utilize digital marketing, the more optimal the performance of MSMEs. Next, our findings indicate that environmental dynamism positively moderates the influence of digital marketing capabilities on the MSMEs performance in the Lamongan district. This shows that at high levels of environmental dynamism, digital marketing capability impact on MSMEs' performance is much stronger compared to low environmental dynamism. Put differently, as the level of environmental dynamism increased, the strength of the relationship between digital marketing capability and MSMEs' performance also increased.

This study's theoretical implications are: first, it highlights the importance of focusing on the intangible assets of an organization (i.e., capabilities). Second, this study contributes to creating a new theoretical framework on the relationship between digital marketing capability and MSMEs performance by integrating environmental dynamism as a moderator variable that has not been previously connected. It also provides evidence for using resource-based view theories to understand the relationship between digital marketing capability, environmental dynamism, and business performance.

From a practical point of view, our results indicate that MSMEs' performance depends on their digital marketing capability. Therefore, MSMEs could concentrate on increasing digital marketing capability through activities such as providing product information on digital platforms, providing online services for customer needs, and building relations and communication with online consumers. Careful consideration of a firm's digital marketing capability is needed to improve business performance.

There are some limitations in our study. First, the results of this study are limited to the MSMEs sector of the Lamongan region. Future studies should replicate the model in other industries. Second, this study uses the purposive sampling method. This method is possible, provided normal data is univariate but not multivariate (Ardyan, 2016). We suggest that future research use a random sampling method. Finally, future researchers can extend the model by taking other indicators of digital marketing capability like e-market sensing capability, digital market innovation, digital marketing structure, and digital marketing culture.

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Author Contribution

Author 1: conceptualization, writing original draft, data curation, formal analysis, investigation, methodology.

Author 2: review and editing, writing review and editing, supervision, validation, visualization.

Author 3: writing original draft, validation, visualization, supervision.

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Conflict of Interest

The author(s) affirmed no potential conflicts of interest related to the research, authorship, and publication of this as an article.

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