SMALL BUSINESS PERFORMANCE REVIEW FROM DIGITAL MARKETING LITERATURE AND INNOVATIVE THINKING PATTERNS THROUGH THE INTERVENING VARIABLES OF SMALL BUSINESS COMPETITIVENESS

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Abstract

This research aims to develop small business innovation during a global crisis and to design a digital business economy. The purpose of this research is to create a digital business economy. The research method is a survey method that involves distributing questionnaires to 225 small businesses in the province of Banten. For the analysis, structural equation modeling (SEM) tools use. Researchers disseminated questionnaires based on various indicators, including 11 indicators of small business performance, 14 indicators of competitiveness, 16 indicators of digital marketing, and eight indicators of innovation thinking.

Digital Marketing Literacy and Innovative Thinking on Small Business Competitiveness are at 0.027 and 0.000<0.05. On the other hand, digital marketing literacy and Innovative Thinking on Small Business Performance are at 0.000, and 0.010 < 0.05 (not significant), and Small Business Competitiveness to Small Business Performance is 0.003. the significance of the mediation shows that the mediation of Small Business Competitiveness in digital marketing literacy, Innovative Thinking Patterns is at 1.54 and 2.06 > 1.96. Limitations of the research, The researcher restricts the scope of the survey only to cover small businesses and has yet to begin investigating the issue of medium-sized enterprises in the province of Banten.

Keywords: Digital Marketing Literacy, Innovative Thinking, Small Business Competitiveness, Small Business Performance.

INTRODUCTION

According to a report from the Ministry of Cooperatives and Small and Medium Enterprises in Indonesia in 2018, the number of small businesses in the country was approximately 64,194,057 units, and they absorbed a total of 116,978,631 units of the workforce. This number is equivalent to 99% of all business units in Indonesia, and the percentage of people employed in the economic sector is equal to 97% of the total. At the same time, the remaining 3% is distributed across a variety of major industrial sectors. According to Ocloo et al. (2014), the private sector in all developing countries is supported primarily by its small businesses, which serve as the sector's pillars. The small business sector has an important function in the economy (AlQershi et al., 2018; Council, 2017; Sahnoun et al., 2014), especially in Indonesia, including small business manufacturing (Council, 2017; Sahnoun et al., 2015). They are a major employer and create opportunities for the millions who enter the labor market annually (Aga et al., 2015; Council, 2017). At the same time, Indonesia is considered one of the countries with the lowest levels of development. Generally, small business has become an important contributor to national development, and this study focuses on the performance of small manufacturing enterprises

because this sector is considered a pillar of contemporary economic growth (Chege & Wang, 2020; Mahmood et al., 2015; Chege & Wang, 2020; Mahmood et al., 2015). Thus, small businesses are considered pillars of contemporary economic growth (Chege & Wang, 2020).

Opportunity business models that are suitable for small businesses to encourage the acceleration of innovation and patterns of sustainability of human resource strategies. This situation is consistent with the literature emphasizing that there is no consensus on a shared theoretical framework and associated construction boundaries for designing and innovating business models in SMEs (Ricciardi et al., 2016; Ritter & Lett, 2018; Spieth et al., 2014; Zott et al., 2011), and this resonates as a call to action for scholars interested in developing appropriate business model design methods in a small business context.

Small business value creation process and the relevance and appropriateness of adopting a business model as a lean strategy design tool to frame and manage certain complexities. Based on research conducted by (Ries, 2011) and (Ghezzi & Cavallo, 2020), this paper uses the attribute "lean" to characterize an agile, less structured, and more pragmatic approach to implementing business modeling for small businesses compared to larger organizations. Then, the congruence between the inherent characteristics of small businesses and the business model offers fertile ground for introducing and exploring approaches *in Dynamic Business Modeling* (DBM) tailored to develop and innovate business models for small businesses. Such an approach stems from a combination of the structure of the revised Business Model Canvas (Osterwalder & Pigneur, 2010) and the System Dynamics (SD) methodology (Forrester, 1997; Sterman, 2000).

Simulation decision-making by small businesses seeks to test and learn how business systems react regarding performance and value creation (Andries et al., 2013; Bianchi & Bivona, 2000; Groesser & Jovy, 2016). Recently, a resource modeling perspective has been suggested for designing business models for sustainability purposes (Abdelkafi & Täuscher, 2015; Täuscher & Abdelkafi, 2018), as well as for developing and experimenting with new enterprise business models (Cosenz & Noto, 2016). However, small businesses require great efforts to innovate their business models as they face relatively more obstacles, such as limited strategic capabilities and resources and insufficient network capacity to grow and survive (Bianchi & Bivona, 2000; Lindgren, 2012). For this reason, the distinctive organizational features and inherent attributes that influence the small business value generation process should be examined to explore the positive and negative forces driving business model innovation in this particular context.

LITERATURE REVIEW

Competitiveness

Porter (2008) defines competitiveness as "the ability or advantage used to compete in a particular market. This competitiveness is created through continuous development in all organization lines, especially in the production sector. If an organization carries out ongoing development, it can improve performance. Frinces (2011) competitiveness is defined as the strength or ability and advantage that is built from the potential and resources that come from inside and outside the organization in a planned and systematic way to fight against the latent or real potential to disrupt, shift, fight and or destroy positions, existence, and the existence of the party to compete.

The modern economy is distinguished by high competitiveness in all areas of business. Organizations are forced to improve business efficiency, apply the most advanced technology, seek competitive advantages for the products and services, fight for a larger market share, and retain the best specialists. Smagurauskienė (2009) emphasizes that operating under such conditions, the organization's management certainly faces problems when further development is impossible without the attractiveness of investment resources.

Digital Marketing

Marketing trends in the world are shifting from conventional (offline) to digital (online). This digital marketing strategy is more prospective because it allows potential consumers to get information about products and transact via the internet. Digital marketing is a promotional activity and market search through online digital media utilizing various means such as social networks. Coviello et al. (2001). Digital marketing uses internet facilities and other interactive technologies to create and connect a dialogue between identified companies and consumers. Heidrick (2009) The development of digital marketing through websites, mobile phones, and gaming devices offers new access to uncompromising and highly influential advertising. Digital Marketing can also create or open new, previously closed markets due to limited time, means of communication, and distance.

The virtual world is now able to connect not only people with devices but also people with other people around the world. Digital marketing, which usually consists of interactive and integrated marketing, facilitates interaction between producers, market intermediaries, and potential consumers. Digital marketing makes it easier for school owners to monitor and

provide for all the needs and desires of potential consumers. On the other hand, potential consumers can also search for and obtain product information just by browsing the virtual world, making it easier to find schools. Shoppers are now increasingly independent in purchasing decisions based on their search results. Digital marketing can reach entire communities wherever they are without geographic or time restrictions. The digital market plays a very important role in developing the national economy. Digital marketing can be related to direct marketing because companies that carry out digital marketing activities can shorten the supply chain and reduce operational costs.

Innovative Thinking Pattern

Product improvement can achieve by innovating. Verhees & Meulenberg (2004) found that innovation has a strong influence on improving the performance of small businesses. Companies with innovation capital can boost the company performance to be better than before. Halme & Korpela (2014) innovation as the ability to apply creativity to something that can be implemented and provides added value to the resources owned. Innovation is the emergence of something new, for example, a new idea, a new theory, a new hypothesis, or a new method for managing an organization and business.

Continuous product quality requires innovation in the production process and its products (Wolf, 2007). Innovation in small businesses is largely determined by the invention of the owner/manager of the company. Therefore, innovation plays an important role in achieving a company's success in maintaining its competitive ability. Many studies have investigated the various factors that drive a company's creation. Several previous studies have shown that introducing new processing methods, products, and ideas in organizations relates to the company's innovation ability to encourage increased performance (Porter, 1990; Hurley and Hult, 1998; Hurley et al., 2003).

Hypothesis

The development of economic competition requires companies to develop all the potential within their companies to continue to innovate, especially in the field of human resources (HR). In addition, small business actors must optimize digital marketing and innovation in products and management. Therefore, improving performance and quality is one way to face this increasingly fierce competition.
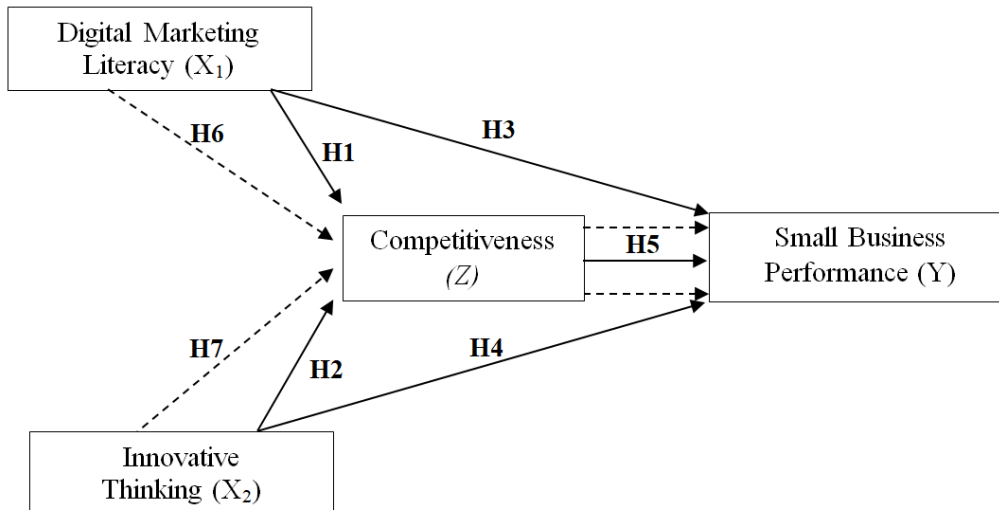
Figure 1 Thinking framework

H$_1$:   Digital Marketing Literacy has a positive and significant impact on the competitiveness of small businesses

H$_2$:   Innovative Thinking Patterns have a positive and significant impact on the competitiveness of small businesses.

H$_3$:   Digital Marketing Literacy has a positive and significant impact on small business performance

H$_4$:   Innovative Thinking Patterns have a positive and significant impact on small business performance

H$_5$:   Small business competitiveness has a positive and significant impact on small business performance

METHOD

This study has 45 indicators, so the minimum number of samples is $\frac{45X45+1}{2} = 1013$ or 45 x 5 = 225, so the quantity sample range between 225 – 1013 respondents. The author decided to take a full selection of 225 respondents to calculate the results. It is because the aim of anticipating being picked up is an invalid sample. The sampling technique used in this study is the *proportional random sampling technique,* a sampling method carried out when members of the population are considered homogeneous or relatively homogeneous. The sample size is sub-districts by taking 50% of the total sub-districts, namely 50% x 29 = 14.5 or 15 sub-districts.

Statistical Analysis and Test Tools

analysis technique uses the SmartPLS version 3.0 *software running on a computer or laptop media.* PLS *(Partial Least Square) is a variant-based structural* equation analysis that can simultaneously test the measurement and *structural model*s.

Validity and Reliability Test

Test validity and reliability need to be conducted in a study to determine the research instrument's quality due to this research used the method of *Structural Equation Modeling-Partial Least Square* (SEM- PLS), so the validity and reliability tests in this study were immediately carried out on the application *SmartPLS* 3.0 version 3.2.7.

The relationship model between variables is reflective. Evaluation of the reflective measurement model, known as the *outer model* test, is a test carried out to determine every block indicator on each variable has a connection good so that it can be a reference and analysis of problem-solving on the influence of variable that alone.

Measurement Method *(Outer Model)*

The outer model analysis is carried out to ensure that the *measurement* used is feasible to be used as a measurement (*valid and reliable*). *External model* analysis can be seen from several indicators, including *convergent validity, discriminant validity,* and *composite reliability*. This *outer model* analysis specifies the relationship between latent variables and their hands. Or it can say that the *external* model defines how each indicator relates to its latent variable.

Structural Model *(Inner Model)*

The purpose of the structural model test is to see the correlation between the measured constructs, which is the t-test of the *partial least square* itself. Structural or *inner* models can be measured by looking at the value of the *R-square* model, which shows how much influence the variables in the model have.

The structural model was evaluated using *R-square* for the dependent construct, *stone geisser Q-square* test for *predictive relevance,* and t-test and significance of the coefficients of structural path parameters. Assessing the PLS model begins with *R-square* for each latent variable, with the dependent interpretation being the same as the interpretation in the regression. Changes in the value *of the R-square* can use to assess the effect of certain

independent latent variables on the latent dependent variable and whether it has a substantive impact. In addition to looking at the *R-square* model, the PLS model is also evaluated by looking at *the Q-squareperictive relevance* for the constructed model. *Q-square* measures how well the model generates the observed values and its parameter estimates.

RESEARCH RESULT

Testing *Outer Model*

Analysis *outer model* defines how every *manifest* relates to its latent variables and tests performed on *the external model*, including *Convergent Validity*. The *concurrent validity* value is the *loading factor value* on variable l *latent* with its manifest. The expected value exceeds number > 0.7. or often used limit 0.6 as the limitation minimum of *the loading value factor*. The score *of cross-loading* is useful *f*or knowing if t h e construct has an adequate discriminant. By comparing the *loading value* on the construct, the destination must be greater than the *loading value* of the construct other. *Average Variance Extracted* (AVE). Score AVE, which expected more than a number > 0.5. *Composite Reliability*. Data t h a t have *composite reliability* > 0.7 have tall reliability. *Cronbach Alpha*. Test reliability strengthened with *Cronbach Alpha*. Scoreexpected more than number > 0.6 for all construct.

Convergent Validity Test Results

Validity convergent (*Convergent validity*) aims to know the fact every connection Among manifests with a construct or variable latent. Validity is convergent from model measurement with reflection manifest assessed based on correlation Among score items or *component score* with score variable latent or *constructed score* which estimated with SmartPLS program. The following is a picture of the calculation results of the PLS-SEM model, next seen *loading* value *factor manifest* on every variable.
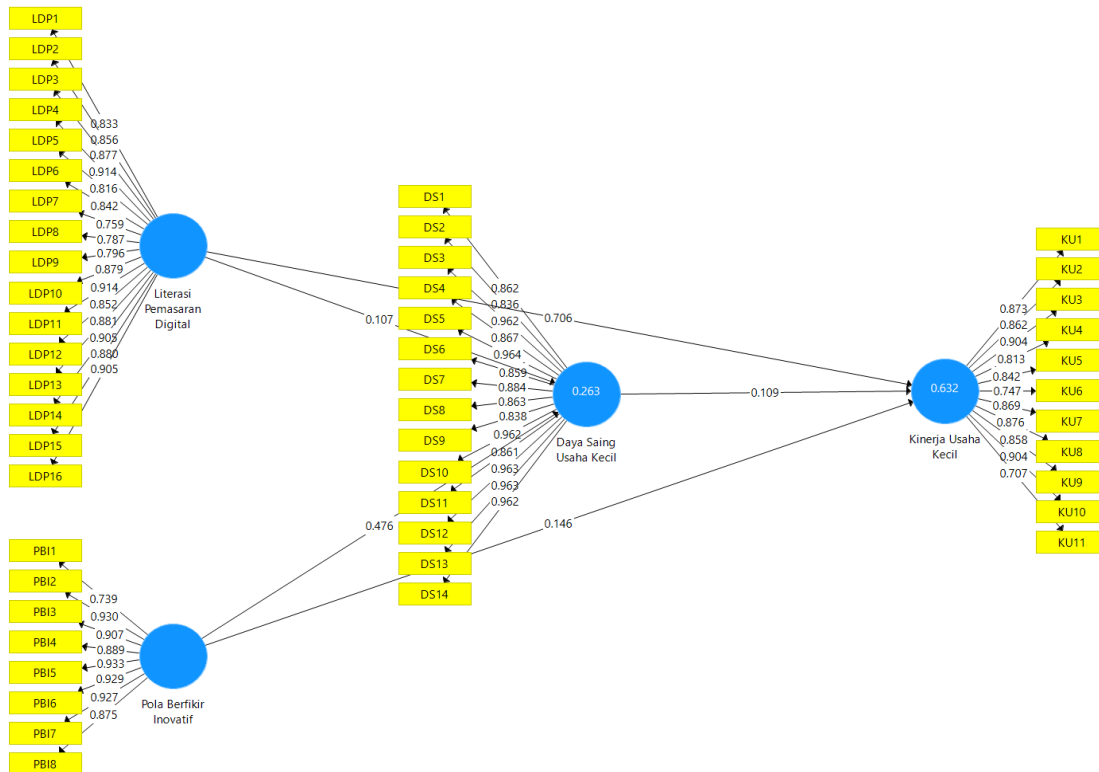
Figure 2 Convergent Validity Test Results

Evaluation of *Path Coefficients*

Path coefficient evaluation is used to show how strong the effect or influence of the independent variable is on the dependent variable. Figure 4.7 shows that the largest *path coefficient value* is indicated by the impact of Digital Marketing Literacy on Small Business Performance of 12.247. He was then followed by the influence of Innovative Thinking Patterns on Small Business Competitiveness of 7.568. Furthermore, Innovative Thinking Patterns on Small Business Performance of 2,578, followed by the force of Digital Marketing Literacy on Small Business Competitiveness of 2,216. Finally, the influence of Small Business Competitiveness on Small Business Performance is 2,133. Based on the description of the results above, it shows that all variables in this model have a *path coefficient* with a positive number. Furthermore, it shows that the greater the *path coefficient value* of one independent variable on the dependent variable, the stronger the influence between the independent variables on the dependent variable.

Hypothesis testing

Significance value indicates the research hypothesis is accepted if the P-Values <0.05. The P-value in SmartPLS is carried out through a *bootstrapping process* on a valid and

reliable model that meets the model's feasibility. The results of *bootstrapping* can be seen in table 4.20 below:

Table 1 *Path Coefficients*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Digital Marketing Literacy -> Small Business Competitiveness	0.107	0.107	0.048	2.216	0.027
Innovative Thinking Pattern -> Small Business Competitiveness	0.476	0.483	0.063	7.586	0.000
Digital Marketing Literacy -> Small Business Performance	0.706	0.704	0.058	12,247	0.000
Innovative Thinking Patterns -> Small Business Performance	0.146	0.148	0.057	2,578	0.010
Small Business Competitiveness -> Small Business Performance	0.109	0.106	0.051	2.133	0.033

Source: Data processed by SmartPLS

Hypothesis results

H$_1$ is accepted, meaning that Digital Marketing Literacy significantly influences Small Business Competitiveness. For example, Digital Marketing Literacy on Small Business Competitiveness is 0.107 with a *P-Value value of* 0.027 < 0.05. Therefore, Digital Marketing Literacy has a significant influence on Small Business Competitiveness. Furthermore, a positive value in the parameter coefficient means that the higher the Digital Marketing Literacy, the greater the Small Business Competitiveness, then H1 is accepted.

H_2 is accepted, which means that there is a significant influence of Innovative Thinking Patterns on Small Business Competitiveness. of 0.476 with a *P-Value of* 0.000 <0.05, it is concluded that there is a substantial influence between Innovative Thinking Patterns on Small Business Competitiveness. A positive value in the parameter coefficient means that the higher the Innovative Thinking Pattern, the higher the Small Business Competitiveness, then H2 is accepted.

H_3 is accepted, meaning that Digital Marketing Literacy significantly affects Small Business Performance, with a coefficient of 0.706 with a *P-Value of* 0.000 < 0.05. Therefore, it is concluded that Digital Marketing Literacy considerably affects Small Business Performance. Furthermore, a positive value in the parameter coefficient means that the higher the Digital Marketing Literacy, the higher the Small Business Performance, then H3 is accepted.

H_4 is accepted there is a significant effect of Innovative Thinking Patterns on the Performance of Small Businesses. The path coefficient is 0.146 with a *P-Value of* 0.010 < 0.05. Therefore, there is a significant influence between Innovative Thinking Patterns on Small Business Performance. A positive value in the parameter coefficient means that the higher the Innovative Thinking Pattern, the higher the Small Business Performance, then H4 is accepted.

H_5 is accepted. There is a significant influence of Small Business Competitiveness on Small Business Performance. The path coefficient is 0.109 with a *P-Value value of* 0.033 <0.05. Therefore, there is a significant influence between Small Business Competitiveness on Small Business Performance. A positive value in the parameter coefficient means that the higher has Small Business Competitiveness, the higher the Small Business Performance, then H5 is accepted.

CONCLUTION

The mediation effect test was conducted to see the relationship between the independent and dependent variables through the mediating or connecting variable. This test is carried out when it is suspected that there are intervening variables between the independent and dependent variables. It means that the influence of the independent variable on the dependent variable does not occur directly but through a transformation process represented by the mediating variable (Jogiyanto, 2014). To be able to determine the mediating or *intervening variable*, several criteria must meet:

a. *the independent* variable must affect the *intervening variable*

b. *Intervening* variables must affect the *dependent variable*

If these two criteria have been met, then the influence of the independent variable on the dependent variable must be smaller than the multiplication between the independent variable and the intervening variable and the intervening variable with the dependent variable Baron and Kenny in Setyarini (2014). Furthermore, two possibilities occur from the results of the mediation test, according to Rucker et al. in Yusniyar (2016), namely:

a. *Fully mediation* means that the independent variable cannot significantly influence the dependent variable without going through the mediator variable.

b. *Partially mediation* means that the independent variable can directly influence the dependent variable without going through or involving the mediator variable.

The test results that have been discussed previously show that the independent variables are Digital Marketing Literacy and Digital Marketing Literacy Innovative Thinking Patterns have a significant effect on Small Business Competitiveness and Small Business Performance. Thus, it can conclude that the assumption of the main effect of the independent variable on the dependent variable must be significant so that the mediation effect test can be carried out (Baron and Kenney, 1986).

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