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# The Role of Marketing and Digital Marketing Capabilities: Entrepreneurial Orientation on the Marketing Performance of Public Enterprises

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## Abstract

Public enterprises and small and medium enterprises (SMEs) have similar goals in the eyes of the state. SMEs that get government or public bodies funding can make it a public enterprise. These enterprises in Indonesia face challenges due to limited resources, low market reach, and low marketing expertise. They must leverage their marketing capabilities effectively and adopt strategic approaches such as entrepreneurial orientation and digital marketing. This study explores digital marketing mediation and marketing capabilities in the relationship between entrepreneurial orientation and marketing performance in public enterprises. Survey techniques were used for this study, and data were obtained from 176 respondents who are entrepreneurs who use social media in their marketing activities. Data are processed and analysed using smartPLS. The results of this study show that entrepreneurial orientation significantly affects marketing capabilities, digital marketing and marketing performance in MSEs. Digital marketing and market capabilities have a direct positive influence on marketing performance. In addition, digital marketing and market capabilities mediate the relationship between entrepreneurial orientation and marketing performance. Marketing capabilities mediate the relationship between digital marketing and marketing performance.

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*Keywords:* digital marketing; marketing capabilities; entrepreneurial orientation; marketing performance, Micro and Small Enterprises.

## Introduction

Public enterprises and small and medium enterprises (SMEs) have similar goals in the eyes of the state. SMEs not only play a role in job creation, economic growth and equitable development. Sometimes the role of SMEs is much more significant than public enterprises. Because 99% of companies in a country are SMEs. In Indonesia, for example, SMEs contribute significantly to employment, with more than 97% of total jobs coming from this sector (Masduki, 2023). According to the Ministry of Cooperatives and SMEs, in 2020, there were more than 64 million MSMEs in the country, accounting for more than 99% of the total business establishments. In many situations, SMEs act as government agents like public enterprises. The trend of social entrepreneurship makes SMEs provide public services like public enterprises. For example, in supporting government programs, it is not uncommon for the government to attach requirements for meeting the SDGs or other government programs as a condition for applying for government assistance (Sonntag *et al.*, 2022). If an SME receives funding directly from the government or public bodies through capital investment, subsidies, or economic stimulus funds, it can be a public enterprise. Public enterprises have two defining characteristics: they are owned and controlled by the government or engaged in government business activities (Gray *et al.*, 1984).

Despite their essential role, public enterprises in Indonesia face several challenges that hinder their growth and sustainability. These companies need more resources, more comprehensive market coverage, and enhancement managerial marketing capabilities (Ayyagari *et al.*, 2006). Lack of financial resources limits their ability to invest in marketing activities, develop marketing capabilities, and adopt innovative marketing strategies. To overcome these challenges and achieve sustainable success, enterprises must leverage their marketing capabilities effectively and adopt strategic approaches such as entrepreneurial orientation and digital marketing.

Limited marketing capabilities are a common problem faced by public enterprises due to the need for knowledge, skills, and resources required to effectively market their products or services (Lekhanya, 2015). These limitations hinder their ability to reach target markets, position their offerings effectively, and compete with larger, more established competitors (Lekhanya, 2015; Narula, 2004). Improving marketing capabilities is critical to target customers effectively, communicate the value offered, and create a sustainable competitive advantage (Murray *et al.*, 2011).

Entrepreneurial orientation (EO) is a strategic orientation that emphasizes innovation, proactivity and risk-taking (Lumpkin & Dess, 2001; Wales *et al.*, 2013). EO positively influences firm performance and market orientation (Rauch

*et al.*, 2009). Entrepreneurial orientation can help overcome resource constraints by fostering creativity, adaptability, and a proactive market approach (Al Mamun & Fazal, 2018).

Digital marketing has emerged as a powerful tool for public enterprises to overcome the limitations of traditional marketing channels and reach a wider audience (Chaffey & Ellis-Chadwick, 2019). With the development of digital technology and increasing internet penetration, public enterprises can utilize digital marketing strategies and tactics such as website development, search engine optimization, social media marketing, and online advertising (Chaffey & Ellis-Chadwick, 2019). By leveraging digital marketing, public enterprises can increase their market reach, target specific customer segments, and build stronger customer relationships.

Given these challenges, there is a growing need to understand the role of marketing capabilities, entrepreneurial orientation, and digital marketing in improving public enterprises performance. By examining the relationship between these variables, this study aims to provide insights for public enterprises to improve their marketing strategies, develop entrepreneurial capabilities, and utilize digital marketing tools effectively. The finding this study will contribute to existing knowledge about public enterprises performance and explain the importance of marketing capabilities, entrepreneurial orientation, and digital marketing in the context of Indonesia and other developing countries that have similar problems. Ultimately, the study supports public enterprises pursuit of sustainable growth and success.

## Literature Review

### *Entrepreneurial Orientation*

Entrepreneurial orientation (EO) is a company's strategic orientation toward entrepreneurship, innovation, and proactivity. This reflects the willingness entrepreneur to take risks, be proactive in identifying opportunities, and demonstrate innovative behavior. Risk-taking is an essential dimension of entrepreneurial orientation, demonstrating an entrepreneurs willingness to undertake calculated risks in pursuit of business opportunities. Proactive refers to the ability to identify and capitalize on market opportunities. It involves actively engaging in market-sensing activities and taking proactive measures to seize a competitive advantage. Innovation represents the capacity to introduce a new idea, product, process, or business model. This includes cultivating a culture of creativity and embracing continuous improvement (Boso *et al.*, 2013; Covin & Slevin, 1989; Lumpkin & Dess, 1996; Miller, 1983; Rauch *et al.*, 2009).

### *Marketing Performance*

Marketing performance refers to evaluating and measuring marketing activities and their impact on achieving business objectives. Understanding and improving marketing performance is critical to business success and growth. Marketing performance can be evaluated by increased sales, profits and volume (Suherly *et al.*, 2014). Previous research has highlighted the importance of entrepreneurial orientation for enterprises. Studies have shown that a higher entrepreneurial orientation indicates more significant business growth, competitive advantage, and innovation (Montiel-Campos & Aguilar-Valenzuela, 2013; Wiklund & Shepherd, 2011; Zhao *et al.*, 2010).

*H1(+): Entrepreneurial orientation has a significant positive effect on marketing performance.*

Digital marketing plays a vital role in increasing the competitiveness and growth of public enterprises. Risk-taking refers to willingness to adopt new and innovative digital marketing strategies to remain competitive in the changing environment (Teece *et al.*, 2016). Entrepreneurs are experimenting with different digital channels and embracing new technologies to improve their online presence to stay relevant to their customers (Wang, 2020). With an entrepreneurial orientation, public enterprises can increase their online presence and effectively engage with their target audience.

*H2(+): Entrepreneurial orientation has a significant positive effect on digital marketing.*

Entrepreneurial orientation is the primary driver of company performance and growth. Developing strong marketing capabilities is essential for sustainable growth and competitiveness in dynamic markets (Zahra, 2006). Enterprises with excellent entrepreneurial orientation can improve brand marketing capabilities (Jin *et al.*, 2018).

*H3(+): Entrepreneurial orientation has a significant positive effect on marketing capabilities.*

### *Digital Marketing*

Digital marketing has revolutionized how businesses connect with their target audience and promote their products or services (Chaffey & Ellis-Chadwick, 2019). The rise of digital marketing has given businesses new opportunities to engage with customers, expand their reach, and achieve their marketing goals. Previous research has explored the impact of digital marketing. For example, studies have shown that social media presence positively affects customer engagement and brand loyalty for small companies (Zheng *et al.*, 2015). Digital marketing can be judged from the implementation of digital marketing run by the company. Digital marketing implementation can be identified by increasing sales, providing customer service,

understanding customers, routinely providing content, advertising, and engaging with customers (Chaffey & Smith, 2017; Taiminen & Karjaluoto, 2015).

Digital marketing is becoming increasingly crucial for enterprises to effectively reach and engage with their target audience in the digital age. Digital marketing in most small enterprise in Indonesia is carried out through social media. An entrepreneur that effectively utilize social media marketing are expected to increase their product exposure, reach a wider audience, and improve marketing performance more effectively and efficiently (Odom *et al.*, 2016).

*H4(+): Digital marketing has a significant positive effect on marketing performance.*

Digital marketing encompasses various strategies and tactics that utilize digital channels. Marketing capabilities reflect an organization's ability to plan, execute, and evaluate marketing activities effectively. Social media makes it easier for customers to compare products, prices and brands (Pratono, 2018). Pricing is essential for marketing capabilities (Pratono & Mahmood, 2015). Digital marketing helps strengthen marketing capabilities.

*H5(+): Digital marketing has a significant positive effect on marketing capabilities.*

### *Marketing Capabilities*

Marketing capability refers to an organization's ability to effectively plan, implement, and manage marketing strategies and activities to achieve its marketing objectives (Vorhies & Morgan, 2005). For enterprises, developing strong marketing capabilities is essential for sustainable growth and competitiveness in dynamic markets. Previous research has explored the importance of marketing capabilities. For example, studies have shown that solid marketing capabilities positively influence business performance and market orientation for small enterprises (Cacciolatti & Lee, 2016; Morgan *et al.*, 2009; Vorhies *et al.*, 1999 ). Enterprises marketing capabilities can be identified by managing the marketing mix (Day, 1994; Vorhies & Morgan, 2003) and understanding markets (Day, 1994). Marketing capability refers to the ability of a business to effectively and efficiently utilize its marketing resources, processes, and knowledge to achieve desired marketing results. By developing and leveraging their marketing capabilities, enterprises can better understand their target market, allocate resources effectively, and innovate in their marketing approach to achieve superior marketing performance results (Vorhies & Morgan, 2003).

*H6(+): Marketing ability has a significant positive effect on marketing performance.*

### *Mediation Variables*

Entrepreneurs experiment with embracing new technologies to remain relevant to their customers (Wang, 2020). Social media presence positively affects customer engagement and brand loyalty for small enterprises (Zheng *et al.*, 2015). Entrepreneurs that combine a solid entrepreneurial orientation with an effective digital marketing strategy are expected to experience improved marketing performance. The proposed hypothesis suggests that entrepreneurial orientation positively impacts marketing performance, and is mediated by digital marketing.

*H7: Digital marketing has a significant positive effect on mediating the influence of entrepreneurial orientation on marketing performance.*

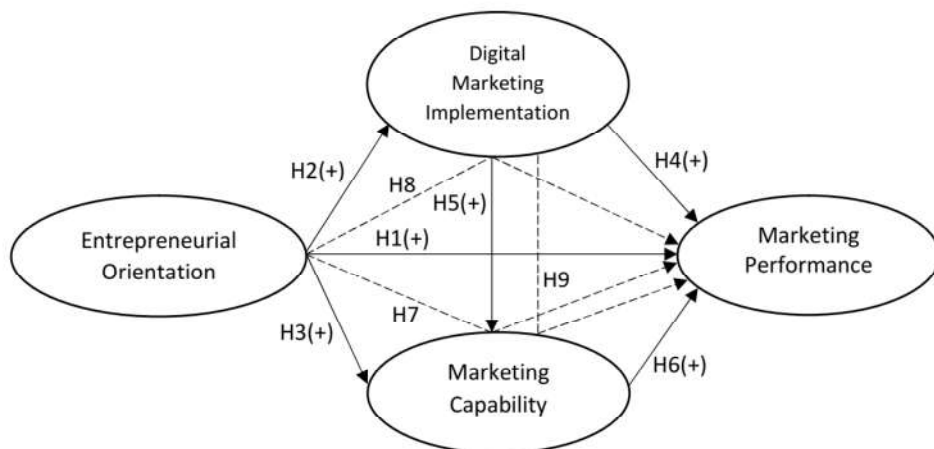
Good entrepreneurial orientation can improve a brand's marketing capabilities (Jin *et al.*, 2018). Strong marketing capabilities positively affect business performance (Morgan, 2009). It is expected that marketing capabilities play a mediating role between entrepreneurial orientation and marketing performance because, with more robust marketing capabilities, entrepreneurs can translate entrepreneurial ideas and strategies into successful marketing outcomes.

*H8: Marketing ability has a significant positive effect on mediating the influence of entrepreneurial orientation on marketing performance.*

Digital marketing has emerged as a powerful tool for businesses to engage with customers, promote their products or services, and improve their overall marketing performance (Chaffey & Ellis-Chadwick, 2019). By leveraging their marketing capabilities, enterprises can innovate in understanding target markets, allocating resources effectively, and achieving superior marketing performance results (Vorhies & Morgan, 2003). Enterprises with higher marketing capabilities can leverage digital marketing strategies and achieve superior marketing performance. Enterprises that effectively implement digital marketing strategies and improve their marketing capabilities are expected to achieve improved marketing performance results.

*H9: Marketing capabilities have a significant positive effect on mediating the influence of digital marketing on marketing performance.*

Based on the empirical studies above, the conceptual framework is built, as seen in Figure 1.



Note: — : direct path; - - - : mediation path

Figure 1. Research Model

## Methodology

This study was conducted to explain the relationship between variables. Data were collected from primary data through questionnaires. The questionnaire contained 19 question items consisting of five entrepreneurial orientation questions (Lumpkin & Dess, 1996; Miller, 1983), five marketing capability questions (Day, 1994), six digital marketing implementation questions, that contains increasing sales, delivering customer service, understanding customers, routinely providing content, promoting and engaging with customers (Chaffey & Smith, 2017; Taiminen & Karjaluo, 2015) and three marketing performance questions (Suherly *et al.*, 2014). The questionnaire used a 5-point Likert scale ranging from “strongly disagree” to “strongly agree”.

This study uses purposive sampling to obtain samples, where samples are selected based on specific criteria (Cooper & Schindler, 2014). The population of this study is entrepreneurs of small enterprises. The criteria for respondents selected were entrepreneurs who use social media in their marketing activities. The size of respondents from this study was 176 respondents.

Reliability tests compare Cronbach’s alpha and Composite Reliability values with a minimum value above 0.70. Convergent validity, discriminant and reliability tests are performed before testing the hypothesis. A convergent validity test used AVE values above 0.5 (Hair *et al.*, 2006). Discriminant validity is done by looking



at the square root value of AVE compared to the correlation between constructs. This study uses smartPLS to test the hypotheses in this study.

## Results

Discriminant, convergent and reliability validity testing was performed using smartPLS 3.0. The PLS method is suitable because it has a small sample (Chin, Marcolin, & Newsted, 2003). Table 1. displays the measurement model results, which consist of reliability values and validity of individual items. The reliability test results were carried out by looking at the value of Cronbach's alpha and Composite Reliability and showed values above 0.70. The results of convergent validity testing show AVE values above 0.5. The results of the discriminant validity test showed that the square root value of each construct of AVE was consistently greater than the correlation of the variables. The validity and reliability of the questionnaire are met.

Table 1. Measurement Model

Build		Loading	Cronbach's Alpha	Composite Reliability	AVE
Digital Marketing	DM1	0.72	0.91	0.93	0.71
	DM2	0.85			
	DM3	0.84			
	DM4	0.90			
	DM5	0.87			
	DM6	0.83			
Entrepreneurial Orientation	EO1	0.88	0.90	0.92	0.72
	EO2	0.89			
	EO3	0.90			
	EO4	0.87			
	EO5	0.67			
Marketing Capabilities	MC1	0.81	0.90	0.93	0.72
	MC2	0.89			
	MC3	0.83			
	MC4	0.85			
	MC5	0.86			

Marketing Performance	MP1	0.92	0.92	0.95	0.87
	MP2	0.94			
	MP3	0.93			

Table 2. Descriptive and Correlation

	Mean	S.D.	1	2	3	4
Digital Marketing	3,25	0.78	0.843			
Entrepreneurial Orientation	3,53	0.82	0.654	0.850		
Marketing Capabilities	3,40	0.80	0.797	0.738	0.853	
Marketing Performance	3,46	0.75	0.688	0.682	0.720	0.935

Note: The square root of the AVE is in bold

After testing the validity and reliability, hypothesis testing is carried out.

The results of hypothesis tests conducted with smartPLS are shown in Table 3. Measurement of the path coefficients and their significance shows entrepreneurial orientation has a significant positive relationship with marketing performance ( $\beta = 0.29, p < 0.05$ ), thus supporting H1. Entrepreneurial orientation has a significant positive relationship with digital marketing and marketing capability ( $\beta = 0.65, p < 0.05$  and  $\beta = 0.37, p < 0.05$ ), thus supporting H2 and H3. Digital marketing has a significant positive relationship with marketing performance and marketing capability ( $\beta = 0.26, p < 0.05$  and  $\beta = 0.54, p < 0.05$ ), thus supporting H3 and H4. The results showed that marketing capability had a significant positive relationship with marketing performance ( $\beta = 0.29, p < 0.05$ ). Hence H6 was also supported.

This study examines the effect of digital marketing mediation and marketing capabilities. The results showed that digital marketing positively and significantly mediates the relationship between entrepreneurial orientation and marketing performance ( $\beta = 0.17, p < 0.05$ ), thus supporting H7. Positive marketing capability mediates the relationship between entrepreneurial orientation and marketing performance ( $\beta = 0.11, p < 0.05$ ), thus supporting H8. In addition, significant positive marketing capability mediates the relationship between digital marketing and marketing performance ( $\beta = 0.16, p < 0.05$ ), thus supporting H9.

Table 3. Testing the hypotheses

Structural relationships	Std.Est.	t-value	p	Commentary
EO→MP	0.29	3.048	0.002	H1 Supported
EO→DM	0.65	12.617	0.000	H2 Supported
EO→MC	0.37	6.391	0.000	H3 Supported
DM→MP	0.26	2.586	0.010	H4 Supported
DM→MC	0.54	9.016	0.000	H5 Supported
MC→MP	0.29	2.931	0.004	H6 Supported
EO→DM→MP	0.17	2.404	0.017	H7 Supported
EO→MC→MP	0.11	2.822	0.005	H8 Supported
DM→MC→MP	0.16	2.632	0.009	H9 Supported

Note: critical value ( $\alpha = 0.05$ ) = 1.645

## Discussion

The results of this study explain the structural relationship between Entrepreneurial Orientation (EO), Digital Marketing (DM), Marketing Capability (MC), and Marketing Performance (MP). These findings support all proposed hypotheses, revealing significant positive relationships among these variables. Entrepreneurial orientation, characterized by a proactive and innovative approach, and daring to take risks, has been widely recognized as a driver of company performance (Rauch *et al.*, 2009). The entrepreneurial orientation encourages enterprises to identify and capitalize on new market opportunities. Companies that embrace entrepreneurial behavior are more attuned to changes in the market environment and quickly identify emerging customer needs and preferences (Lumpkin & Dess, 2001).

Digital Marketing contributes to Marketing Performance, as supported by the findings. Digital marketing gives public enterprises the ability to personalize and customize their marketing messages. With digital tools and technologies, enterprises can collect and analyze customer data, enabling them to understand individual preferences, behaviors, and needs (Strauss & Frost, 2016). By tailoring marketing content and offers for specific customer segments, public enterprises can increase the effectiveness of their marketing campaigns, leading to higher customer engagement and conversion rates.

Marketing Capability contributes to Marketing Performance. Marketing capability is planning, implementing, and managing marketing activities effectively (Morgan *et al.*, 2009). When enterprises have strong marketing capabilities, they

are better equipped to develop and execute marketing strategies that resonate with their target market, leading to improved marketing performance results.

Entrepreneurial Orientation influences Digital Marketing. Entrepreneurial orientations are more likely to engage in effective digital marketing practices. Entrepreneurial-oriented entrepreneurs are innovative and willing to embrace new technologies and trends (Wang, 2020). Entrepreneurs are more likely to experiment with new digital marketing strategies, explore emerging digital channels, and adapt quickly to changing customer behavior in the online space.

A significant relationship between EO and MC suggests that public enterprises with a solid entrepreneurial orientation are more likely to possess and develop effective marketing capabilities. Entrepreneurial orientation encourages proactivity (Montiel-Campos & Aguilar-Valenzuela, 2013). Proactivity gives entrepreneurs a strong customer focus and willingness to adapt to changing market dynamics. Marketing capabilities include various activities such as market research, customer segmentation, and marketing strategy formulation (Day, 1994).

The findings of this study provide support that Digital Marketing affects Marketing Capability. Digital marketing allows them to communicate with their target audience in personalized and interactive communication (Chaffey & Ellis-Chadwick, 2019). Through digital channels, enterprises can deliver personalized messages, offers, and experiences to individual customers. This level of personalized communication helps build stronger relationships with their customers and improves their marketing capabilities regarding customer segmentation, targeting, and positioning.

The existence of a relationship between EO and MP through the DM mediation role suggests that a solid entrepreneurial orientation is more likely to engage in effective digital marketing practices, leading to better marketing performance outcomes. Entrepreneurs with a solid entrepreneurial orientation are more likely to embrace innovation and proactively seek new opportunities in the digital landscape (Krauss *et al.*, 2023). This proactive mindset encourages entrepreneurs to adopt and utilize digital marketing strategies and technologies to reach and engage their target audience effectively. By integrating digital marketing practices into their overall marketing efforts, public enterprises can expand their reach, increase their visibility, and attract and retain customers in the digital age.

Marketing Capability success mediates the relationship between Entrepreneurial Orientation and Marketing Performance. Entrepreneurs with a solid entrepreneurial orientation are more likely to foster a culture of innovation and creativity (Song *et al.*, 2019). This culture encourages employees to generate new ideas, experiment with new marketing strategies, and take calculated risks. Such entrepreneurial behavior stimulates the development of marketing capabilities, as entrepreneurs constantly look for innovative ways to understand customer needs, differentiate their offerings, and create value for customers.

Digital Marketing affects Marketing Capability, and in turn, Marketing Capability affects Marketing Performance. Public enterprises that effectively utilize digital marketing strategies and tools are more likely to develop more substantial marketing capabilities, leading to improved marketing performance results. Utilizing digital marketing, enterprises can improve their marketing capabilities in market research, customer segmentation, targeting and positioning, brand management, customer relationship management, and performance measurement (Chaffey & Ellis-Chadwick, 2019). This ability contributes to the improvement of marketing performance results.

## Conclusion

This research has explored the role of marketing capabilities, entrepreneurial orientation, and digital marketing in marketing performance in public enterprises. The results showed that entrepreneurial orientation affects marketing capabilities, digital marketing and marketing performance in public enterprises. Digital marketing and market capabilities have a direct influence on marketing performance. In addition, digital marketing and market capabilities mediate the relationship between entrepreneurial orientation and marketing performance; marketing capabilities mediate the relationship between digital marketing and marketing performance. These findings highlight the importance of integrating entrepreneurial orientation, digital marketing, and marketing capabilities in improving marketing performance in public enterprises.

### *Suggestions*

Suggestions for practitioners and policymakers in the context of public enterprises consist of: First, cultivating an entrepreneurial orientation in the public enterprise's environment can be a valuable strategy for improving marketing capabilities and performance. Public enterprises are encouraged to adopt a proactive and innovative approach to marketing activities, constantly seek new opportunities, and promote a customer-centric mindset.

Second, findings emphasize the importance of digital marketing in driving marketing performance in public enterprises. Public enterprises should invest in digital marketing strategies such as social media engagement, strengthening content marketing and effective online advertising to expand their market reach, engage with customers, and increase visibility. Third, developing and strengthening marketing capabilities is critical for public enterprises to leverage digital marketing initiatives effectively. They should focus on building digital marketing skills, allocating resources to digital marketing activities, and integrating digital marketing into their overall marketing strategy. This requires continuous learning, adaptation, and resource allocation to support implementing digital marketing initiatives.

An opportunity for future research is that longitudinal studies can be conducted to examine the long-term influence of entrepreneurial orientation, digital marketing, and marketing capabilities on marketing performance in public enterprises. This will provide insight into the sustainability and resilience of relationships observed over time. Second, additional research can investigate moderate effects such as industry characteristics, market conditions and compare public enterprises and social entrepreneurs on the relationship between entrepreneurial orientation, digital marketing, marketing capabilities, and marketing performance.

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