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Role of Digital Marketing and Digital Transformation in the SME's Financial Performance

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ABSTRACT

The aim of this research is to analyze the relationship between digital marketing and financial performance, analyze the relationship between digital transformation and financial performance and analyze the relationship between digital transformation and digital marketing. This research method is quantitative through surveys, the research population is SMEs owners in Indonesia. The results of data analysis show that digital marketing has a positive and significant relationship to financial performance, digital transformation has a positive and significant relationship to financial performance, digital transformation has a positive and significant relationship to digital marketing. The results of the mediation effect test on the influence of digital marketing on financial performance through digital transformation mediation can be concluded that digital transformation is full mediation on the influence of digital marketing on financial performance.

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INTRODUCTION

The development of information technology is growing very rapidly. Various SMEs business activities take advantage of this development to run their businesses. The large number of SMEs competitors is a consideration for entrepreneurs to enter the very tight competition. The right marketing and media strategies are used to reach the target market so that sales volume and profits always increase. According to Jafari et al. (2023) [1] Digital Marketing is a marketing medium that is currently in great demand by the public to support various activities. Little by little they are starting to abandon the conventional/traditional marketing model and switch to modern marketing, namely digital marketing. With digital marketing, communications and transactions can be carried out at any time and can go global. With the large number of chat-based social media users increasing day by day, it opens up opportunities for SMEs to develop their market within the grasp of a smartphone [2].

The Indonesian E-Commerce Association (idEa) assesses that the growth of MSMEs going digital has reached 21.8 million in 2022. From year to year the growth of SMEs going digital has increased, where before the Covid-19 pandemic alone the number reached 12.8 million. to e-commerce platforms. The government is also targeting 22 million MSMEs to go digital by 2023. On the other hand, digital economic income in 2022 will reach 77 billion US dollars [3]. Based on the data, the amount of income increased 22% from 2021, where the total digital economy income was 63 billion US dollars. Digitalization is considered a major topic in all aspects of society, with primary note being the effects it has on political, economic and social elements. According to Gao et al. (2023) [4] The application of

digital tools to business activities has been found to increase business competitiveness and the opportunity base for SMEs to compete more closely with larger organizations. It is very important for organizations to position their brands in a way that ensures sustainable growth and maintains a competitive edge in the market, so as not to create an avenue for its competitors to grow bigger to gain a huge advantage in the market. SMEs must increase or maintain healthy levels of sales and profits to ensure their survival. Previous research Feliciano et al.,(2023) [5];Frimpong et al. (2022) [6] shows that management often provides platforms for companies to increase the brand value of their SMEs and venture through the digital space, as a guaranteed way to increase sales, create new customers and ensure customer retention. This is in line with government efforts aimed at investing in infrastructure solid internet, as a way to encourage SMEs' digital business operations [7].

According to Feliciano et al.,(2023) [5] Business development in the SMEs sector in Indonesia has experienced a significant surge. It even has an impact on creating jobs and reducing unemployment. The increase in the middle economic class also plays a role in increasing economic growth which has a positive impact on SMEs statistics in Indonesia. SMEs as corporate organizations are often faced with challenges due to increasingly rapid changes in the business environment. According to Purba et al. (2021) [8] Company performance needs to pay attention to various factors continuously to obtain certainty about the business processes being carried out, in order to achieve goals that are in line with expectations, of course achieved through appropriate company management strategies. Measuring the success of a company or organization requires precise,

accurate and up-to-date data and information from all work units in the organization. This information is also sent to the right parties, and sent at the right time. This condition is in accordance with what the business world is currently facing, where the business world is facing a new era. In this new era, companies face risks. According to Akbari et al. (2023) [9] biggest risk is changes that create uncertainty, because changes occur so quickly, whether in markets, competition or technology. The changes that occur are fundamental and take place at an increasingly rapid rate, of course whoever gets information faster through interactive control will take quicker and more precise action on that information, and will emerge as the winner. Market changes that occur are overcome by the use of information technology, especially for the need to market the products produced. According to Frimpong et al. (2022) [6] Digital marketing is a new marketing approach, which can help marketers anticipate and manage the impact of disruptive technology. Digital marketing became known in the early 2000s, known as the new wave technology era, which has influenced the world economy. New wave technology is technology that enables connectivity and interactivity between individuals and groups. In this new wave era, there are forces that influence, namely, computers, mobile phones and the internet as well as open source. Starting from this phenomenon, in terms of marketing, the term digital marketing was finally known. The company's ability to utilize digital marketing technology optimally is expected to improve company performance, especially for SMEs, which is known as business performance or company performance [10].

According to Gao et al. (2023) [4] Operational processes and business

processes in SMEs must also be carried out using technology. In the midst of the long Covid-19 pandemic, SMEs companies have had to change conventional processes by digitalizing them. Digital transformation or change for SMEs is to support the continuity of business processes and operations carried out by SME companies. According to Saura et al. (2023) [11]; Suharyati et al. (2023) [12] Digital transformation is an expression used for changes in organizations that are influenced by technology. Changes in organizations are related to technological developments in organizations and the business environment. Changes that occur in companies are related to adjustments to ongoing business processes, including changes between employees and companies, companies and customers, companies and other companies and also market changes that are occurring in the present. In the era of digital transformation, the business world is expected to be able to adapt to changes that occur and adjust its business strategies in order to maintain its competitive advantage. Constant changes in the business world create challenges for SMEs to align information technology with the business processes they run. According to Coryanata et al. (2023) [13] For SMEs themselves, digital transformation must be carried out, otherwise of course the SME companies will experience quite a lot of losses and this could cause the company to go bankrupt. This is based on the fact that the company's operational activities are still not fully carried out conventionally and also the effect of the Covid-19 pandemic which has caused the public to become accustomed to carrying out all processes using technology. As is known, SMEs are one of the important sectors in Indonesia. According to Ukko et al. (2019)[14]. The existence of SMEs can help improve the economy in Indonesia and also absorb a

large and large workforce. SMEs have become the backbone of the economy in Indonesia, which can be seen from the rapid increase in SMEs in Indonesia. The role of SMEs is very strategic, the great potential of SMEs makes them an economic driver for society and also a source of income for the community to improve their welfare.

Previous research conducted by Feliciano et al.,(2023) [5];Gao et al. (2023) [4] regarding digital transformation, resulted that the digital transformation variable had a positive influence on the business sustainability variable. Research conducted by According to Akbari et al. (2023) [9];Beloke et al. (2021) [15] has conducted research to examine the influence of digital transformation on ran performance. The results of this research are that digital transformation has a positive influence on ran performance. Furthermore, research conducted by According to Akbari et al. (2023) [9]; Jafari et al. (2023) [1] conducted research to test the influence of the digital transformation variable on the marketing sustainability variable. The results of this research stated that digital transformation had a positive and significant influence on the marketing sustainability of SMEs.

According to Purba et al. (2021) [8];Purwanto et al. (2023) [16] Digital transformation is a process that utilizes technology such as virtualization, mobile computing, cloud computing which is integrated with systems and several others. Digital transformation is the impact of a combination of digital innovations that cause changes to the values, structure or ecosystem that occur internally or externally to the company. Digital transformation is also referred to as the use of technology

which aims to improve and improve the performance of a company. Companies that use digital transformation are used to develop business models that adapt to all lines of the company. According to Rusidah (2023) [17] Digital transformation is an evolutionary process that relies on existing capabilities and digital technology in creating or changing business processes, operational processes and customer experiences to create new value. Digital transformation can be used to change the way companies create value, exchange value and interact directly with consumers. Additionally, digital technologies can also improve communication with customers (existing and potential) enabling a better understanding of requirements and facilitating customized offers and new products tailored to specific customer needs.

RESEARCH METHOD

This research method is quantitative through surveys, the research population is SMEs owners in Indonesia, the respondents for this research were 670 SMEs owners who were selected through a simple random sampling method. Research data was obtained by distributing online questionnaires via social media, the questionnaire contained statement items using a Likert scale of 1 to 7. Analysis of research data used structural equation modeling (SEM) partial least squares with the SmartPLS 3.0 software tool. The stages of data analysis are validity testing, reliability testing and significance testing. The independent variable of this research is digital marketing, the mediating variable is digital transformation and the dependent variable is financial performance.

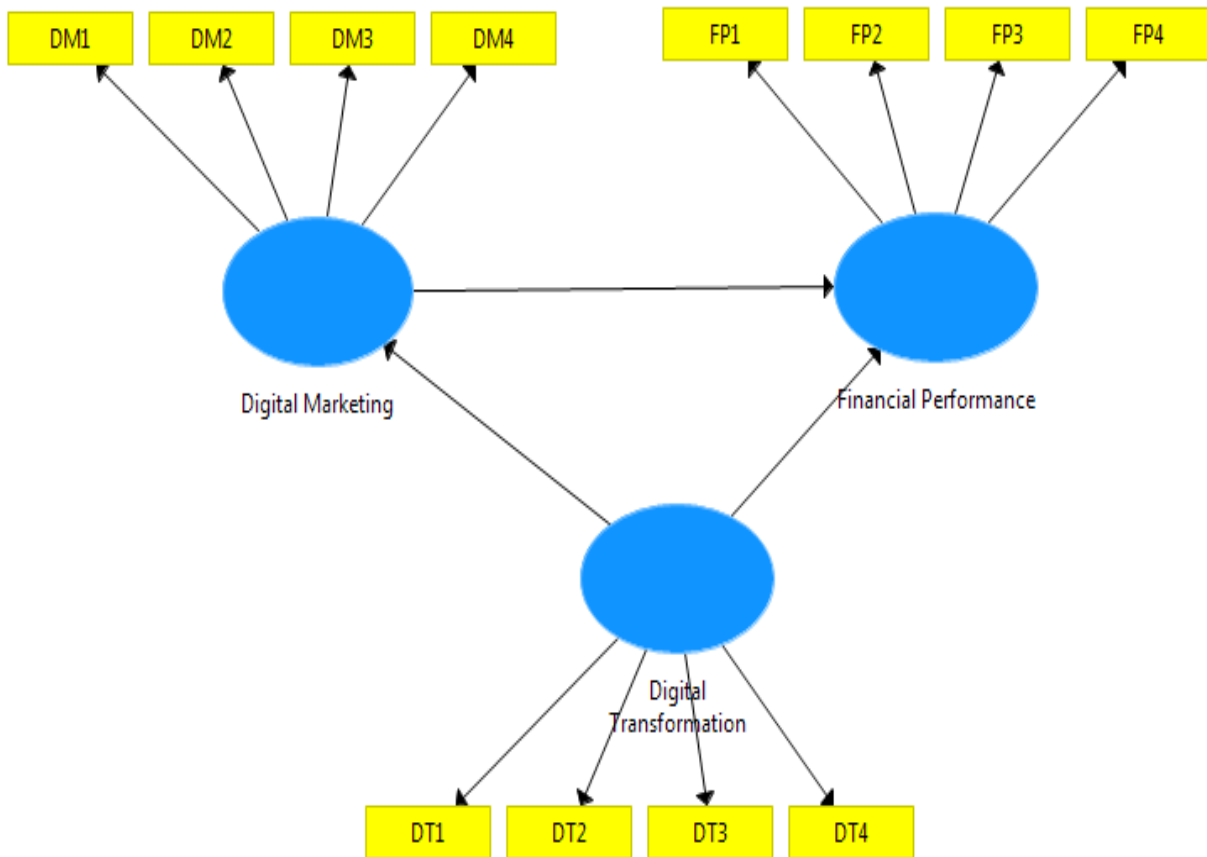


Figure 1. Research Model

The hypothesis in this research is in [figure 1](#).

H1: Digital marketing has a positive and significant relationship with financial performance

H2: Digital transformation has a positive and significant relationship to financial performance

H3: Digital transformation has a positive and significant relationship with digital marketing

RESULT AND DISCUSSION

Convergent Validity

The first stage is measuring validity, all indicators are valid if the factor loading value is greater than 0.70. and those whose values are lower than 0.70 will be removed from the model. The reliability test is composite reliability and is valid if the value is greater than 0.70 and the Cronbach alpha value has a value greater than 0.60.

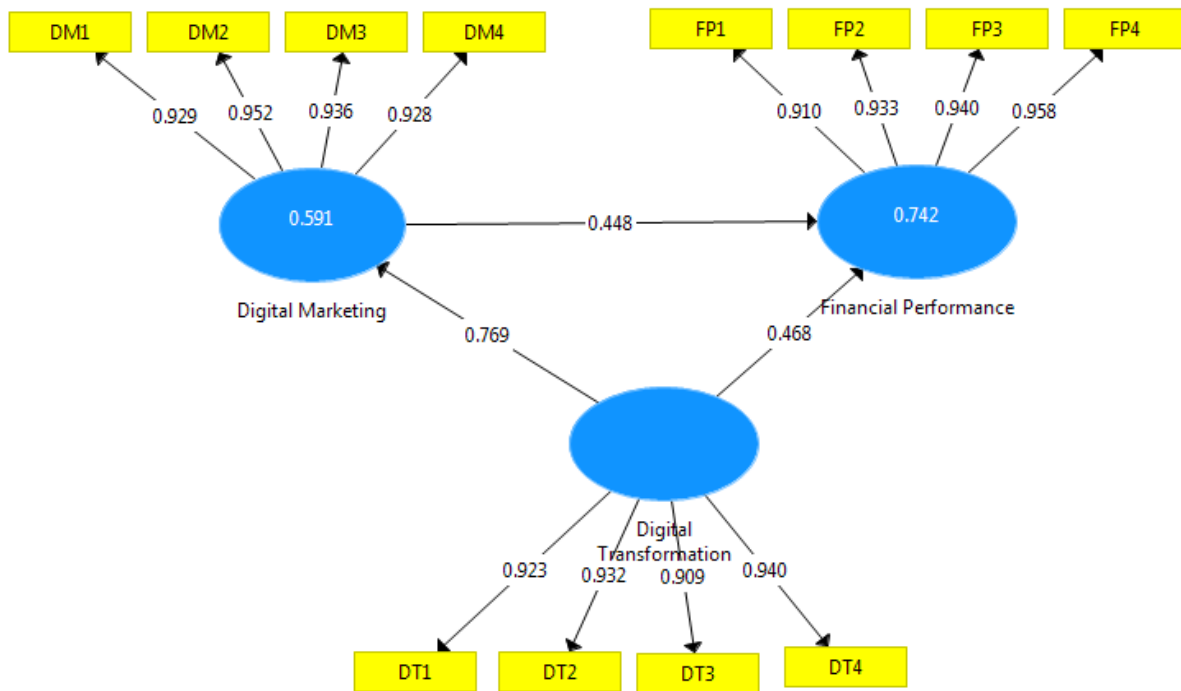


Figure 2. Validity Testing

The figure 2 above shows that only the loading factor has a value greater than 0.7

so that it can be said that it meets convergent validity.

Table 1. Reliability Test

| | Cronbach's Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|------------------------|------------------|-------|-----------------------|----------------------------------|
| Digital transformation | 0.923 | 0.913 | 0.932 | 0.712 |
| Digital Marketing | 0.943 | 0.951 | 0.912 | 0.731 |
| Finance Performance | 0.9067 | 0.912 | 0.934 | 0.643 |

Table 1 shows that the composite reliability value is greater than 0.70 and the Cronbach Alpha value for all variables is greater than 0.60, so it is concluded that

all variables meet the reliability requirements.

Table 2. Discriminant Validity

| Var | DT | DM | FP |
|-----|-------|-------|-------|
| DT | 0.903 | | |
| DM | 0.823 | 0.932 | |
| FP | 0.732 | 0.832 | 0.943 |

Based on [Table 2](#) above, it can be seen that the correlation value of each variable with the variable itself has the greatest value when compared to the correlation value with other variables. So based on

the results of [Table 2](#) it can be concluded that this study has fulfilled the discriminant validity test that can be shown in [table 3](#).

Table 3. Collinearity (VIF)

| Var | FP |
|-----|-------|
| DT | 2.232 |
| DM | 2.231 |

Multicollinearity in a regression model can be determined by calculating the Variance Inflation Factor (VIF) value. VIF is a factor that measures how much the variance of the regression estimators increases compared to the independent variables which are orthogonal if connected linearly. If VIF is greater than 5, then the variable has a multicollinearity problem with other independent variables. Multicollinearity test results for research

respondents obtained that the VIF value is less than 5 so that it can be stated that the model does not experience symptoms of multicollinearity.

f² Effect Sizes Evaluation

According to Hair (2019) explains that f^2 value of 0.02 (= small), 0.15 (= moderate), and 0.35 (= large), respectively, represent small, medium, and low effects. large [18]

Table 4. f^2 Effect Sizes Evaluation

| | Finance Performance |
|------------------------|---------------------|
| Digital Transformation | 0.39 |
| Digital Marketing | 0.38 |

Based on [table 4](#) it can describes for the digital transformation variable, the f^2 value of 0.39 represents a big effect, for the digital marketing variable, the f^2 value of 0.38 represents a large effect.

Q² Evaluation

Q^2 value is greater than 0 indicates that the model has predictive relevance for certain endogenous constructs. Conversely, values of 0 and below indicate a lack of predictive relevance [18]

Table 5. Q^2 Evaluation

| Construct | Q^2 |
|---------------------|-------|
| Finance Performance | 0.456 |

The value of Q^2 in [table 5](#) for the finance performance variable is $0.456 > 0.000$, this variable has predictive relevance. The next testing stage is the termination

coefficient test or R Square, the results of the termination coefficient test are as follows in [table 6](#).

Table 6. R Square

| Variables | R Square | R Square Adjusted |
|---------------------|----------|-------------------|
| Finance Performance | 0.742 | 0.737 |

From the R square table, it can be concluded that 74.2 % of finance performance is influenced by digital transformation, digital marketing , while

the remaining 25.8 % is influenced by other variables outside the study.

Table 7. R Square

| Variables | R Square | R Square Adjusted |
|-------------------|----------|-------------------|
| Digital Marketing | 0.591 | 0.590 |

From the R square in [table 7](#), it can be concluded that 59.1 % of digital marketing is influenced by digital transformation, while the remaining 40.9 % is influenced by other variables outside the study.

Hypothesis testing

The next testing stage is hypothesis testing or significance testing. The criteria for this test are a T value greater than 1.96 or a p value less than 0.050 that can be shown in [figure 3](#).

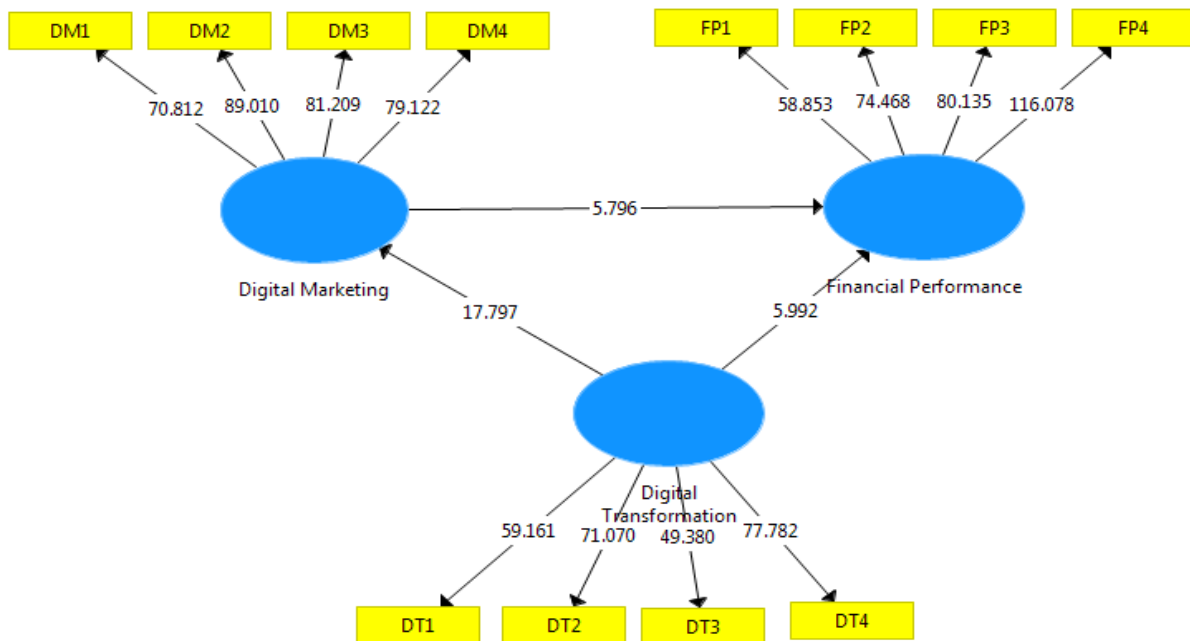


Figure 3. Hypothesis Testing

The criteria for this test are a T value greater than 1.96 or a p value less than 0.050 that show in [table 8](#).

Table 8. Direct Hypothesis Testing

| Correlation | T Statistics | P Values | Conclusion |
|--|--------------|----------|------------|
| Digital transformation and finance performance | 5.992 | 0.000 | Supported |
| Digital Marketing and finance performance | 5.796 | 0.000 | Supported |
| Digital transformation and Digital Marketing | 17.797 | 0.000 | Supported |

The relationship between digital marketing and financial performance

Based on the results of data analysis in [table 8](#), the p value was <0.050, so it was concluded that there was a significant relationship. This study explains that the higher the digital marketing, the higher the financial performance which proves to be significant. This study is in line with the research results of Nasiri et al. (2020) [19]; Oyedele et al. (2023) [20] which proves that digital marketing has a significant effect on financial performance. This condition illustrates that the existence of social networks or social media has the potential to help SMEs market their products and services because they are able to reach large areas cost-effectively. According to Ukko et al. (2019) [14] use of social networks in SMEs in marketing activities to introduce products, establish and communicate with consumers and potential consumers, as well as establish and expand business networks with other businesses. Applications on social networks that are generally widely used by SMEs in marketing their products are usually via Facebook; buying and selling sites; Email; Twitter; personal websites, and other sites. According to Mahssouni et al. (2023) [21] activities that are often carried out include product photos to provide an explanation of the company's products to consumers and potential consumers regarding the products produced, as well as writing about product uniqueness, descriptions/elaborations about the product. This study is in line with the

results of previous research According to Yonghong et al. (2023) [22]; Xu et al. (2023) [23] that the use of digital marketing is able to meet financial performance, which in this case is the satisfaction achieved by customers in communicating, and digital marketing is basically a strategy implemented in terms of communicating the company's brand, products and services to customers through communication channels. digital such as internet, email, mobile phones, digital TV and other information technology.

The relationship between digital transformation and financial performance

Based on the results of data analysis, the p value was <0.050, so it was concluded that there was a significant relationship. Digital transformation has a positive effect on financial performance is a process that involves the use of digital technology to change the way a business operates and interacts with customers. To improve performance through digital transformation, there are several ways you can do this, including: Building a strong online presence: In the digital era, a strong online presence is very important to expand marketing reach. According to Ji et al. (2022) [24]; Khiong (2022) [25] Businesses can build a strong online presence by creating an attractive website, optimizing social media, and leveraging social media to promote their products or services. Data is key to understanding customer behavior and

informing effective marketing strategies. Businesses can use data to identify trends and patterns in customer behavior, as well as measure the effectiveness of their marketing campaigns. According to Oyedele et al. (2023) [20] Marketing automation technology allows businesses to automate marketing processes, such as email marketing, text messaging, and online advertising campaigns. By implementing this technology, businesses can increase the efficiency and effectiveness of their marketing. Customers expect personalized and relevant experiences from businesses. Businesses can leverage technologies such as AI and machine learning to collect customer data and provide experiences tailored to their preferences and needs. According to Xu et al. (2023) [23] data security is very important to protect customer and business information. Businesses can improve data security by implementing strict security protocols and ensuring that all employees understand the importance of maintaining data security. Digital transformation has a positive impact on business sustainability. Customers expect personalized and relevant experiences from businesses. Businesses can leverage technologies such as AI and machine learning to collect customer data and provide experiences tailored to their preferences and needs. In the digital era, data security is very important to protect customer and business information. Businesses can improve data security by implementing strict security protocols and ensuring that all employees understand the importance of keeping data safe [19].

The relationship between digital transformation and digital marketing

Based on the results of data analysis, the p value was <0.050 in [table 8](#) , so it was concluded that there was a significant

relationship. The digital marketing used in this case is social media. Of the 50% of SME business actors who were able to recover, almost all of them adapted to digital strategies. This change concerns sales procedures, promotions, distribution, supply chains, etc. If in normal times business people could do it offline, then this can no longer be done during the pandemic. According to Ji et al. (2022) [24]; Khiong (2022) [25] Digital transformation is used by companies to help simplify work processes and improve company performance which influences decision making, organizational structure, business models and so on. According to Ukko et al. (2019) [14]; Velentza et al. (2023) [26] Digital transformation is not only about changing processes and applying technology but also relates to how business strategies are used in marketing or sales which change the way of interacting with consumers. Before the development of digital transformation, it was first known as the digital economy. The digital economy is a phenomenon that occurs in society and can influence the ongoing economic work system. This phenomenon is related to characteristics in the form of information, information capacity and ease of access to information. The digital economy itself has a basic concept in the form of innovation and competition which is very easy to adopt for business actors to collaborate. In other words, the digital economy can be said to be a sharing economy, where the digital economy invites small and medium businesses to participate in the wider business world. SMEs are required to carry out innovations that are useful for the company's economic growth [27]. Achievements from technological developments and innovation by companies can be used to increase business sustainability for SMEs. Digital

transformation makes it possible for SMEs to make it easier to increase their market share and also gain access to global market competition by utilizing technology and relatively low costs. Changes that occur in business practices in the digital economy. Nowadays the internet is a platform used to carry out online transactions and communications. Digital transformation facilitates the

emergence of small businesses that can compete in the global market and are able to create new opportunities for SMEs to improve performance [28], [21].

The results of the mediation effect test on the influence of digital marketing on financial performance through digital transformation mediation are as follows in [table 9](#).

Table 9. Indirect Hypothesis Testing

| Correlation | T Statistics | P Values | Conclusion |
|--|--------------|----------|------------|
| Digital transformation-Digital Marketing-Finance Performance | 5.432 | 0.000 | Supported |

The value obtained in [table 9](#) is that the influence of the digital transformation variable on financial performance through digital marketing mediation is 15.432 (> 1.96). This can be concluded that digital transformation is full mediating the influence of digital marketing on financial performance.

Implications of research results

The theoretical implication of this research is the discovery that digital marketing has a positive and significant relationship to financial performance, digital transformation has a positive and significant relationship to financial performance and digital transformation has a positive and significant relationship to digital marketing, these results support the results of previous studies which state that digital marketing and digital transformation have a positive and significant relationship to performance. The managerial implication of the results of this research is that SMEs managers must apply digital marketing to implement digital transformation to improve their financial performance. Digital transformation has a positive effect

on financial performance is a process that involves the use of digital technology to change the way a business operates and interacts with customers. Digital transformation is used by companies to help simplify work processes and improve company performance which influences decision making, organizational structure, business models and so on. Digital transformation is not only about changing processes and applying technology but also relates to how business strategies are used in marketing or sales which change the way of interacting with consumers. Before the development of digital transformation, it was first known as the digital economy. The digital economy is a phenomenon that occurs in society and can influence the ongoing economic work system

CONCLUSION

The results of data analysis show that digital marketing has a positive and significant relationship to financial performance, digital transformation has a positive and significant relationship to financial performance, digital

transformation has a positive and significant relationship to digital marketing. This can be concluded that digital transformation is full mediation on the influence of digital marketing on financial performance. The novelty of this research is that it found a model of the relationship between digital marketing variables and digital transformation on financial performance in SMEs. Therefore, SMEs must pay attention to internal and external factors to determine suitability in determining the most appropriate use of digital marketing within the company. The aim is to build communication with customers and potential customers, more precisely to communicate with the product brand to build brand loyalty and trust in customers. In determining the use of digital marketing, an in-depth analysis of the business involved is needed with the aim of finding critical points in business and being able to create its own uniqueness and create high competitiveness in the market, as well as choosing a method for integrating the most effective digital marketing strategy. Suitable for achieving optimal results according to the targets set at the beginning by management. Limitations The limitations of this research include

the research method used, because company performance and satisfaction have a long-term perspective, so the conclusions of this study do not describe reality because this study uses cross-sectional analysis. The reason is due to various situational and environmental factors that influence the company. Cross-sectional studies also do not take into account time-lags in the relationships between variables. Thus, a longitudinal approach for future studies is needed to provide more managerial evidence at the firm level. The main aim of implementing digital transformation is to change the business model of SMEs by utilizing technology to adapt to current market needs. Digital transformation in companies is used to increase performance and productivity, reduce costs and also innovate. Digital transformation is a functional use of the internet in the design process and is a data-based management model. Nowadays, SMEs are aware that the use of technology is a key that can be used to develop their business. SMEs use technology to search for general information related to business for the company.

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