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Article

The role of entrepreneurial marketing & innovation capability in the performance of SMEs during covid-19 pandemic: Evidence of MSMEs in West Java

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MARKETING | RESEARCH ARTICLE

The role of entrepreneurial marketing & innovation capability in the performance of SMEs during covid-19 pandemic: Evidence of MSMEs in West Java

Diana Sari^{1*}, Belinda Aretha Kusuma¹, John Sihotang¹ and Tri Febrianti¹

Abstract: The Corona Virus, or COVID-19, has become one of the world's issues, not only affecting health but also the Indonesian economy. One of the sectors that has been impacted was micro, small, and medium enterprises (MSMEs), whose performance has decreased. Entrepreneurial marketing and innovation capability have proven to increase the performance of MSMEs. However, it was still questioned whether entrepreneurial marketing and innovation capability would increase performance during COVID-19 pandemic. We collected data through an online survey to 290 MSMEs in West Java. Statistical analysis using SmartPLS reveal that entrepreneurial marketing (opportunity-driven, proactiveness, customer intensity, risk taking, resource leveraging, and value creation) and innovation capability (product innovation, serve innovation, process innovation, and business model innovation) have a significant effect on the performance of MSMEs (profitability, productivity, domestic market share, profit margin, competitiveness of the MSMEs, ability to maintain profit margin, and rate owners satisfaction with innovation level). Innovation capability has a greater influence, with a value of 0.465, compared to entrepreneurial marketing, with a value of 0.156, on the performance of MSMEs. Serve Innovation and Process Innovation have a significant impact on the dimensions of innovation capability that contribute to MSMEs' performance. Several



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Diana Sari, S.E., M.Mgt., PhD is a lecturer who has pursued a career at the Faculty of Economics and Business UNPAD. PhD final education at Monash University, Australia, with a marketing management teaching specialization. The research conducted is related to the development of SMEs participating in international markets. This is expected to be able to increase the productivity of SME business owners so that they can further advance the Indonesian economy, especially in terms of developing product innovation and better digital marketing.

PUBLIC INTEREST STATEMENT

This research can assist in understanding economic conditions during the pandemic in the West Java region. During the pandemic, the community was faced with a mental crisis in business development because the business being run was hampered operationally and marketing-wise. It is hoped that this research will provide entrepreneurs with new insights into how to innovate and market in order to keep the economy moving forward during a pandemic.

practical and theoretical implications for entrepreneurs designing marketing strategies are discussed based on the findings.

Subjects: Marketing Research

Keywords: MSME; COVID-19; entrepreneurial marketing; innovation capability; performance of Msmes

1. Introduction

The Corona Virus, or COVID-19, which is currently a world issue, started in December 2019 in Wuhan, China. COVID-19 is currently being implemented around the world, with Indonesia set to host the event in March 2020. This virus could cause quite severe respiratory, neurological, and cardiovascular complications (Klok et al., 2020; Ma et al., 2020). The COVID-19 pandemic also impacted more than 200 countries globally.

Apart from having an impact on health, COVID-19 also had an impact on social and economic aspects. This was because policies are influenced by the World Health Organization (WHO), which classifies COVID-19 as a pandemic, and some countries also had obligations where they had to do a lockdown. As a result, the global economy has slowed.

In Indonesia, there was also a lockdown called Large-Scale Social Restrictions (PSBB). All sectors in Indonesia are feeling the impact of this COVID-19 pandemic, one of which is Micro, Small, and Medium Enterprises (MSMEs). According to the Governor of Central Bank of Indonesia, who revealed this in a webinar, MSMEs are one of the supporters of the Indonesian economy. According to the MSME Crisis Center from the Indonesian Business Development Service Association (ABDSI), the total number of MSMEs affected by COVID-19 is 7,994 across Indonesia. West Java is one of the MSMEs with the greatest impact after East Java and the Special Region of Yogyakarta (DIY). West Java MSMEs affected by COVID totaled 1,588, especially in West Bandung and Bandung City, which had 366 MSMEs.

In 2021, the Ministry of Finance allocated funds for the 2021 National Economic Recovery (PEN), amounting to Rp. 699.43 trillion. The 2021 PEN budget focused on five areas: health, social protection, MSMEs support and corporate financing, business and tax incentives, and priority programs. Among the five sectors, the budget spent on MSMEs support and corporate financing is higher than that of other sectors, at Rp. 186.8 trillion. Not only providing funds to support MSMEs, the Investment Coordinating Board (BKPM) also provides assistance to promote MSMEs by enacting the Job Creation Law, which is intended to regulate the convenience, protection, and empowerment of MSMEs, the People's Business Credit (KUR), Proud National Movement Made in Indonesia (Gernas BBI), Expansion of Indonesian Product Exports through ASEAN Online Sale Day (AOSD).

It is clear that MSMEs are also a concern for the government in the economic recovery program in Indonesia. This is due to MSMEs in Indonesia play an important role as one of the biggest contributors to gross domestic product (GDP), in 2018, MSMEs, according to the Ministry of Cooperatives, contributed 57.8% to GDP. MSMEs also employed 116,978,631 people, or 97% of the total Indonesian workforce. Therefore, MSMEs are among those who received a budget because they were affected by a large enough outbreak.

In the case of the COVID-19 pandemic, to improve the economy, MSME owners must be able to think creatively and rationally to innovate and have entrepreneurial marketing skills in their businesses. This is the goal pursued by MSMEs to improve their business performance. By having entrepreneurial marketing and innovation capabilities, entrepreneurs could be able to increase

sales and attract consumers (Davcik et al., 2020; Sulisty & Siyamtinah, 2016). Thus this study will find out how to increase the performance of MSMEs during the pandemic.

2. Theoretical background

2.1. *Micro, Small and Medium Enterprises (MSMEs)*

According to Wijaya (2018) Micro, Small, and Medium Enterprises (MSMEs) are a group of businesses that could be said to be quite large and said to be able to face the ups and downs of the existing economy. Meanwhile, according to Wilantara and Susilawati (2016), MSMEs are said to be a tool to be able to grow or build an economy on a national scale, which is seen from the potential they have and involves most of the economic actors.

According to Law No. 20 of 2008 and PP No. 7 of 2021, MSMEs are a business entities owned by an individual or individual business entity that has met the criteria and is not a subsidiary or branch of a company. So it could be said that MSMEs are business entities that can build the Indonesian economy and have met the requirements or criteria that have been written in Law No. 20 of 2008 and Government Regulation No. 7 of 2021.

2.2. *Entrepreneurial marketing*

Entrepreneurial marketing, in accordance with this research, is a series of abilities owned by entrepreneurs to take advantage of opportunities and processes carried out by entrepreneurs to be able to communicate, create value, and be able to establish relationships with consumers. This is done to benefit the organization, organizational stakeholders, marketers, consumers, and partners (Kraus et al., 2010; Whalen et al., 2016).

In such a case, a proper approach to marketing methods and strategies was required. One approach that had recently been deemed suitable by MSME actors was entrepreneurial marketing (Sadiku Dushi et al., 2019). Entrepreneurial marketing was born from business practices that operate in conditions of uncertainty, so it emerged as an alternative that was able to overcome the effects of MSME marketing (Whalen et al., 2016).

Consumers will grow and business excellence will increase if businesses are proactive and always innovative regarding quality (Dubey et al., 2019). This is explained using 10 indicators, namely performance, reliance, conformance, serviceability, durability, assurance, perceived price, branding, and corporate image. This researcher's dimensions explained more about the quality received by consumers in order to build growth and business excellence.

Since this research wants to investigate entrepreneurial marketing from all aspects, it uses the approach described by (2002), namely, opportunity-focused, proactiveness, innovation-focused, customer intensity, risk-taking, resource leveraging, and value creation. However, this study does not use a dimension that focuses on innovation because it will be explained more deeply in the innovation capability variable. Thus, this study only uses 6 dimensions: opportunity focus, proactiveness, customer intensity, risk-taking, resource utilization, and value creation. Opportunity-focused defined as proactive actions taken by business owners during business changes. Proactiveness carried out by entrepreneurs to be able to take initiative in dealing with conditions of uncertainty and vulnerability. Customer intensity explains that entrepreneurial marketing takes a creative approach to acquire, retain, and develop consumers. Risk-taking causes business owners to seek out risks in order to mitigate accepted business risks. Resource leveraging enables business owners to utilize internal and external resources so as to achieve effectiveness and efficiency. Value creation allows business owners to make consumers feel the benefits of unique sources.

H1. Entrepreneurial Marketing significantly influences the performance of MSMEs during COVID-19 pandemic.

2.3. Innovation capability

Innovation capability is the ability of a business to make an innovative product according to the market and also develop the internals of the business itself to meet psychological satisfaction (Andersson et al., 2020; Sulistyo & Siyamtinah, 2016). This definition is considered suitable by the author because the situation is increasingly advanced and consumers want something that is considered quite innovative in terms of products, services, processes, and business models provided by entrepreneurs.

The company will be able to survive if there are four areas that can be modified: innovation in processes, products, and business models; impact on functional areas; technology adoption; and sources of business continuity. Entrepreneurs must have the agility of business innovation to maintain their company (Manyati & Mutsau, 2021; Sharma & Rautela, 2021).

The research conducted by Andersson et al. (2020) used measurements for innovation capability, namely product innovation capability, service innovation capability, process innovation capability, and business model innovation capability. The measurement is the result of an adaptation of Weerawardena (2003) which explains that the measurement for innovation capability is product innovation, processes, work organizational systems, or marketing systems. However, it was re-adapted by Thuriaux-Alemán et al., (2013) into product innovation, service innovation, process innovation, and business model innovation.

In the current situation, which still minimizes activities outside the home, all MSMEs are required to make changes from products to business management to suit the current situation. So the researcher uses the dimensions described by Thuriaux-Alemán et al., (2013) which explain product innovation, service innovation, process innovation, and business model innovation.

H2. Innovation Capability significantly influences the performance of MSMEs during COVID-19 pandemic.

2.4. Performance of MSMEs in pandemic

In the era of the COVID-19 pandemic, MSMEs feel a surprising impact because it affects their performance or the performance of the business itself. This Global Financial Crisis (GFC) absorbs a population of companies that are asymmetric in terms of characteristics but also in terms of time, especially in micro and small companies that are shaken by the existence of this GFC (Čadil et al., 2021). The COVID-19 crisis, according to Lim et al., (2020), has disrupted MSMEs' performance in many areas, including strategic, physical, financial, human resource, and organizational. This pandemic has also created economic instability between supply and demand, caused by a decline in consumer and industrial purchases as well as disruptions in supply chains around the world (Nguyen et al., 2021).

Performance MSMEs are an important component in determining a company's or business's success in order to achieve short or long-term goals (Hery, 2017).

So the definition that is considered suitable by the author was that Performance in SMEs is a measured tool used to determine the success of strategies and innovations that have been carried out by companies or entrepreneurs from a financial or non-financial perspective (Hery, 2017; Ngo & O'cass, 2013). Because the definitions of these authors are still relevant to the situation in Indonesia in this era of the COVID-19 pandemic, MSME entrepreneurs wanted to improve their business performance again.

By developing the previous concept, the performance of MSMEs is currently divided into 7 dimensions to suit technological developments (Andersson et al., 2020). So the researchers used dimensions for SMEs performance variables: profitability, productivity, domestic market share, international market share, profit margin, the competitiveness of the SMEs, ability to maintain a profit margin, and rate managers' general satisfaction with innovation level (Andersson et al., 2020; Saunila, 2016). However, the researchers in this study did not use international performance because the SMEs in the sample had not yet moved into the export sector.

H3. Entrepreneurial Marketing and Innovation Capability simultaneously have a significant effect on the performance of MSMEs during COVID-19 pandemic.

3. Methodology

Based on the literature review, the authors proposed a conceptual model that was tested using a quantitative approach. Figure 1 depicts the conceptual framework showing direct relationship between Entrepreneurial Marketing (X1), Innovation Capability (X2) and Performance of MSMEs (Y).

3.1. Data collection

The population used in this study were SMEs in West Java, and the sampling for this study used probability sampling. Determination of the number of samples using a reference by Kline (2011) regarding the minimum sample size of 200 respondents or observations. The questionnaire distributed to MSMEs in West Java, which the list are given from West Java Province MSME Cooperative Service to 290 respondents. Questionnaires are adopted and modify from Adel et al., (2020).

3.2. Survey instrument

Descriptive analysis is a type of data analysis that is intended to present the state or characteristics of the sample data, for each variable in a single study. This descriptive analysis itself is carried out using descriptive statistical techniques, which include frequency tables, concentration measures, graphs, and spread measures (Djaali, 2020), which can be seen in Table 1. The results of the questionnaire data obtained from respondents to be analyzed are ordinal data in the form of numbers: 1 for strongly disagree (STS), 2 for disagree (TS), 3 for neutral (N), 4 for agree (S), and 5 for strongly agree (SS), which is used on a Likert-type scale. In this study, there were 54 indicators: 26 indicators to Entrepreneurial Marketing, 12 indicators to Innovation Capability, and 16 indicators to Performance of MSMEs.

Figure 1. Conceptual framework.

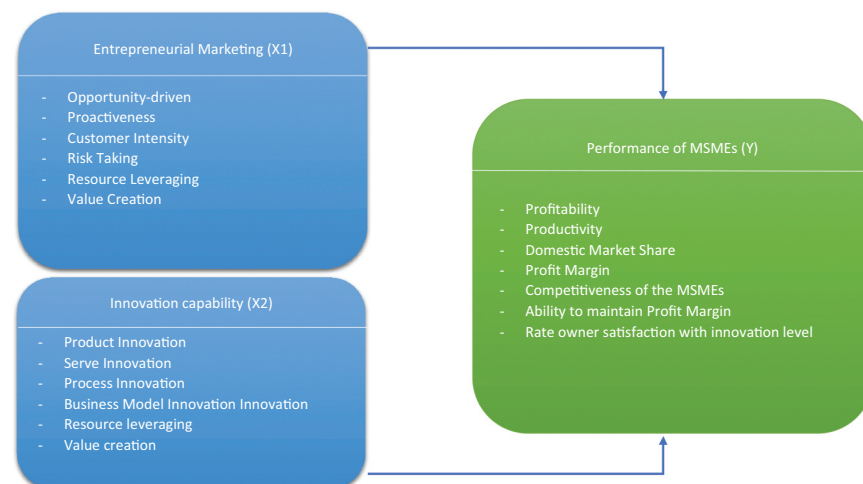
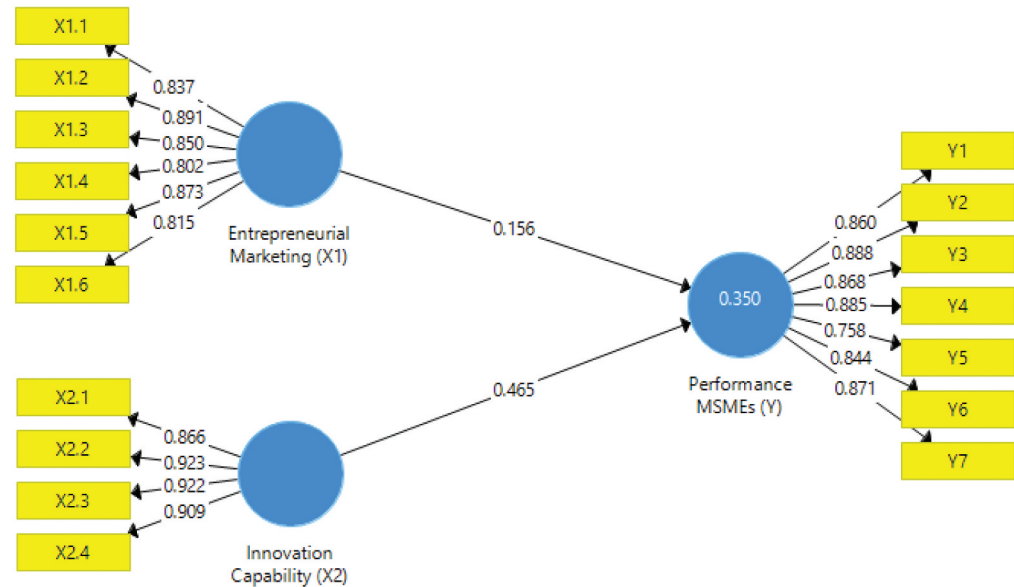


Figure 2. Research model.



4. Data analysis and results

The partial least squares-structural equation modeling (PLS-SEM) approach has gained rising attention of the business studies especially in the area entrepreneurship (Amin, 2015) and marketing management (Hair et al., 2011). PLS-SEM was adopted to examine the relationships in the research framework and hypotheses testing. Two models were assessed; the measurement model and the theoretical model using SmartPLS 3.0. This study fulfilled the validity requirement, which related to the principle that the measurements of different constructs should not be highly correlated (Hair et al., 2014). The cross-loading and AVE values are greater than 0.7, which can be seen in Table 2. and for the calculation of the relationship of each variable can be seen in Table 3.

Table 1. Respondent profile (N = 290)

	N	%
Type of business		
Agribusiness	9	31%
Fashion & Clothing	41	14%
General Industry/Production	6	2%
Service	25	9%
Health & Beauty Services	11	4%
Crafts & Crafts	20	7%
Food & Culinary	173	60%
etc	5	2%
Age of business		
<3 years	130	45%
3–6 years	117	40%
7–10 years	20	7%
>10 years	23	8%
Employees		
<5 people	259	89%
5–9 people	26	9%
>19 people	5	2%

This reliability test is used to measure the internal consistency of the measuring instrument (Hair et al., 2014). This reliability shows the accuracy, consistency, and accuracy of measuring instruments in making measurements. The reliability also meets the applicable requirements, namely composite reliability of more than 0.7 and Cronbach's alpha of more than 0.6.

A structural model is built according to the hypotheses, which can be seen in Figure 2. This study meets the level for running SEM analysis based on the sample size of 290 and the number of variables and parameters in the model. There are no symptoms of identification problems in the analysis, neither negative error variances nor extremely large standards for coefficients were found (Hair et al., 2014). A model fitting process is conducted, and there is no failure to converge on a solution.

4.1. The influence of entrepreneurial marketing on increasing the performance of MSMEs

The results of the t-test shows that entrepreneurial marketing has a significant effect on increasing the performance of MSMEs, with a relationship level of 0.156. These results indicate that when

Table 2. Validity and reliability score

Variable	Cronbach's Alpha	Loading Factor	AVE	composite Reliability
Entrepreneurial Marketing (Morris et al., 2002)	0.920		0.714	0.937
Opportunity-driven		0.837		
Proactiveness		0.891		
Customer Intensity		0.850		
Risk Taking		0.802		
Resource Leveraging		0.873		
Value Creation		0.815		
Innovation Capability (Morris et al., 2002)	0.926		0.819	0.948
Product Innovation		0.866		
Serve Innovation		0.923		
Process Innovation		0.922		
Business Model Innovation		0.909		
Performance of MSMEs (Andersson et al., 2020; Saunila, 2016)	0.938		0.730	0.950
Profitability		0.860		
Productivity		0.888		
Domestic Market Share		0.868		
Profit margin		0.885		
Competitiveness of the MSMEs		0.758		
Ability to maintain profit margin		0.844		
Rate owners satisfaction with innovation level		0.871		

Table 3. T test scores

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/ STDEV)
Entrepreneurial Marketing -> Performance MSMEs	0.156	0.155	0.069	2.251
Innovation Capability -> Performance MSMEs	0.465	0.469	0.066	7.090

there is an increase in the ability of entrepreneurs to read situations to reduce uncertainty. The ability to use internal and external resources, retain, and develop consumers, can read the opportunities that exist, increase in value creation, and risk-taking, then these will have impact on increasing the performance of MSMEs.

In addition, some literature also confirmed that the ability of the entrepreneur to take advantage of opportunities and processes carried out by the entrepreneur to be able to communicate, create value, and be able to establish relationships with consumers would have an impact on improving the performance of MSMEs (Matarazzo et al., 2021; Sulistyono & Siyamtinah, 2016). This will not be done by employers, as they are reacting in fear to crises such as COVID-19, which can cloud judgment. This can reduce the chances of entrepreneurs leveraging their resources and capabilities to grow their businesses. When the business owner had grown proactively, he or she would be able to recognize the opportunities that exist during times of crisis and then take advantage of existing resources, both external and internal to the business (Baron et al., 2012; Miles & Darroch, 2006; Miocevic, 2021).

In previous studies, it has also been mentioned that the dimensions formed to improve performance before the pandemic and after the pandemic were slightly different. The difference was that before the pandemic, this dimension must be in a position to win the market, while the pandemic dimension must always be considered by entrepreneurs to see the opportunities that exist (Sadiku Dushi et al., 2019).

4.2. The influence of innovation capability on increasing the performance of MSMEs

Based on the results of the analysis that has been carried out, it is known that innovation capability has a significant effect on improving MSME performance. The level of relationship between innovation capability and MSME performance is 0.465.

Service innovation, process innovation, business model innovation, and product innovation will all have an impact on increasing MSMEs' performance. The findings of this study are also in accordance with research by Andersson et al. (2020), which stated that the innovation could improve performance and increase profits, productivity, and the psychology of business owners, such as the satisfaction of entrepreneurs.

Other research also explained that by increasing the ability of MSMEs to carry out innovations, they would not only focus on product innovation but also on service innovation, business models, and business process innovations. There would be an increase in MSME performance. Customers could perceive differences in products and services based on these innovations. So that customers would give positive impressions or feedback to MSMEs by making repeat purchases and disseminating information on the uniqueness of these products and services (Caballero-Morales, 2021; Davcik et al., 2020; Zhang & Merchant, 2020).

4.3. The influence of entrepreneurial marketing & innovation capability on increasing the performance of MSMEs

From the results of the F test, it is known that together, the variables of entrepreneurial marketing and innovation capability has a significant influence on the performance of MSMEs. Based on an R^2 of 0.350, that combining the variables of entrepreneurial marketing and innovation marketing will improve MSME performance, while innovation capability has greater impact than entrepreneurial marketing to performance of MSMEs.

Entrepreneurs who are oriented in their choices towards changes in the business environment, entrepreneurs should further increase their proactive attitude, with everything they have and a focus on customers, to be bolder in creating value for their products and services (Adel et al., 2020; Alqahtani & Uslay, 2020; Bandara et al., 2020), coupled with innovative practices in services, business processes, and valuation in business models and product innovation (Pascual-Fernández et al., 2021; Rhee & Stephens, 2020; Tian et al., 2021).

The dimensions of entrepreneurial marketing variables and innovation capabilities influence each other to improve the performance of SMEs. This is in line with research (Baron et al., 2012; Guo et al., 2020; Miles & Darroch, 2006; Miocevic, 2021), which explains that when facing a crisis, business owners must have a marketing entrepreneurial attitude where they control their attitudes. Then have a proactive attitude to see the opportunities that exist in the situation. When actors have seen these opportunities, they can then create or refine business model innovations to see things that can take advantage of existing, whether resources from internal or external (Hmieleski & Baron, 2009).

5. Conclusion & suggestions

Based on the results of the research that has been done, the influence of entrepreneurial marketing on increasing the performance of MSMEs is 0.156. Entrepreneurial marketing tends to focus on seeing opportunities and understanding the importance of utilizing existing resources from internal or external as well as taking advantage of opportunities to create value. MSMEs' performance will improve if they can communicate with or establish relationships with consumers (Matarazzo et al., 2021; Sadiku Dushi et al., 2019; Sulistyo & Siyamtinah, 2016).

Entrepreneurs also need innovation capabilities in order to remain sustainable and accepted in society (Sulistyo & Siyamtinah, 2016). It is proven in this study that innovation capability has an effect on improving MSMEs' performance by 0.465. This shows an increase in the performance of MSMEs when they have the ability to innovate in service, product, business model, and process.

Entrepreneurs can succeed during this pandemic if they are proactive in looking at existing opportunities and then updating or innovating their business models, which will result in several new innovations (Miocevic, 2021; Nambisan & Baron, 2021). It is also possible to take advantage of the resources that entrepreneurs currently have, with this making it possible to predict the risks they will take so that MSMEs will be able to develop and improve performance in this pandemic situation (Baron et al., 2012; Guo et al., 2020; Hmieleski & Baron, 2009; Miles & Darroch, 2006).

Suggestions given to improve the performance of MSMEs in West Java can be carried out through process innovation and service innovation. For service innovation is focused on new customer interactions and new service concepts, with more emphasis on the value proposition when presenting products to consumers. For process innovation, more effectively managing the supply chain by utilizing digital technology. In this case, the government can cooperate between the banking industry to support increased innovation in MSMEs. Meanwhile, for further research to better explain the phenomenon of MSMEs' performance more comprehensively, further research should include other variables such as dynamic capabilities and the competitive strategy of SMEs.

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Disclosure statement

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