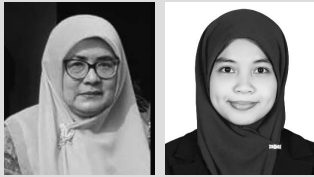


Electronic Payment, Digital Marketing and MSMEs Performance: Role of Innovation Capability



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新型コロナのパンデミックは世界中で日常的な買い物の姿を変え、中小零細の商店でも電子マネーによる決済やSNSによる宣伝が増えた。本稿ではインドネシアの飲食業に焦点を当て、電子マネー導入の効果を検証する。

Abstract

The Covid-19 pandemic requires major changes in business operations in various industries, thereby impacting Micro, Small and Medium Enterprises (MSMEs) globally. Digitalization is emerging as an important factor that empowers MSMEs to adapt by utilizing digital technology to improve consumer experience and simplify internal processes. This research aims to explore the impact of electronic payment methods and digital marketing on the performance of MSMEs in Indonesia, with a special focus on the moderating influence of innovation capabilities. Using the Slovin method, 385 questionnaires were distributed to MSMEs in the culinary sector in Pekanbaru, Riau Province, Indonesia, resulting in 184 responses (47% response rate). Data analysis uses the SEM-PLS method via WarpPLS. These findings underline the significant and positive correlation between electronic payment methods, digital marketing and MSME performance. In addition, this study reveals the moderating effect of innovation capability on this relationship. These results emphasize the important role of electronic payment methods and digital marketing in improving the performance of MSMEs in a dynamic market landscape. In addition, fostering innovation in MSMEs is an important driver in utilizing this digital strategy effectively. Ultimately, this research underlines the importance of MSMEs to innovate, adapt and develop amidst an ever-evolving business environment.

Keywords

electronic payment method, digital marketing, innovation capability, MSMEs

Introduction

The Covid-19 pandemic has become a challenge for companies of all sizes throughout the world. Starting from large to small companies, they have felt the impact of the Covid-19 Pandemic, such as a decrease in income, disruption of supply chains, and even layoffs⁽¹⁾, even for Micro, Small and Medium Enterprises (MSMEs) Covid-19 has caused financial failure, so that many MSMEs experienced bankruptcy⁽²⁾. However, on the other hand, the presence of Covid-19 has encouraged companies to innovate technology and services. MSMEs are no exception, carrying out various innovations to stay afloat and sustainable.

MSMEs in Indonesia, as in other developing countries

in general, are an important element for the country, and receive special attention from policy makers, economists and financial experts, because MSMEs have made a significant contribution to Indonesia's GDP. MSMEs contribute to Gross Domestic Product (GDP) by 61%, or worth IDR 9,580 trillion, in fact the contribution of MSMEs to labor absorption reaches 97% of the total workforce⁽³⁾. This proves that MSMEs are a source of strength for the Indonesian economy.

Therefore, to face the challenges that come and ensure the sustainability of their business, MSMEs must think about and take defensive steps⁽⁴⁾, such as carrying out digital transformation^(5,6).

One form of digital transformation that can be carried

out by MSMEs is by using electronic payment methods. Electronic Payments have many benefits for payers, payees, e-commerce, banks, organizations and governments. The implementation of electronic payments in MSMEs can be considered an important strategy that integrates marketing, sales and customer service aspects⁽⁷⁾. The use of e-Payment brings various benefits to MSMEs, such as reducing costs, increasing financial efficiency⁽²⁾, increasing customer satisfaction, increasing the global competitiveness of MSMEs, strengthening relationships with suppliers⁽⁸⁾, and increasing transparency, security, and sales volume⁽⁹⁾. Moreover, the implementation of electronic payment services has helped MSMEs and customers in carrying out transactions, especially in the midst of the COVID-19 pandemic⁽⁹⁾, and has helped reduce the spread of the virus⁽²⁾.

Apart from the use of electronic payments, digitalization of MSMEs is also aimed at changing marketing styles. Marketing digitalization is one of the tools that is often used by business actors to follow digitalization trends. A number of MSMEs have begun to shift their focus from conventional business models to modern business models by utilizing digital platforms as a marketing tool. The primary objective of digital marketing implementation is to achieve optimal outcomes through a reciprocal promotional process. Digital marketing allows MSMEs to reach a wider audience, increase customer engagement and collect preferences for targeted advertising. Through the implementation of digital marketing, MSMEs have the opportunity to strategically target their product content towards market segments that have been carefully selected in accordance with identified market needs. The application of digital marketing for MSMEs can increase brand awareness, encourage sales, and improve customer experience, which has an impact on increasing sales and overall company performance^(10,11).

Furthermore, in the dynamic business environment, a company's success cannot be separated from the company's ability to continue to innovate. Innovation capability denotes the adeptness to perpetually convert acquired knowledge and conceptualizations into novel products, processes, and systems, thereby enhancing the

organization's and its stakeholders' interests⁽¹²⁾. It is important for Small and Medium Enterprises (SMEs) to focus on innovation because innovation enables companies to respond competitively, enabling them to achieve sustainable competitive advantage. Innovation must be integrated as a major part of the company's strategy because higher levels of innovation have the potential to increase cooperation and coordination within the company⁽¹³⁾. MSMEs that are innovation-oriented have a better chance of financial success⁽¹²⁾. Previous research has shown that innovation capability and performance are interconnected^(14,15).

This research is built on the Resource-Based View (RBV) theory. According to RBV theory, company capability is a crucial element in achieving company performance and competitive advantage. Hogan & Coote⁽¹⁶⁾ in their research concluded that innovation plays an important role in achieving company performance and competitive advantage that leads to sustainability. This is relevant to micro, small and medium enterprises (MSMEs) in responding to challenges and improving business performance.

This research aims to investigate the effect of electronic payments, digital marketing and innovation capability on the performance of MSMEs. This research also examines the moderating effect of innovation capability between electronic payments and MSMEs performance and also between digital marketing and MSMEs performance. Study of the effect of Electronic payment and digital marketing research on the performance of MSMEs is still rarely carried out. The lack of research regarding the influence of electronic payments, digital marketing and innovation capability on the performance of MSMEs is the impetus for conducting this research. Past studies on electronic payments have examined the effect of this variable on banking performance^(17,18). Some studies also revealed evidence of the relationship between digital marketing on consumer behavior^(19,20).

Literature Review

Resource based view theory

The RBV approach focuses on competitive advantage that comes from the company's internal resources^(21,22).

Based on the RBV approach, companies that have valuable, rare, inimitable and non-substitutable (VRIN) resources are capable of generating competitive advantages^(23,24,25). Literature on electronic payment systems, digital marketing and innovation capability has previously utilized RBV to conceptualize electronic payment systems, digital marketing and innovation capability as important resources that can improve the performance of MSMEs^(16,26). Electronic payment systems and digital marketing are considered unique resources, which can increase competitive advantage and company performance^(27,28). Apart from that, innovation capability is an important resource that an organization has to continue to produce superior performance in a dynamic environment. Therefore, this research uses RBV to examine the role of electronic payments, digital marketing and innovation capability in improving the performance of MSMEs.

Electronic payment methods and MSMEs performance

Electronic payment systems, often referred to as non-cash payment methods, are systems that allow financial transactions to be carried out online between buyers and sellers⁽⁹⁾. The use of Electronic Payments provides wide-ranging benefits to various parties, including payers, payees, E-commerce platforms, financial institutions, organizations and governments. MSMEs are also starting to implement electronic payments in line with consumer needs and changes in consumer behavior. By using electronic payments, consumers can make payment transactions online without direct contact with the seller.

Previous studies have found a relationship between electronic payments methods and the performance of MSMEs^(2,9,29). Electronic Payments are considered a crucial strategy that MSMEs can implement. Implementing electronic payments can help MSMEs in business financial efficiency⁽²⁾. In addition, electronic payments can increase customer satisfaction in terms of service and security⁽⁷⁾, so that this will indirectly have an impact on increasing sales. Which will then improve the overall performance of MSMEs. Based on the discussion above following hypotheses is proposed;

H1: Electronic payment methods has a significant and positive affect on MSMEs performance.

Digital marketing and MSMEs Performance

In a highly competitive business environment, adapting to changes in marketing strategies and managing customer relationships is the key to a company's success⁽³⁰⁾. Digital marketing is recognized as one of the most important drivers of innovation that leads to competitiveness and business growth⁽³¹⁾. With increasingly sophisticated technology and increasing customer demands, digital marketing has become a new choice in marketing strategies that can be implemented. Digital marketing is defined as a practice carried out to promote products and services through digital distribution channels such as computers, cell phones, smartphones, or other digital devices"⁽³²⁾. Internet marketing aims to inform, communicate, promote and sell products and services via the Internet^(33,34).

Several studies have shown the influence of digital marketing on MSMEs performance^(9,10,35). Digital marketing provides opportunities for MSMEs to attract new customers and reach existing customers more efficiently. Digital marketing allows companies to establish meaningful contact with customers through the use of interactive services that involve them in purchasing decisions. Digital marketing also increases customer engagement, allowing the products or services produced by MSMEs to match market needs. This will increase sales which will then have an impact on the overall performance of MSMEs. Based on the discussion above following hypotheses is proposed;

H2: Digital marketing has a significant and positive affect on MSMEs performance.

Innovation capability, electronic payment methods and MSMEs performance

Previous research found a relationship between electronic payments methods and the performance of MSMEs^(2,9, 29). According to Prahiawan et al.⁽³⁶⁾, implementing electronic payments can help MSME entrepreneurs manage finances to achieve business goals, including generating substantial profits. This can

improve the performance of MSMEs and enable MSMEs to recognize and respond to changes in the economic environment, business climate and finances. With this capability, MSMEs can make the right decisions to create innovative solutions that focus on improving financial performance and business sustainability⁽³⁶⁾.

Innovation is one of the most important competitive strategies for companies, both small and large scale companies⁽³⁷⁾. Innovation reflects how far a company differs from existing ones in its products, services and processes⁽³⁸⁾. Amit and Zott⁽³⁹⁾ emphasize the importance of innovation in generating positive impacts at three levels: first, innovation facilitates value creation for companies; second, it provides protection against possible imitation by competitors; and third, as a powerful competitive tool. Battaglia et al.⁽⁴⁰⁾ in their research have provided evidence that innovation in the development of work methods, products, services, processes, and new market opportunities among MSMEs can strengthen trust and support from stakeholders, helping MSMEs achieve new social and economic benefits⁽⁴¹⁾.

Much literature on innovation shows a positive correlation between innovation and company performance^(14,15,35). However, innovation capabilities can also encourage the implementation of electronic payments towards successful performance. MSMEs that have high innovation capabilities will be able to develop innovative payment solutions, increase operational efficiency, so that the implementation of electronic payment methods will be better, which will further impact on improving MSME performance. Therefore, the following hypothesis is proposed:

H3: Innovation capability moderate the effect of electronic payment methods on MSMEs performance.

Innovation capability, digital marketing and MSMEs performance

Currently, digital marketing and innovation capability have been considered as complementary organizational capabilities in improving company performance⁽¹¹⁾. The ability to innovate contributes to improving company performance. This means that changes in products, processes, and management can improve overall business

results. According to Tellis et al.⁽⁴²⁾, innovation allows companies to create unique processes, with the ultimate goal of achieving competitive advantage.

Innovation is widely recognized as a significant contributor to organizational performance, as it serves to moderate the influence of various factors affecting performance⁽⁴³⁾. Digital marketing is a company resource to improve company performance. Through digital marketing, companies promote their products/services, reach customers and potential customers and adapt to customer needs, so that this will further impact the company's performance⁽¹¹⁾. However, to maximize digital marketing's relationship to successful performance, MSMEs must take advantage of the company's ability to innovate to improve MSMEs' performance.

Innovation capabilities will help companies encourage improvements in work processes and results. Several studies have examined the direct relationship between innovation capability and company performance^(11,44,45). Furthermore, innovation capability can also moderate the relationship between digital marketing and MSME performance. MSMEs that have high innovation capabilities will be able to innovate and develop technology in their marketing, thereby maximizing the application of digital marketing, which will indirectly improve the performance of MSMEs. Therefore, researchers believe that innovation capability strengthens the relationship between digital marketing and MSMEs performance. Based on above discussion, the following hypotheses is proposed;

H4: Innovation capability moderate the effect of digital marketing on MSMEs performance.

Methods

Sampling and data collection

The population in this research are MSME owners in the culinary sector in Pekanbaru, Riau, Indonesia. We target MSMEs in the culinary sector as the object of our research because MSMEs in the culinary sector are the drivers of MSMEs. The majority of Indonesian micro-small scale businesses or industries (IMK) operate in the food sector and according to data from the Central Statistics Agency (BPS), the number of businesses in

the food sector in 2020 reached 1.51 million business units.

The data collection was carried out using a questionnaire. The data collection process for this study was completed within a 6-month time lag because it is considered a way to reduce common method bias (CMB)⁽⁴⁶⁾. The study administered 385 questionnaires, generating 184 valid responses, representing a response rate of 47%.

Measurement

This study uses a measurement with a five-point Likert scale (1 = “strongly disagree”; 5 = “strongly agree”). Electronic payments methods are assessed using 4 items from Khan & Akhtar⁽⁴⁷⁾. Digital marketing was assessed using 4 items from Sawicky⁽⁴⁸⁾. Innovation capability is assessed using 5 items from Odoom & Mensah⁽⁴⁹⁾. MSME performance was assessed using 10 items adopted from Cao, et al.⁽⁵⁰⁾.

Respondent Profile

Of the 184 respondents, 120 respondents were male, and the remaining 35% were female. Nearly 71% of respondents were between 20 and 30 years old, and more than a quarter (26%) of them were less than 30 years old. Regarding the education of respondents, around 57% had a high school or equivalent educational background, followed by a bachelor's degree with almost 36%.

Result

This research uses PLS-SEM to carry out analysis using WarpPLS 6.0 software. This research uses a two-step approach (measurement evaluation and structural model) as suggested by Sarstedt, et al.⁽⁵¹⁾.

Model fit and quality indices

Before using the two-step approach, it is necessary to assess the model fit and quality index. This assessment includes observations of the Average Path Coefficient (APC), Average R-Squared (ARS), and Average block VIF (AVIF) (see Table 1). Furthermore, a goodness of fit (GoF) evaluation was carried out to assess the performance of the PLS model in both aspects, the

measurement model and the structural model⁽⁵²⁾. Table 1 show the causality evaluation that confirms the correctness of the direction of the proposed hypothesis.

Table 1. Model fit and quality indices

Quality indices criteria	Values	Rule of thumb
APC	0.279***	$p\text{-value} < 0.05$
ARS	0.617***	$p\text{-value} < 0.05$
AVIF	3.411	≤ 5
GoF	0.686	$= 0.36$ (large effect size)

Note: *** $P < 0.001$

Measurement model

To test the measurement model, the reliability and validity of the constructs were evaluated. To assess convergent validity, indicator loadings and Average Variance Extracted (AVE) values are used. The minimum standard for indicator loading is 0.6⁽⁵³⁾, while the AVE must exceed 0.5⁽⁴⁹⁾. The discriminant validity test was carried out by comparing the square root of AVE with the correlation between latent variables. The expected requirement is that the square root of AVE must exceed the correlation between variables⁽⁵⁵⁾.

Reliability testing was carried out by evaluating Cronbach's alpha and composite reliability values. Both are expected to have a minimum value of 0.7 as suggested by Cronbach⁽⁵⁶⁾ and Hair et al.⁽⁵⁵⁾. From the test results of the measurement models listed, all values meet the minimum standards for each indicator of measurement validity and reliability.

Table 2. Correlation

Variables	Correlation			
	Electronic payment methods	Digital marketing	Innovation capability	MSMEs performance
Electronic payment method	(0.907)			
Digital marketing	0.750	(0.901)		
Innovation capability	0.781	0.758	(0.868)	
MSMEs performance	0.711	0.718	0.699	(0.844)

Structural model and hypotheses testing

The evaluation of the structural model considers path coefficients and R2 values. R2 indicates how well the model can explain how much a variable can be influenced by the independent variable⁽⁵⁾. The results of the path analysis model are presented in Figure 1. The R2 value for MSMEs is 0.617. Based on the findings, it can be inferred that approximately 61.7% of the MSMEs performance is impacted by factors such as electronic payment methods, digital marketing, and innovation capability, whereas the remaining 38.3% is attributed to other variables.

The focus of this research is to test electronic payment methods and digital marketing on MSMEs performance. Electronic payment methods ($\beta=0.286$, $P<0.001$) and digital marketing ($\beta=0.370$, $P<0.001$) have a significant positive effect on MSMEs performance, so H1 and H2 are accepted.

Statistical analysis shows that innovation capability is proven to act as a moderator in the relationship between electronic payment methods and MSMEs performance ($\beta=0.334$, $P<0.001$) as well as the relationship between digital marketing and MSMEs performance ($\beta=0.127$, $P=0.039$), therefore H3 and H4 are also accepted. Innovation capability moderates the effect of electronic payment methods on MSMEs performance and also moderates the effect of digital marketing on MSMEs performance.

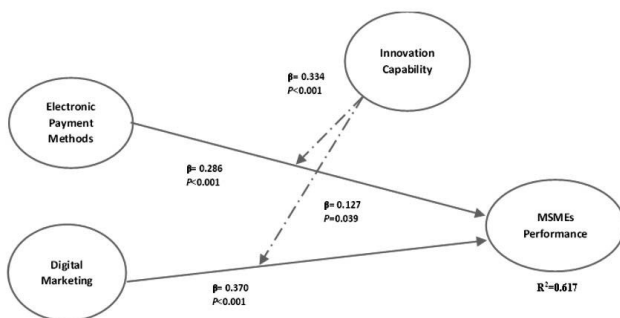


Fig. 1. Full Structural Model.

Discussion

This research applies a quantitative approach to examine the effect of electronic payments and digital marketing on MSMEs performance, as well as the role of innovation capability as a moderator of the relationship between the two. All proposed hypotheses are accepted and supported by statistical results. The results of this research show that electronic payments methods have a significant effect on MSMEs performance (H1). This finding is in line with previous research which found that the implementation of electronic payments methods on MSMEs had a positive effect on MSMEs performance^(2,9,29). MSMEs implement electronic payments in their transactions with customers, thereby increasing customer satisfaction, which has an impact on increasing sales volume⁽⁹⁾. The implementation of electronic payments, which enables cost efficiency, also leads to increased performance⁽²⁾.

Furthermore, the research results show that the implementation of digital marketing has a positive effect on MSMEs performance (H2). The results of this research are in line with previous research which also found that digital marketing had a positive effect on performance^(11,36). Digital marketing opens up opportunities for MSMEs to introduce products to customers and make transactions easier. This will have an impact on customer satisfaction which will further impact on improving the performance of MSMEs.

This research also succeeded in proving that innovation capability significantly and positively acts as a moderator that moderates the influence of electronic payments method on MSMEs and MSMEs performance (H3) as well as between electronic payments on MSMEs and MSMEs performance (H4). These results show that innovation capability can strengthen the influence of electronic payment and digital marketing variables on MSMEs performance. The application of electronic payments method and digital marketing that MSMEs have as resources will have a maximum impact on MSMEs performance with innovation capability⁽¹¹⁾. Innovation capability will encourage MSMEs to innovate both in processes, products and technology used by MSMEs. This will have an impact on improving overall

performance.

Conclusions

In this research, we use RBV theory to gain a deeper understanding of how electronic payment and digital marketing influence organizational performance achievement, as well as the role of innovation capability as a moderating variable that moderates the influence of electronic payment and digital marketing on MSMEs performance. Using data from 184 MSMEs in Pekanbaru, Riau Province, Indonesia, we found that (a) electronic payments methods have a significant effect on MSMEs performance; (b) digital marketing has a significant effect on MSMEs performance; (c) innovation capability significantly and positively acts as a moderator between electronic payments methods to MSMEs and MSMEs performance; (d) innovation capability significantly and positively acts as a moderator between electronic payments on MSMEs and MSMEs performance. These findings provide insight into the importance of implementing electronic payments and digital marketing within organizations for better successful performance, as well as the importance of innovation capability possessed by MSMEs in encouraging the successful implementation of electronic payments and digital marketing in influencing MSMEs performance.

Theory implication

The findings of this research have important theory implications for academics, MSMEs, managers and marketing practitioners in Indonesia. Implementing electronic payment methods and adopting digital marketing to improve MSME performance will provide better results with the encouragement of innovation capability. This research expands the RBV literature by conceptualizing the use of electronic payment methods and digital marketing as important organizational resources for MSMEs to maintain their performance and business in all business conditions. The results of this research also add to the literature for MSMEs regarding technological knowledge and digital marketing which can be beneficial for MSMEs.

Practical implications

This research provides practical implications for MSMEs, especially MSME owners. First, adopt electronic payment methods to provide security and convenience for customers. Second, adapting digital-based marketing, so that you can reach more customers and adapt products and services according to customer needs. Third, carry out continuous innovation in the products, processes and services offered. Then, the implication for the government is that the government, based on the results of this research, produces policies and regulations that facilitate MSMEs in adopting technology for MSMEs.

Limitations and future research

While this study effectively met its goals, it is subject to certain limitations, which in turn present avenues for future research. First, due to its exploratory study, the findings of this study may not be generalizable to different sectors, industries, or geographical areas. Second, this research was conducted in Indonesia, specifically Pekanbaru, Riau Province. The applicability of electronic payment methods and digital marketing may demonstrate variance among MSMEs in alternative regions or nations. Comparisons between regions or countries may require further investigation. Third, this research looks at the RBV theory, furthermore, it is also necessary to look at and elaborate with RDT (resource dependence theory) to obtain more comprehensive knowledge and empirical evidence⁽⁵⁷⁾.

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