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The Effect of Digital Marketing on Organizational Performance Through Intellectual Capital and Perceived Quality in Micro, Small and Medium Enterprises

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Abstract
Digital marketing is one of marketing media taken as an opportunity to expand the marketing area with the help of digital technology for Small, Micro and Medium Enterprises (MSMEs) which have a limited average background in terms of capital. These issues encourage the researchers to conduct the study entitled the effect of digital marketing on organizational performance through intellectual capital and perceived quality in Micro, Small and Medium Enterprises (MSMEs) in East Java. This is explanatory research that uses a survey method by distributing questionnaires through a quantitative approach and using PLS as data analysis. **Findings**. The results showed that there are weaknesses of MSMEs in Perceived Quality, so it is needed training especifically related to digital marketing which involves intellectual capital and perceived quality to improve organizational performance. MSME as one of the informal sectors that plays a role in supporting the community's economy in order to survive and develop.

1. Introduction

Economic growth in the digital era is inseparable from the influence of technology and marketing through social media. The digital marketing industry is accessible through platforms and the latest technology. The rapid development of information technology gives a significant impact on business activities. Various business activities, from small to large scale, take advantage of this development to run their business. Entrepreneurs must consider well the number of competitors to enter a tight competition. The right marketing and media strategies are vital to reaching the target market, so their sales volume and profits always increase.

Digital marketing, one of the marketing media, is currently in great demand by the community to support its various activities. They gradually abandon the conventional marketing model and switch to modern or digital marketing.The benefit of digital marketing communications and transactions is flexible to be used at any time or in real-time and globally. Most social media

users are chat-based media and MSMEs must be able to capture this opportunity to develop their markets by utilizing smartphones (Suharjo, Fahmi, and Hannan, 2020).

The development of sophisticated technology, creating a digital era, encourages people to use it and one of the most useful technologies is the internet network. The internet has changed the way humans interact because the network connects them to communicate without barriers to space, distance, and time (Hermawan, 2012:207). The internet is a vast public network that originates from computers, connects many users around the world, and has enormous information storage facilities (Kotler and Armstrong, 2008:237).

Pelsmacker, Tilburg,and Holthof(2018) research on digital marketing strategies and tactics, conducted in 132 Belgian hotels, show that review volume drives room occupancy and reviews the impacts of RevPar valence. Digital marketing strategies and tactics affect both the volume and valence of online reviews and indirectly for the hotel performance. This is more outspoken in chain hotels and star hotels than in independent hotels or lower-tier hotels. Meanwhile, another research by Royle and Laing (2014) shows that guidance on best practice, evaluation metrics focus, future proofing, and strategic integration, needs to be developed in the communication industry. The Digital Marketing Model must be further tested in the industry and academia. Many companies consider that digital marketing is very important, therefore the results of an online survey study, entitled "The Future of Digital Marketing," from 262 digital marketing executives at B-to-C and B-to-B companies, reveals that 80% of companies plan to increase their digital marketing budgets over the next 12 to 18 months (Maddox in Baltes, 2015).

The increasing number of internet users in the world, especially in Indonesia, is an opportunity to expand the digital marketing for Small, Micro and Medium Enterprises (MSMEs), which on average have a background of capital constraints (Riveong and Rachmad, 2018). Technological developments help MSMEs in promoting products for free (Singh, 2015). Hurley (2018) also emphasized that the ability to master technological developments is crucial in business development in the modern era, and is no longer as moderate as in previous traditional times, however, conditions in Indonesia shows the opposite. Reported by Setiawan in Kompas (2019) until the end of 2018, the number of micro-businesses in Indonesia reached 58.91 million, small businesses were 59,260, medium-sized businesses reached 4,987. However, only 5 percent of businesses applied digital marketing.

The Digital Marketing Institute defines digital marketing as the use of digital technology to create integrated, targeted, and measurable communications that help to gain and keep customers while building deeper relationships with them (Rizal et al, 2017). Digital marketing includes direct marketing and interactive marketing. Direct marketing treats customers as individuals and defines them as not only the character but also their behavior pattern, and interactive marketing functions to overcome individuals and can collect and remember individual responses. Kim and Kim (2011) establishes four dimensions of Digital Marketing, namely: a) Cost / Transaction, b) Interactive, c) Incentive Program, and d) Site Design.

Intellectual capital can be seen as knowledge in the formation, intellectual property, and experience that can be used to create wealth (Stewart, 1997). Intellectual capital can also be defined as an investment in intangible resources by allocating intangible organizational resources in physical form. In this case, organizational resources, such as the expertise, knowledge, and capabilities of a company's organization cannot be directly assessed.

Intellectual Capital has a vital and strategic role in measuring human resources. Intellectual Capital is categorized as an intangible asset and is important in the era of information and knowledge. Intellectual Capital refers to the knowledge and abilities possessed by social

collectivities, such as intellectual community organizations or professional practice. Intellectual Capital is knowledge, but not all knowledge is included in Intellectual Capital (Hurley, 2018).

From several definitions, several researchers agree to divide intellectual capital into 3 components, i.e., human capital, structural capital, and customer capital (Bontis, 2008). These three components help each other in creating value and providing mutual benefits. The definition of quality perception is the assessment (perception) of consumers over the overall superiority of a product. Quality perception involves the difference between the magnitude of the benefits received and the sacrifice made. Aaker (2003) suggests that quality perception is the customer's perception of the overall quality or excellence of a product or service in connection with the intended intention.

High perceived quality indicates that consumers have discovered the differences and advantages of a product with similar products after a long period. Quality perception is a component of brand value, therefore high perceived quality will encourage consumers to prefer brands over competitors. A variety of different criteria need to underlie an assessment of perceived quality, and most importantly, customer satisfaction is not the same as perceived quality. The quality of a product can be achieved if the product meets customer expectations by existing dimensions. According to Bernardin and Russel (1993), there are 8 dimensions in determining the quality of a company, a) Performance, b) Durability, c) Serviceability, d) Aesthetics, e) Perception, f) Conformity, g) Reliability, and h) Features.

Bernardin and Russel (1993) define performance as a record of the results obtained from a particular job function or activity over a certain period. Simanjuntak (2005) explains performance as the level of achievement of the results of carrying out certain tasks and the result achieved from the behavior of organizational members. Therefore, company performance is the level of achievement of results to realize the company's goals and overall activities undertaken to improve the performance of the company or organization.

Bontis (2008) defines six elements of Organizational Performance that can help business success as the dependent variable. These six elements include: a) role set, b) role script, c) role congruence, d) role expansion, e) role differences, and f) role conflict. Several researchers have conducted studies of digital marketing and the characteristics of the development of digital marketing in each of the different regions, and this research will focus on East Java Province because East Java has many superior products, including products from MSMEs. The application of free product promotion technology applications has greatly helped the rapid development of MSMEs in East Java.

The difference between this research and previous research is that that previous studies focus more on the study of digital effects for large companies or industries. The research is conducted on micro, small, and medium businesses that have unique characteristics from large companies or industries.

According to the background of the problem and explanation of the review related literature, the writer attempts to conduct the research in the following problems: 1) How is the influence of Digital Marketing on Intellectual Capital in MSMEs in East Java?, 2) How does Digital Marketing influence Quality Perception at MSMEs in East Java?, 3) How is the influence of Digital Marketing for Organizational Performance at MSMEs in East Java?, 4) What is the effect of Intellectual Capital on Organizational Performance at MSMEs in East Java?; 5) How does the perception of Quality Perception to Organizational Performance at MSME in East Java?, 6) How to direct Digital Marketing indirectly to Organizational Performance through Intellectual Capital and Quality of Perception at MSMEs in East Java?

2. Research Method

This research is quantitative and the study population is MSMEs in East Java Province, Indonesia. The population in this study is unknown, while the determination of the sample in this study uses a non-probability sampling method with an accidental sampling technique. From the use of methods and techniques, a sample of MSMEs that meet and following the characteristics of this study is 42. The researcher determines the characteristics of the sample from this study are MSMEs in East Java Province which have a maximum net worth of 50 million (Rizal, Suhadak, and Kholid, 2017) and have used digital marketing. The researcher applies questionnaires as primary data collection techniques and interview as supporting data. The indicators in this study are:

a) Digital Marketing (X1): transaction or cost, Interactive, Incentive Program, and Site Design
b) Organizational Performance (Y): Role Set, Role Script, Role Congruence, Role Expansion, and Role Discrepancy.
c) Intellectual Capital (Z1): Human Capital, Structural Capital, and Customer Capital
d) Perceived Quality (Z2): Durability, Serviceability, Aesthetics, Conformance, Reliability, and Features.

To analyse the data, the researchers use Partial Least Square (PLS) to analyze the effect of digital marketing on organizational performance through intellectual capital and perceived quality in Micro, Small, and Medium Enterprises (MSMEs).

3. Results And Discussions

The subjects in this study are 42 owners of Micro, Small, and Medium Enterprises in East Java and the description of the results of this study illustrates the identity of Micro, Small, and Medium Enterprises in East Java.

The researcher divides the criteria of respondents based on age and gender. The respondents' age of MSME entrepreneurs in East Java, the majority are 20-25, and 31-40 years, there are 13 (88.9%), while respondents between 41-50 years are 1 (2.4%). In terms of gender, women are 32 (76.2%) and men are 10 (23.8%).

3.1. Analytical *Description of MSMEs statistics in East Java*

This following descriptive data analysis illustrates the results of an analysis of responses from 42 MSMEs in the province of East Java on a questionnaire containing the effect of digital marketing on organizational performance through intellectual capital and perceived quality in Micro, Small, and Medium Enterprises (MSMEs) in East Java. To find out the average results of the responses of MSMEs entrepreneurs, the researchers use the interval class to calculate the value or score of questionnaire answers and to determine the average value of respondents who meet the categories based on the three-box method. The researchers set the following categorization rules (Ferdinand, 2006:294).

$$\text{Class Intervals} = \frac{\text{the highest score - lowest value}}{\text{Number of classes}} \quad (1)$$

Information:
The highest value is 5, the lowest value is 1, and the number of classes is 5. Based on the formula above, the class interval values are as follows.

$$\text{Class Intervals} = \frac{5\text{-}1}{3} = 1{,}33 \quad (2)$$

1.33 is the class interval in each category so that the provisions of the category apply with the following results, (Ferdinand, 2006:294):

Table 1. Variable Criteria

Score	Criteria
1,00 - 2,33	Not so good
2,34 - 3,67	Pretty good
3,68 - 5,00	Good

The results of the responses of MSMEs entrepreneurs in East Java Province from each of the variables in this study are as follows:

Respondents' responses to digital marketing variables are measured by four indicators: (1) Transactions or Costs, (2) Incentive Programs, (3) Site Design, and (4) Interactive. These indicators are measured according to the frequency of answers and average values of the respondent's answer. The result of the Digital marketing (X) variable on Entrepreneurs in MSMEs in East Java Province is in the high category (4.44) and the statement item with the highest value is the transaction or fee indicator. The results of the average value of this indicator are 4.60 and include in the Good category. This means that respondents feel comfortable using digital marketing, such as social, web, and market media (FB, IG, web, Shopee, Bukalapak, etc.) Moreover, digital marketing can save some money on promoting business products and can shorten the time of transactions with consumers.

Respondents' responses to the variable Intellectual Capital are measured by three indicators: (1) Human Capital, (2) Structural Capital, and (3) Customer Capital. Indicators are measured according to the frequency of answers and the average value of respondents' answers. The result of variable Intellectual Capital (Z1) for Entrepreneurs in MSMEs East Java Province is in the high category (4.30) and the statement item with the highest value is the human resources indicator. The results of the average value of this indicator are 4.35 and include in the Good category. This means that Digital marketing makes the customer easy to learn about products, and looking for information and inspiration for product innovation. Digital marketing also helps the respondents provide the best service for their consumers.

There are six indicators to measure respondents' responses to the Perceived Quality variable, (1) Features, (2) Reliability, (3) Conformance, (4) Durability, (5) Serviceability, and (6) Aesthetics, these indicators are measured according to the frequency of answers and the average value of the respondents' answers. According to the respondents' answers in Table 1, the Perceived Quality (Z2) variable for Entrepreneurs at the MSMEs East Java Province is in Good category (3.99), and the statement item with the highest value is an indicator of Reliability. The results of the average value of this indicator are 4.35 and include in the Good category. This means that

Digital marketing can help MSMEs in providing information and make the entrepreneur easier to communicate with customers.

Organizational Performance variables consist of six indicators: (1) Features, (2) Reliability, (3) Conformity, (4) Endurance, (5) Serviceability, and (6) Aesthetics. This indicator is measured according to frequency answers and the average value of respondents' answers. On the respondents' answers, the Organizational Performance variable (Y) for Entrepreneurs in the MSMEs Province of East Java is in good category (4.40), the statement item with the highest value is the Reliability indicator. The results of the average value of this indicator are 4.35 and include in the good category. This means Digital marketing can help MSMEs in providing information and attracting customers.

The influence of digital marketing on organizational performance through intellectual capital and perceived quality in MSMEs in East Java can be determined through the analysis of the Structural Equation Modeling (SEM) approach, Partial Least Square (PLS) analysis methods, and device assistance software Smart PLS 3 because the number of samples is less than 100 (42 samples). The following are the results of the Partial Least Square analysis requirements process:

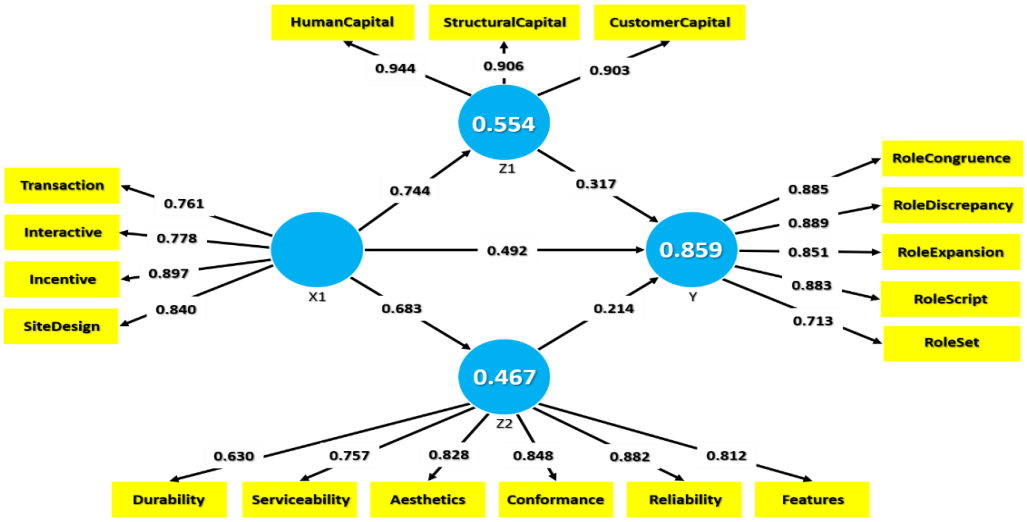

Figure 1. Measurement model

The convergent validity of the measurement model with reflexive indicators can be seen from the correlation of item scores with variable scores. Indicators are declared valid if the correlation value (loading factor) at convergent validity is above 0.5. Based on Figure 1 above, the loading factor value of each indicator of latent variable Digital marketing (X1), Intellectual Capital (Z1), Perceived Quality (Z2), and Organizational Performance (Y) meets the requirements, or the indicator represents or forms latent variables because the convergent validity (loading factor) is above 0.5.

Table 2 shows the model to see the relationship between constructs and significant values in the Path Coefficient table.

Table 2. The Results Path Coefficients

Direct Effect	Original Sample (O)	T Statistics (|O/STERR|)	P Values	Information
Digital marketing (X_1) ->Intellectual Capital (Z_1)	0.744	13.148	0.000	Significant
Digital marketing (X_1) ->Perceived Quality (Z_2)	0.683	7.627	0.000	Significant
Digital marketing (X_1) ->Organizational Performance (Y)	0.492	4.096	0.000	Significant
Intellectual Capital (Z_1) ->Organizational Performance (Y)	0.317	2.251	0.025	Significant
Perceived Quality (Z_2) ->Organizational Performance (Y)	0.214	1.8833	0.067	Non-Significant ($\alpha = 0.05$) butsignificanton ($\alpha = 0.10$)
Digital marketing (X_1) ->Organizational Performance (Y) through Intellectual Capital (Z_1) dan Perceived Quality (Z_2)	0.382	3.716	0.000	significant

Based on Table 2, it can be explained as follows:

1. Digital marketing has a positive effect on MSMEs Intellectual Capital. This finding is based on a positive path coefficient of 0.744 with a statistical T value of 13.148, which means greater than 1.96 with a p-value <0.05. So the first hypothesis, allegedly digital marketing has a positive effect on intellectual capital in MSMEs in East Java, is proven.
2. Digital marketing has a positive effect on the quality of MSMEs' perception in East Java Province. This finding is based on a positive path coefficient at 0.683 with a statistical T value of 7.627 which means greater than 1.96 with a value of p <0.05. So the second hypothesis, allegedly digital marketing has a positive effect on the quality of perception in MSMEs in East Java, is proven.
3. Digital marketing has a positive effect on the organizational performance of MSMEs. This finding is based on a positive path coefficient at 0.492 with a statistical T value of 4.096, which means greater than 1.96 with a p-value <0.05. So the third hypothesis, allegedly Digital marketing has a positive effect on organizational performance in MSMEs in East Java, is proven.
4. Intellectual capital has a positive effect on the organizational performance of MSMEs, This finding is based on a positive path coefficient of 0.317 with a statistical T value of 2.251 which means ~~a~~ greater than 1.96 with a p-value <0.05. So the fourth hypothesis, it is suspected that intellectual capital has a positive effect on Organizational Performance at MSMEs in East Java, is proven.
5. Perceived quality does not affect the organizational performance of MSMEs. This finding is based on the statistical T value of 1.833, meaning smaller than 1.96 with a value of p> 0.05. So the fifth hypothesis, perceived quality has a positive effect on organizational performance at MSMEs in East Java, is not proven. However, perceived quality affects the organizational

Performance of MSMEs, at an alpha level of 10.0% means the statistical T value of 1.833 is greater than 1.65 with a p-value of <0.10.

Table 3. The Results Indirect Effect (Output SmartPLS 3, 2019)

	Original Sample	Sample Mean	Standard Deviasi	T Statistics	P Value
Digital Marketing (X1) → Intellectual Capital (Z1)					
Digital Marketing (X1) →Organizational Performance (Y)	0.382	0.391	0.103	3.716	0.000
Digital Marketing (X1) →Perceived Quality (Z2)					
Intellectual Capital (Z1) → Organization Performance (Y)					
Perceived Quality (Z2) → Organization Performance (Y)					

The conclusion from Figure 2 is that digital marketing has an indirect effect on organizational performance through intellectual capital and perceived quality of MSMEs entrepreneurs. This finding is based on the positive path coefficient with a value of 0.382 with a statistical T value of 3,716, which means greater than 1.96 with a value of p <0.05. So the sixth and seventh hypotheses, allegedly digital marketing has a positive effect on organizational performance through intellectual capital in MSMEs in East Java and allegedly digital marketing has a positive effect on organizational performance through perceived quality in MSMEs in East Java, are proven. The discussion in this study relates to research findings on the analysis of empirical data in connection with the proposed hypothesis, namely: The effect of digital marketing on organizational performance through intellectual capital and perceived quality in MSMEs in East Java and the result are:

Digital marketing has a positive effect on intellectual capital in MSMEs

Based on the previous tests and data analysis, digital marketing provides a significant positive effect directly on intellectual capital at MSMEs in East Java (Ratnadianti et al, 2020). This is consistent with the T-statistic value of 13,148, which is greater than 1.96 with a p-value <0.05. The positive influence of digital marketing on the Intellectual Capital at MSMEs is shown in the value of the parameter coefficient which indicates a positive direction of 0.744 or in other words, the higher the level of digital marketing is, the more increasing the Intellectual Capital at MSMEs in East Java is. There are three components to measure intellectual capital, namely human capital, structural capital, and customer capital. These three components help each other in helping to create value and provide mutual benefits (Bontis, 2008).

Digital marketing has a positive effect on perceived quality in MSMEs

Based on the previous tests and data analysis, digital marketing provides a significant positive effect directly on perceived quality at MSMEs in East Java. This is consistent with the T-statistic value of 7.627 which is greater than 1.96 with a p-value of <0.05. The positive influence of digital marketing on Perceived Quality in MSMEs is shown in the parameter coefficient which indicates a positive direction of 0.683, which means that the higher the level of Digital marketing is, the more Perceived Quality at MSMEs in East Java is. In this case, perceived quality is the

customer's perception of the overall quality or excellence of a product or service in connection with the intended intentions (Aaker, 2003; Hurley, 2018).

Digital marketing has a positive effect on organizational performance in MSMEs

Cuevas-Vargas et al. (2016) propose that the use of ICTs tends to provide positive innovation developments related to the productivity of a business. Productivity can be increased because of an easier and cost-effective process. According to the tests and the data analysis, digital marketing has a significant positive effect on Organizational Performance at MSMEs in East Java because of the T-statistic value of 4.096 is greater than 1.96 with a p-value of <0.05. The positive influence of digital marketing on Organizational Performance in MSMEs is shown in the parameter coefficient which indicates a positive direction of 0.492 which means the higher the level of Digital marketing is, the higher Organizational Performance at MSMEs is.

The measurement of organizational performance, described by Quinn and Rohrbaugh (in Sanchez-Guerrero, Arellano-Gonzalez, and Rios-Vazquez, 2017) is as a construct associated with different organization analysis models. One of the models is called the internal process which consists of improvements in the internal processes coordination, personal tasks organization, and product quality.

Cuevas-Vargas et al. (2016) also state that the use of ICTs encourages businesses to develop an improvement in their efficiency and cost-effectiveness and to offer high-quality products and services to their clients. Besides, ICTs also triggers the entrepreneur to make innovation in business products, processes, services, and business models. ICTs can help small entrepreneurs in East Java compete, even with limited capital in competitive competition, by increasing the performance of their organizations.

Intellectual Capital has a positive effect on organizational performance at MSMEs

According to the tests and the data analysis, Intellectual Capital has a significant positive effect on Organizational Performance at MSMEs in East Java because the T-statistic value of 2.251 is greater than 1.96 with a p-value of <0.05. The positive influence of Intellectual Capital on Organizational Performance in MSMEs is shown in the value of the parameter coefficient, which shows a positive direction of 0.317. It means, the higher the level of the Intellectual Capital is, the higher the Organizational Performance at MSMEs in East Java is.

Delima et al. (2018) states that the management of technology through intellectual capital management has a positive and significant influence on the performance of MSMEs. Afifah, Ajib, and Sarma (2018) argue that the most important factor and significantly influences the benefits of digital marketing towards organization performance is the knowledge related to the use of the internet and the media. Intellectual capital has also a positive and significant influence on the performance of MSMEs both simultaneously and partially. This means that the higher the implementation of intellectual capital and the higher the level of the business performance are, the higher the business performance that will be generated (Prakasa, 2018).

Perceived quality has a positive effect on organizational performance in MSMEs in East Java

Based on the previous tests and data analysis, Perceived Quality gives a significant positive effect on Organizational Performance at MSMEs in East Java because the T-statistic value of 1,833 is greater than 1.65 with a p-value <0.10. The positive influence of Perceived Quality on Organizational Performance in MSMEs is shown in the parameter coefficient, which indicates a

positive direction of 0.214. It means the higher the level of Intellectual Capital is, the higher the Organizational Performance at MSMEs in East Java is.

Quality perception is a component of brand value, therefore high perceived quality will encourage consumers to prefer brands over competitors. The three out of eight dimensions that determine the quality of MSME in East Java are still weak. First, the dimension of features related to added value and innovations. MSMEs' innovation in making product display and packaging designs are still inadequate, even though innovation is one of the key determinants of organizational performance (Cuevas-Vargas et al., 2016). Therefore, organizational performance is essential for MSMEs and they need to rethink their strategies to prioritize innovation strategies, allowing them to reach superior competitive advantages and performance.

Second, the dimension of serviceability is related to the convenience of consumers in getting services and information. At present, the MSMEs in East Java still cannot optimize online marketing features and they still feel more comfortable with the manual process. Therefore, it affects their low performance in digital marketing and as a result, consumers still often find difficulties to obtain the detailed product information or MSMEs' business workshops, and difficulties in communicating with MSMEs. The last is aesthetics, relating to the beauty of the presentation of services or products, and the category is still low. It happens mostly on MSMEs' product display photos; it lacks quality since they still use a smartphone camera with no advanced techniques of photography. Therefore, the results of tests using $\alpha = 0.05$ show no significant results, yet by using $\alpha = 0.10$ the results are significant.

Based on the previous tests and data analysis, digital marketing has a significant positive effect that does not directly affect the Organizational Performance of MSMEs in East Java through Intellectual Capital and Perceived Quality. This is consistent with the T-statistic value of 3,716 greater than 1.96 with a p-value of <0.05. So, the conclusion is the Intellectual Capital and Perceived Quality mediate the influence of Digital marketing on Organizational Performance.

4. Conclusions

According to the results of the study and the discussion in the previous chapter, the researchers find some interesting findings different from the results of previous studies. All hypotheses produce significant influence, except for the hypothesis of the effect of perceived quality (Z2) on organizational performance (Y) with non-significant results at ($\alpha = 0.05$) but significant at ($\alpha = 0.10$). This finding is interesting because it shows that feature indicators related to added value and innovations, serviceability related to the ease of obtaining services, the information needed by customers, and aesthetics relating to the beauty of the service or product presentation from MSMEs in East Java are still in the poor or low category, therefore, that at ($\alpha = 0.05$), the results are Non-Significant to Organizational Performance. The researchers draw the conclusion of the study that there are weaknesses of MSMEs in Perceived Quality and to solve this situation, a training program is necessary. The researchers propose the active role of the Ministry of Cooperatives and MSMEs to create digital marketing training programs involving intellectual capital and quality factors. The purpose of the program is to support and improve the performance of MSME and the existence of MSME, as one of the informal economic sectors which supports the economy of the community, can continue to survive and develop in the rapid development in the digital era.

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