The Relationship between Online Marketing and SMEs Marketing Performance during the Covid-19 Pandemic: The Role of Government as Moderation

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ABSTRACT: *Small and Medium Enterprises (SMEs) are a pillar of the Indonesian economy and have been most affected by the Covid-19 pandemic due to their limited capacity, including online marketing. Much research has been conducted with a focus on online marketing and the marketing performance of SMEs during the Covid-19 pandemic, but there is still very limited research that quantitatively analyzes the role of government. This research fills this void intending to analyze the relationship between online marketing and SME marketing performance during the Covid-19 pandemic with the government's role as moderator. Data was collected online from 245 SMEs in Malang Regency, East Java, Indonesia, then analyzed with moderation regression. The results of the analysis show that online marketing and the role of government are partially negatively related but not significantly related to SME marketing performance during the Covid-19 pandemic, whereas moderation (interaction of online marketing and the role of government) is positively and significantly related to SME marketing performance. These findings prove that the government's role is very important in improving market outcomes, especially during times of economic turbulence such as the Covid-19 pandemic.*

KEYWORDS - *SMEs, online marketing, marketing performance, government role, covid-19*

I. INTRODUCTION

Small and Medium Enterprises (SMEs) are an important pillar of the Indonesian economy. Data from the Ministry of Cooperatives and SMEs (2022) shows the following three facts. First, 99.99 percent of the 65,471,134 business units in Indonesia are SMEs. Second, SMEs absorb 119,562,843 workers or 96.92 percent of the total national workforce. Third, SMEs contribute 60.51 percent to Indonesia's Gross Domestic Product (GDP). According to Masduki (2020), Minister of Cooperatives and SMEs, SMEs are the sector most affected by the Covid-19 pandemic. SMEs affected by Covid-19 are experiencing non-financial difficulties (reduced orders, increased raw material prices, distribution difficulties, and difficulty obtaining raw materials) and financial difficulties for fixed-type expenditures (Bappenas, 2020). The fundamental problem for SMEs in Indonesia during the Covid-19 pandemic was the shift in economic and business activities from offline to online (Bappenas, 2020). During the Covid-19 pandemic, only 13% of the 64 million SMEs were connected to the digital ecosystem (Brodjonegoro, 2020). Liguori & Pittz (2020) provide 3 strategies for how SMEs can survive and be able to get through the Coved-19 pandemic era. First, business owners must optimize their business social media accounts while continuing to monitor traffic and trends on social media. Second, business owners must maintain and improve good relations with existing customers by optimizing social media, online meetings, and events. Third, business owners must be able to make their businesses adapt so they can respond to customer needs that are changing rapidly due to Covid-19. Not all SMEs can transform from manual to digital or online. Amid the increasing intensity of online shopping activities, the results of a BPS survey (2020) found that an increase in the use of online marketing by SMEs during the Covid-19 pandemic was only around 5.76%, and as many as 46.5% of business actors did not use online marketing. Several researchers (Dole, 2020; Gumilang, 2021) found the factors inhibiting limited online marketing carried out by SMEs, include a lack of operational knowledge of using online delivery services, online delivery services that are not yet effective for use locally, SMEs are not adaptive to technology, and limited ownership of information and communication technology devices.

To increase the resilience of SMEs to the impact of the Covid-19 pandemic, the Indonesian government adopted various financial and non-financial policies to intervene in SME businesses. Financial policies include delaying loan principal and interest, interest subsidies, and tax incentives, while non-financial policies include spending on SME products from the government, and training for SMEs for online marketing and business management (Bappenas, 2020).

Studies on the impact of covid-19 on MSMEs related to online marketing in Indonesia and other countries (Bouey, 2020; Bartik et al., 2020) focus more on the relationship between marketing performance and internal SME factors and have not analyzed the role of the government. According to Osborne and Gaebler (1992), the government's role is more as a facilitator than directly carrying out all operational activities. The government's role is demonstrated through various financial and non-financial policies. Thus, it is clear that the government's role in this study is as a moderator of the relationship between online marketing and SME performance. It is important to study how government policies interact with online marketing to effectively improve the marketing performance of SMEs during the COVID-19 pandemic.

This research fills this void intending to prove the empirical relationship between online marketing and SME marketing performance and the government's role in strengthening this relationship during the Covid-19 pandemic. The findings of this research are expected to provide input to local governments, especially in developing countries such as Indonesia, to design and implement policies to strengthen the economic resilience of SMEs in facing shocks such as the Covid-19 pandemic.

II.   LITERATURE REVIEW

2.1 SME Marketing Performance

The size of SMEs differs between countries. In Indonesia, SMEs are grouped based on business capital criteria or annual sales results. According to Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, the criteria for SMEs is a maximum business capital of IDR 10. 000,000,000.00 (ten billion rupiahs, or the equivalent of 693.2 thousand US dollars, at an exchange rate of 1 US dollar = Rp. 14,425) excluding land and buildings for business premises and sales of a maximum of Rp. 50,000,000,000, 00 (fifty billion rupiahs, or the equivalent of 3.2 million dollars). The Central Statistics Agency (BPS) uses a measure of the number of workers for practical purposes because business capital and sales proceeds are not easily available. SMEs employ less than 100 workers.

Marketing performance is a measure of the level of marketing performance based on sales turnover, number of buyers, profits, and sales growth (Newman et al., 2016). Marketing performance prioritizes efficiency and effectiveness to be able to compete fairly against its business competitors (Maurya et al., 2015). Effectiveness refers to the extent to which customer requirements are met, while efficiency is a measure of how economical the company's resources are. The most frequently used measure of business performance is from a financial perspective, namely profits or profits, asset growth, investment and turnover, and the number of customers (Maisel & Cokins, 2013; Al-Hakim & Lu, 2017). This study uses three measures that are suitable for SME marketing, namely sales turnover, profits, and the number of customers.

Several studies (eg Bappenas, 2020; Lutfi et al., 2020; Feranita & Roziqin, 2021) prove that the marketing performance of SMEs in Indonesia is still low. The low marketing performance is caused by many factors, including SMEs that have not been able to carry out online marketing and only carry out traditional marketing (Rahmawati, Darsono & Setyowati, 2019). Online marketing is one of the strategies that can be carried out by SMEs to survive the Covid-19 pandemic (Alfin, 2021).

2.2 Online Marketing

Currently, digital marketing has become a new phenomenon that combines efforts to unite products with consumer desires and mass distribution to achieve marketing goals. The integration of technology and the multiplication of devices has opened up new ways of marketing on the Internet and has pushed the boundaries towards a new concept of digital marketing, which is user-centric, more scalable, ubiquitous, and interactive (Pineiro-Otero & Martinez-Rolan, 2016). Digital marketing is an effort or method to market a brand or product using supporting media in digital form. This method can reach consumers personally, relevantly, and on target according to the needs or desires of consumers (Musnaini et al., 2020).

Online marketing is not only able to increase the existence of product marketing, but the use of digital can also increase production and marketing capacity (Marpaung et al., 2021). Digital marketing-based marketing strategies through training and mentoring were able to increase production capacity by 22.25% and sales by 14.66% compared to the previous year (Wibowo et al., 2020). Another study of 30 SMEs in the city of Bandung showed that digital marketing had an 83.5% impact on increasing product sales and the remaining 13.5% was caused by other factors (Aini & Hapsari, 2019). Punescu & Matyus (2020) found that building an online platform was significant in improving performance and strengthening SME resilience to disruptions caused by the Covid-19 pandemic.

2.3 Role of Government

According to Osborne and Gaebler (1992) the government's role in entrepreneurship is as a catalyst, that is, it acts more as a controller than as an implementer. It means that the government directs through policies and regulations and acts as a facilitator. In addition, the government needs to make organizational changes based on market mechanisms, through market mechanisms (incentive systems), and not through administrative mechanisms (systems of procedures and coercion).

The Indonesian government has implemented various policies to address the impact of Covid-19 specifically for SMEs, which can be divided into financial and non-financial. Business stimulus policies related to finance include postponement of principal and interest, credit interest subsidies, tax incentives, and working capital credit loans, while non-financial include spending on SME products from the government, and training for SMEs through webinars in various fields (Bappenas, 2020).

Research by Le et al. (2020) in Vietnam proves that government policies at the local to national levels have a significant effect on the survival and development of SMEs. Tax support policies and bank preferential policies are important factors that directly affect business development during the Covid 19 pandemic. The results of research in OECD member countries prove that the role of the central government is significant in coordination, strategic planning, and communicating government messages to the public, on the contrary, it is a very small group that conducts policy analysis (OECD, 2020). That is research on the extent to which policy effectiveness is important to do.

III.   METHODS

This research was conducted to examine the relationship between online marketing and SME marketing performance which is moderated by the government's role, therefore this research includes research on associative relationships between two or more variables (Zikmund et al., 2010). The following is the operational definition of the variables studied:

1. Online marketing in this study is the knowledge of SME managers in online promotion, effective and efficient marketing methods, and skills in using various online media (Rokhmah & Yahya, 2020; Pasaribu, 2020).
2. The marketing performance of SMEs in this study adopts the definition of Newman et al. (2016) namely the measurement of the level of marketing performance based on sales turnover, number of buyers, profits, and sales growth. This study uses measurements of sales turnover, profits, and the number of buyers.
3. The role of the government is the intervention of the Indonesian government to increase the capacity of SMEs to face the Covid-19 pandemic. The Indonesian government through the National Development Planning Agency (Bappenas) provides SME intervention through various policies. Five policies that are suitable in this study are (1) postponement of loan principal and interest, (2) interest subsidies, (3) tax incentives, (4) purchases of SME products by civil servants, and (5) online training for marketing, business management, and others (Bappenas, 2020). The role of government is treated as a moderator variable. While Baron andKenny (1986) describe a moderator as a factor that influences the direction and/orthe strength of the relationship between an exogenous (predictor) and anendogenous (criterion) variable.

All indicators and items were measured with a five-gradation Likert scale from 1 (strongly disagree) to 5 (strongly agree) concerning the statement of each item.

The population of this research is UKM in Malang Regency, East Java, Indonesia. The number of SMEs in this area is not known with certainty. Therefore, the sample is determined on a non-probability basis with a convenience sampling technique. Samples were obtained through board members followed by other known SMEs.The sample selection process is continued until the required sample size has been reached (Saunders et al., 2009).

Data was collected through an online questionnaire in March 2022. Respondents are owners or managers of SMEs who are considered to understand the conditions of SMEs including online marketing, marketing performance, and the role of the government regarding online marketing. Data was successfully collected from 252 respondents but 7 questionnaires were not filled in completely so 245 were used in the analysis.

Data were analyzed using moderation regression with the help of SPSS version 25 software. Moderation regression was first described by Saunders (1956) through stepwise or hierarchical moderated regression analysis as a means of empirically detecting how a variable "moderates" or influences the nature of a relationship between two other variables. After that, several statistical textbooks, for example, Cohen & Cohen (1983) introduced several moderator effect analysis procedures. There are various analytical techniques for identifying moderator effects and the moderated regression analysis represents the most popular method (Aguinis 1995).

IV.   RESULTS AND DISCUSSION

4.1 Description of Respondent Identity

Table 1 shows that the respondents are classified as young because most (62.5 percent) are under 45 years old 3.7 percent are under 25 years old. This indicates that young people are starting to be interested in pursuing UKM. This is an indication of the growth of the entrepreneurial spirit in the younger generation, reinforced by the fact that 27 percent of respondents are university graduates. Most managers who are generally owners of SMEs are women (almost 80 percent). Experience in managing a business is still limited because the majority of respondents (about 62 percent) have less than 10 years of experience managing a similar business to the one they are currently running. Types of food and beverage products dominate the SME business sector as respondents. Nationally around 60 percent of SMEs are in the food and beverage sector. This sector is a basic need and a very large domestic market as the fourth most populous country in the world. The food and beverage business is also relatively easy for newcomers to enter the business world.

Table1. Characteristics of Respondents and Types of Products produced

No.	Characteristics	Frequency	Percentage (%)
1	Age		
	a. 15-24 years old	9	3.7
	b. 25-34 years old	48	19.6
	c. 35-44 years old	96	39.2

	d. 45-54 years old	84	34.3
	e. 55-65 years old	8	3.3
	Total	245	100.0
2	Sex		
	a. Male	51	20.8
	b. Female	194	79.2
	Total	245	100.0
3	Level of Education		
	a. Junior High School	46	18.8
	b. Senior High School	132	53.9
	c. College	67	27.3
	Total	245	100.0
4	Experience in running SMEs business		
	a. 1-2 years	10	4.1
	b. 3-5 years	86	35.1
	c. 6-10 years	56	22.9
	d. 11-15 years	35	14.3
	e. 16-20 years	45	18.4
	f. More than 20 years	13	5.3
	Total	245	100.0
5	Types of products		
	a. Food and beverage	165	67.3
	b. Batik	49	20.0
	c. Handicraft	31	12.7
	Total	245	100.0

4.2 Instrument Validity and Reliability

Table 2 shows that all variables with indicators studied are due to the correlation coefficient of all items with a total significance at the 0.01 level. This means that each item is part of the variables studied. The highest level of validity is in marketing performance.

Table2. Item Validity

No.	Variables and Indicators	Correlation with total item	Sig. (2-tailed)	Information
1	Online Marketing:			
	a. Knowledge of effective marketing methods	.888	.000	Valid
	b. Knowledge of efficient marketing methods	.907	.000	Valid
	c. Skills in using various online marketing media	.833	.000	Valid
2	Marketing Performance		.000	Valid
	a. Sales turnover	.950	.000	Valid
	b. Business profit	.971	.000	Valid
	c. Number of customers	.953	.000	Valid
3	The role of government in moderation		.000	Valid
	a. Postponement of principal and loan interest	.865	.000	Valid
	b. Credit interest subsidies	.882	.000	Valid
	c. Tax incentives	.864	.000	Valid
	d. Purchase of SME products by civil servants	.712	.000	Valid
	e. Training for online marketing	.841	.000	Valid

Table 3 shows that all variables with their items are also reliable which is indicated by the value of Cronbach's Alpha which is greater than the cut-off. This indicates consistent measurement results when the same instrument is used at different times and by different researchers.

Table3. Variable Reliability of Online Marketing, Marketing Performance, and the Role of Government

No.	Variables and items	Cronbach's Alpha	Cut-off	Information
1	Online marketing with 3 items	.836	.600	Reliable
2	Marketing Performance with 3 items	.956	.600	Reliable
3	Role of Government with 5 items	.889	.600	Reliable

4.3 Results of Statistical Analysis

The descriptive statistics of the three variables studied show that the online marketing average is 3.41; the role of government is 3.71 and marketing performance is 3.30 from a maximum score of 5. Respondents tend to agree with the government's role through various policies to increase the resilience of SMEs in facing the impact of the Covid-19 pandemic. The average of 3.71 gives information that about 71 percent agree and only about 29 percent are neutral or don't know the answer. In online marketing, the average respondent's answer is in the middle between neutral and agree. Meanwhile, about 70 percent of respondents answered neutral or did not know about marketing performance and only 30 percent agreed that their business's marketing performance had increased in terms of turnover, profits, and the number of customers.

Table 4 shows all the independent variables positively and significantly correlated with marketing performance as the dependent variable at the 0.01 level. Moderation, which is the interaction between online marketing and the role of government, has the highest correlation coefficient (.857) and the correlation with marketing performance is also the highest (.518) compared to the correlation with other independent variables.

Table4. Correlation among the variables

		Online Marketing	Government role	Moderation (OM*GR)	Marketing performance
Online Marketing (OM)	Pearson correlation	1	.388**	.857**	.428**
	Sig. (2-tailed)		.000	.000	.000
	N	245	245	245	245
Government role (GR)	Pearson correlation	.388**	1		.418**
	Sig. (2-tailed)	.000			.000
	N	245	245		245
Moderation (OM*GR)	Pearson correlation	.857**	.790**	1	.518**
	Sig. (2-tailed)	.000	.000		.000
	N				
Marketing performance (MP)	Pearson correlation	.428**	.418**	.518**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	245	245	245	245

** Correlation significant at the 0.01 level (2-tailed).

The moderation regression model used to analyze the associative relationship between marketing performance and online marketing and the government's role as moderator is shown in Table 5. The moderation regression model is acceptable for estimating the dependence of marketing performance on online marketing and the role of government, as indicated by the significant F-statistic value at level 0.01. The coefficient of determination (R-square) is relatively small (27.1 percent) with an adjusted R-square of 26.1 percent. The coefficient of determination shows the variation of the dependent variable that can be explained by the independent variable. So, only about 27 percent of marketing performance variation can be explained by online marketing and the role of government, while the rest (73 percent) is explained by other factors. A high coefficient of determination, close to one, indicates a good model, but a small coefficient of determination does not mean a bad model. The weakness of the coefficient of determination lies in its definition, that if the independent variable is added, the coefficient of determination will increase but it is not certain that the variable added is relevant (Gujarati, 2004).

Table5. Moderated Regression of Online Marketing and Government Role on SMEs' Marketing Performance

Variables	Unstandardized Coefficients	Standard Error	t	Sig.
(Constant)	2.643	1.061	2.491	.013*
Online Marketing (OM)	-.245	.316	-.773	.440
Government Role (GR)	-.167	.280	-.596	.552
Moderation (OM*GR)	.163	.080	2.043	.042*
Multiple correlation (R) = .520; R-square = .271; Adjusted R-squares = .261 F-statistic = 29.793; Sig. = .000				

Information: * = significant at .05 level

The results of the moderation regression analysis as in Table 5 can be written in the following equation:

Y = 2.643 + (-.245) OM + (-.167) GR + .167 (OM*GR), atau

Y = 2.643 - .245 OM - .167 GR + .167 (OM*GR).

An interesting result is that online marketing and the role of government partially have a negative effect on marketing performance, although not significant. However, when there is online marketing interaction with the government's role (mediation), the effect changes to be positive and significant at the 0.05 level.

4.4 Discussion

The findings of this study are interesting to discuss. The correlation between all variables is positive and significant but the moderating regression analysis obtained the opposite result. Although not significant, partially online marketing and the government's role have had a negative effect on SME marketing performance during the Covid-19 pandemic. During the Covid-19 pandemic, the policy of limiting social contact caused less contact in various activities, including SME businesses. The shift from offline marketing to online marketing had a negative impact on SME marketing performance. Difficulties faced by SMEs in carrying out online marketing such as lack of operational knowledge of using online delivery services, online delivery services that are not yet effective for use locally, SMEs not adaptive to technology, and limited ownership of information and communication technology devices (Dole, 2020; Gumilang, 2021), and only 13 percent of SMEs in Indonesia are included in the digital ecosystem (Brodjonegoro, 2020).

Low education is also one of the factors that contribute to the ability to do online marketing. The characteristics of the respondents (Table 1), where the majority (about 72 percent) have junior and senior high school education and 37 percent are over 45 years of age, causes SMEs to be slow in learning new things such as online marketing. Meyer's study (2015) found that people under 34 years old are the easiest to adopt innovations compared to those over 45 years old. Work experience in the same field also determines the ability to innovate in business. As many as 62 percent of the respondents in this study had less than 10 years of experience. Kotur & Anbazhagan (2014) and Rider et al. (2019) proved that there is a significant effect of work experience on the ability to manage a business.

The internal condition of SME entrepreneurs whose capacity is low in conducting online marketing amid the Covid-19 pandemic requires the intervention of external parties, especially the government. The results of this study prove that the Indonesian government's policies through delaying loan principal and interest, credit interest subsidies, tax incentives, purchasing SME products by civil servants, and training for online marketing and business management have effectively improved the marketing performance of SMEs during the Covid-19 pandemic. Not only partial government policies but also interactions with online marketing carried out by SMEs. That is, at the same time online marketing activities carried out by SMEs are strengthened by government policies which have a significant impact on the marketing performance of SMEs. The government facilitates the need for capital to purchase information and communication technology equipment through this financial policy. At the same time, the government also provides training so that SMEs use information and communication technology tools effectively in online marketing.

The government's role in strengthening the capacity of SMEs is also found in other countries, such as in Vietnam by Le et al. (2020) which proves that government policies at the local to national levels have a significant effect on the survival and development of SMEs during the Covid-19 pandemic. The OECD (2020) broadly proves that the role of the central government is significant in coordination, strategic planning, and communicating government messages to the public.

V. CONCLUSION

SMEs are a pillar of the Indonesian economy in terms of employment and contribution to the Gross Domestic Product. The Covid-19 pandemic has had an impact on the transformation of economic and business activities from offline to online. Many SMEs are not ready and unable to do online marketing due to various internal and external factors. The Indonesian government and other countries are adopting financial and non-financial policies to improve the performance of SMEs so that they can at least survive the impact of the Covid-19 pandemic. This research proves that the Indonesian government's policies are effective in improving the marketing performance of SMEs, not only partially, but also in their interaction with marketing by SMEs. That is, at the same time online marketing by SMEs is combined with government policies. SMEs take advantage of financial and non-financial facilities to support online marketing activities.

The findings of this study can be implemented by the government at the local and national levels through outreach to convince SMEs to have the courage to take advantage of the facilities provided by the government when external factors such as the Covid-19 pandemic occur. This socialization needs to be done through various social media both electronic and print to reach as many SMEs as possible. This socialization can be carried out through collaboration with various parties including universities, especially community service activities.

This research has limitations, especially involving only two variables, namely online marketing, and government policies in explaining the marketing performance of SMEs during the Covid-19 pandemic. Many other factors can explain the marketing performance of SMEs, which is shown by the coefficient of determination in this study which is only 26%. This means that there is still a 74% variation in SME marketing performance during the Covid-19 pandemic which is explained by other factors. Another limitation is that this research does not study online marketing for the types of products produced by SMEs. Most types of SME products in this study (67 percent) are food and beverages, including prepared foods and processed foods such as chips which can be stored for months. The nature of the product determines the type of online marketing services such as delivery services. Future research can accommodate things like this.

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