

## Building marketing performance through digital marketing and database-based networking capability in Indonesian SMEs

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CHRONICLE

ABSTRACT

### Article history:

Received: April 15, 2022

Received in revised format: June 27, 2022

Accepted: July 15, 2022

Available online: July 15 2022

### Keywords:

*Small Medium Enterprises*

*Digital marketing*

*Strategy quality*

*Database-based networking*

This study aims to bridge the theoretical gap in the relationship of business ability to build relationships with marketing performance in the digital economy era, marked by the application of IT in its business activities. The progress of the digital economy is currently increasing in response to the Covid-19 pandemic. Data collection was conducted by distributing questionnaires to the owners and managers of SMEs in the city of Medan. Questionnaires were distributed to 175 respondents using non-probability sampling and purposive sampling techniques. Testing models and hypotheses using Structural Equation Model (SEM) was conducted with AMOS software version 23. The results show that SMEs are more likely to build and develop database-based networks to improve marketing performance. It is empirically proven that digital marketing, strategy quality, and relationship-building skills improve SMEs' marketing performance in Medan City. Theoretically, this study contributes in highlighting the strategy quality and relational database as moderating variables in the relationship between relational capability and marketing performance in digital business.

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## 1. Introduction

Economic challenges are more challenging time by time. Society is living under warning status and being very careful by limiting mobility and consumption, which are influenced by financial transactions. Multiple parties are impacted, like restaurants, markets, shopping stores, handicrafts, fashion, online transportation, tourism, hotel, and SME owners (Hasyim et al., 2017). In the economic crisis years 1998 and 2008, SME sectors became economic power where they did not receive the majority financial and capital access, so they were not impacted by the economic crisis. But recently, SME sectors have been the most vulnerable sector caused by the Covid-19 impact. Goldman Sachs data shows that the Covid-19 impact has impacted 96% of SME owners in the United States, and 75% of them are having sales decreasing. Meanwhile, in our country, the Chief of Young Indonesian Entrepreneurs (HIPMI) stated that Indonesia SME's sales have reduced by 80% in this recent week.

Dave (2009) stated that in this recent time, the use of technology is the best solution to empower the economic chain of SMEs to keep progressing. Besides capital aid, marketing through social media and automation in sales journals will help SMEs to have a better strategy for surviving their entities in this present and future time. The actualization of social media is the main channel of promotion. Social media is one of the strategic ways to promote SME products during social distancing implementation. Besides, Mahmud et al. (2017) show that SMEs' innovation capabilities will significantly improve marketing performance. Kraveva et al. (2019) revealed the correlation between relation and performance in the marketing sector and found that customers will continue their association with product providers because they trust the product provider. Nugroho et al. (2017) found that the trust factor will significantly impact the product provider's performance. Every party will see the

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trusted partner to conduct an economic transaction. Based on the background, the problem discussed in this research included as follows: 94% of SMEs in Medan City have collapsed due to the Covid-19 pandemic as only 8% of SMEs in Medan City have already implemented digital marketing and lack SMEs in building relationships.

The progress of the digital economy is currently increasing in response to the Covid-19 pandemic. Small and Medium Enterprises (SMEs) must be responsive to the challenges for better competition. One indicator of the success of SMEs is the ability to sell products in the market. SMEs in their operations have several weaknesses in marketing, ability to build relationships, low market orientation, and lack of infrastructure. In this regard, this study aims to bridge the gap in business ability to build relationships with marketing performance in the digital economy era, marked by the application of IT in its economic activities.

## 2. Theoretical Fundamentals and Hypothesis Development

### 2.1. Relational Capability and Marketing Performance

Relational capability is the company's ability to build relationships with stakeholders to improve company performance. Bejou et al. (1996) and Oliver & Qu (1999) have proven that there is a relationship between relational ability and marketing performance through customer loyalty. Customer-seller relational capability is an essential prerequisite for a successful long-term relationship. In line with the above opinion of Siddiqui (2015) stating that relational includes relationships, both hidden relationships, and functional relationships, how individuals regulate and determine these relationships, both consciously and unconsciously, in various ways to reflect their needs and to meet expectations. This reflects that the relationship in SMEs is an effort made in achieving business goals as a reflection of the need for business sustainability, both vertically and horizontally. Thus, we proposed the following hypothesis:

**H<sub>1</sub>:** *Relational capability has a significant effect on marketing performance.*

### 2.2. Relational Capability and Relational Database Capability

The company's relational capabilities can increase the number of customers; this will be better when the company can manage customer data appropriately. Thus, companies are required to compile database-based data. The database owned by the company will make it easier for the company to connect with customers. The company's ability to build relationships will impact building relationships based on relational databases. So the higher the relational Capability, the higher the marketing performance. Mu (2014) defines network capability as a firm's ability to find network partners and manage network relationships to create a competitive advantage. Companies must invest in building customer relationships; building relationships and intimacy will also lead to stronger loyalty (Ndubisi, 2005). Based on the results of these studies, the following hypothesis is formulated:

**H<sub>2</sub>:** *Relational capability has a significant effect on relational database-based.*

### 2.3. Digital Marketing and Relational Database Capability

The Digital Marketing institute defines digital marketing as using digital technology to create integrated, targeted, and measurable communications that help acquire and retain customers while building deeper relationships with them. Digital marketing includes direct marketing, which treats customers as individuals and defines them by individual characteristics and how they behave, and interactive marketing, which can address individuals and gather and remember individual responses (Kim & Kim, 2004). This indicates that companies implementing digital marketing well will recap customer data to establish good relationships with customers appropriately (Hasyim & Yohanes, 2018).

**H<sub>3</sub>:** *Digital marketing has a significant effect on relational database capability.*

### 2.4. Digital Marketing and Strategy Quality

Digital marketing is an attempt to promote a brand using digital media to reach consumers quickly, personally, and relevant. This type of digital marketing includes many techniques and practices in the internet marketing category. In addition to www network technology, e-commerce also requires database technology or databases, electronic mail (email), and other forms of non-computer technology such as goods delivery systems and payment instruments for e-commerce. Knowledge management is becoming necessary for managerial solutions (Suddaby & Greenwood, 2001; Collins, 2003). Companies need to align their services with market demands in new product development efforts. To meet market demand, companies must be able to develop quality strategies. Quality strategy can make strategies that can produce quality products, quality services, and competitive prices (Heusinkveld & Benders, 2005). By implementing digital marketing, the marketing strategy prepared by the company will be of higher quality because the data they have is well organized and complete.

**H4:** *Digital marketing has a significant effect on strategy quality.*

*2.5. Digital Marketing and Marketing Performance*

Digital marketing allows companies to reach more consumers. Thus, the company is likely to be able to increase its sales volume (Ndubisi, 2007). This is by the test results, which show that companies that implement digital marketing have better performance, especially in the era of the Covid-19 pandemic where human mobility is reduced so that online shops are the best alternative for companies to market their products. As for consumers, online marketing provides convenience in obtaining the desired product (Dave, 2009). Digital marketing is digital marketing with almost the same meaning as electronic marketing (e-marketing. Both describe the management and implementation of marketing using electronic media. In this regard, what is meant by digital marketing to the market (website, email, database, digital T.V., and various innovations. Other recent developments (including blogs, feeds, podcasts, and social networks) contribute to profit-driven marketing activities and build and develop customer relationships (Toryanto & Hasyim, 2017).

**H5:** *Digital marketing has a significant effect on marketing performance.*

*2.6. Strategy Quality and Marketing Performance*

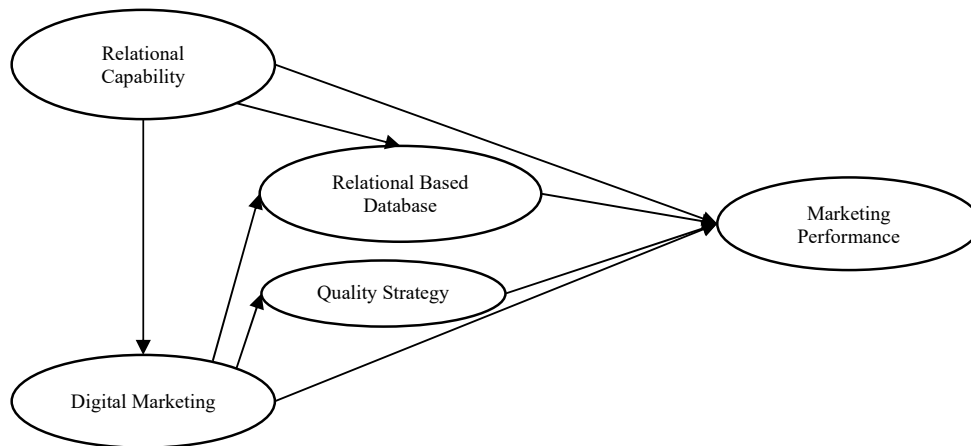
In particular, Sousa & Voss (2002) reveal that product quality leads to increased sales and more significant market share, or higher prices. Furthermore, empirical evidence shows the relationship between quality and operational and business performance (Sousa & Voss, 2002). Gilmore et al. (1999) stated that they could improve network marketing through experience. Experiential learning comes from the ability of organizations to describe and summarize valuable thing from experience. Blesa & Ripollés (2008) state that networking capabilities include creating mutual trust and commitment between partners and sharing more substantial expertise and assets. By identifying the development of network capabilities over time, Weerawardena & Mort (2006) found that identifying and exploiting market opportunities, facilitating product development, is knowledge-intensive and has international solid market performance. Möller & Törrönen (2003) proposed that the dimensions of supplier value creation in supplier-customer relationships can be classified according to the network's efficiency, effectiveness, and functioning. Mu and Di Benedetto (2011) stated that network behavior affects new product development performance, and network capability is a reliable predictor of recent product development performance.

**H6:** *Strategy quality has a significant effect on marketing performance.*

*2.7. Relational Database and Marketing Performance*

The database is a collection of information about stakeholders. Databases can view data in two views, namely logical view which relates to how users conceptually organize to see and understand relationships between data and physical view which relates to how and where physical data will be recorded and stored on a diskette, flash disk, CD or other media. Yi & Gong (2013) and Hadaya & Cassivi (2007) explained that the relational components in the form of trust, involvement in network relationships, a sense of communality, and tolerance as the foundation for accessibility and sharing of information and knowledge as well as other resources, to create good relationships and the company's ability to understand customer desires. The more comprehensive the network built by the company, the more about stakeholders. With such complete and abundant data, the company can establish better relationships with all parties. Thus, efforts to improve marketing performance will be more easily achieved by the company (Aarikka-Stenroos & Jaakkola, 2012).

**H7:** *Relational based database has a significant effect on Marketing Performance.*



**Fig. 1.** Conceptual Framework

### 3. Methods

The research was conducted to empirically examine the effect of digital marketing, strategy quality, and relationship-building skills in improving SMEs' marketing performance in Medan City, Indonesia (Figure 1). The population combines all the elements that occur in the phenomena, things, or people with similar characteristics that become the focus of a researcher's attention because it is seen as a research universe (Ferdinand, 2011). The population in this research were all SMEs in Medan, totaling 224,126 (Statistics of North Sumatra Province, 2019).

**Table 1**

Variable measurement

Variable	Items	Measurement
<b>Relational Capability (X1)</b>	X11	Solution relation
	X12	Partner understanding
	X13	Reciprocal relation
	X14	Relational skills
	X15	Network coordination
<b>Digital Marketing (X2)</b>	X21	Website
	X22	Search Engine Optimization
	X23	Affiliate Marketing and Strategic Partnerships
	X24	Social networking
<b>Strategy quality (Y1)</b>	Y11	Strategy management quality
	Y12	Implementation quality
	Y13	Evaluation quality
<b>Relational-based database (Y2)</b>	Y21	Structured Query Language
	Y22	Data Integrity
	Y23	Database transactions
	Y24	ACID Compliance
	Y25	MySQL
<b>Marketing performance (Y3)</b>	Y31	Sales growth
	Y32	Market share growth
	Y33	New customer growth

The sample is a part of the population that is the research object. The piece is obtained when the research population has a large number. The size of the model (sample size) is determined based on the opinion of Hair et al. (2010) and Ferdinand (2011) stating that the size of a representative sample using the Structural Equation Modeling. (SEM) analysis tool is at least five times the number of parameters of all the variables used, and testing the chi-Square SEM model is sensitive to the number of samples. A sample range from 100 to 200 pieces is needed for the maximum likelihood estimation technique. In this research, the sample was 231, where the number of reports had met the recommended sample size for the maximum likelihood estimation (MLE) technique and the average error variance (AVE) criteria, with a minimum sample size of 100 and standardized loading estimate requirements were less than 0.7. The community value equals 0.5 (Hair et al., 2010).

**Table 2**

Validity Test Result

Variable	Corrected Item Total Correlation	Confirmation
<b>Relational Capability:</b>		
X11	0.469	Valid
X12	0.234	Valid
X13	0.398	Valid
X14	0.411	Valid
X15	0.621	Valid
<b>Digital Marketing:</b>		
X21	0.628	Valid
X22	0.674	Valid
X23	0.779	Valid
X24	0.595	Valid
<b>Strategy quality:</b>		
X31	0.694	Valid
X32	0.786	Valid
X33	0.584	Valid
<b>Relational-based database:</b>		
X41	0.867	Valid
X42	0.702	Valid
X43	0.767	Valid
X44	0.736	Valid
X45	0.616	Valid
<b>Marketing performance:</b>		
X51	0.696	Valid
X52	0.710	Valid
X53	0.616	Valid



#### 4.1. The Impact of Relational Capability on Marketing Performance

There were significant results with a critical ratio (C.R.) of 2.382 with a p-value of 0.017 as the resulting test of the impact of relational Capability on marketing performance. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at a significance level of 0.05 and a p-value of 0.017. Thus, the first hypothesis was accepted, meaning that the impact of relational capability on marketing performance is significant, with standardized estimation. 0.148 (Table 6). The result of this research is supported with the previous study conducted by Mughal (2019), Santra et al. (2019) about relational, both hidden and active relational, how individuals organize and determine the relation, both consciously and unconsciously, to reflect the needs and fulfilling expectations in various ways. This research reflected the SME's concern in their effort to achieve a business goal, also as a reflection of the business sustainability needs, both vertically and horizontally.

#### 4.2. Relational Capability is impacted on Relational Database

The testing result of this hypothesis proved the impact of relational Capability on relational databases. This showed a significant effect with a critical ratio (C.R.) of 3.091 with a p-value of 0.002. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at a significance level of 0.05 and a p-value of 0.002. Thus, the second hypothesis was accepted. It is proved that the impact of relational capability on marketing performance is significant, with a standardized estimation of 0.220. This supports the hypothesis, where the higher the relational capability, the higher the marketing performance. Empirical findings showed that companies with solid business relationships would be reflected in the strength of a relational-based database.

#### 4.3. The Impact of Digital Marketing on Relational Database Capability

The significant results were obtained with a critical ratio (C.R.) of 3.334 with p-value 0.00 by testing the impact of digital marketing on relational database capability. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at the significance level of 0.05 and the p-value 0.00. Thus, the third hypothesis was accepted, meaning that capability significantly impacts marketing performance with a standardized estimation of 0.433. This indicates that a company that implements digital marketing correctly will recap customer data sophisticatedly and establish good relations with customers.

#### 4.4 The Impact of Digital Marketing on Strategy Quality

The significant results were obtained with a critical ratio (C.R.) of 2.609 with a p-value of 0.009 by testing the impact of digital marketing on the strategy quality. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at a significance level of 0.05 and a p-value of 0.009. Thus, the fourth hypothesis was accepted, meaning that the impact of Capability on marketing performance is significant, with a standardized estimation of 0.366. By applying digital marketing, the marketing strategies prepared by the company will result in higher quality because the company data are well-organized and comprehensive.

#### 4.5. The Impact of Digital Marketing on Marketing Performance

The significant results were obtained with a critical ratio (C.R.) of 2.657 with a p-value of 0.008 by testing the impact of digital marketing on marketing performance. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at a significance level of 0.05 and a p-value of 0.008. Thus, the fifth hypothesis was accepted, meaning that the impact of relational capability on marketing performance is significant, with a standardized estimation of 0.301. Digital marketing allows companies to reach more consumers, thus the possibility of companies increasing sales volume. The test results showed that companies implementing digital marketing have better performance, especially in the Covid-19 pandemic, reduced human mobility. Online shops have become the best alternative for companies to sell their products. It is also offered easy access to consumers to buy the desired outcomes.

**Table 6**  
Hypothesis Testing of Structural/Path Model

	Estimate	S.E.	C.R.	P	Label
<b>Relational Capability → Relational Database</b>	0.220	0.071	3.091	0.002	par_20
<b>Digital Marketing → Strategy Quality</b>	0.366	0.140	2.609	0.009	par_21
<b>Digital Marketing → Relational Database</b>	0.433	0.130	3.334	0.000	par_23
<b>Relational Capability → Marketing Performance</b>	0.148	0.062	2.382	0.017	par_16
<b>Digital Marketing → Marketing Performance</b>	0.301	0.113	2.657	0.008	par_17
<b>Strategy Quality → Marketing Performance</b>	0.237	0.102	2.322	0.020	par_18
<b>Relational Database → Marketing Performance</b>	0.194	0.089	2.194	0.028	par_19

4.6. The Impact of Strategy Quality on Marketing Performance

The significant results were obtained with a critical ratio (C.R.) of 2.322 with a p-value of 0.020 as the results of testing the impact of strategy quality on marketing performance. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96, and at a significance level of 0.05 and a p-value of 0.020, the p-value is smaller than 0.05. Thus, the sixth hypothesis was accepted, meaning that the impact of quality strategy on marketing performance is significant, with a standardized estimation of 0.237. Companies that can design. Implementing and evaluating strategies properly will be able to improve marketing performance. Strategy quality includes product strategy, price, distribution, promotion, and a good strategy as the test results showed that the system could improve the company's marketing performance.

4.7. The Impact of Relational Database on Marketing Performance

The significant results were obtained with a critical ratio (C.R.) of 2.194 with a p-value of 0.028 as the results of testing the impact of relational databases on marketing performance. These values have met the requirements for acceptance of the hypothesis, namely the R.C. value > 1.96 and at a significance level of 0.05 and a p-value of 0.028. The p-value is smaller than 0.05. Thus, the seventh hypothesis was accepted, meaning that the impact of relational databases on marketing performance is significant, with a standardized estimation of 0.194. Companies with customer databases will enable the company to establish good relationships with stakeholders. The usage of customer databases can improve marketing performance because companies can form mutually beneficial partnerships.

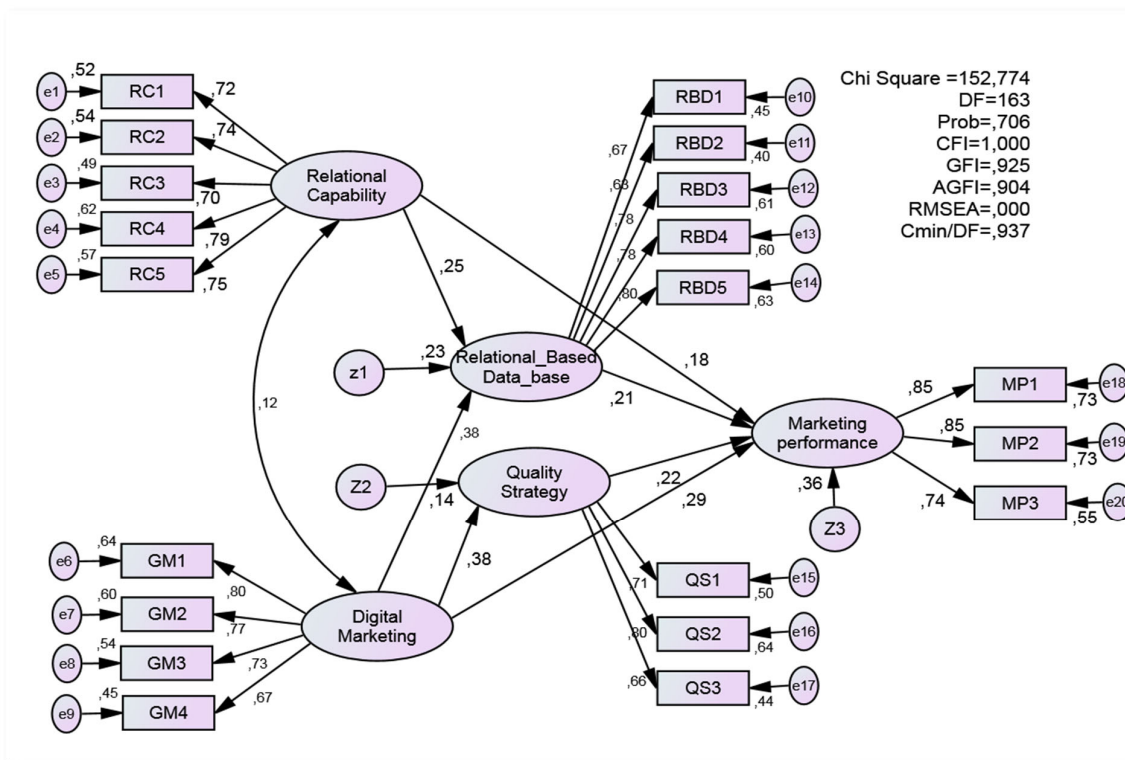


Fig. 2. Full Model

5. Discussion

The results of data analysis have generally proved the hypothesis which stated this research model is by the data or fit to the data (Fig. 2). The chi-square statistical index compares the predicted covariance matrices with the observed covariance matrices. An insignificant chi-square value indicates a good fit. The research results of the feasibility model showed that the chi-square value is relatively small ( $\chi^2 = 168.608$  with 145 df). The probability value of 0.088 is well above the recommended 0.05, and the CMIN / df value of 1.163 is less than 2.0.

The statistical index for the Root Mean Square Error Approximation (RMSEA) feasibility model, related to the random error prediction value of the RMSEA of 0.028 generated by the model, is smaller than the limit value of 0.08. This showed that the model prediction error is small. The following model feasibility index is the incremental fit index which includes the normed fit index (NFI), the Tucker Lewis Index (TLI), and the Comparative Index (CFI). All three are index numbers that do not depend much on the size of the sample. The analysis results showed that the index values for the three measures are above

0.90. Finally, the feasibility index for measuring the model's simplicity is indicated by the parsimony ratio (PRATIO). For example, a small PATIO value, 0.255 for this model, tells that the proposed model is simple and good. The index of the model feasibility test is briefly presented in the picture. Marketing with a relational database is a new concept in this research that can bridge the research result gap about the impact of relational database capability on marketing performance—the ability to produce specific products according to the needs of each customer through a relational business approach.

Based on hypothesis testing, it is obtained that all the hypotheses built in this research are proven to have a positive and significant impact. The empirical findings indicated that the qualitative answers of respondents to the indicators of relational database marketing are good, which means that the indicators used in this research are appropriate. The results of this research are in line with the previous study of Dodd et al. (2006) and Jack et al. (2010) which stated that companies must produce specific products responding to the needs of each customer. In improving marketing performance, companies must build good relationships with customers. Creating relational database marketing will bring the company a sustainable competitive advantage, leading them to improve marketing performance. Based on empirical findings, customers will get satisfied when their needs are achieved, and there is a good relationship with the company.

## 6. Conclusions

Based on the causality testing between variables directly and indirectly with the structural model and AMOS 23.00 software, this research produced several main findings. This research found that the most substantial causality impact is the impact of digital marketing on strategy quality with a regression coefficient of 0.38, then digital marketing on relational database capability with a regression coefficient of 0.38. Furthermore, the direct impact of digital marketing on marketing performance is 0.29. The immediate effect of relational database capability is 0.25, then the direct result of quality strategy on marketing performance is 0.22, then the impact of relational database on marketing performance is 0.197. Next, the immediate effect of network amplification capability on marketing performance is 0.18. While the indirect impact that has a significant influence is the impact of digital marketing on marketing performance through strategy quality of 0.60, then the indirect effect of relationship capability on marketing performance through database-based relational marketing with a regression coefficient of 0.46.

This research produced two alternative concepts which a company can use to improve marketing performance. The first alternative, improving marketing performance, can be executed by building and developing relational database capabilities. Creating a relational database will help companies get resources, market information, competitors, and broader market access. The power of obtaining higher-quality resources will increase the company's competitiveness. This research also shows that the indirect impact of relational capabilities mediated by relational databases resulted in a regression conversion of 0.46. It is greater than the direct impact of the relational Capability of 0.18. This research also shows that the indirect effect of digital marketing mediated by the strategy quality resulted in a regression coefficient of 0.60 more significant than the direct impact of digital marketing on marketing performance with a regression coefficient of 0.29.

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