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# The Impact of Social Media Adoption on Customer Orientation and SME Performance: An Empirical Study in Indonesia

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## Abstract

This research aims to examine the effect of customer orientation on SME performance, and the role of adoption of social media on the relationship between customer orientation and SME performance. Using a quantitative research approach, data were obtained using a questionnaire by phone, email and paper survey. This study employs samples of 178 SME owners/managers in Indonesia, with convenience sampling techniques. Structural Equation Modeling-Partial Least Square (SEM-PLS) is used for analysis and hypothesis testing. The results showed that customer orientation was able to improve SME performance, and social media positively moderates the effect of customer orientation on SME performance. This shows that the influence of customer orientation on SME performance will be stronger with the utilization of social media because it helps businesses understand customer needs and wants, thereby creating value. This strengthens the concept of dynamic capability regarding the importance of the ability to adapt to environmental changes, particularly adaptation to developments in information technology. The findings of this study suggest the importance of SMEs adopting social media because it contributes to increasing the role of customer orientation in improving SME performance. Further research is needed to investigate the benefits obtained from using each social media channel on increasing customer orientation.

**Keywords:** Customer Orientation, Social Media, SME Performance

**JEL Classification Code:** M31, L25, O31

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## 1. Introduction

Customer orientation is essential in a competitive environment to improve business performance (Pekovic & Rolland, 2016). Its main focus is the company's relationship with the market, which aims to determine customer desires to achieve sales performance (Feng et al., 2019). Customer orientation reflects a company's market-focused strategy (Frambach et al., 2016). Furthermore, every business needs to establish relationships with customers by understanding

their wants and expectations in order to create a direct interaction with them.

The evolution of information technology such as social media has provided effective means of communication and marketing among companies (Hutter et al., 2013). Furthermore, it promotes companies to look for effective ways to improve customer relationships (Quinn, 2016) and customer involvement (Kozinets et al., 2010). Because of social media, the way buyers and sellers communicate has changed, consumer involvement through social media can effect on sales performance (Agnihotri et al., 2016). Today, one of the most effective methods of conducting marketing communications is through social media, which is beneficial to the company's growth (Kaplan & Haenlein, 2010). Marketing activities through social media by small- to medium-sized enterprises (SMEs) are carried out due to considerations of usefulness, low cost, ease of use, and compatibility (Chatterjee & Kar, 2020). Promotional activities through social media are more effective because they can persuade consumers and will be passed on to their network members (Shareef et al., 2019). According to Durkin et al. (2013), SMEs are motivated to use social media

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because it is seen as an important tool for business growth. Unfortunately, the difficulty of measuring the impact of social media use is still a challenge in SMEs (Schultz & Peltier, 2013).

SMEs have limited resources in marketing relationships (Ebrahimi et al., 2019), obtaining and analyzing external information (Cheng et al., 2014). SMEs tend to have limited technical and financial capabilities restricting innovation (Cheng & Shiu, 2019). Therefore, the presence of social media is a new opportunity for the business sector to develop customer orientation because it provides faster, easier and cheaper means of communication. It is a special challenge for SMEs to seize this opportunity. SMEs can adapt in conducting their marketing communications by utilizing social media. Furthermore, changes in consumer behavior in the use of information technology provide opportunities for them to improve customer orientation by identifying their expectations and establishing effective communication. Based on the dynamic capability view, we argue that the ability to obtain customer information will depend on the capability of the SME owner/manager to adopt information technology such as social media.

The study of customer orientation and its role in business performance is an interesting discussion. Prior research has proven business performance is determined by customer orientation (Frambach et al., 2016; Valenzuela et al., 2010; Ziggers & Henseler, 2016). The companies tend to understand customers through customer orientation obtained from social media (Feng et al., 2019). Meanwhile, other studies found that customer orientation has a negative effect (Grewal & Tansuhaj, 2001) and an insignificant relationship with business performance (Harris, 2001). Though empirical evidence on the role of customer orientation in SME performance has been examined by previous researchers, we know little about the implications of social media channel interaction with customer orientation especially on SMEs. Therefore, further studies still need to be carried out looking at several influencing factors.

The influence of customer orientation on business performance depends on a number factors (Zhu & Nakata, 2007), such as internal and external factors (Pekovic & Rolland, 2016; Smirnova et al., 2018). Technology readiness is an internal factor that drives the e-business implementation (Zhu et al., 2004). Furthermore, social networks are also a factor that influences the success of SMEs (Chittithaworn et al., 2011), and the effect of customer orientation on SME performance will be stronger with the support of the innovation (Brockman et al., 2012). However, research on the influence of customer orientation involving external factors of technological development, especially social media, is still limited. The integration of information technology into marketing activities still raises questions regarding the benefits of the company-customer relationship

(Durkin, 2013). Therefore, this research was conducted to fill this gap. This study investigates the role of social media in the relationship between customer orientation and SME performance.

## 2. Literature Review

### 2.1. Customer Orientation

The concept of customer orientation was introduced as a marketing practice to assist customers in making purchasing decisions and achieving satisfaction (Ingenbleek et al., 2010). Customer orientation refers to a company's ability to identify, understand, and respond to market desires to achieve a competitive advantage (Gatignon & Xuereb, 1997). It reflects the essence of the marketing concept (Ingenbleek et al., 2010) and acts as a market-focused strategy (Feng et al., 2019) to fulfill customer needs (Frambach et al., 2016). Companies with a strong customer orientation tend to prioritize current and future customer needs (Ziggers & Henseler, 2016). Customer orientation will support increased innovation (Ejdys, 2015), then innovation will affect sustainable performance (Danarrahanto et al., 2020). Customer orientation and the ability to provide service value will improve marketing performance (Heng et al., 2020).

Customer orientation as conceptualized by Narver and Slater (1990) is an important dimension of market orientation, apart from competitor orientation and coordination between functions. Customer orientation is important because it will increase customer value, satisfaction, and loyalty, the effect will improve business performance (Frambach et al., 2016; Ingenbleek et al., 2010; Wang et al., 2016). Customer orientation will attract customers to buy products and services, will increase the company's chances of generating sales growth, and driving business performance (Neneh, 2018).

Several studies have shown that consumer orientation has an impact on business performance (Feng et al., 2019; Frambach et al., 2016; Pekovic & Rolland, 2016). Customer orientation is important to help companies understand customer needs to achieve sales growth (Valenzuela et al., 2010). Companies that focus on customer orientation tend to gain a competitive advantage with the ability to outperform their competitors because able to understand customer needs and want, create products or services according to their desires (Ziggers & Henseler, 2016). Furthermore, customer orientation is a driving factor for company performance, this is because the company's ability to create customer value leads to higher business performance (Kirca et al., 2005).

***H1: Customer orientation has a positive effect on SME performance.***

## 2.2. Social Media

Social media is developing as an online platform for promotional activities, with the advantage of enabling active communication between companies and customers (Elwalda & Lu, 2016). The way of communicating with customers has changed with the use of social media (Mangold & Faulds, 2009). It is able to create two-way communication channels that involve more customers (Evans, 2010). Through social media, searching for prospective customers is easier and after-sales follow-up can be done more effectively (Agnihotri et al., 2016). Furthermore, communication through social media provides relevant information to consumers (Laroche et al., 2013) because it enables them to interact with a company's brand or product (Tsai & Men, 2013). The use of information technology in SMEs tends to support performance (Antlova, 2014), increasing sales, and customer relationships (Syaifullah et al., 2021). Sales performance increases when digital technology such as social media supports its activities (Rodriguez & Boyer, 2020). SMEs can reduce their operational costs and achieve performance by using information technology (Chatterjee & Kar, 2020).

The advantage of marketing through social media is that it enables companies to interact with customers and handle service problems quickly and effectively. The social media approach provides more value than the traditional approach because users will obtain information about the product for improvement in the product design process (Rathore et al., 2016), in order to improve their competitiveness, SMEs must take advantage of information technology (Ongori & Migiro, 2010). The basic motivation for using social media in marketing activities is due to technological advances, competitive pressures, and demands to reduce marketing costs (Georgios & Sergios, 2014), external pressure and perceived benefits (Patma et al., 2020), ease of use and benefit for business (Lee et al., 2016).

Business performance is multidimensional, and the impact of customer orientation is strengthened by capabilities in the use of IT (Zhu & Nakata, 2007). Companies whose sales focus integrates social media in business processes, aim to build more effective communication with potential buyers and customers (Rodriguez et al., 2012). Social media helps organizations to support customer orientation in order to achieve sales performance (Rodriguez et al., 2015). This is because information technology is part of a management process for collecting customer data, knowing their insights, and making more precise marketing responses (Payne & Frow, 2005).

Innovation will strengthen the influence of customer orientation on the performance of SMEs (Brockman et al., 2012; Pekovic & Rolland, 2016). Social media plays a

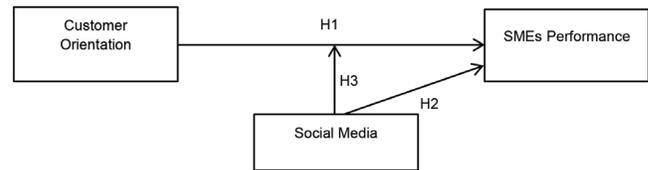


Figure 1: The Conceptual Model

role in organizational performance through customer relationship management (CRM) practices and customer involvement in the value creation process (Garrido-Moreno et al., 2020). Social media as technological innovation is essential in facilitating SMEs' relationships with customers (Ebrahimi et al., 2019). Furthermore, it strengthens the role of customer orientation in improving business performance (Neneh, 2018). Small businesses are characterized by the close relationship between entrepreneurs and customers. Therefore, social media is a force in developing customer orientation practices (Zontanos & Anderson, 2004).

**H2:** Social media has a positive effect on SME performance.

**H3:** Social media strengthens the relationship between customer orientation and SME performance.

## 2.3. Dynamic Capability

The concept of dynamic capability is an expanded paradigm to understand how to achieve a competitive advantage, due to technological developments (Teece et al., 1997), and encountering turbulent environments (Sher & Lee, 2004). Because of the rapidly-changing environment as a result of advances in information technology, the company's competitive ability can be explained by the dynamic capability concept (Lin & Wu, 2014). The dynamic capability approach explains how social media creates opportunities for companies to increase their innovation capabilities by empowering existing resources (Mention et al., 2019). Furthermore, Mention et al. (2019) proposes a formative approach as an innovation strategy through social media, using social media that is available to the public to receive and convey information. Another alternative is a more advanced innovation strategy by integrating the use of social media at all levels of the organization. Social media is a form of information technology advancement that is able to connect with one another, at the company level, the use of social media will improve communication with consumers more effectively. This study uses a dynamic capability perspective to examine how the capability of SMEs in adopting technology, specifically social media, supports customer orientation. In particular, it analyzes the role of social media in improving customer orientation and its effect on business performance.

### 3. Research Methods and Materials

This is a quantitative research with a random sampling method used to collect data on SMEs in Indonesia from SME owners/managers. Data were collected using a questionnaire sent to SME owners/managers via email, phone, or post mail. A total of 557 SMEs were successfully contacted and used to fill out the questionnaire. After waiting for three months, 178 questionnaires that fulfill the criteria for analysis were collected.

The measurement of customer orientation is presented in Table 1 using five items adapted from the study of Frambach (2016), which has a good level of reliability (Cronbach's Alpha = 0.864). Furthermore, social media is measured using four items adapted from McCann & Barlow (2015) with a good level of reliability (Cronbach's Alpha = 0.860). Social media in this study refers to Facebook, Instagram, and Twitter because these are the three most popularly used by Internet users in Indonesia. Meanwhile, SME performance is measured by three items (Choi & Williams, 2016), namely, market and growth share, as well as profitability compared to competitors over the last three years (Cronbach's Alpha = 0.819). A 5-point Likert scale was used to measure all items from 1 (disagree) to 5 (agree).

The effect of customer orientation on SMEs' success was investigated using PLS-SEM, as well as the moderating effect of social media. PLS-SEM analysis was carried out in

two stages. The first was an evaluation of the measurement model, which included construct validity and reliability testing. Meanwhile, the second stage was an evaluation of the structural model to determine the causal relationship between variables and hypothesis testing. PLS-SEM was used because it is the right method to predict research objectives within a small sample size (Hair et al., 2011).

### 4. Results and Discussion

#### 4.1. Demographic Profile

The research was conducted on SME owners/managers to find out which social media they use to provide information about the company's products and services. The social media most used by SMEs in Indonesia is Facebook, followed by Instagram (87%), and Twitter at 74% (Table 2).

SMEs not only use Facebook, but also Instagram and Twitter to communicate with consumers and customers. The owners/managers of SMEs stated that their use of social media (Facebook, Instagram, Twitter) is useful for providing information about the company's business and products, determine customer wants and expectations, supports promotional activities and increases product sales. The SMEs involved in the research are engaged in various sectors, 43.3% in the trading sector, 37.6% in the manufacturing sector, and 19.1% in the services sector.

**Table 1:** Measurement

Construct and Items	Cronbach's Alpha
<b>Customer Orientation (CO)</b>	
CO1 One of our focuses is customer satisfaction	0.864
CO2 An important point in business is after-sales service	
CO3 We understand the needs and wants of our customers	
CO4 Our daily activity is value creation for customers	
CO5 Our commitment is to serve customers	
<b>Social Media (SM)</b>	
SM1 Social media (Facebook, Instagram, Twitter) is useful for providing information about the company's business and products	0.860
SM2 Social media can determine customer wants and expectations	
SM3 Social media increases product sales	
SM4 Social media supports promotional activities	
<b>SMEs Performance (SP)</b>	
SP1 Market share has increased over the last 3 years	0.819
SP2 Sales growth for the last 3 years	
SP3 Achieve profit growth (profitability) for the last 3 years	

## 4.2. Measurement Model

The loading value, internal reliability, convergent and discriminant validity are used to evaluate the measurement model, as shown in Table 3. Each construct of customer orientation, social media, and SME performance have factor loading values above 0.7, indicating a satisfactory level of reliability (Hair et al., 2014). Internal reliability testing uses composite reliability criteria where the value must be greater than 0.7 (Hair et al., 2014). Each construct has composite reliability above 0.7, indicating good reliability. Furthermore, the assessment of convergent validity uses AVE value (average variance extracted) with criteria greater than 0.5 (Hair et al., 2014). The AVE value in Table 3 of each

construct is greater than 0.5, thus fulfilling the convergent validity criteria.

Testing of the discriminant validity using the criteria, the average variance or square root of AVE is greater than all correlation coefficient values between constructs from Fornell and Larcker (1981), Fornell & Larcker (1981).

The average variance or square root of AVE are shown in bold in the diagonal position in Table 4, while values that are not bold are the correlations coefficient between constructs. The average variance or square root of AVE value is greater than the correlation value between constructs, thus the discriminant validity is confirmed.

## 4.3. Structural Model

The evaluation of the model uses the criteria for the values of  $R^2$  (the model's predictive accuracy),  $f^2$  (the effect size) and  $Q^2$  (predictive relevance). The results of the analysis show that the model has a moderate level of accuracy shown from the value of  $R^2 = 0.513$  (Hair et al., 2014), the  $f^2$  value for the customer orientation construct is 0.242 and 0.102 for the social media construct, this value represents each path model having a moderate effect size (Cohen, 2013). The next evaluation criteria for the model is a  $Q^2$  value of 0.49, so the exogenous construct has predictive relevance for the endogenous construct (Hair et al., 2011).

The analysis results in Table 5 show that customer orientation affects SMEs performance positively and significantly ( $\beta = 0.653$ ;  $p$ -value < 0.05), therefore, H1 was supported. This explains that SMEs that focus on customer orientation will improve their performance. The findings also confirm that social media has an effect on SME performance ( $\beta = 0.204$ ;  $p$ -value < 0.05), therefore, H2 was supported. This explains that social media is able to contribute to SME performance because it will support promotional activities and increase sales.

Further testing was carried out to determine the moderating role of social media interaction with customer orientation, which is proven to have a positive and significant effect on SME performance ( $\beta = 0.096$ ;  $p$ -value < 0.05), therefore, H3 was supported. This finding also confirms that social media strengthens the effect of customer orientation on SME performance.

The effect of customer orientation on SME performance increases with the interaction of social media. SME

**Table 2:** Demographic Profile

Profile	No	Percentage
<b>Social Media used:</b>		
Facebook	178	100.0
Instagram	155	87.1
Twitter	132	74.2
<b>Sector:</b>		
Service	34	19.1
Manufacturing	67	37.6
Trading	77	43.3

**Table 3:** Evaluation of the Measurement Model

Constructs/ Items	Factor Loading	Composite Reliability	AVE
<b>Customer Orientation (CO)</b>			
CO 1	0.885	0.903	0.651
CO 2	0.751		
CO 3	0.878		
CO 4	0.770		
CO 5	0.739		
<b>Social Media (SM)</b>			
SM 1	0.616	0.907	0.714
SM 2	0.911		
SM 3	0.928		
SM 4	0.885		
<b>SMEs Performance (SP)</b>			
SP 1	0.952	0.893	0.739
SP 2	0.921		
SP 3	0.681		

**Table 4:** Discriminant Validity

Constructs	SP	CO	SM
SP	<b>0.860</b>		
CO	0.731	<b>0.807</b>	
SM	0.488	0.439	<b>0.845</b>

performance will be higher after the interaction between customer orientation and social media compared to without interaction. This explains that social media has a positive impact on the influence of customer orientation on SME performance.

#### 4.4. Discussion

The hypothesis testing results indicate that customer orientation is a factor that affects SME performance. This finding is aligned with previous research, that customer orientation is an important factor for improving the performance of SMEs (Feng et al., 2012; Frambach et al., 2016; Pekovic & Rolland, 2016; Valenzuela et al., 2010; Ziggers & Henseler, 2016). Customer orientation improves SME performance because companies focus on customer satisfaction and commitment to providing the right services. Through customer orientation, companies have the opportunity to better communicate with customers (McCann & Barlow, 2015), to understand their needs and wants (Frambach et al., 2016; Valenzuela et al., 2010), and prioritize value creation, thereby creating a competitive advantage (Ziggers & Henseler, 2016), and enhancing SME performance.

Social media has the role of providing information about the company's business and products, obtaining information about customer wants and expectations. Social media enables active communication between companies and customers. Social media supports promotional activities, so as to increase product sales and improve SME performance. Promotional activities through social media are more effective because they can persuade consumers and will be passed on to their network members (Shareef et al., 2019). This finding is relevant to previous research, that social media communication provides relevant information to consumers (Laroche et al., 2013) because it enables them to interact with a company's product (Tsai & Men, 2013), and support their performance (Antlova, 2014).

Further findings explain that the use of social media by SMEs tends to strengthen customer orientation in SME performance. The advantages of social media provide relevant information to consumers (Laroche et al., 2013) and enable them to interact with a product (Tsai & Men, 2013), and improves customer engagement (Puriwat & Tripopsakul, 2021). Social media supports sales activities, which

increases sales (Antlova, 2014; Rodriguez & Boyer, 2020). It is also used to provide information on products to support promotional activities. Furthermore, by using social media, companies can determine customer wants and expectations through two-way communication, which enables the wider dissemination of information on products and promotional activities, thereby increasing sales. Social media will encourage customer orientation in order to focus on customer satisfaction, improve after-sales service, recognize the needs and desires of customers, drive value creation for customers, and commit to serving customers. Therefore, the company is able to determine the customer needs and wants and has a competitive advantage over competitors.

One characteristic of SMEs is limited resources such as ability in marketing relationships (Ebrahimi et al., 2019), limitations to obtain and analyze external information (Cheng et al., 2014), and definite customer engagement (Cheng & Shiu, 2019). The presence of social media is a new opportunity for SMEs to develop customer orientation due to the ability to carry out communication with social media at a low cost (Fischer & Reuber, 2011; Qalati et al., 2021), as well as providing convenience and speed to connect with customers (McCann & Barlow, 2015). Because of the dynamic market climate and changing consumer behavior as a result of technological developments, SMEs must prioritize customer-focused business activities (Rodriguez & Boyer, 2020). Therefore, they need to improve communication with customers more effectively and guarantee the interaction between them and the company quickly. Social media is an opportunity for SMEs to increase customer orientation, which in turn improves performance. Therefore, owners/managers need to pay serious attention to the use of social media in their company.

#### 5. Conclusion

Since SMEs play such a significant role in developing countries' economic development, it is critical to understand the factors that lead to their growth. We contribute to providing insight into the role of social media adoption in SMEs. The findings suggest that using social media by SMEs is an alternative to strengthen the role of customer orientation towards their performance. Therefore, the SME owner/manager can increase interaction with customers, capture information on their needs and desires, and create value

**Table 5:** Hypothesis Testing

Path	Coefficient	p-values	Result
Customer Orientation → SMEs Performance	0.653	0.000	H1 supported
Social media → SMEs Performance	0.204	0.000	H2 supported
Interaction: Customer Orientation × Social Media	0.096	0.037	H3 supported

through the capacity of social networks. This strengthens the concept of dynamic capability regarding the importance of the ability to adapt to environmental changes, especially the adaptation of information technology.

The research provides empirical evidence that customer orientation improves SME performance and helps to increase their focus on understanding changing customer needs and wants. This enables the company to have an advantage over competitors and an impact on SME performance. Furthermore, these findings reveal the importance of implementing social media because it supports increased customer orientation in SMEs. However, to ensure that social media provides benefits to the business, managers need to identify the purpose of using social media, the supporting internal resources, and its usage. This is important to make the use of social media not only as an alternative media for promotion, rather to truly support consumer orientation. Although social media is an important factor for SME performance, the adoption of social media must begin with formulating goals and objectives before deciding on the most suitable platform to use (McCann & Barlow, 2015; Meske & Stieglitz, 2013).

There are several limitations to this research. Firstly, it does not consider the ability and readiness of SMEs in adopting information technology rather it only measures the use of social media. Therefore, future research needs to consider other factors such as the ability to adopt technology, the environment, and the intensity of competition as factors affecting SME performance. Secondly, the research does not differentiate between the social media used (Facebook, Instagram, Twitter, and others), hence it is unable to measure their respective effectiveness. Therefore, further research can consider the comparison of each social media channel's effectiveness in increasing customer orientation because its effectiveness differs in various business contexts. Furthermore, it is necessary to explore more deeply the factors SMEs consider for adopting information technology in the form of social media. Thirdly, the measurement of SME performance in this research uses the subjective opinion of the owner/manager on the growth of market share and profitability over the last three years. Therefore, further research can use performance measurement using quantitative measures.

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