The Role of Dynamic Marketing Capabilities in Enhancing Entrepreneurial Marketing for MSMEs in the Special Region of Yogyakarta Province

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Abstract

This study investigates the relationship between dynamic marketing capabilities (DMCs) and entrepreneurial marketing (EM) among micro, small, and medium enterprises (MSMEs) in the Special Region of Yogyakarta Province, Indonesia. Using a quantitative approach, data were collected through online and offline surveys involving 232 MSME respondents. The data were analyzed using Smart-PLS to evaluate the influence of two dimensions of DMC, namely market-responding capabilities and marketing resource rebuilding capabilities, on seven dimensions of EM, including proactiveness, innovation, risk-taking, opportunity focus, customer intensity, resource leveraging, and value creation. The results show that market-responding capabilities significantly influence all dimensions of EM. In contrast, marketing resource rebuilding capabilities affect all EM dimensions except customer intensity. These findings highlight the essential role of dynamic marketing capabilities in strengthening entrepreneurial behaviors within MSMEs, enabling them to respond swiftly to market changes and improve their competitiveness. This research contributes to the strategic marketing literature by emphasizing the synergy between adaptability and entrepreneurial orientation in enhancing MSME performance in dynamic business environments.

Keywords: dynamic marketing capabilities, entrepreneurial marketing, MSMEs

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Introduction

In a dynamic market, consumer behavior changes over time as consumer requirements and desires shift. Marketers' attention is essential for developing creative strategies that can enable businesses to adapt to these consumer behavior changes, including applying dynamic capabilities. Micro, small, and medium-sized enterprises (MSMEs), some of the drivers of Indonesia's economy, have demonstrated how dynamic marketing capabilities can enhance corporate performance. As reflected in various current events, these capabilities are essential for business development, specifically for MSMEs, which will be explored here as research objectives.

The development of free competition highlights the importance of implementing a plan that incorporates dynamic marketing capabilities. Free trade encourages marketers to enter overseas markets with increased competitiveness (Alon et al., 2021). The competitive nature of free trade requires marketers to adapt their tactics to the ever-changing environment by focusing on consumer demands and needs (Samiee & Chirapanda, 2019). It is where dynamic marketing capabilities become key to their success in the free market. Strategic application of these capabilities involves developing a competitive advantage through product or service innovation (Wang et al., 2022).

Entrepreneurial marketing refers to the behaviors of entrepreneurs who combine their entrepreneurial spirit with their ability to implement strategies for marketing. Micro, small, and medium entrepreneurs with strong entrepreneurial marketing abilities can endure and thrive in a dynamic business environment by being innovative, proactive, and willing to take risks (Kanapathipillai et al., 2022). Entrepreneurial marketing can assist these entrepreneurs in their development (Gilmore, 2011), as innovative and imaginative market-development strategies are important for them. MSMEs that practice entrepreneurial marketing concepts may be more responsive to market changes and proactive in creating additional value for consumers.

As dynamic marketing capabilities refer to an organization’s capacity to continually adapt its marketing strategies to market changes, entrepreneurial marketing focuses on innovation, risk-taking, and creativity in developing new and distinctive marketing strategies. The synergy between the two enables businesses to remain competitive and relevant in a changing marketplace. By combining these two concepts, businesses can be more attuned to market changes and remain competitive by developing new marketing tactics. Kaml (2022) and Kanapathipillai et al. (2022) provide evidence of how dynamic marketing capabilities impact entrepreneurial marketing. The theoretical studies and findings of these experts have inspired the researchers in this study to explore the interlink between the two concepts even further.

The relationship between dynamic marketing capabilities and entrepreneurial success may vary depending on the specific context and industry in which a business conducts its operations. For example, in highly competitive markets, having the ability to rapidly adapt and innovate marketing strategies can be a key driver of success for entrepreneurs (Kachouie et al., 2018). On the other hand, in more stable industries, a focus on maintaining and optimizing existing marketing capabilities may be more crucial for entrepreneurial ventures to thrive (Ferreira et al., 2020). Understanding how dynamic marketing capabilities impact entrepreneurial marketing can provide valuable insights for businesses that look to stay ahead in today's fast-paced and ever-changing marketplace. These capabilities are crucial for companies to stay competitive and adapt to changing environments.

Entrepreneurial marketing is relevant in the context of MSME development (Gyanwali & Bunchapattanasakda, 2020; Sadiku-Dushi et al., 2019). This is because MSMEs need to carry out innovative and creative strategies that are oriented toward market development. By applying the principles of entrepreneurial marketing, MSMEs can be more responsive to market changes and more proactive in creating added value for customers (Dzogbenuku & Keelson, 2019; Gyanwali & Bunchapattanasakda, 2020). Entrepreneurial marketing in the context of MSMEs focuses on innovative strategies and tactics for these enterprises to develop their market share and reach their target audiences effectively. Incorporating creativity, flexibility, and a deep understanding of consumer behavior, entrepreneurial marketing provides a competitive advantage for MSMEs in today's dynamic business landscape (Dhameria et al., 2021). Through a combination of entrepreneurial marketing techniques, MSMEs can differentiate themselves from larger competitors and attract a loyal customer base. In addition, entrepreneurial marketing encourages them to continuously adapt and develop their strategies in response to changing market trends, thus ensuring long-term success and sustainability (Zahara et al., 2023). With the right entrepreneurial mindset and marketing approach, small businesses can thrive and succeed in an increasingly competitive market environment. Therefore, it is very appropriate to assume that MSMEs that have high dynamic marketing capabilities also have high entrepreneurial marketing capabilities (Hidayatullah et al., 2019).

A discussion on the relationship between dynamic capabilities and entrepreneurial marketing was once raised by Kanapathipillai et al. (2022). They verified that businesswomen in Malaysia who engage in dynamic capabilities will be able to apply entrepreneurial marketing strategies in their enterprises. Kaml (2022) also specifically discussed the influence of dynamic marketing capabilities on entrepreneurial marketing. According to the study, internal dynamic marketing capabilities are reflected in the ability to learn across all entrepreneurial marketing practices, while external dynamic marketing capabilities are reflected in the ability to manage the brand across all entrepreneurial marketing practices. The limitations of studies that explored in depth the relationship between both sets of capabilities make this topic an intriguing subject to study further. By examining this relationship in the MSME context, this study offers novelty to the literature on this topic.

One of the key factors that is thought to be able to support MSMEs is the ability to respond quickly to environmental changes, especially by utilizing digital technology. The implementation of this strategy proves businesses' success in utilizing dynamic marketing capabilities. During the COVID-19 pandemic, dynamic marketing capabilities were applied by, among others, using various online applications to promote, market, and distribute products and services (Plekhanov et al., 2022). MSMEs implement strategies that incorporate dynamic marketing capabilities during this period by changing their businesses into digital-based innovative businesses (Peñarroya-Farell & Miralles, 2022; Putritamara et al., 2023; Rupeika-Apoga et al., 2022). According to the *Food and Beverage Service Activities Statistics* published by Statistics Indonesia (BPS) in 2023, the number of food and beverage business units in Indonesia reached approximately 4.85 million in 2023, a significant increase from 4.01 million in 2016. This notable growth reflects the increasing demand for food services and the expansion of culinary businesses across the country, driven by changing consumer behavior, digitalization, and the rising popularity of online food delivery services. The steady upward trend underscores the dynamic and resilient nature of Indonesia's food and beverage industry, which continues to adapt to technological and market shifts (Badan Pusat Statistik, 2023). This fact shows that digitalization has changed the way of life of both individuals and businesses and brought new habits in the post-COVID-19 era (Annamalah et al., 2023; Harti, 2023).

However, some MSMEs in Indonesia still face a dynamic business environment. Some of the difficulties experienced by MSMEs in Indonesia include struggles with the decisions on adopting technology to conduct digital-based business transformations (Anatan & Nur, 2023) and difficulties adapting to changes in competitive environments (Muafi & Roostika, 2022). The selection of MSMEs in the Special Region of Yogyakarta Province as research subjects was based on research findings by Dari and Isfianadewi (2020), who reported that the ability of MSMEs in this area to compete with other business actors is still low. This gap between MSMEs suggests the urgency to investigate this issue in greater depth.

Literature Review and Hypotheses Development

Dynamic marketing capabilities (DMC) are grounded in the Dynamic Capabilities View (DCV), which extends the Resource-Based View (RBV) to environments characterized by rapid and unpredictable changes. These capabilities enable organizations to adapt, integrate, and reconfigure their marketing resources in response to evolving market conditions. Roach et al. (2018) define DMC as marketing tools that transform internal organizational resources into value for consumers in a shifting market context. Similarly, Morgan et al. (2018) argue that DMCs are essential for firms to adjust their strategies based on market fluctuations. Kwon (2021) identifies two key dimensions of DMC: market responding capabilities (MRC) and marketing resource rebuilding capabilities (MRCC). MRC refers to a firm's capacity to identify and respond effectively to market signals, while MRCC emphasizes the ability to reallocate and rebuild marketing resources, particularly in dynamic and uncertain environments. These two dimensions are adopted in this study to measure the construct of dynamic marketing capabilities.

Past literature (Pavlou & El Sawy, 2011; Protogerou et al., 2012; Teece et al., 2009) supports the idea that dynamic capabilities involve environmental monitoring, internal process adaptation, and alignment of offerings with market demand. Barrales-Molina et al. (2017) and Kwon (2021) assert that marketing resources and capabilities complement each other in driving both firm and customer outcomes. In this research, MRC and MRCC are proposed to influence various dimensions of entrepreneurial marketing, particularly in MSME contexts where agility and innovation are crucial.

Entrepreneurial marketing (EM) combines entrepreneurial thinking with market responsiveness. It emphasizes innovativeness, risk-taking, customer value, and proactive strategies (Morris et al., 2002). EM includes dimensions such as proactiveness (Lumpkin & Dess, 2001), risk-taking, innovation, opportunity focus (Kilenthong et al., 2016), resource leveraging (Becherer et al., 2012), customer intensity, and value creation. For MSMEs, EM is a strategic necessity, enabling them to respond quickly to market dynamics and operate effectively despite resource limitations (Gilmore, 2011).

Recent studies have begun to explore the synergy between DMC and EM. For example, Eggers et al. (2020) developed a scale of entrepreneurial marketing and found that firms with greater adaptability to market change and an expression of DMC tend to perform better in dynamic environments. Roach et al. (2018) emphasize the mediating role of dynamic marketing capabilities in enhancing innovativeness, one of the core dimensions of entrepreneurial marketing. Ferreira et al. (2020) and Zahara et al. (2023) also highlight that dynamic capabilities, when integrated with an entrepreneurial orientation, contribute significantly to marketing performance and firm resilience. These studies support the idea that the implementation of DMC strengthens the firm’s capacity for opportunity recognition,

innovation, and customer value delivery—all of which are central to EM. However, empirical research examining the direct influence of MRC and MRCC on each dimension of EM, particularly in the MSME context, remains limited—creating a gap that this study seeks to address.

This study proposes the following hypotheses to explore the influence of DMC on EM:

H1: Market responding capabilities positively influence proactiveness.
H2: Market responding capabilities positively influence focus on opportunities.
H3: Market responding capabilities positively influence calculated risk-taking.
H4: Market responding capabilities positively influence innovation.
H5: Market responding capabilities positively influence customer intensity.
H6: Market responding capabilities positively influence resource utilization.
H7: Market responding capabilities positively influence value creation.
H8: Marketing resource rebuilding capabilities positively influence proactiveness.
H9: Marketing resource rebuilding capabilities positively influence focus on opportunities.
H10: Marketing resource rebuilding capabilities positively influence calculated risk-taking.
H11: Marketing resource rebuilding capabilities positively influence innovation.
H12: Marketing resource rebuilding capabilities positively influence customer intensity.
H13: Marketing resource rebuilding capabilities positively influence resource utilization.
H14: Marketing resource rebuilding capabilities positively influence value creation.

These hypotheses reflect the expectation that dynamic and adaptive marketing capabilities serve as strategic enablers of entrepreneurial behaviors in MSMEs, ultimately contributing to improved marketing performance and sustainable competitiveness.

Methods

The population for this study consists of micro, small, and medium-sized companies (MSMEs) from various sectors and industries in Yogyakarta. A subset of the population, including traditional markets, was sampled to represent the study, using a sampling method that was selected according to the study's objectives to yield accurate results. This study employs convenience sampling, which is a sampling strategy that is based on the availability of items and the simplicity of obtaining them. Data were collected both online via Google Forms and offline by visiting MSME hubs in Yogyakarta. These data were analyzed using the Smart-PLS statistical tool. A total of 232 respondents (195 online and 35 offline) participated in this study by completing the questionnaire during the data collection period from March to April 2024. This primary data was collected directly by the authors.

Results and Discussion

The respondents of this study consisted of micro, small, and medium enterprises (MSME) actors in Yogyakarta, with the majority serving as business managers (232 individuals, 83.2%) and a smaller portion as owners (39 individuals, 16.8%). Most businesses operated in the culinary sector (41.8%), followed by fashion (17.7%), handicrafts (8.2%), retail (4.3%), services (2.6%), and agriculture (0.9%). In terms of business tenure, the majority had operated for 1–5 years (47%), followed by 6–10 years (13.4%) and 11–15 years (9.5%). Regarding

annual sales, 61.6% reported sales of less than IDR 300 million, 27.6% between IDR 300 million and 2.5 billion, and 10.8% between IDR 2.5 billion and 50 billion, indicating a concentration of micro and small businesses among the respondents.

The last characteristic presented in this study relates to the total sales of the business over the past year. Based on their annual sales, as regulated by a government regulation in 2021, MSMEs are classified into three types: 1) micro businesses, which have annual sales of a maximum of IDR 2 billion; 2) small businesses, which have annual sales of more than IDR 2 billion and no more than IDR 15 billion; and 3) medium businesses, which have annual sales of more than IDR 15 billion and no more than IDR 50 billion [Government Regulation No. 7/2021 concerning Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium-sized Enterprises, 2021).

After classifying respondents, the validity of the data was tested, starting from the convergent validity. According to Hair et al. (2014), convergent validity is the extent to which a measure is positively correlated with alternative measures of the same construct. Therefore, items that are indicators (measures) of a particular reflective construct must converge or share a high proportion of variance. Convergent validity was assessed using the outer loading values of each indicator, following the criteria established by Hair et al. (2019), which recommends that individual item loadings should be ≥ 0.70 to indicate adequate convergence. The results show that most indicators across constructs, including innovativeness (INV), market responding capability (MRC), marketing resource rebuilding capability (MRCC), opportunity focus (OPP), proactiveness (PRO), risk-taking (RISK), resource leveraging (RSC), and value creation (VAL), exhibited loadings above the 0.70 threshold. A few items, such as INCS1 (0.642), OPP1 (0.644), PRO5 (0.645), and RISK2 (0.644), had loadings slightly below 0.70. However, these values are still acceptable in exploratory research, especially when their removal would reduce content validity or overall construct reliability. Overall, the vast majority of indicators demonstrated satisfactory loadings, supporting the model's convergent validity and confirming that the measurement items appropriately reflect their respective constructs.

The internal consistency reliability of all constructs in this study was evaluated using Cronbach's Alpha, Composite Reliability (CR), and rho_A, as recommended by Hair et al. (2019). The Cronbach's alpha values ranged from 0.717 to 0.854, exceeding the minimum threshold of 0.70, indicating acceptable internal consistency across constructs. The composite reliability values, which provide a more accurate reliability estimation in PLS-SEM, ranged from 0.824 to 0.896, well above the recommended 0.70 benchmark. Similarly, all rho_A values were above 0.70, confirming internal consistency without redundancy. Additionally, all constructs met the convergent validity criterion, with Average Variance Extracted (AVE) values above 0.50. These findings confirm that the measurement model demonstrates sufficient reliability and validity, indicating that the indicators used reliably represent the underlying constructs. Thus, the model is deemed appropriate for further analysis using structural equation modeling (Hair et al., 2019).

The path coefficient analysis reveals that both Market Responding Capability (MRC) and Marketing Resource Rebuilding Capability (MRCC) significantly influence various dimensions of Entrepreneurial Marketing (EM) among MSMEs. MRC shows strong positive effects on all EM constructs, particularly on Proactiveness ($\beta = 0.215$, $t = 6.919$, $p < 0.001$), followed by Risk-taking ($\beta = 0.151$), Innovativeness ($\beta = 0.165$), and Customer Intensity ($\beta = 0.174$). Similarly, MRCC demonstrates significant effects on nearly all EM dimensions, with the strongest influence on Opportunity Focus ($\beta = 0.190$, $t = 5.542$, $p < 0.001$), Value Creation

(β = 0.170), and Resource Leveraging (β = 0.166). However, MRCC's effect on Customer Intensity (β = 0.085, p = 0.070) is not statistically significant at the 0.05 level, indicating a relatively weaker link. These findings underscore the critical role of dynamic marketing capabilities in shaping entrepreneurial behavior, especially in enhancing adaptability and opportunity recognition.

In addition to the path coefficients, the analysis also considered the mean and standard deviation (SD) values for each path. The mean values represent the average strength of the relationships based on bootstrapping procedures, with most coefficients ranging between 0.09 and 0.21, indicating moderate effect sizes. The relatively low standard deviations (ranging from 0.063 to 0.098) suggest that the estimated path coefficients are stable and consistent across resamples. This level of precision reinforces the robustness of the model. According to Hair et al. (2019), low standard deviation and high t-statistics further confirm that the observed relationships are not due to random variation, thereby supporting the reliability of the structural model.

Conclusion and Limitations

This study provides empirical evidence on the strategic role of dynamic marketing capabilities, specifically *market responding capabilities (MRC)* and *marketing resource rebuilding capabilities (MRCC)*, in shaping the entrepreneurial marketing behavior of MSMEs in Yogyakarta. The results indicate that MRC significantly enhances MSMEs' ability to adapt to changes in market preferences and consumer behavior. This agility is essential for maintaining competitiveness in dynamic business environments, particularly for smaller firms facing resource constraints. Responsive firms can identify shifts in demand, adjust their offerings, and move faster than larger competitors, enabling them to seize market opportunities and deliver superior value (Zahara et al., 2023).

A key finding is the strong relationship between MRC and opportunity focus, where responsive firms are more likely to anticipate and act upon market trends. This capacity fosters innovation and enables MSMEs to remain relevant in rapidly evolving markets (Octasylva et al., 2022; Sugiyart & Ardyan, 2017). Similarly, the positive effect of MRC on proactiveness reinforces the argument that MSMEs can lead change rather than just respond to it. Proactive firms are more capable of initiating strategic moves and are better positioned to generate sustainable growth (Al-Mamary & Alshallaqi, 2022; Brege & Kindström, 2020).

MRC also positively affects innovation. MSMEs with strong responsiveness capabilities are better at integrating customer feedback and market signals into the development of new products or services. Innovation, in this context, becomes a vital mediator between responsiveness and performance, affirming prior findings that adaptive behavior fuels creativity and market success (Octasylva et al., 2022). Furthermore, MRC influences calculated risk-taking, an essential entrepreneurial behavior. Entrepreneurs who can anticipate market changes are more likely to take informed risks, especially in uncertain or export markets (Manzi-Puertas et al., 2024; Reimann et al., 2021).

In addition, the study shows that MRC enhances customer intensity—the extent to which firms prioritize understanding and engaging with their customers. Market-responsive MSMEs can align their offerings with customer expectations, leading to stronger loyalty and satisfaction (Eggers et al., 2020). MRC also supports better resource leveraging, which refers to the effective use of limited resources to maximize strategic outcomes. Firms with strong MRC can

channel their efforts where they matter most, increasing efficiency and impact. Likewise, value creation is significantly influenced by MRC. Firms that are market-sensitive tend to better understand what customers value, enabling them to deliver unique solutions that enhance competitiveness and differentiation.

The role of marketing resource rebuilding capabilities (MRCC) is equally significant in this study. MRCC reflects a firm's ability to reconfigure its internal marketing resources in response to external shifts. The analysis shows that MRCC strongly correlates with proactiveness, where firms that can adapt their internal assets are more likely to act ahead of market changes (Afriyie et al., 2019). It also contributes to opportunity focus, helping MSMEs to redirect resources toward emerging market demands (Kwon, 2021).

MRCC further enables calculated risk-taking by fostering internal flexibility. Firms that regularly evaluate and rebuild their marketing strategies are better equipped to take risks that could lead to growth (Annamalah et al., 2023; Morrish & Jones, 2020). The relationship between MRCC and innovation is also confirmed, where firms that possess resource agility tend to be more innovative and better prepared to deliver differentiated offerings (Kwon, 2021).

Moreover, MRCC positively impacts resource leveraging, allowing MSMEs to use existing assets more efficiently for strategic advantage. It also plays an important role in value creation by supporting strategic alignment between internal capabilities and external expectations. Entrepreneurs in Yogyakarta were found to actively rebuild their marketing capacity as a way to consistently offer meaningful value, which contributes to customer loyalty and business growth (Kwon, 2021; Möller & Törrönen, 2003).

Interestingly, this study finds no significant relationship between MRCC and customer intensity. This may reflect the informal and simple structure of many MSMEs in Yogyakarta, where internal efficiency is prioritized over complex customer engagement strategies (Homburg & Tischer, 2023; Hung et al., 2020). Many of these firms focus on ensuring consistent product quality and operational strength as their means to maintain customer satisfaction, rather than scaling aggressive outreach or relationship management efforts.

Lastly, the study emphasizes the complementarity between MRC and MRCC**.** MRC enables MSMEs to respond quickly to external change, while MRCC strengthens their internal ability to adapt and reallocate resources. Together, these capabilities form a solid foundation for entrepreneurial marketing behavior and strategic responsiveness. Their combined effect on innovation, opportunity identification, risk management, resource optimization, and value creation illustrates how MSMEs can strategically compete and grow in today's volatile business landscape (Ogundare & Van der Merwe, 2023; Zahara et al., 2023).

In conclusion, dynamic marketing capabilities are critical enablers of entrepreneurial marketing. MSMEs that invest in developing both external responsiveness (MRC) and internal adaptability (MRCC) are better positioned to succeed in uncertain environments. Policymakers and practitioners aiming to strengthen MSMEs should support initiatives that build these capabilities through digital transformation, market intelligence training, and innovation-focused marketing strategies to promote sustainable and inclusive economic growth.

This study highlights the practical importance of dynamic marketing capabilities in enhancing entrepreneurial marketing among MSMEs. To remain competitive, SMEs must be agile, innovative, and responsive to market changes while consistently creating value for customers

and building strong stakeholder relationships. These capabilities are essential in navigating today's fast-changing business environment.

However, the study is limited by its focus on a single industry and reliance on self-reported data. Future research should explore diverse sectors and apply more objective performance measures. Despite these constraints, the findings offer meaningful guidance for MSMEs aiming to strengthen their marketing strategies and achieve long-term competitive advantage.

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