

Transforming Strategy into Performance: Digital Capabilities and SME Success in the Digital Economy

Hery Sutanto^{1*}, Hadi Oetomo¹, Dyah Sugandini¹, Rahajeng Arundati²,
Rava Fernanda Purnama³, Cannigia Yudhayana⁴

¹ Faculty of Economics and Business, Universitas Pembangunan Nasional “Veteran” Yogyakarta, Indonesia

² Department of Management, Universitas Nahdlatul Ulama Yogyakarta, Indonesia

³ Doctoral Program in Management, Universitas Islam Indonesia, Yogyakarta, Indonesia

⁴ Department of Informatics, Universitas Pembangunan Nasional “Veteran” Yogyakarta, Indonesia

Received : September 4, 2026

Revised : September 15,
2026

Accepted : September 17,
2026

Online : October 7, 2026

Abstract

Digitalization has expanded market opportunities for small and medium-sized enterprises (SMEs), yet technology adoption alone does not guarantee superior performance. This study examines how business strategy orientation and digital transformation capability shape digital marketing capabilities and SME performance, while testing digital marketing capabilities as a mediating value-conversion mechanism. A quantitative cross-sectional design was employed among SMEs participating in the Desa Prima program in Sleman Regency, Special Region of Yogyakarta, Indonesia. Data were collected from SME owners or managers through a structured questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that business strategy orientation positively influences digital marketing capabilities ($\beta = 0.508$) and SME performance ($\beta = 0.416$), while digital transformation capability positively influences digital marketing capabilities ($\beta = 0.330$) and SME performance ($\beta = 0.246$). Digital marketing capabilities also improve SME performance ($\beta = 0.273$). In addition, digital marketing capabilities partially mediate the effects of business strategy orientation ($\beta = 0.138$) and digital transformation capability ($\beta = 0.090$) on SME performance. The model explains 39.6% of the variance in digital marketing capabilities and 49.8% of the variance in SME performance, with acceptable model fit (SRMR = 0.060; NFI = 0.951). The study contributes an integrated strategy–technology–marketing capability framework that explains how SMEs convert strategic direction and digital resources into market outcomes.

Keywords *Business Strategy Orientation, Digital Transformation Capability, Digital Marketing Capabilities, SME Performance, Digital Economy*

INTRODUCTION

The accelerating digitalization of markets has fundamentally changed the competitive landscape for small and medium-sized enterprises (SMEs). Digital platforms, data-driven decision-making, social media, e-commerce, and increasingly intelligent marketing technologies have expanded opportunities for smaller firms to access customers, redesign business processes, and compete beyond traditional geographical boundaries. At the same time, these developments have created new competitive pressures because digital adoption alone no longer guarantees superior business outcomes. SMEs are increasingly required to develop strategic and organizational capabilities that enable them to convert digital technologies into market value and sustainable performance. Recent evidence suggests that digital transformation can strengthen SME resilience and competitiveness when accompanied by organizational adaptation and capability development, rather than being treated merely as technological adoption (Khurana et al., 2022; Škare et al., 2023).

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Corresponding author's email: hery.sutanto@upnyk.ac.id

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This issue has become particularly important because SMEs generally have more limited financial, technological, and human resources than large firms. Although digital technologies offer opportunities to expand market access and improve efficiency, SMEs may struggle to select technologies, redesign business processes, develop digital skills, and align technology investments with business priorities. [Khurana et al. \(2022\)](#) demonstrate that digital technologies can contribute to organizational resilience through the development of dynamic capabilities, while [Rupeika-Apoga et al. \(2022\)](#) show that digital orientation and digital capability significantly facilitate SME digital transformation. These findings imply that successful digitalization depends not only on access to technologies but also on firms' ability to strategically mobilize and reconfigure their resources.

The growing use of digital platforms also requires SMEs to reconsider how they translate business strategies into market activities. [Xie et al. \(2022\)](#) show that digital platforms can facilitate SME business model innovation through capability reconfiguration, indicating that digital resources produce meaningful outcomes when firms can reorganize and deploy them strategically. Similarly, [Škare et al. \(2023\)](#) provide evidence that digitally transformed SMEs can improve their market position and business activities. Accordingly, digital transformation should not be interpreted merely as the introduction of new technologies but as a strategic process through which firms redesign how they create, deliver, and capture customer value.

From this perspective, business strategy orientation becomes increasingly important in determining whether SMEs can navigate the digital economy successfully. A clear strategic orientation provides direction regarding target markets, customer needs, competitive positioning, product differentiation, and resource allocation. Digital technologies can generate substantial information and market opportunities, but their contribution to performance may remain limited when firms lack a clear strategic direction for exploiting them. [Probohudono et al. \(2025\)](#), studying Indonesian MSMEs, found that business strategy contributes to performance not only directly but also through developing innovation and digital IT capabilities. Their findings reinforce the proposition that strategic intent must be transformed into organizational capabilities before digital technologies can generate sustainable performance gains.

Another increasingly critical capability is digital transformation capability, which refers to the firm's ability to adopt, integrate, utilize, and continuously adapt digital technologies in its business processes. This capability extends beyond simply possessing social media accounts, marketplace stores, digital payment facilities, or business applications. It involves selecting appropriate technologies, integrating digital resources with existing processes, using digital information, and responding to technological change. [Malodia et al. \(2023\)](#) show that SMEs' digital transformation journey is influenced by entrepreneurial digital self-efficacy and professional leadership, and that digital transformation is significantly associated with firm performance. Likewise, [Merín-Rodríguez et al. \(2024\)](#) found that digital transformation enhances SME performance both directly and indirectly through business model innovation.

However, the economic value of digital transformation likely depends on how firms deploy digital resources in customer-facing activities. Digital marketing capabilities are an important mechanism through which firms convert strategic and technological resources into marketplace outcomes. These capabilities encompass the firm's ability to create relevant digital content, manage social media interactions, utilize online marketplaces, understand digital customer behavior, evaluate marketing metrics, and continuously adjust marketing activities based on market responses. [Wu et al. \(2024\)](#) show that digital marketing strategy and SME performance are closely linked to organizational innovativeness, proactiveness, and managerial capabilities.

Recent studies provide further evidence that digital marketing capability has evolved into a strategic capability rather than a purely promotional function. [Hidayati et al. \(2025\)](#) found that entrepreneurial orientation and market orientation enhance digital marketing capabilities and

marketing performance among SMEs in emerging markets, with digital marketing capability mediating the relationships between these strategic orientations and marketing performance. [Hazzam et al. \(2026\)](#) similarly show that digital marketing capabilities provide additional performance benefits beyond established customer relationship management capabilities.

Despite these advances, the existing literature remains fragmented. One stream of research has primarily examined how digital orientation and digital capabilities stimulate digital transformation ([Rupeika-Apoga et al., 2022](#)), while another has focused on the relationship between digital platforms and business model innovation ([Xie et al., 2022](#)). Other studies have investigated digital transformation and firm performance through business model innovation ([Merín-Rodrigáñez et al., 2024](#)), whereas digital marketing research has increasingly emphasized the role of strategic orientations and marketing capabilities in explaining SME performance ([Wu et al., 2024](#); [Hidayati et al., 2025](#); [Hazzam et al., 2026](#)). Relatively little attention has been devoted to how business strategy orientation and digital transformation capability simultaneously develop digital marketing capabilities and ultimately improve SME performance within a single integrated framework.

This gap is particularly relevant in emerging economies such as Indonesia. The rapidly expanding digital ecosystem offers substantial opportunities for MSMEs, but firms differ considerably in their ability to translate digitalization into performance gains. The issue is especially relevant for SMEs participating in the Desa Prima program in Sleman Regency, Special Region of Yogyakarta, where strengthening local economic empowerment increasingly requires businesses to combine traditional entrepreneurial strengths with digital market participation. Improving business performance therefore cannot be achieved merely by encouraging SMEs to open marketplace accounts or increase their presence on social media; SMEs also need a clear strategic direction, the ability to adapt to technological developments, and the capacity to turn those resources into effective digital marketing activities.

Accordingly, this study develops an integrated framework connecting business strategy orientation, digital transformation capability, digital marketing capabilities, and SME performance. The study proposes that business strategy orientation and digital transformation capability directly enhance SME performance while simultaneously strengthening digital marketing capabilities. Digital marketing capabilities, in turn, are expected to improve SME performance and mediate the effects of both antecedents on performance. The study's novelty lies in developing an integrated strategy–technology–marketing capability framework that positions digital marketing capabilities as a value-conversion mechanism through which business strategy orientation and digital transformation capability translate into SME performance. Therefore, this study examines the direct effects among these capabilities and investigates the mediating role of digital marketing capabilities in the Desa Prima SME context.

LITERATURE REVIEW

Theoretical Foundation

The rapid development of digital technologies has transformed how SMEs create value, interact with customers, organize business processes, and compete in dynamic markets. Yet digital technologies do not automatically generate superior performance; their contribution depends on the firm's ability to combine strategic resources, technological capabilities, and market-oriented competencies. Recent SME research therefore increasingly conceptualizes digital transformation as a capability-development process rather than merely adopting digital tools ([Khurana et al., 2022](#); [Rupeika-Apoga et al., 2022](#)).

This study draws primarily on the Resource-Based View and Dynamic Capability Theory. From a resource-based perspective, competitive performance depends on how firms acquire,

organize, and exploit strategically valuable resources. In the contemporary digital environment, technological infrastructure, customer information, managerial knowledge, digital skills, and marketing competencies increasingly constitute important organizational resources. Dynamic Capability Theory complements this view by explaining firms' ability to identify opportunities, adapt resources, and transform routines in response to technological and environmental change. Recent research indicates that digital capabilities can function as dynamic capabilities by enabling SMEs to identify market opportunities and translate technological resources into entrepreneurial performance (Kim & Jin, 2024).

Within this logic, business strategy orientation provides strategic direction, digital transformation capability provides technological and organizational adaptability, and digital marketing capabilities provide the market-facing mechanism through which these resources are transformed into customer and business outcomes. Recent evidence suggests that digital transformation produces greater performance benefits when digital resources are strategically aligned and converted into organizational and market capabilities rather than treated as isolated technological investments (Merín-Rodrigáñez et al., 2024; Saeedikiya et al., 2024). Accordingly, the proposed model views SME performance as the outcome of an integrated strategy–technology–marketing capability process.

Business Strategy Orientation and Digital Marketing Capabilities

Business strategy orientation refers to the extent to which SMEs possess a clear business direction, understand customer needs, adapt strategies to changes in the competitive environment, and develop meaningful differentiation from competitors. It represents more than formal strategic planning; it reflects the firm's ability to translate goals and market understanding into coordinated business actions. This capability is particularly important in digital marketing because SMEs face numerous digital channels, platforms, content formats, and customer interaction mechanisms.

SMEs with clearly defined customer segments, value propositions, and competitive objectives can better select appropriate digital channels, develop relevant content, and evaluate their digital marketing activities. Wu et al. (2024) demonstrate that strategic characteristics such as innovativeness, proactiveness, and managerial capability are closely associated with digital marketing strategy and SME performance. Hidayati et al. (2025) found that entrepreneurial orientation and market orientation significantly strengthen digital marketing capabilities among SMEs in emerging markets, while Probahudono et al. (2025) show that business strategy contributes to MSME performance through organizational capabilities, including digital IT capabilities. These findings indicate that strategic direction is an important antecedent of digital marketing capability.

H1: Business strategy orientation positively influences digital marketing capabilities

Digital Transformation Capability and Digital Marketing Capabilities

Digital transformation capability refers to an SME's ability to adopt, integrate, utilize, and adapt digital technologies to support its business activities. This capability goes beyond owning hardware, software, social media accounts, or marketplace access. It includes integrating digital applications into business processes, using digital data to support managerial decisions, adapting to technological developments, and continuously developing digital competencies. Digital marketing capability relies heavily on this technological foundation because content creation, social media management, marketplace operations, customer databases, customer-response analysis, and marketing metrics all require sufficient technological competencies.

Research increasingly supports the idea that digital transformation should be understood

as a dynamic organizational capability. [Saeedikiya et al. \(2024\)](#) show that SMEs need dynamic capabilities to leverage digital transformation for competitiveness and performance, while [Kim and Jin \(2024\)](#) show that stronger digital capabilities improve SMEs' ability to recognize and exploit business opportunities. [Hokmabadi et al. \(2024\)](#) identify a close intersection among digital transformation, marketing capabilities, and SME resilience, and [Joshi et al. \(2025\)](#) demonstrate that digital transformation capability contributes to dynamic capabilities and strategic depth that facilitate market growth. Accordingly, digital transformation provides the infrastructure, technological knowledge, information-processing ability, and adaptability required to execute effective digital marketing activities.

H2: Digital transformation capability positively influences digital marketing capabilities

Business Strategy Orientation and SME Performance

Business strategy orientation provides SMEs with a framework for allocating scarce resources, selecting market opportunities, positioning products, and responding to competitive pressure. SMEs operating without clear strategic direction may adopt numerous business activities without creating coherent customer value. By contrast, a strong business strategy orientation enables firms to concentrate resources on attractive customer groups, create differentiated value propositions, adjust rapidly to market changes, and coordinate business activities toward measurable objectives.

Recent findings support this relationship empirically. [Probohudono et al. \(2025\)](#) report that business strategy contributes to Indonesian MSME performance while innovation and digital IT capabilities function as partial mechanisms through which this effect occurs. [Hidayati et al. \(2025\)](#) similarly demonstrate that strategic orientations significantly enhance marketing performance among SMEs in emerging markets, and [Wu et al. \(2024\)](#) show that strategic and managerial capabilities are central to SME digital marketing strategy and performance. Taken together, these findings suggest that SMEs that continuously align strategic priorities with customer and competitive conditions are more likely to achieve stronger sales, customer growth, market expansion, and sustainable business development.

H3: Business strategy orientation positively influences SME performance

Digital Transformation Capability and SME Performance

Digital transformation capability can enhance SME performance by improving efficiency, information quality, market responsiveness, communication, customer access, and managerial decision-making. Digital technologies help smaller firms overcome traditional resource constraints by reducing transaction costs, enabling remote customer interaction, expanding geographic reach, and providing access to real-time business information. However, technology's contribution depends on organizational capability, not technology acquisition alone.

[Merín-Rodríguez et al. \(2024\)](#) demonstrate that digital transformation positively affects SME performance and that business model innovation partially channels this relationship. [Kim and Jin \(2024\)](#) similarly show that digital capabilities significantly improve entrepreneurial performance among SMEs, with opportunity capability functioning as an important mediating mechanism. [Saeedikiya et al. \(2024\)](#) identify performance and competitive advantage as important outcomes of successful SME digital transformation, while [Joshi et al. \(2025\)](#) show that digital transformation capability facilitates dynamic capabilities and strategic depth that contribute to market growth.

H4: Digital transformation capability positively influences SME performance

Digital Marketing Capabilities and SME Performance

Digital marketing capabilities refer to SMEs' ability to strategically use digital channels to communicate value, reach customers, build relationships, facilitate transactions, and evaluate market responses. These capabilities are reflected in the ability to develop digital content, use social media effectively, utilize online marketplaces, and evaluate digital marketing activities. Simply establishing a social media account or online store does not guarantee market success; effectiveness depends on whether SMEs can create relevant content, choose appropriate platforms, interact with customers, use insights from online activities, and continuously adapt marketing practices.

Cuijten et al. (2024) show that MSMEs often face deficiencies in creative content development, online customer interaction, search-related capabilities, and digital inquiry management. Wu et al. (2024) demonstrate a close relationship between digital marketing strategy and SME performance, while Hidayati et al. (2025) show that digital marketing capability positively influences SME marketing performance in emerging markets. Hazzam et al. (2026) further demonstrate that digital marketing capabilities provide additional performance benefits beyond established customer relationship management capabilities, and Elkhoudary et al. (2026) identify digital marketing capabilities as important drivers of SME innovation, competitiveness, and performance.

H5: Digital marketing capabilities positively influence SME performance

The Mediating Role of Digital Marketing Capabilities

A strategic orientation does not necessarily translate directly into improved performance. SMEs may possess clear objectives and understand customer needs yet still fail to generate superior market outcomes if they lack the capability to communicate and deliver their value proposition effectively. Digital marketing capabilities therefore provide an important mechanism for transforming strategic intent into market-oriented action. Hidayati et al. (2025) found that digital marketing capability mediates the effects of entrepreneurial orientation and market orientation on SME marketing performance, while Probohudono et al. (2025) identify a comparable capability-conversion mechanism in which organizational capabilities partially mediate the relationship between business strategy and MSME performance.

Digital transformation capability similarly equips SMEs with technological resources and the organizational ability to use those resources, but stronger technology capability does not automatically ensure higher sales, customer growth, or market expansion. Digital marketing represents one pathway through which digital transformation can generate economic value. Merín-Rodríguez et al. (2024) demonstrate that the performance consequences of SME digital transformation are partially transmitted through business model innovation, while Jung and Shegai (2023) show that marketing capability mediates the relationship between digital marketing innovation and firm performance. Hokmabadi et al. (2024) and Elkhoudary et al. (2026) further highlight marketing capability as a central component linking digital transformation to resilience and performance.

H6: Digital marketing capabilities mediate the positive relationship between business strategy orientation and SME performance

H7: Digital marketing capabilities mediate the positive relationship between digital transformation

capability and SME performance

RESEARCH METHOD

This study employed a quantitative, cross-sectional research design to examine the relationships among business strategy orientation, digital transformation capability, digital marketing capabilities, and SME performance. The research focused on SMEs participating in the Desa Prima program in Sleman Regency, Special Region of Yogyakarta, Indonesia. Data were collected through a structured questionnaire distributed to SME owners or managers who were directly involved in business and marketing decision-making.

The research model consisted of four constructs: Business Strategy Orientation (BSO), Digital Transformation Capability (DTC), Digital Marketing Capabilities (DMC), and SME Performance (PERF). Each construct was measured using multiple indicators adapted from relevant previous studies and assessed using a Likert-type scale. The proposed model examined both direct relationships and the mediating role of digital marketing capabilities in linking business strategy orientation and digital transformation capability to SME performance.

Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The measurement model was evaluated through indicator loadings, Cronbach's alpha, composite reliability, average variance extracted (AVE), and the Heterotrait-Monotrait ratio (HTMT). The structural model was assessed using collinearity statistics, SRMR and NFI as model-fit indicators, coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2_{predict}), path coefficients, and indirect effects. Hypothesis testing used a bootstrapping procedure to determine the significance of both direct and mediating effects.

FINDINGS AND DISCUSSION

Measurement Model Assessment

The measurement model was evaluated to establish construct reliability and validity before testing the structural relationships. All four constructs showed satisfactory internal consistency. Cronbach's alpha values ranged from 0.855 to 0.883, while composite reliability values ranged from 0.902 to 0.919, exceeding the commonly accepted threshold of 0.70. Average Variance Extracted (AVE) values ranged from 0.698 to 0.739, indicating adequate convergent validity because all values were above 0.50.

Table 1. Construct reliability and validity

Construct	Cronbach's alpha	rho_a	rho_c	AVE
Business strategy orientation	0.883	0.898	0.919	0.739
Digital Transformation Capability	0.868	0.869	0.910	0.716
Digital marketing capabilities	0.855	0.858	0.902	0.698
SME Performance	0.879	0.881	0.917	0.733

Indicator reliability was also satisfactory. Outer loading values ranged from 0.802 to 0.913, demonstrating that all indicators adequately represented their respective constructs. Specifically, Business Strategy Orientation indicators ranged from 0.810 to 0.913, Digital Transformation Capability from 0.822 to 0.860, Digital Marketing Capabilities from 0.802 to 0.860, and SME Performance from 0.817 to 0.888.

Discriminant validity was assessed using the Heterotrait–Monotrait ratio (HTMT). All HTMT values were below the conservative threshold of 0.85, ranging from 0.101 to 0.675. These results confirm that each construct captures a concept that is empirically distinct from the other constructs in the model.

Table 2. Heterotrait–Monotrait ratio (HTMT) matrix

Construct	BSO	DTC	DMC
Business strategy orientation	—	—	—
Digital Transformation Capability	0.101	—	—
Digital marketing capabilities	0.605	0.432	—
SME Performance	0.654	0.435	0.675

The collinearity assessment also showed acceptable results. Indicator-level Variance Inflation Factor (VIF) values ranged from 1.796 to 3.177, indicating that multicollinearity was not a serious concern in the measurement model.

Model Fit

The overall model fit was evaluated using the Standardized Root Mean Square Residual (SRMR) and Normed Fit Index (NFI). The model produced an SRMR value of 0.060, below the recommended cut-off of 0.08, indicating an acceptable fit between the empirical data and the proposed model. The NFI value of 0.951 further indicates a satisfactory model fit.

Table 3. Model fit

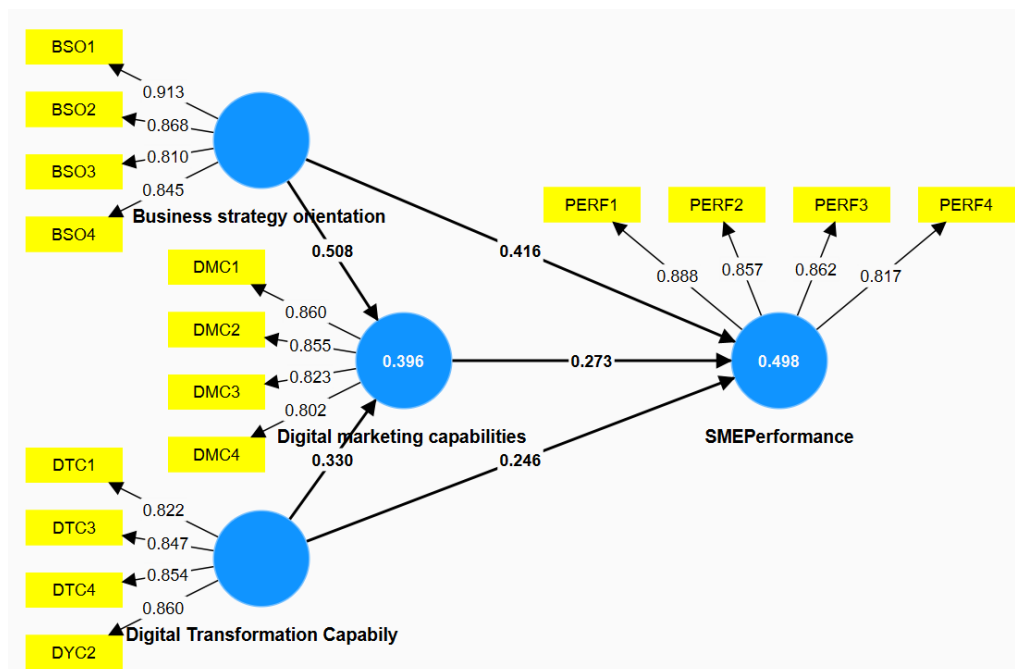
Indicator	Saturated model	Estimated model
SRMR	0.060	0.060
d_ULS	0.486	0.486
d_G	0.251	0.251
Chi-square	147.214	147.214
NFI	0.951	0.951

Structural Model and Hypothesis Testing

The structural model analysis indicates that all five direct relationships were positive and statistically significant. Business Strategy Orientation positively affected Digital Marketing Capabilities, showing that SMEs with stronger strategic orientation tend to possess stronger digital marketing capabilities. Digital Transformation Capability also positively influenced Digital Marketing Capabilities, confirming that SMEs' ability to integrate and utilize digital technologies contributes to the development of their marketing capabilities. Business Strategy Orientation and Digital Transformation Capability each directly enhanced SME Performance, while Digital Marketing Capabilities also positively affected SME Performance. Accordingly, H1–H5 were supported.

Table 4. Direct effects and hypothesis testing

Relationship	β	Mean	STDEV	t-value	p-value
BSO $\rightarrow$ DMC	0.508	0.508	0.072	7.066	<0.001
BSO $\rightarrow$ SME Performance	0.416	0.415	0.084	4.940	<0.001
DTC $\rightarrow$ DMC	0.330	0.333	0.073	4.522	<0.001
DTC $\rightarrow$ SME Performance	0.246	0.248	0.076	3.241	0.001
DMC $\rightarrow$ SME Performance	0.273	0.272	0.093	2.933	0.003

**Figure 1.** SME performance model

Mediation, Explanatory Power, and Predictive Relevance

The mediation analysis examined whether Digital Marketing Capabilities transmit the effects of Business Strategy Orientation and Digital Transformation Capability to SME Performance. The indirect effect of Business Strategy Orientation on SME Performance through Digital Marketing Capabilities was positive and statistically significant. The indirect relationship between Digital Transformation Capability and SME Performance through Digital Marketing Capabilities was also statistically significant. Because the corresponding direct effects remained significant, the findings are consistent with partial mediation. Thus, Digital Marketing Capabilities function as a value-conversion mechanism through which both strategic orientation and digital transformation capabilities are translated into improved SME performance.

Table 5. Indirect effects

Hypothesis	Indirect Relationship	β	t-value	p-value	Decision
H6	BSO $\rightarrow$ DMC $\rightarrow$ SME Performance	0.138	2.536	0.011	Supported

Hypothesis	Indirect Relationship	β	t-value	p-value	Decision
H7	DTC → DMC → SME Performance	0.090	2.424	0.015	Supported

The coefficient of determination (R^2) indicates meaningful explanatory power. Business Strategy Orientation and Digital Transformation Capability jointly explained 39.6% of the variance in Digital Marketing Capabilities. Business Strategy Orientation, Digital Transformation Capability, and Digital Marketing Capabilities jointly explained 49.8% of the variance in SME Performance.

Table 6. Coefficient of determination

Construct	R^2	Adjusted R^2
Digital marketing capabilities	0.396	0.383
SME Performance	0.498	0.482

Effect-size analysis showed that Business Strategy Orientation contributed most to Digital Marketing Capabilities ($f^2 = 0.423$) and also contributed meaningfully to SME Performance ($f^2 = 0.240$). Digital Transformation Capability generated f^2 values of 0.179 for Digital Marketing Capabilities and 0.102 for SME Performance, while Digital Marketing Capabilities contributed an f^2 value of 0.089 to SME Performance. The model's predictive capability was further evaluated using $Q^2_{predict}$. All indicators of Digital Marketing Capabilities and SME Performance produced positive $Q^2_{predict}$ values. Values ranged from 0.226 to 0.262 for Digital Marketing Capabilities and from 0.284 to 0.362 for SME Performance, demonstrating predictive relevance for both endogenous constructs.

Discussion

The findings demonstrate that business strategy orientation plays an important role in strengthening digital marketing capabilities and SME performance. SMEs with clearer strategic direction, stronger customer orientation, and greater responsiveness to market changes are better able to select appropriate digital channels and translate strategic objectives into market activities. This result supports the argument that digital marketing effectiveness should be grounded in strategic priorities rather than simply increasing use of digital platforms, and it is consistent with [Wu et al. \(2024\)](#) and [Hidayati et al. \(2025\)](#).

The study also confirms the importance of digital transformation capability in developing digital marketing capabilities and improving SME performance. SMEs that can integrate digital technologies into their business processes are better positioned to manage digital content, social media, online marketplaces, customer information, and marketing evaluation. The finding reinforces the view that digital transformation is an organizational capability that allows SMEs to continuously adapt and exploit technological opportunities, in line with [Saeedikiya et al. \(2024\)](#), [Kim and Jin \(2024\)](#), and [Joshi et al. \(2025\)](#).

Digital marketing capabilities contribute positively to SME performance. The ability to develop relevant digital content, manage social media, utilize online marketplaces, interact with customers, and evaluate digital marketing activities enables SMEs to expand market reach and strengthen customer relationships. This result supports evidence from [Wu et al. \(2024\)](#), [Hidayati et al. \(2025\)](#), and [Hazzam et al. \(2026\)](#), which positions digital marketing capability as an organizational capability rather than merely a promotional activity.

An important finding is the mediating role of digital marketing capabilities. Business

strategy orientation improves SME performance not only directly but also by strengthening the firm's ability to execute digital marketing activities. Strategic direction therefore creates greater business value when it is translated into customer-facing activities such as digital content, marketplace management, customer interaction, and marketing analytics. This result reinforces the capability-conversion perspective and aligns with [Hidayati et al. \(2025\)](#) and [Probohudono et al. \(2025\)](#).

Digital marketing capabilities also mediate the relationship between digital transformation capability and SME performance. This finding suggests that digital technology does not automatically drive stronger performance; its value emerges when SMEs use technological resources to support economically productive, customer-oriented activities. Digital transformation provides technological infrastructure and information-processing capacity, whereas digital marketing capabilities convert these resources into market value. This interpretation is consistent with [Merín-Rodríguez et al. \(2024\)](#) and [Jung and Shegai \(2023\)](#).

Overall, the results support the integrated strategy-technology-marketing capability framework. From the Resource-Based View and Dynamic Capability Theory perspectives, SME performance depends not simply on possessing strategic or technological resources but on the firm's ability to organize, adapt, and convert those resources into market-oriented capabilities. For SMEs participating in the Desa Prima program, digital empowerment initiatives should therefore move beyond providing access to technology and focus more on strategic planning, digital competencies, content creation, customer engagement, marketplace management, and evaluation of digital marketing activities.

CONCLUSIONS

This study concludes that business strategy orientation, digital transformation capability, and digital marketing capabilities are important determinants of SME performance. A clear business strategy helps SMEs identify market opportunities, respond to customer needs, and develop more effective digital marketing activities, while digital transformation capability enables SMEs to integrate technology into business processes and use digital resources more productively. Digital marketing capabilities also improve SME performance and, more importantly, function as a value-conversion mechanism that translates strategic direction and digital transformation capability into market outcomes.

The findings offer practical implications for SME owners, managers, policymakers, and development institutions. SME digitalization should be developed around clear market objectives rather than the uncoordinated adoption of digital platforms. Support programs should combine strategic planning, digital skills, customer-data utilization, content creation, social media management, and marketplace optimization so that digital adoption creates tangible business value. The study also contributes theoretically by integrating strategic, technological, and marketing capabilities within one performance framework and by positioning digital marketing capabilities as a partial mediator of both business strategy orientation and digital transformation capability.

LIMITATIONS & FURTHER RESEARCH

The study is limited by its cross-sectional design and its focus on SMEs participating in the Desa Prima program in a single regency. Questionnaire-based measures also capture perceptions at one point in time and may not fully reflect changes in digital capabilities or performance over longer periods. Future research can test the framework across regions and industries, use longitudinal or multi-source designs, and incorporate additional factors such as innovation capability, leadership support, market orientation, competitive intensity, and environmental

dynamics to explain SME performance more comprehensively in the digital economy.

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