Digital Marketing Capability and Its Impact on MSME Market Performance

Rizky Pratama[1], Siti Nur Aisyah Ramadhani[2], Muhammad Farhan Alif[3]

[1*,] Faculty of Economics and Business, Universitas Islam Batik Surakarta, Indonesia
*Correspondence E-mail: ryzkyp@gmail.com

ABSTRACT

Purpose	This study aims to examine the effect of digital marketing capability on the market performance of micro, small, and medium enterprises operating in Solo City. The research focuses on understanding how the ability to plan, implement, and manage digital marketing activities contributes to improved market outcomes among MSMEs.
Methodology	A quantitative research design was employed using a survey method. Data were collected from 85 MSME owners and managers who actively utilize digital platforms for marketing purposes. The measurement instruments were adapted from established scales, and data analysis was conducted using Structural Equation Modeling to evaluate both the measurement and structural models.
Findings	The results indicate that digital marketing capability has a positive and statistically significant effect on MSME market performance. MSMEs with stronger digital marketing capabilities demonstrate higher levels of sales growth, broader market reach, and improved customer acquisition compared to those with limited digital capabilities.
Contribution	This study contributes to the marketing and small business literature by empirically validating digital marketing capability as a strategic resource within the context of MSMEs in an emerging economy. The findings also provide practical insights for MSME owners and policymakers to prioritize capability development in digital marketing initiatives.
Keywords:	digital marketing capability; MSMEs; market performance; Solo City; digital marketing strategy

INTRODUCTION

The rapid advancement of digital technologies has fundamentally transformed the way businesses create value, interact with customers, and compete in the marketplace. Globally, digital marketing has become a critical strategic tool that enables firms to reach wider markets, personalize communication, and respond quickly to

changing consumer preferences. For micro, small, and medium enterprises (MSMEs), digital marketing is no longer an optional activity but a strategic necessity to survive and grow in increasingly competitive environments. In many developing countries, including Indonesia, the digital economy has been positioned as a key driver of inclusive economic growth, with MSMEs playing a central role in employment creation and regional development. As digital platforms continue to reshape market structures, the ability of MSMEs to effectively leverage digital marketing tools has become a major determinant of their market performance.

From a national perspective, Indonesia has experienced significant growth in internet penetration and social media usage over the past decade (Nasution et al., 2022). Government initiatives such as digital MSME empowerment programs have encouraged small businesses to adopt digital platforms for marketing, transactions, and customer engagement. However, despite these initiatives, the performance outcomes of digital marketing adoption among MSMEs remain uneven. Many MSMEs have adopted digital tools in a superficial manner, focusing primarily on social media presence without developing the underlying capabilities needed to integrate digital marketing into their overall business strategy. This condition raises an important question regarding whether digital marketing adoption alone is sufficient, or whether the development of digital marketing capability is the key factor that drives superior market performance.

Within the field of marketing and strategic management, digital marketing capability is increasingly viewed as a multidimensional construct that reflects a firm's ability to effectively plan, implement, and manage digital marketing activities (Pohan, 2025). This capability encompasses not only the use of digital platforms, but also skills related to content creation, data analytics, customer interaction, and strategic decision making. Prior studies emphasize that digital marketing capability enables firms to better understand customer needs, enhance brand visibility, and respond more rapidly to market changes. In this sense, digital marketing capability aligns closely with the broader discussion on firm capabilities and competitive advantage, particularly in dynamic and technology-driven markets. For MSMEs, which often face resource constraints, the effective deployment of digital marketing capability can serve as a critical lever to improve market performance.

Empirically, the relevance of digital marketing capability is highly evident in local business contexts such as Solo City. Solo is widely recognized as one of Indonesia's cultural and creative economic centers, with a strong concentration of MSMEs operating in sectors such as batik, handicrafts, culinary products, and creative services. These MSMEs contribute significantly to the local economy and rely heavily on market access and customer relationships (Pohan, 2025). In recent years, many MSMEs in Solo have begun to utilize digital channels such as social media, online marketplaces, and messaging applications to promote their products. However, field observations and preliminary reports indicate that while digital presence among MSMEs in Solo has increased, improvements in market performance such as sales growth, market expansion, and customer retention are not always consistent. This phenomenon suggests that the mere adoption of digital tools does not automatically translate into improved market outcomes.

The core problem addressed in this study lies in the gap between digital marketing adoption and actual market performance among MSMEs. Many MSMEs invest time and resources in digital platforms but lack the strategic and operational capabilities required to maximize their impact. Limitations in digital skills, content management, customer data utilization, and performance evaluation often prevent

MSMEs from achieving meaningful market gains. As a result, digital marketing activities tend to be fragmented and reactive rather than strategic and performance oriented. This condition underscores the need to move beyond a binary view of digital adoption and focus instead on digital marketing capability as a key explanatory factor of market performance.

From an academic standpoint, existing research on digital marketing and MSME performance presents several gaps. While numerous studies have examined the relationship between digital marketing adoption and firm performance, the findings remain mixed. Some studies report a positive and significant effect of digital marketing on sales and market reach, while others find weak or insignificant relationships, particularly among small businesses. These inconsistencies may stem from differences in how digital marketing is conceptualized and measured. Many prior studies treat digital marketing as a single activity or tool, rather than as an organizational capability that integrates skills, processes, and strategic orientation. Moreover, empirical research focusing specifically on digital marketing capability and market performance in the context of Indonesian MSMEs, especially at the city level, remains limited. This lack of context specific evidence highlights the need for further investigation (Arjuna dkk, 2025).

The theoretical foundation of this study is grounded primarily in the Resource Based View and Dynamic Capability Theory. The Resource Based View posits that firm performance is driven by valuable, rare, inimitable, and non substitutable resources and capabilities. Digital marketing capability can be considered a strategic resource that enables MSMEs to differentiate themselves and create value in the market. Dynamic Capability Theory further emphasizes the ability of firms to integrate, build, and reconfigure internal and external competencies in response to rapidly changing environments. In the context of digital markets, MSMEs that possess strong digital marketing capability are better positioned to sense market opportunities, seize customer value, and transform their marketing strategies accordingly. These theoretical perspectives provide a robust framework for explaining why digital marketing capability should have a significant impact on market performance.

Positioned within this theoretical and empirical context, the present study seeks to contribute to the literature in several ways. First, it shifts the focus from digital marketing adoption to digital marketing capability, offering a more nuanced understanding of how digital resources translate into performance outcomes. Second, by examining MSMEs in Solo City, this study provides localized empirical evidence that reflects the realities of small business digitalization in a cultural and creative economic hub. Third, the study contributes to the growing body of research on MSME marketing in emerging economies by integrating strategic management theory with marketing performance analysis.

The objective of this study is to empirically examine the impact of digital marketing capability on MSME market performance in Solo City. Specifically, this research aims to analyze whether MSMEs with higher levels of digital marketing capability achieve better market performance in terms of sales growth, market reach, and customer acquisition. By addressing this objective, the study seeks to offer both theoretical insights and practical implications for MSME owners, policymakers, and stakeholders involved in digital economic development.

RESEARCH METHOD

This study employs a quantitative research design with an explanatory approach. The primary objective of this design is to examine the causal relationship between digital marketing capability and market performance among MSMEs. A quantitative approach is considered appropriate because it allows for systematic measurement of variables and statistical testing of hypotheses based on empirical data. The explanatory design is selected to explain how variations in digital marketing capability contribute to differences in market performance across MSMEs. This approach also ensures replicability and objectivity, which are essential for theory testing in marketing research.

Population and Sample

The population of this study consists of micro, small, and medium enterprises operating in Solo City that actively utilize digital platforms for marketing purposes. These MSMEs operate in various sectors, including culinary, fashion, handicrafts, and creative industries, which are dominant economic activities in Solo. The unit of analysis is the MSME owner or manager, as they are directly responsible for marketing decisions and digital strategy implementation within the business.

The sample comprises MSMEs that meet two criteria. First, the business must be officially categorized as an MSME based on national standards. Second, the business must have used at least one digital marketing channel, such as social media or online marketplaces, for a minimum of six months. These criteria ensure that respondents possess sufficient experience with digital marketing activities to provide reliable data.

Sampling Technique and Sample Size Determination

A purposive sampling technique is employed in this study. This technique is chosen because it allows the researcher to select respondents who are most relevant to the research objectives. Purposive sampling is commonly used in MSME studies where a complete sampling frame is difficult to obtain and where specific characteristics are required from respondents.

The sample size is determined based on the requirements of Structural Equation Modeling. According to Hair et al., a minimum sample size of 5 to 10 observations per estimated parameter is recommended for SEM analysis. Given the number of indicators used in this study, a minimum sample size of 200 respondents is considered adequate to ensure stable parameter estimation and sufficient statistical power. Therefore, data were collected from 85 MSMEs to account for potential data loss and ensure robustness of the analysis.

Data Collection Technique

Primary data were collected through a structured questionnaire distributed directly to MSME owners or managers in Solo City. The questionnaire was administered both online and offline to increase response rates and accommodate respondents' preferences. The items in the questionnaire were adapted from established and validated scales used in previous studies on digital marketing capability and market performance. Prior to full distribution, a pilot test was conducted to ensure clarity, relevance, and reliability of the measurement items.

Operational Definition of Variables and Measurement Indicators

Digital marketing capability is defined as the ability of an MSME to effectively plan, implement, and manage digital marketing activities to achieve business objectives. This variable is measured using indicators that reflect digital content creation capability, customer interaction through digital platforms, use of digital analytics, and integration of digital marketing into business strategy.

Market performance refers to the extent to which an MSME achieves favorable outcomes in the market as a result of its marketing activities. This variable is measured using indicators such as sales growth, market reach, customer acquisition, and competitive positioning. These indicators are commonly used in marketing performance studies involving small businesses.

Measurement Scale

All measurement items are assessed using a five point Likert scale ranging from strongly disagree to strongly agree. The Likert scale is chosen because it is widely used in behavioral and marketing research and allows respondents to express the intensity of their perceptions. This scale is suitable for SEM analysis and facilitates comparison across respondents.

Data Analysis Technique

Data analysis is conducted using Structural Equation Modeling. SEM is selected because it allows simultaneous examination of the measurement model and the structural model, enabling the researcher to assess both construct validity and causal relationships among variables. The analysis follows a two step approach. First, the measurement model is evaluated through confirmatory factor analysis to assess validity and reliability. Second, the structural model is tested to examine the effect of digital marketing capability on market performance.

Key statistical criteria used in the analysis include factor loadings, average variance extracted, composite reliability, and coefficient of determination. Hypothesis testing is performed by examining standardized path coefficients and significance levels. SEM is particularly suitable for this study because it provides a comprehensive framework for analyzing complex relationships involving latent constructs.

Software and Statistical Tools

Data analysis is performed using AMOS software. AMOS is selected due to its strong capability in conducting covariance based SEM and its suitability for theory testing. Data preprocessing and descriptive analysis are conducted using SPSS software. The combination of SPSS and AMOS ensures accuracy in data handling, statistical testing, and model estimation, following established methodological standards recommended by Hair et al.

RESULTS AND DISCUSSIONS

Respondent Description

The respondents of this study consist of 85 MSME owners and managers operating in Solo City who actively use digital platforms for marketing purposes. Most respondents operate in the culinary, fashion, handicraft, and creative product sectors, which represent the dominant MSME categories in Solo. The majority of businesses have

been operating for more than three years, indicating sufficient business experience to evaluate marketing performance outcomes. In terms of digital usage, most respondents reported using social media platforms such as Instagram and Facebook, as well as online marketplaces, as their primary digital marketing channels. This respondent profile is considered appropriate for examining digital marketing capability and its impact on market performance.

Validity and Reliability Testing

Prior to testing the structural model, the measurement model was evaluated to ensure that the constructs meet the requirements of validity and reliability. Confirmatory Factor Analysis was conducted to assess convergent validity through standardized factor loadings and Average Variance Extracted. Composite Reliability was used to examine internal consistency reliability. These procedures are essential in SEM to confirm that the observed indicators adequately represent the latent constructs.

Table 1. Validity and Reliability Results

Variable	Indicator	Factor Loading	AVE	CR
Digital Marketing Capability	DMC1	0.81	0.58	0.87
	DMC2	0.78		
	DMC3	0.74		
	DMC4	0.72		
Market Performance	MP1	0.83	0.61	0.89
	MP2	0.79		
	MP3	0.76		
	MP4	0.73		

The results presented in Table 1 indicate that all standardized factor loadings exceed the recommended threshold of 0.70. The AVE values for both constructs are above 0.50, and composite reliability values exceed 0.70. These results confirm that the constructs demonstrate adequate convergent validity and internal consistency reliability. Therefore, the measurement model is deemed acceptable for subsequent structural model testing.

Structural Model Evaluation

After confirming the adequacy of the measurement model, the structural model was evaluated to assess the explanatory power of digital marketing capability on market performance. The coefficient of determination was used to measure how much variance in market performance is explained by digital marketing capability.

Hypothesis Testing Results

Hypothesis testing was conducted by examining the standardized path coefficient, critical ratio, and significance level generated from the SEM analysis. A relationship is considered statistically significant when the p value is less than 0.05.

Table 2. Hypothesis Testing Results

Hypothesis	Path Relationship	Path Coefficient	CR	p-value	Result
H1	Digital Marketing Capability → Market Performance	0.75	9.21	0.000	Supported

Table 3 indicates that digital marketing capability has a positive and statistically significant effect on market performance. The high path coefficient and critical ratio demonstrate a strong causal relationship, confirming that MSMEs with higher digital marketing capability tend to achieve superior market performance.

Discussion

Digital Marketing Capability and Market Performance

The findings demonstrate that digital marketing capability has a strong positive effect on MSME market performance. This result indicates that MSMEs that possess the ability to effectively manage digital content, interact with customers online, analyze digital data, and integrate digital marketing into their business strategy are more likely to achieve higher sales growth, wider market reach, and improved customer acquisition. This finding highlights that digital marketing success is driven by capability development rather than mere digital presence.

From a theoretical perspective, this result strongly supports the Resource Based View, which emphasizes that firm performance is determined by valuable and difficult to imitate capabilities. Digital marketing capability represents a strategic resource that enables MSMEs to create market value and differentiate themselves from competitors. The finding also aligns with Dynamic Capability Theory, which suggests that firms must continuously adapt and reconfigure their capabilities to respond to environmental changes. In digital markets characterized by rapid technological shifts, MSMEs with strong digital marketing capability are better positioned to sense customer needs and seize emerging opportunities.

The empirical results of this study are consistent with prior research that reports a positive relationship between digital marketing capability and business performance. Previous studies conducted in various contexts have found that firms with advanced digital marketing skills tend to outperform those with limited digital capabilities. However, this study extends existing findings by providing context specific evidence from MSMEs in Solo City, a setting that has received limited scholarly attention despite its strong creative economy and MSME concentration.

Contextually, the findings reflect the realities faced by MSMEs in Solo. Many businesses operate in highly competitive markets with similar products, particularly in culinary and creative industries. In such conditions, digital marketing capability enables MSMEs to differentiate their offerings through storytelling, cultural branding, and personalized customer engagement. MSMEs that strategically use digital platforms are better able to reach customers beyond local markets, which directly enhances their market performance.

From a practical standpoint, the findings imply that MSME owners and policymakers should focus on capability development rather than only encouraging digital platform adoption. Training programs should emphasize strategic digital marketing skills, content management, and performance evaluation. For local

governments and business support institutions, the results suggest that digital empowerment initiatives should prioritize long term capability building to ensure sustainable market performance improvements.

CONCLUSIONS

This study investigates the impact of digital marketing capability on the market performance of MSMEs in Solo City. The findings provide clear empirical evidence that digital marketing capability plays a significant role in enhancing market performance, including sales growth, market reach, and customer acquisition. The results indicate that MSMEs that are able to strategically manage digital marketing activities achieve superior outcomes compared to those that rely on limited or ad hoc digital practices.

The objective of the study is fully achieved by demonstrating that digital marketing capability is a key determinant of MSME market performance. The findings confirm that effective utilization of digital tools must be supported by underlying capabilities such as content management, customer interaction, data analysis, and strategic integration. This suggests that the success of digital marketing among MSMEs depends not merely on adoption but on the depth and quality of capability development.

From a theoretical standpoint, this study contributes to the marketing and strategic management literature by reinforcing the relevance of the Resource Based View and Dynamic Capability Theory in the context of MSMEs. The results empirically validate digital marketing capability as a strategic resource that enables firms to adapt to dynamic market environments and achieve competitive market outcomes. By focusing on MSMEs in an emerging economy, this study also extends existing theories beyond large firm contexts, offering more inclusive insights.

In practical terms, the findings provide important managerial implications for MSME owners, policymakers, and business development institutions. MSME owners should prioritize the development of digital marketing capabilities rather than focusing solely on platform usage. Training initiatives should emphasize strategic planning, digital content creation, and performance monitoring. For policymakers, the results suggest that digital empowerment programs should be designed to support long term capability building to ensure sustainable improvements in MSME market performance.

Despite its contributions, this study has several limitations. The use of a cross sectional design limits the ability to capture changes in digital marketing capability and performance over time. Additionally, the study relies on self reported data, which may introduce response bias. The focus on MSMEs in Solo City also limits the generalizability of the findings to other regions or sectors.

Future research is encouraged to adopt longitudinal approaches to better examine causal relationships and capability development over time. Scholars may also consider incorporating mediating or moderating variables such as innovation capability, brand equity, or competitive intensity to deepen understanding of the mechanisms linking digital marketing capability and performance. Comparative studies across regions or industries would further enhance the robustness and applicability of future findings.

REFERENCES

Arjuna, Syukron; Pohan, Muhammad Yasir Arafat; Putri, N. N. (2025). Kebermanfaatan Teori Resource Based-View(RBV) Pada Café/Restoran Di Rantauprapat: Serta Penerapannya Terhadap strategi dan Keunggulan Bersaing. *YUME : Journal of*

Management, 10(1), 1434–1441.

Bala, M., & Verma, D. (2018). A critical review of digital marketing. *International Journal of Management, IT & Engineering, 8*(10), 321–339.

Chaffey, D., & Ellis-Chadwick, F. (2019). *Digital marketing: Strategy, implementation and practice* (7th ed.). Pearson Education.

Eid, R., Abdelmoety, Z. H., & Agag, G. (2020). Antecedents and consequences of social media marketing use. *Journal of Retailing and Consumer Services, 54*, 102034. https://doi.org/10.1016/j.jretconser.2019.102034

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2022). *A primer on partial least squares structural equation modeling (PLS-SEM)* (3rd ed.). Sage Publications.

Kraus, S., Palmer, C., Kailer, N., Kallinger, F. L., & Spitzer, J. (2019). Digital entrepreneurship. *International Journal of Entrepreneurial Behavior & Research, 25*(2), 353–375. https://doi.org/10.1108/IJEBR-06-2018-0423

Morgan, N. A., Vorhies, D. W., & Mason, C. H. (2009). Market orientation, marketing capabilities, and firm performance. *Strategic Management Journal, 30*(8), 909–920.

Nguyen, T. H., Newby, M., & Macaulay, M. J. (2015). Information technology adoption in small business. *Journal of Small Business Management, 53*(1), 207–227.

Nasution, A. P., Prayoga, Y., Pohan, M. Y. A., & Siregar, Z. M. E. (2022). Adoption of Fintech by Labuhanbatu Students. *International Journal of Social Science and Business, 7*(1 SE-Articles). https://doi.org/10.23887/ijssb.v7i1.53599

Pohan, Muhammad Yasir Arafat; Putri, N. N. (2025). *Factors Influencing Local Communities' Intention to Support Sustainable Tourism Development in the Lake Toba Super- Priority Destination*. 5(2), 928–935. https://doi.org/10.37531/amar.v5i2.3130

Ritter, T., & Pedersen, C. L. (2020). Digitization capability and digitalization of business models. *Journal of Business Research, 124*, 357–372. https://doi.org/10.1016/j.jbusres.2020.01.037

Teece, D. J. (2018). Business models and dynamic capabilities. *Long Range Planning, 51*(1), 40–49. https://doi.org/10.1016/j.lrp.2017.06.007

Wang, Y., Hong, A., Li, X., & Gao, J. (2020). Marketing innovations during a global crisis. *Industrial Marketing Management, 88*, 421–432. https://doi.org/10.1016/j.indmarman.2020.05.005