

The Mediating Role of Innovation in the Relationship Between Digital Marketing Capability and Marketing Performance: Evidence from SMEs in Malang Raya, Indonesia

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ABSTRACT: This study aims to analyze the role of innovation in mediating digital marketing capability to increase the marketing performance of SMEs. Many studies have found that SME digital marketing capability can increase marketing performance. Does this effect also apply if the relationship between these two variables is mediated by innovation? This research was conducted in Malang Raya, East Java, Indonesia on SMEs. The respondents are 157 SMEs (Small and Medium Enterprises) under the guidance of PT Rakyatpreneur Agroniaga Bertumbuh; however, only 106 SMEs completed the questionnaire in full. Research analysis using Partial Least Squares (PLS) method. The results of the study are: digital marketing capability directly affects innovation but not on marketing performance. Innovation has a significant positive effect on marketing performance. Indirectly, digital marketing performance has a significant positive effect on marketing performance through innovation. These results indicate that the role of the innovation variable is important in increasing the influence of digital marketing capability on marketing performance as a mediating variable. In this research the influence of digital marketing capability variable only increasing marketing performance if via innovation variable.

KEYWORDS: Digital Marketing Capability, Innovation, Marketing Performance, UMKM , Malang Raya

INTRODUCTION

Digital transformation has created significant opportunities for SMEs to expand their market reach and improve marketing effectiveness through the utilization of content, digital channels, and data analytics. However, research findings indicate that the success of digital marketing largely depends on an organization's capability to manage these resources in an integrated manner. Masrianto et al. (2022) emphasize that the business value of digital marketing does not arise from sporadic promotional activities, but rather from its systematic integration into the marketing decision-making process. In the digital context, research has also demonstrated that digital marketing capability can strengthen innovation through the utilization of real-time data and customer interactions. Studies by Purwanti et al. (2022) and Karnitasari et al. (2025) found a positive effect of digital marketing capability on SME performance, although the magnitude of this effect varies depending on organizational readiness. On the other hand, the findings of Sharabati et al. (2024) indicate that this effect is not necessarily strong without the support of innovation and the quality of customer relationships, thereby highlighting the importance of a mediation approach in explaining the relationships among these variables. Digital marketing capability can be viewed as a strategic capability that enables SMEs to acquire, process, and utilize market information through various digital technologies and channels. Rialti and Zollo (2023) conceptualize digital transformation in SME marketing from a customer-centric marketing perspective, in which digital technologies are utilized to enhance firms' understanding of customers and transform their marketing strategies. Given the gaps in previous research findings, the present study is therefore relevant for examining the roles of digital marketing capability and market orientation as antecedents of innovation and marketing performance. From a practical perspective, this study suggests that improving SME performance cannot be achieved through digitalization alone; rather, it requires the development of structured digital capabilities, the strengthening of market orientation, and the transformation of these capabilities and orientations into meaningful innovations. Empirically, this study focuses on SMEs in Malang Raya, comprising Malang City, Batu City, and Malang Regency, which possess substantial potential but also face various development challenges. One of the groups of SMEs included in this

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study consists of SMEs under the guidance of PT Rakyatpreneur Agroniaga Bertumbuh, which provides training and mentoring support. Accordingly, this study is expected to contribute to the formulation of strategies for strengthening SME competitiveness through the integration of digital marketing capability and innovation to achieve sustainable improvements in marketing performance.

LITERATURE REVIEW

Previous Research Review

The relationships among digital marketing capability, market orientation, innovation, and marketing performance have been widely examined in previous studies. Evidence of a direct positive effect can be found in a study of agro-processing SMEs, which found that digital marketing capability significantly influences both intermediate market performance and final market performance (Chinakidzwa & Phiri, 2020). A quantitative study conducted in China demonstrated that digital marketing capability enhances customer-linking capabilities and market-sensing capabilities, which in turn increase consumer–brand engagement and are ultimately associated with firm performance (Liu, 2022). Similarly, Utomo and Susanta (2020) found that digital marketing capability affects marketing performance through innovation, with innovation serving as a mediating variable. Several studies have found that digital marketing, or digital marketing capability (DMC), does not necessarily have a significant direct effect on marketing performance, but may influence performance through other mechanisms, such as innovation, customer relationships, or market entry agility. For example, Ariadi et al. (2024), in a study of culinary SMEs, found that digital marketing did not have a significant direct effect on marketing performance but influenced marketing performance through market entry agility. These findings suggest that the contribution of digital marketing to SME performance may depend on the organization's ability to translate digital resources and activities into strategic capabilities and market-oriented outcomes.

Previous studies have also examined the effect of market orientation on marketing performance. D'Souza et al. (2021), Palwaguna et al. (2021), and Haryanto et al. (2020) found that market orientation can be understood as an organizational capability to generate market intelligence, disseminate it across functional areas, and respond to it in a coordinated manner, thereby enabling more accurate and timely marketing decisions. As an organizational capability, market orientation enables firms to develop stronger customer value, adapt more effectively to changing customer needs, and become better prepared to respond to competitors. These capabilities ultimately contribute to marketing performance, including sales growth, market share, customer acquisition and retention, and brand performance indicators. Previous research has also investigated the relationship between market orientation and innovation. Ozkaya et al. (2015) found that market orientation is associated with innovation through knowledge-based mechanisms, particularly knowledge competence, thereby positioning knowledge capability as a mediator in the relationship between market orientation and innovation. Similarly, Fakhreddin (2022) found that market orientation is associated with innovation outcomes and new product development through the mediating role of new product launch activities. Arimbawa and Jatra (2024) found that market orientation has a positive and significant effect on product innovation and marketing performance, while product innovation significantly mediates the relationship between market orientation and marketing performance. More recent findings by Huddin et al. (2025) demonstrate that market orientation influences innovation and that innovation has a significant effect on marketing performance. Their study also identified a sequential mediation mechanism involving digital marketing and innovation leading to marketing performance. Based on these findings, it can be inferred that market orientation may enhance marketing performance through SMEs' ability to translate market information and customer needs into innovation. Similarly, Zehir et al. (2015) and Devara and Sulistyawati (2019) demonstrated that product innovation functions as a mediating variable that explains the effect of market orientation on marketing performance. Utomo and Susanta (2020) found that digital marketing capability stimulates innovation capability, which subsequently enhances marketing performance. Furthermore, Effendi et al. (2022), who explicitly examined the mediating effect of product innovation, found that digital marketing has a positive and significant effect on both marketing performance and product innovation, while product innovation mediates the relationship between digital marketing and marketing performance.

Based on the findings of previous studies, there is evidence of direct and indirect relationships between market orientation, innovation, and social capital and marketing performance, including relationships mediated by competitive advantage. However, the roles of market orientation, innovation, and social capital in improving marketing performance, both directly and indirectly through competitive advantage, require further investigation, particularly among SMEs in the Malang Raya region

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Digital Marketing Capability

Digital marketing capability refers to the ability to manage digital content and channels, develop customer interactions, and utilize data and analytics to achieve marketing objectives and improve the effectiveness of marketing activities (Kannan & Li, 2017; Homburg & Wielgos, 2022).

Digital marketing capability is often positioned as an extension of the dynamic capabilities approach, namely, the firm's ability to respond to rapidly changing environmental conditions by reconfiguring its competencies and internal processes (Wang, 2020). Rialti and Zollo (2023) view digital transformation in SMEs from a marketing perspective as a process that extends beyond technology adoption and should instead be directed toward innovation in marketing strategies. The utilization of digital technologies enables SMEs to develop new approaches to understanding customers, creating value, and designing and implementing marketing strategies that are aligned with the digital environment.

In the digital context, this capability has become increasingly important because it enables SMEs to utilize marketing knowledge and customer knowledge more effectively. However, for such capabilities to generate improved performance, marketing knowledge and resources need to be translated into strategic actions that create value for customers. In a business-to-business (B2B) context, digital marketing capability encompasses aspects such as channels, social media, digital relationships, and digital technologies, illustrating that digital marketing capability is a cross-functional capability rather than an isolated organizational function (Herhausen et al., 2020).

Innovation

Innovation refers to a firm's ability to generate and implement improvements or changes in products, processes, services, and business practices by leveraging available knowledge, ideas, technologies, and opportunities to create value for customers and enhance the firm's competitiveness and market performance. In the context of SMEs, innovation represents a strategic capability that enables firms to respond to changing customer needs and business environments while developing improvements that can strengthen their competitive position and marketing performance (Rubio-Andrés et al., 2024; Fahmi et al., 2024; Utomo et al., 2026).

In the context of small and medium-sized enterprises, innovation can also be viewed as a strategic capability that enables firms to respond to changing customer needs, technological developments, competitive dynamics, and changes in the business environment. Hassan et al. (2024) demonstrate that digital development can serve as a source of innovation and contribute to improving the *innovation performance* of SMEs. Therefore, firms need more than simply generating new ideas; they must also possess the capability to identify opportunities, acquire and combine knowledge, develop ideas into innovations, and implement them in business activities. This capability has become increasingly important because recent research indicates that *innovation capability* can enhance firms' competitive advantage and market performance (Otache, 2024; Shirokova et al., 2026).

One approach widely adopted in contemporary research distinguishes innovation into four main forms: product innovation, process innovation, marketing innovation, and organizational innovation. Recent studies of SMEs indicate that these four forms of innovation can be used as dimensions for describing a firm's capability to undertake renewal and improvement. Research on SMEs in Indonesia has also employed these four dimensions to measure innovation and found that product, process, marketing, and organizational innovation are associated with firm performance (Phonthanukitithaworn et al., 2023; Putra & Putri, 2024; Pramuki & Kusumawati, 2024).

Marketing Performance

In the context of small and medium-sized enterprises, marketing performance has become increasingly important as firms face rapidly changing customer needs, intensifying competition, technological developments, particularly digital technologies, and changing market conditions.

Recent research on marketing performance among MSMEs also indicates that customer growth is an important component of the marketing performance construct. For example, Quraysin et al. (2024) found that customer growth makes a strong contribution to the measurement of marketing performance, together with sales growth and sales volume.

Ferdinand (2003) identified sales value, sales growth, and market share as important measures of marketing performance, whereas Voss and Voss (2000) emphasized sales growth, customer growth, and the firm's economic outcomes. Meanwhile, Avlonitis and Gounaris (1997) employed indicators such as profitability, sales revenue, return on investment, and market share to measure marketing performance.

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MATERIAL AND METHODS

Population and Sample

The population of this study consisted of 157 SME owners or entrepreneurs under the guidance of PT Rakyatpreneur Agroniaga Bertumbuh. The sampling technique employed was total sampling (census sampling), in which all members of the population were invited to participate in the study. However, only 106 SMEs completed the questionnaire in full. Therefore, the 106 SMEs that submitted complete responses constituted the final sample of this study.

Data analysis

Partial Least Squares (PLS) was utilized to analyze the data in this study. Partial Least Squares is a prediction technique that can handle a large number of independent variables, even if they are multicollinear, (Ghozali, 2006). The path analysis model in PLS is composed of three groups of relationships: (1) the inner model, (2) the outer model, and (3) the weight relation.

Research Concept Framework

The conceptual framework of this research begins with the idea that digital marketing capability can enhance marketing performance and influence it indirectly through innovation.

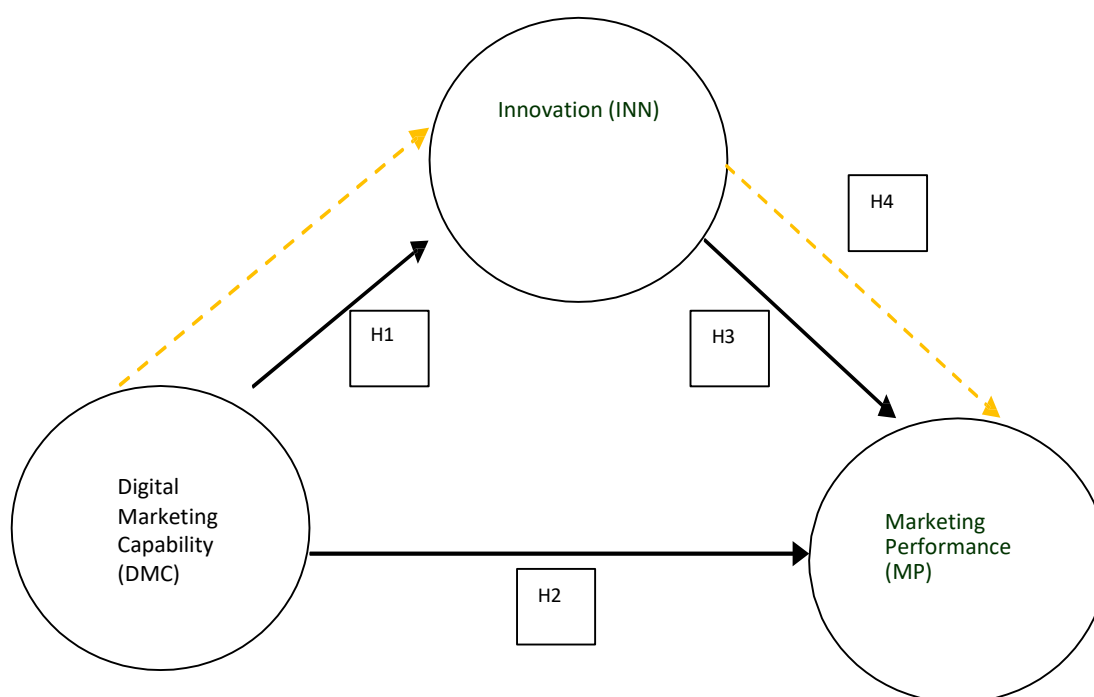


Figure 1: Research Concept Framework

Validity and Reliability Test

An indicator is considered valid if its convergent validity has a minimum outer loading value of 0.7 (Sulianto, 2008). PLS was used to evaluate three variables and eleven indicators in this study. All indicators in this study were valid based on this parameter because their loading factor values were greater than 0.7 . (See Figure 3).

RESULT

This study was conducted by distributing a questionnaire through Google Forms to all business owners or entrepreneurs under the guidance of PT Rakyatpreneur Agroniaga Bertumbuh, comprising a total of 157 SMEs. However, only 106 SMEs completed the questionnaire in full. Therefore, the 106 SMEs that provided complete responses were used as the final sample for this study. The findings of the study are as follows:

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Research Result Framework

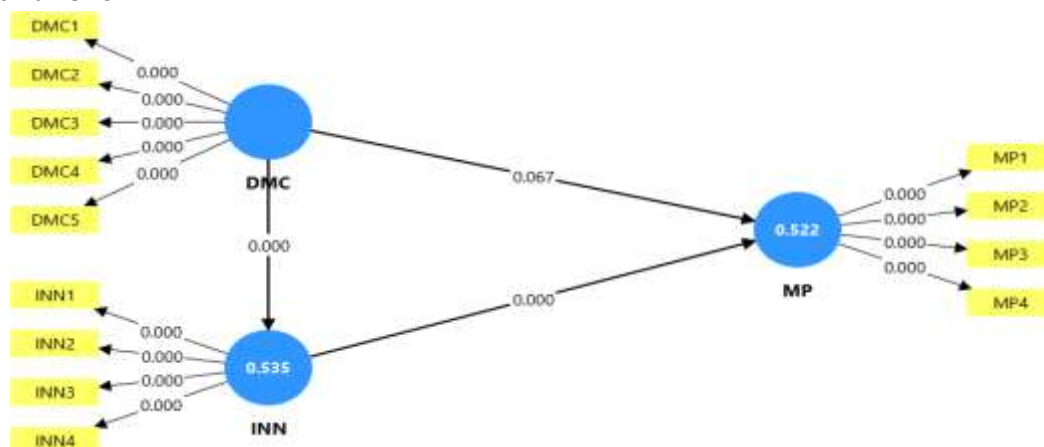


Figure 2: Research Result Framework (p-value)

Source: Primary data processed 2026

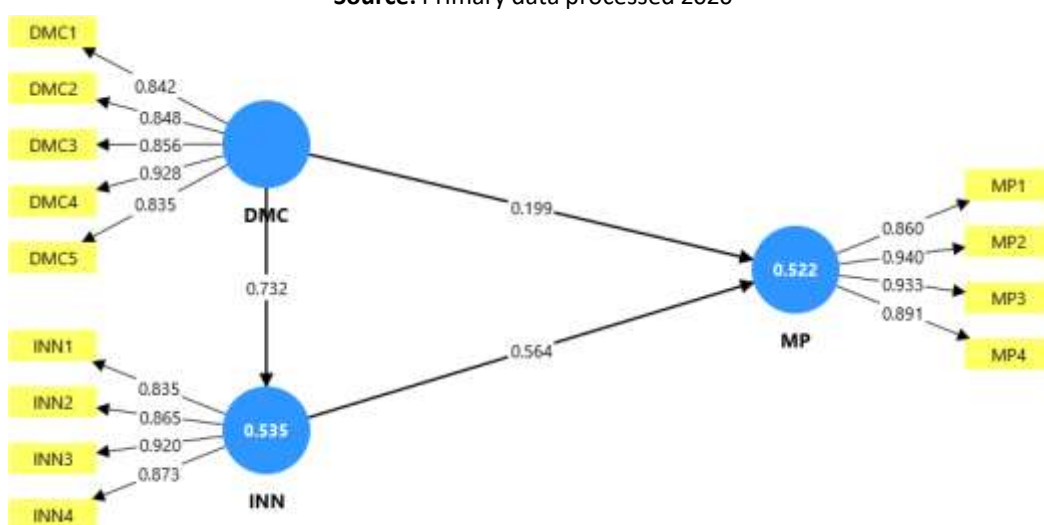


Figure 3: Research Result Framework (path coeff and outer loading)

Source: Primary data processed 2026

Direct and Indirect Effect

The values in the path coefficient, t-statistics, and P-value columns for testing the direct effect hypothesis between variables are shown in Table 1. The results reveal that two of the correlations are significant and accepted namely hypothesis 1 (H1) and hypothesis 3 (H3), but hypothesis 2 (H2) is not significant and not accepted.

Table 1: Testing Result of Direct Effect

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
DMC -> INN	0.732	0.734	0.068	10.702	0.000
DMC -> MP	0.199	0.206	0.109	1.829	0.067
INN -> MP	0.564	0.558	0.111	5.100	0.000

Source: Primary data processed 2026

Table 2 displays the path coefficient values, t-statistics, and P-values for evaluating the hypothesis of the indirect effect of social capital on competitive advantage via marketing orientation. The findings indicate that this association is significant.

Table 2: Testing Result of Indirect Effect

Hypothesis	Variable	Path	t – Stat.	P- Value	Remark	Character.
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	Exogen	Mediator	Endogen.	Coeff.				
H4	DMC	INN	MP	0,413	4,681	0.000	Sig	Mediation

Source: Primary data processed 2026

Table 3 shows the values of total effect after using innovation as mediator variable between digital marketing capability and marketing performance

Table 3: Testing Result of Total Effect

Correlation	Path Coeff.	t – Stat.	P- Value	Rem.	
Digital Marketing Capability (DMC) - Innovaion (INN)	0,732	10,702	0.000	Sig	Acc
Digital Marketing Capability (DMC) - Marketing Performance (MP)	0.611	8,966	0.000	Sig	Acc
INN (INN) - Marketing Performance (MP)	0,564	5,100	0.000	Sig	Acc

Source: Primary data processed 2026

DISCUSSION

Research Hypothesis Testing

Hypothesis testing 1: The effect of digital marketing capability on innovation

The results of hypothesis testing 1 (H1) show that $t = 10.702 > 1.96$ and $p < 0.05$, indicating that digital marketing capability (DMC) has a positive and significant effect on innovation (INN). The path coefficient of 0.732 also indicates that this effect is relatively strong. This finding suggests that the higher the level of digital marketing capability possessed by SMEs, the greater their innovation capability.

Substantively, this finding can be explained by recognizing that digital marketing capability involves more than merely the ability to use social media or digital platforms. DMC encompasses an organization's ability to utilize digital technologies to obtain market information, interact with customers, manage digital content, integrate marketing channels, interpret market responses, and utilize digital information in decision-making. These capabilities provide SMEs with faster access to information regarding customer needs and changes in the market environment. Such information can subsequently serve as an important input for innovation processes, including product, process, service, and business model innovation.

This finding is strongly supported by Wu et al. (2024), who demonstrated that digital marketing strategies among SMEs are associated with innovativeness, proactiveness, organizational agility, and managerial capabilities. Their study employed the Resource-Based View (RBV) and Dynamic Capabilities View (DCV) perspectives to explain the relationship between digital capabilities and SME performance. More specifically, research on German SMEs found that digital diffusion positively stimulates innovation performance, indicating that digitalization can become a source of innovation development when organizations possess the capabilities required to utilize digital technologies productively (Hair et al., 2022). Therefore, Hypothesis 1 (H1), stating that digital marketing capability (DMC) has a significant effect on innovation (INN), is supported and accepted.

Hypothesis testing 2: The effect of digital marketing capability on marketing performance

The results of hypothesis testing 2 (H2) indicate that digital marketing capability (DMC) has a positive direction of influence on marketing performance (MP), but the effect is not statistically significant at the 5% significance level ($\alpha = 0.05$). Therefore, an increase in DMC does not automatically result in a direct improvement in marketing performance.

This finding is important because it might intuitively be assumed that stronger digital marketing capabilities would lead to higher marketing performance. However, the results of this study indicate that the relationship is not sufficiently strong when digital marketing capability (DMC) is considered as a direct predictor of marketing performance (MP). In other words, possessing strong digital marketing capabilities alone does not necessarily guarantee improved marketing outcomes.

From a theoretical perspective, this finding can be explained through Dynamic Capability Theory. Organizational capabilities do not necessarily translate into superior performance automatically. Rather, capabilities need to be transformed into strategic activities that create value for customers. In the context of this study, innovation appears to function as the mechanism through which digital marketing capability is transformed into improved marketing performance. In other words, having digital capabilities does not necessarily lead to better marketing performance unless those capabilities are translated into innovations that generate value for the market.

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This finding is also consistent with recent research suggesting that digitalization does not always automatically generate improved organizational performance. Research on SMEs in Indonesia indicates that digital marketing capability can influence performance, but this relationship may depend on other mechanisms, such as customer engagement or customer satisfaction. Furthermore, Kasmad et al. (2024) found that digital marketing did not have a significant effect on the performance of MSMEs in South Tangerang, whereas competency had a significant effect. This finding further supports the argument that digital capability should not be understood merely as the adoption or use of digital technologies. Instead, organizations need the capability to transform digital resources and technologies into meaningful value creation. Therefore, Hypothesis 2 (H2), which states that digital marketing capability (DMC) has a significant effect on marketing performance (MP), is not supported and is rejected.

Hypothesis testing 3: The effect of innovation on marketing performance

The results of hypothesis testing 3 (H3) show that $t > 1.96$ and $p < 0.05$, indicating that innovation has a positive and significant effect on marketing performance. The path coefficient of 0.564 indicates a relatively strong effect. This finding suggests that improvements in SMEs' innovation capabilities tend to be accompanied by improvements in marketing performance.

Conceptually, innovation enables SMEs to develop products, services, processes, customer experiences, and marketing approaches that are better aligned with changing market needs. In an increasingly dynamic competitive environment, maintaining existing products alone is insufficient. SMEs need to continuously develop and implement improvements in order to remain relevant to customers and respond effectively to changes in market demand.

This finding is consistent with Purmono (2023), who found that innovation capability has a positive and significant effect on the marketing performance of SMEs in Indonesia. The study also found that technology capabilities influence innovation capability (Purmono, 2023). Similarly, research on MSMEs in West Java found that innovation capability had a stronger effect on performance than entrepreneurial marketing, with an innovation capability coefficient of 0.465 (Sari et al., 2023). Another study of MSMEs in Semarang found that product innovation has a positive and significant effect on marketing performance (Natoil & Hartarini, 2023).

These findings reinforce the argument that innovation represents an important mechanism for improving SME marketing performance. Innovation enables SMEs to translate technological resources, market knowledge, and customer insights into new or improved products, services, processes, and marketing practices that generate greater value for customers and strengthen the firm's market position. Therefore, Hypothesis 3 (H3), which states that innovation (INN) has a significant effect on marketing performance (MP), is supported and accepted.

Hypothesis testing 4: The effect of digital marketing capability on marketing performance through innovation

The results of hypothesis testing 4 (H4) represent one of the most important findings of this study. The indirect effect analysis shows that digital marketing capability (DMC) has a positive and significant effect on marketing performance (MP) through innovation (INN). The results indicate a path coefficient (β) of 0.413, a sample mean of 0.409, a standard deviation of 0.088, a t-statistic of 4.681, and a p-value of 0.000. Since $t = 4.681 > 1.96$ and $p < 0.05$, the indirect effect of digital marketing capability on marketing performance through innovation is positive and statistically significant.

The indirect effect can also be explained mathematically. Digital marketing capability has an effect of 0.732 on innovation, while innovation has an effect of 0.564 on marketing performance. Therefore, the magnitude of the indirect effect can be calculated as: $0.732 \times 0.564 = 0.413$. This result indicates that digital marketing capability contributes to improved marketing performance through the development of innovation. In other words, the ability of SMEs to utilize digital technologies, manage digital marketing activities, obtain market information, and interact with customers does not necessarily translate directly into superior marketing performance. Instead, these capabilities appear to generate greater marketing outcomes when they are transformed into innovation.

This finding becomes particularly important when compared with the direct effect. The direct effect of digital marketing capability on marketing performance is $\beta = 0.199$ with $p = 0.067$, which is not statistically significant at the 5% significance level. In contrast, the indirect effect of digital marketing capability on marketing performance through innovation is $\beta = 0.413$ with $p < 0.001$, which is statistically significant. This pattern indicates that innovation plays a critical mediating role in the relationship between digital marketing capability and marketing performance.

The findings are consistent with the use of PLS-SEM for examining mediation mechanisms (Sarstedt et al., 2022). PLS-SEM enables researchers to simultaneously evaluate direct and indirect effects within a structural model, thereby providing a more comprehensive understanding of how an antecedent variable influences an outcome variable through a mediator.

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The pattern observed in this study suggests that the effect of DMC on MP occurs primarily through innovation rather than through a direct pathway. In mediation terminology, because the indirect effect is statistically significant while the direct effect is not significant, the findings indicate an indirect-only mediation pattern. Thus, innovation functions as the principal mechanism through which digital marketing capability contributes to improved marketing performance.

Therefore, Hypothesis 4 (H4), which states that digital marketing capability has a significant effect on marketing performance through innovation, is supported and accepted.

CONCLUSIONS

This study demonstrates the significance of the innovation variable in boosting marketing performance as a digital marketing capability mediator. Previously, digital marketing capability had no effect on marketing performance; however, when innovation is included as a mediator variable, the association between digital marketing capability and marketing performance becomes positive and significant.

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