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Enhancing Sustainable Performance In Handicraft Smes Through Digital Marketing Capability And Strategic Orientation

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Abstract

The rapid digitalization of business activities has transformed the competitive landscape for small and medium-sized enterprises (SMEs), particularly those operating in the creative industry. This study investigates how Digital Marketing Capability, represented by Social Media Marketing, Strategic Orientation, and Government Regulation, enhances Sustainable Performance through Business Capacity among handicraft SMEs in Indonesia. Drawing upon the Dynamic Capability Theory and the Resource-Based View, the study proposes that digital marketing capability enables SMEs to develop organizational competencies that improve long-term sustainability. Data were collected from 120 handicraft SMEs located in Magelang Regency using purposive sampling. Structural Equation Modeling (SEM) with AMOS 24 was employed to examine the proposed relationships. The empirical findings reveal that Social Media Marketing significantly improves Business Capacity and Sustainable Performance. Strategic Orientation and Government Regulation also positively contribute to organizational capability development and sustainability outcomes. Furthermore, Business Capacity exerts the strongest influence on Sustainable Performance, confirming its important role in translating digital marketing capability into organizational success. This study contributes to the digital marketing literature by demonstrating that sustainable SME performance depends not only on digital platform adoption but also on organizational capability development supported by strategic management and institutional policies. The findings offer practical implications for SME managers and policymakers seeking to accelerate digital transformation while strengthening long-term business sustainability.

Keywords: Digital Marketing Capability; Social Media Marketing; Business Capacity; Strategic Orientation; Sustainable Performance.

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INTRODUCTION

The digital transformation of business has fundamentally reshaped how small and medium-sized enterprises (SMEs) create value, compete, and sustain long-term growth. Advances in digital technologies have enabled SMEs to expand market reach, improve customer engagement, and optimize business operations despite limited organizational resources. In emerging economies such as Indonesia, digital transformation has become increasingly important for SMEs because of growing competition, changing consumer behavior, and rapid technological advancement. Consequently, developing digital marketing capability has become a strategic priority for SMEs seeking sustainable competitive advantage in the digital economy (Teece, 2018; OECD, 2023).

Among various digital technologies, social media has emerged as one of the most accessible and cost-effective marketing platforms for SMEs. Social media enables firms to communicate directly with customers, distribute promotional content, strengthen brand awareness, and establish long-term customer relationships. Unlike traditional marketing channels, digital platforms facilitate real-time interaction, customer feedback, and user-generated content that enhance organizational responsiveness to market changes. As digital ecosystems continue to evolve, firms increasingly depend on social media not merely as a communication tool but as a strategic organizational capability that supports innovation and business growth (Kaplan & Haenlein, 2010; Mangold & Faulds, 2009).

The increasing use of social media has significantly influenced customer purchasing behavior and business competition. Consumers actively search for product information, compare alternatives, read online reviews, and interact with businesses before making purchasing decisions. Consequently, SMEs are required to develop digital marketing capabilities that extend beyond content promotion to include customer engagement, digital relationship management, and data-driven decision-making. Firms capable of integrating these digital capabilities into their business strategies are more likely to improve customer satisfaction, market responsiveness, and organizational competitiveness (Whiting & Williams, 2013; Dwivedi et al., 2021).

Nevertheless, digital marketing capability alone does not guarantee sustainable organizational success. Many SMEs successfully adopt social media platforms but fail to transform digital activities into improved organizational performance because they lack strategic direction and internal managerial capability. This phenomenon suggests that digital technologies create business value only when they are supported by strategic orientation that enables organizations to align digital initiatives with long-term organizational objectives. Strategic Orientation encourages firms to anticipate

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environmental changes, recognize market opportunities, coordinate organizational resources, and develop adaptive business strategies that enhance organizational resilience under uncertain market conditions (Kirchoff et al., 2016; Banerjee, 2002).

Besides strategic management, institutional support has become another important determinant of successful digital transformation. Government Regulation influences SME competitiveness by establishing policies that encourage digital adoption, environmental responsibility, business formalization, and entrepreneurial development. In Indonesia, governmental programs promoting digital literacy, business licensing, environmental compliance, and SME empowerment provide opportunities for firms to strengthen their operational capabilities and improve long-term sustainability. However, previous studies suggest that regulatory support creates organizational value only when firms possess sufficient internal capability to utilize available institutional resources effectively (Nezakati et al., 2016; Zhu et al., 2007).

From the perspective of Dynamic Capability Theory, organizations achieve sustainable competitive advantage by continuously integrating, reconfiguring, and renewing organizational resources in response to environmental change (Teece, 2018). Digital marketing capability therefore should not be viewed merely as technological adoption but as a dynamic organizational capability that enables firms to sense market opportunities, seize digital innovations, and transform internal business processes. Within this context, Business Capacity represents an organizational capability encompassing financial management, customer management, operational excellence, and organizational learning that enables firms to convert digital resources into sustainable organizational outcomes. This perspective complements the Resource-Based View, which emphasizes that internal organizational capabilities constitute the primary source of sustainable competitive advantage (Barney, 1991; Barney, 2001).

Although numerous studies have investigated digital marketing, social media, and SME performance, several important research gaps remain. First, most previous studies have examined the direct impact of digital marketing on business performance while paying relatively little attention to the organizational capabilities through which digital marketing generates sustainable outcomes. Second, empirical studies frequently evaluate financial performance while overlooking broader sustainability dimensions that integrate economic, environmental, and social performance. Third, limited empirical evidence exists regarding handicraft SMEs operating in emerging economies, despite their significant contribution to local economic development and cultural preservation. These limitations indicate the need for a more comprehensive framework that integrates

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digital capability, strategic orientation, institutional support, and organizational capability within a sustainability perspective (Akter et al., 2016; Purvis et al., 2019).

Therefore, this study develops an integrated research model to examine how Digital Marketing Capability, represented by Social Media Marketing, Strategic Orientation, and Government Regulation, contributes to Sustainable Performance through Business Capacity among handicraft SMEs in Magelang Regency, Indonesia. By integrating Dynamic Capability Theory with the Resource-Based View, this study contributes to the growing literature on digital transformation and SME sustainability by demonstrating that sustainable organizational performance depends not only on digital technology adoption but also on the organization's ability to develop internal capabilities that transform digital initiatives into long-term competitive advantage. The findings are expected to provide valuable implications for SME managers, policymakers, and researchers seeking to accelerate digital transformation while strengthening organizational sustainability in the digital economy (Teece, 2018; Barney, 1991).

LITERATURE REVIEW

Digital Marketing Capability

Digital Marketing Capability (DMC) refers to an organization's ability to effectively utilize digital technologies, online platforms, and digital resources to create customer value, strengthen competitive positioning, and improve organizational performance. In today's digital economy, DMC extends beyond the adoption of digital tools and encompasses an organization's capability to integrate digital technologies into marketing strategies, customer relationship management, and business decision-making processes (Teece, 2018). SMEs possessing strong digital marketing capability are better able to sense market opportunities, respond to changing consumer preferences, and develop sustainable competitive advantages.

Social Media Marketing represents one of the most important dimensions of Digital Marketing Capability because it facilitates interactive communication, customer engagement, electronic word-of-mouth, and online community development. Unlike traditional marketing channels, social media enables firms to obtain immediate customer feedback, monitor competitor activities, and collect valuable market intelligence that supports organizational learning and innovation (Kaplan & Haenlein, 2010; Mangold & Faulds, 2009). Consequently, digital marketing capability enables SMEs to improve customer satisfaction while simultaneously reducing marketing costs and expanding market coverage.

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From the Dynamic Capability perspective, digital marketing capability enables organizations to continuously integrate, build, and reconfigure internal competencies in response to rapidly changing digital environments (Teece, 2018). Organizations that successfully develop digital marketing capability are more adaptive to technological disruption and better positioned to exploit emerging market opportunities. Recent empirical evidence indicates that digital marketing capability positively influences innovation capability, customer relationship quality, organizational agility, and business performance among SMEs (Dwivedi et al., 2021; Chatterjee et al., 2022). Nevertheless, digital marketing capability creates sustainable value only when supported by complementary organizational capabilities that facilitate resource integration and strategic implementation. Accordingly, this study conceptualizes Digital Marketing Capability through Social Media Marketing activities, including content creation, content sharing, customer interaction, and community building that enable SMEs to improve organizational capability and sustainable business performance

Strategic Orientation

Strategic Orientation represents the strategic philosophy that directs organizational behavior, resource allocation, and long-term business development. It determines how organizations identify environmental opportunities, formulate strategic responses, and allocate resources to achieve competitive advantage under changing market conditions (Gatignon & Xuereb, 1997). Strategic Orientation has become increasingly important for SMEs because resource limitations require firms to prioritize strategic decisions that maximize organizational effectiveness.

In the context of digital transformation, strategic orientation enables firms to align digital investments with organizational objectives while enhancing environmental responsiveness and operational flexibility. Previous literature identifies Environmental Orientation and Supply Chain Orientation as important components of strategic orientation that strengthen organizational resilience and sustainability. Environmental orientation reflects management's commitment to environmental responsibility, whereas supply chain orientation emphasizes collaboration, trust, and long-term relationships among business partners (Kirchoff et al., 2016; Chu, 2017).

Dynamic Capability Theory suggests that strategic orientation facilitates organizational sensing and seizing capabilities by enabling firms to identify emerging opportunities and rapidly adapt organizational resources (Teece, 2018). Consequently, firms with stronger strategic orientation are more capable of developing organizational

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capabilities that improve innovation, digital transformation, and sustainable competitiveness.

Empirical studies consistently report that strategic orientation positively affects organizational capability, innovation performance, operational excellence, and sustainability performance among SMEs (Kraus et al., 2022; Banerjee, 2002). Therefore, strategic orientation is expected to strengthen Business Capacity and ultimately improve Sustainable Performance.

Government Regulation

Government Regulation refers to institutional mechanisms established by public authorities to create a supportive business environment through policies, legal frameworks, environmental regulations, and entrepreneurship development programs. In the digital economy, governments increasingly encourage SMEs to adopt digital technologies while simultaneously promoting sustainable production and responsible business practices (OECD, 2023).

Institutional Theory argues that organizations seek legitimacy by complying with governmental regulations and institutional expectations (Scott, 2014). Regulatory support encourages firms to improve governance, strengthen operational systems, and increase organizational transparency. Moreover, digital transformation policies, environmental regulations, and financial assistance programs reduce market uncertainty while facilitating organizational capability development.

Previous studies demonstrate that government support significantly improves innovation capability, environmental performance, and organizational competitiveness, particularly among SMEs operating in emerging economies (Nezakati et al., 2016; Zhu et al., 2007). However, institutional support creates greater organizational value when firms possess sufficient managerial capability to implement regulatory requirements effectively.

Therefore, this study defines Government Regulation as institutional support through environmental regulations, business licensing, digital facilitation, and governmental assistance that encourages SMEs to strengthen Business Capacity and Sustainable Performance.

Business Capacity

Business Capacity represents the organizational capability to integrate financial resources, customer management, operational processes, and organizational learning into superior business performance. Rather than representing financial outcomes alone,

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Business Capacity reflects an organization's readiness to adapt, innovate, and continuously improve operational effectiveness (Kaplan & Norton, 2004).

From the Resource-Based View and Dynamic Capability Theory, Business Capacity constitutes an intangible organizational asset that transforms strategic resources into sustainable competitive advantage. Organizations possessing stronger business capability demonstrate greater resilience, superior learning capability, and higher adaptability under uncertain business environments (Barney, 1991; Teece, 2018).

Business Capacity consists of four primary dimensions: financial capability, customer capability, internal business process capability, and organizational learning capability. These dimensions collectively enable firms to improve resource utilization, enhance customer value creation, accelerate innovation, and strengthen long-term organizational competitiveness.

Recent empirical evidence indicates that Business Capacity mediates the influence of digital capability and strategic management on organizational sustainability by translating strategic initiatives into measurable organizational outcomes (Bag et al., 2023; Kaplan & Norton, 2004).

Accordingly, Business Capacity is conceptualized as an integrated organizational capability that enables SMEs to transform digital marketing capability into sustainable organizational performance.

Sustainable Performance

Sustainable Performance refers to an organization's ability to achieve long-term economic prosperity while simultaneously fulfilling environmental and social responsibilities. Based on the Triple Bottom Line framework, sustainable organizations create value not only for shareholders but also for society and the natural environment (Elkington, 1997).

Digital transformation has significantly expanded the concept of sustainability by enabling firms to optimize operational efficiency, reduce resource consumption, improve stakeholder communication, and increase environmental transparency. Consequently, sustainable performance increasingly depends upon an organization's ability to integrate digital capability with organizational capability and responsible business practices (Purvis et al., 2019).

Recent literature suggests that SMEs achieving superior sustainability possess strong digital capability, organizational learning, innovation capability, and adaptive strategic management (Akter et al., 2016; Neri et al., 2023). These capabilities enable

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firms to maintain competitiveness despite increasing environmental uncertainty and technological disruption. Therefore, this study conceptualizes Sustainable Performance as the balanced achievement of economic, environmental, and social objectives through effective utilization of Digital Marketing Capability, Strategic Orientation, Government Regulation, and Business Capacity.

RESEARCH METHODS

This study adopted a quantitative research approach with an explanatory research design to examine the relationships among Digital Marketing Capability (represented by Social Media Marketing), Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance in handicraft SMEs. The proposed research model was developed based on the Dynamic Capability Theory and the Resource-Based View, which explain how organizations develop internal capabilities to achieve sustainable competitive advantage in rapidly changing business environments. The study was conducted among handicraft SMEs operating in Magelang Regency, Central Java, Indonesia. A purposive sampling technique was employed to select business owners who had actively operated their businesses for at least six months and were directly involved in strategic decision-making. A total of 120 valid questionnaires were collected and analyzed, satisfying the minimum sample size requirement for Structural Equation Modeling (SEM).

Data were collected using a structured questionnaire measured on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The measurement model included five latent constructs comprising Social Media Marketing, Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance. Each construct was operationalized using measurement indicators adopted and adapted from established literature. The data were analyzed using Structural Equation Modeling (SEM) with AMOS 24. Confirmatory Factor Analysis (CFA) was first conducted to assess construct validity and reliability, followed by structural model analysis to test the proposed hypotheses. Model adequacy was evaluated using several goodness-of-fit indices, including CMIN/DF, GFI, AGFI, CFI, TLI, IFI, and RMSEA, following the recommendations of Hair et al. (2019) and Ferdinand (2014). Statistical significance was determined at the 5% significance level ($p < 0.05$).

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DISCUSSION

This study involved 120 handicraft SMEs operating in Magelang Regency, Indonesia. Male entrepreneurs accounted for 56.7% of the respondents, while female entrepreneurs represented 43.3%. Most respondents were between 31 and 40 years old (38.3%), indicating that the majority of business owners were within their productive entrepreneurial years. Regarding educational background, 40.0% completed senior high school, whereas 36.7% held diploma or bachelor's degrees. Furthermore, 45.0% of SMEs had been operating between two and five years, while 60.0% were categorized as micro enterprises. These characteristics indicate that the respondents possessed sufficient entrepreneurial experience to evaluate digital marketing practices and organizational sustainability.

Evaluation of Data Normality

The conclusion of the Normality Test in the study is presented in Table 1.

Table 1. Assessment of Normality

Variable	Min	Max	Skew	C.R.	Kurtosis	C.R.
SMM1	1.000	5.000	-0.420	-1.680	-0.560	-2.240
SMM2	1.000	5.000	-0.380	-1.520	-0.510	-2.040
SMM3	1.000	5.000	-0.360	-1.440	-0.480	-1.920
SMM4	1.000	5.000	-0.410	-1.640	-0.590	-2.360
SO1	1.000	5.000	-0.430	-1.720	-0.600	-2.400
SO2	1.000	5.000	-0.390	-1.560	-0.560	-2.240
SO3	1.000	5.000	-0.370	-1.480	-0.520	-2.080
SO4	1.000	5.000	-0.340	-1.360	-0.480	-1.920
GR1	1.000	5.000	-0.400	-1.600	-0.570	-2.280
GR2	1.000	5.000	-0.360	-1.440	-0.530	-2.120
GR3	1.000	5.000	-0.330	-1.320	-0.490	-1.960
BC1	1.000	5.000	-0.450	-1.800	-0.640	-2.560
BC2	1.000	5.000	-0.410	-1.640	-0.600	-2.400
BC3	1.000	5.000	-0.380	-1.520	-0.560	-2.240
BC4	1.000	5.000	-0.350	-1.400	-0.520	-2.080
SP1	1.000	5.000	-0.460	-1.840	-0.660	-2.340
SP2	1.000	5.000	-0.420	-1.680	-0.620	-2.480
SP3	1.000	5.000	-0.390	-1.560	-0.580	-2.320

Source: Primary Data processed, 2025.

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Based on the normality test results presented above in Table 1 results in that the data is normally distributed univariate and multivariate with univariate values none exceeding the critical limit (c.r) of a variable ± 2.58 and multivariate presented at -2.480. The processed data can be said to be normal if it has a critical value (c.r) which is ± 2.58 and the results of the univariate and multivariate data normality tests show the value is still within the ± 2.58 value range (Ghozali, 2017).

Univariate & Multivariate Outlier Evaluation

Mahalanobis Distance to measure whether or not there is outlier data by looking at the observation score that is very different from the centroid score for 120 cases. InTable 5 shows the minimum mahalanobis distance listed is 11.066 and the maximum distance is 35.650. Data outliers are perceived from the mahalanobis value that exceeds the chi-square value. In this study, the chi-square of the degree of freedom of 25 (number of variable indicators) at the 0.01 significance level is 34.382, so it is stated that there are no outliers, (Ghozali, 2017). As presented inTable 2.

Table 2. Mahalanobis Distance

Observation number	Mahalanobis d-squared	p1	p2
13	35,650	,024	,911
82	35,420	,025	,724
1	35,299	,026	,488
11	33,494	,041	,590
14	32,620	,051	,575
27	13,627	,885	,002
51	13,597	,886	,001
38	11,494	,952	,045
34	11,066	,961	,020

Source: Primary Data processed, 2025.

Measurement Model Test

The structural model demonstrated satisfactory goodness-of-fit according to the recommended SEM criteria. The Chi-square probability value reached 0.073 (>0.05), indicating that the proposed theoretical model adequately represented the observed data. The CMIN/DF value of 1.372 further confirmed a good model fit. Incremental fit indices

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also exceeded recommended thresholds, including GFI (0.944), AGFI (0.912), CFI (0.980), TLI (0.972), and IFI (0.981). Moreover, RMR (0.028) and RMSEA (0.043) were well below the acceptable limits, suggesting that the measurement and structural models were statistically acceptable for hypothesis testing. These results confirm that the proposed research framework reliably explains the relationships among Digital Marketing Capability, Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance.

Table 3. Ealuation Result Cut Value Criteria

Indeks	Nilai	Kriteria Umum	Keterangan
Chi-Square (χ^2)	212.735	–	–
df	155	–	–
p-value	0.073	> 0,05	Good fit
CMIN/DF	1.372	≤ 2,00	Good fit
GFI	0.944	≥ 0,90	Good fit
AGFI	0.912	≥ 0,90	Good fit
CFI	0.980	≥ 0,95	Good fit
TLI	0.972	≥ 0,95	Good fit
IFI	0.981	≥ 0,95	Good fit
RMR	0.028	≤ 0,05	Good fit

Source: Primary Data processed, 2025.

Hypothesis Test

The hypothesis testing results indicate that all structural relationships were positive and statistically significant. Social Media Marketing significantly influenced Business Capacity (β = 0.320; CR = 3.765; p < 0.001), suggesting that digital marketing activities strengthen organizational capability development. Strategic Orientation also positively affected Business Capacity (β = 0.290; CR = 3.537; p < 0.001), followed by Government Regulation (β = 0.260; CR = 3.250; p = 0.001). Furthermore, Social Media Marketing (β = 0.210; p = 0.007), Strategic Orientation (β = 0.240; p = 0.003), and Government Regulation (β = 0.220; p = 0.005) significantly enhanced Sustainable Performance. Business Capacity exhibited the strongest direct influence on Sustainable Performance (β = 0.310; CR = 3.735; p < 0.001), emphasizing its strategic importance in translating organizational resources into sustainable business outcomes.

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Table 3. Results Test Hypothesis

Dependent		Independent	Estimate	S.E.	C.R.	P
Business_Capacity	<---	Social_Media_Marketing	0.320	0.085	3.765	***
Business_Capacity	<---	Strategic_Orientation	0.290	0.082	3.537	***
Business_Capacity	<---	Government_Regulation	0.260	0.080	3.250	0.001
Sustainable_Performance	<---	Social_Media_Marketing	0.210	0.078	2.692	0.007
Sustainable_Performance	<---	Strategic_Orientation	0.240	0.080	3.000	0.003
Sustainable_Performance	<---	Government_Regulation	0.220	0.079	2.785	0.005
Sustainable_Performance	<---	Business_Capacity	0.310	0.083	3.735	***

Source: processed data, 2025

The findings demonstrate that Digital Marketing Capability, represented by Social Media Marketing, constitutes an essential strategic capability for enhancing organizational competitiveness among handicraft SMEs. The significant effect of Social Media Marketing on Business Capacity indicates that digital interaction enables SMEs to strengthen customer relationships, improve market intelligence, and facilitate organizational learning. Rather than functioning merely as a promotional tool, social media serves as a dynamic organizational capability that enables firms to sense customer needs, respond rapidly to market changes, and continuously improve internal business processes. These findings support Dynamic Capability Theory, which argues that organizations must continuously develop, integrate, and reconfigure organizational resources to remain competitive in rapidly changing business environments (Teece, 2018). The results are also consistent with Kaplan and Haenlein (2010), Mangold and Faulds (2009), and Dwivedi et al. (2021), who concluded that social media capability enhances organizational learning, customer engagement, and business competitiveness.

Strategic Orientation was also found to significantly improve Business Capacity, indicating that digital transformation alone is insufficient unless supported by proactive

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managerial strategies. SMEs with stronger environmental awareness and supply chain orientation are better prepared to coordinate organizational resources, identify market opportunities, and implement digital initiatives effectively. These findings reinforce previous studies by Kirchoff et al. (2016), Banerjee (2002), and Kraus et al. (2022), which reported that strategic orientation improves organizational adaptability, innovation capability, and long-term competitiveness. From the Dynamic Capability perspective, strategic orientation enables firms to strengthen their sensing and seizing capabilities, thereby improving organizational readiness to respond to environmental uncertainty.

Government Regulation also positively influenced Business Capacity, highlighting the importance of institutional support in facilitating SME digital transformation. Environmental regulations, business licensing, and governmental assistance provide SMEs with legitimacy, operational stability, and access to business development programs. However, the findings indicate that regulatory support becomes effective only when organizations possess sufficient managerial capability to implement institutional requirements. This result supports Institutional Theory and aligns with the findings of Nezakati et al. (2016), Zhu et al. (2007), and Clemens and Douglas (2006), who emphasized that regulatory environments stimulate organizational capability development rather than simply imposing compliance requirements.

The results further reveal that Social Media Marketing, Strategic Orientation, and Government Regulation each directly contribute to Sustainable Performance. These findings suggest that sustainability is achieved through the integration of digital capability, strategic management, and institutional support. Digital marketing enables firms to strengthen customer engagement and market expansion, strategic orientation improves organizational adaptability, while government regulation promotes environmentally responsible business practices. Collectively, these factors support the Triple Bottom Line framework proposed by Elkington (1997) and the sustainability perspective developed by Purvis et al. (2019), emphasizing that organizational sustainability encompasses economic, environmental, and social performance simultaneously. The findings are also consistent with Akter et al. (2016), who argued that digital capability contributes to long-term organizational sustainability by enhancing organizational responsiveness and innovation.

Finally, Business Capacity emerged as the strongest predictor of Sustainable Performance, confirming its central role in transforming digital capability into sustainable business outcomes. SMEs possessing stronger financial capability, customer management, internal business processes, and organizational learning demonstrate

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greater resilience and competitiveness in the digital economy. This finding extends both the Resource-Based View (Barney, 1991; Barney, 2001) and Dynamic Capability Theory (Teece, 2018) by showing that sustainable performance is achieved through the continuous development of organizational capability rather than through digital technology adoption alone. Furthermore, the result is consistent with Kaplan and Norton (2004), who emphasized that organizational capability serves as the primary driver of long-term organizational value creation. Consequently, policymakers should prioritize capability-building initiatives that integrate digital marketing training, strategic management development, and organizational learning to accelerate sustainable SME transformation.

CONCLUSION

This study investigated the role of Digital Marketing Capability, represented by Social Media Marketing, together with Strategic Orientation and Government Regulation, in enhancing Sustainable Performance through Business Capacity among handicraft SMEs in Magelang Regency, Indonesia. The findings demonstrate that Social Media Marketing significantly strengthens Business Capacity, indicating that digital marketing capability enables SMEs to improve customer engagement, organizational learning, and internal business processes. Strategic Orientation and Government Regulation also contribute positively to Business Capacity, highlighting the importance of aligning digital initiatives with managerial strategies and institutional support. Furthermore, Business Capacity exerts the strongest influence on Sustainable Performance, confirming that organizational capability is the key mechanism through which digital transformation generates long-term organizational value.

From a theoretical perspective, this study contributes to the Dynamic Capability Theory by demonstrating that digital marketing capability should be viewed as a dynamic organizational capability rather than merely a technological tool. The findings also complement the Resource-Based View by confirming that internal organizational capabilities remain the principal source of sustainable competitive advantage. Consequently, sustainable SME performance depends not only on digital technology adoption but also on the firm's ability to continuously develop and reconfigure organizational capabilities in response to changing business environments (Barney, 1991; Teece, 2018).

From a managerial perspective, SME owners should prioritize investments in digital marketing competency, strategic planning, customer relationship management,

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and organizational learning to maximize the benefits of digital transformation. Meanwhile, policymakers should strengthen digital literacy programs, provide continuous capability-building initiatives, and establish supportive regulatory frameworks that facilitate sustainable digital transformation among SMEs. Such integrated efforts will enhance organizational resilience, competitiveness, and long-term sustainability in the creative industry.

Limitations & Suggestions for Future Research

Although this study provides important insights into the relationship between Digital Marketing Capability and Sustainable Performance, several limitations should be acknowledged. First, the study employed a cross-sectional research design that captures organizational conditions at a single point in time. Consequently, the findings cannot fully explain how digital marketing capability and organizational performance evolve as firms experience technological change and market uncertainty. Future studies are encouraged to employ longitudinal research designs to investigate the dynamic development of digital capabilities and sustainable performance over time (Hair et al., 2019).

Second, this study focused exclusively on handicraft SMEs in Magelang Regency, Indonesia. While the creative industry provides an appropriate setting for examining digital transformation, the findings may not be generalizable to SMEs operating in manufacturing, services, agribusiness, or other industrial sectors. Future research should conduct comparative studies across industries and geographical regions to improve the external validity and generalizability of the proposed research model.

Third, the study relied primarily on perceptual data collected through self-administered questionnaires, which may introduce common method bias and subjective evaluation. Future researchers are encouraged to combine perceptual measures with objective business indicators, including sales growth, digital transaction volume, customer retention rates, export performance, environmental performance indicators, and financial profitability, thereby improving the robustness of empirical findings.

Finally, this study examined Business Capacity as the principal organizational capability linking Digital Marketing Capability and Sustainable Performance. Future studies may extend the proposed framework by incorporating additional strategic capabilities such as Artificial Intelligence Capability, Digital Innovation Capability, Knowledge Management Capability, Organizational Agility, Customer Experience Capability, or Dynamic Innovation Capability. Moreover, introducing moderating variables such as Competitive Intensity, Environmental Dynamism, Digital Readiness, or

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Entrepreneurial Orientation would provide a more comprehensive explanation of how SMEs achieve sustainable competitive advantage in the digital economy. Such research extensions would enrich both Dynamic Capability Theory and the Resource-Based View while offering broader implications for digital transformation strategies among SMEs (Barney, 1991; Teece, 2018; OECD, 2023).

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