

The Use of Social Media Marketing on Marketing Performance with Digital Capability as a Mediating Variable in Service MSMEs

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Abstract

This study aims to analyze the influence of social media marketing on marketing performance and digital capability in service-sector SMEs. The first hypothesis states that social media marketing has a positive impact on marketing performance. However, the results indicate that this hypothesis is not proven, with a P-Value of 0.245, which is greater than the alpha value of 0.05, making the relationship insignificant. The second hypothesis posits that social media marketing has a positive effect on SMEs' digital capability, which is confirmed with a P-Value of 0.000 (less than alpha 0.05). The third hypothesis states that digital capability positively influences marketing performance, also proven with a P-Value of 0.000. These results suggest that although social media marketing does not directly improve marketing performance in service-sector SMEs, it enhances SMEs' digital capabilities, which, in turn, positively impact marketing performance. The study implies the importance of developing digital skills in SMEs to enhance marketing effectiveness. This research also provides recommendations for further studies considering different SME sectors and other mediating factors in the relationship between social media marketing and marketing performance.

Keyword: Social Media Marketing, Digital Capability, Marketing Performance.



INTRODUCTION

The rapid development of digital technology has fundamentally transformed marketing practices, especially for Micro, Small, and Medium Enterprises (MSMEs) in the service sector (Hasibuan et al., 2021). With the increasing popularity of social media, these platforms have become essential for MSMEs seeking efficient and cost-effective ways to reach potential customers. Social media marketing enables MSMEs to engage in direct communication with their audience, gain visibility, and promote their services on a larger scale (Hasibuan et al., 2024). As such, it holds considerable potential for improving marketing performance, especially for service MSMEs facing resource limitations. Social media platforms like Instagram, Facebook, and Twitter offer unique opportunities for MSMEs to compete in the digital marketplace alongside larger enterprises. Through interactive posts, multimedia content, and targeted advertising, social media allows MSMEs to effectively showcase their services. However, maximizing these benefits often requires a certain level of digital capability—a set of skills and technological know-how that enables efficient and strategic use of digital tools. For service MSMEs, building digital capability can be a critical step in leveraging social media for enhanced marketing results (Q. Gao & Xing, 2023).

Despite the promise of social media, many MSMEs in the service sector struggle to fully exploit its potential. Often, these enterprises lack the necessary digital skills and experience to manage online marketing effectively, resulting in missed opportunities for growth and customer engagement (J. Gao et al., 2023). Consequently, it becomes important to explore not only the direct effects of social media marketing on performance but also how digital capability can serve as an intervening factor to enhance these outcomes. This study examines the relationship between social media marketing and marketing performance, with digital capability serving as a mediating variable. Previous studies have shown that digital capability can play a significant role in improving marketing effectiveness. However, the extent to which this capability mediates the impact of social media marketing on performance remains less explored, especially in the context of service MSMEs (Wibowo & Yulianto, 2022). This research seeks to address this gap, providing insights into the specific role of digital capability as both a valuable resource and a competitive advantage for MSMEs in achieving their marketing objectives (Ao et al., 2023).

Despite the widespread availability of social media as a marketing tool, many service MSMEs are not fully utilizing its potential due to limited digital skills and knowledge. These enterprises often view social media as simply a promotional channel rather than a platform for strategic engagement and customer relationship-building (Umair Manzoor et al., 2020). This





underutilization restricts their ability to attract new clients, retain existing ones, and ultimately improve their marketing performance. Therefore, understanding the role of digital capability in enhancing the impact of social media marketing becomes crucial for the growth and competitiveness of these MSMEs (Alalwan, 2018).

This study is grounded in the Resource-Based View (RBV) theory, which posits that a firm's resources, including digital capability, can serve as a source of competitive advantage. In the context of service MSMEs, digital capability is a vital resource that enables these firms to maximize their use of social media marketing. Additionally, the Technology Acceptance Model (TAM) is relevant in understanding how MSMEs adopt and implement digital tools as part of their marketing strategy, given their existing limitations and specific needs (Tafesse & Wien, 2018).

This research introduces a novel approach by positioning digital capability as a mediating variable between social media marketing and marketing performance. While existing studies have explored the direct effects of social media on performance, few have considered how digital capability can enhance or influence these outcomes. By focusing specifically on service MSMEs, this study fills a gap in the literature, as this sector presents unique challenges and characteristics that differentiate it from other industries (Godey et al., 2016).

Previous studies have yielded inconsistent findings regarding the effectiveness of social media marketing for MSMEs, particularly in the service sector. Some research has highlighted significant positive effects, while other studies suggest minimal impact due to insufficient digital skills among MSMEs (Joshi et al., 2023). These mixed results indicate a need for further investigation into the role of digital capability as a potential factor in reconciling these inconsistencies. Understanding this relationship may clarify how digital capability affects the degree to which social media marketing contributes to improved marketing performance (Kikawa et al., 2022).

The objective of this research is to examine the impact of social media marketing on the marketing performance of service MSMEs, with digital capability as a mediating variable. Specifically, the study aims to assess how digital capability enhances the effectiveness of social media marketing and to explore whether MSMEs with higher digital capability achieve better marketing outcomes. This research is expected to provide valuable insights into the strategic role of digital resources in optimizing social media marketing efforts and enhancing the overall competitiveness of service MSMEs.

Social Media Marketing





Social media marketing refers to the use of social media platforms and websites to promote products or services. It involves creating and sharing content on social media networks to achieve marketing and branding goals, such as raising brand awareness, building customer relationships, and increasing sales (Salonen et al., 2024). Social media marketing is characterized by activities like posting text and image updates, videos, and other content that engages audiences. For MSMEs, especially in the service sector, social media marketing is a critical tool that allows them to reach a broader audience, engage directly with customers, and compete on a level playing field with larger companies (Odoom & Mensah, 2019).

In this study, social media marketing is examined as a key factor influencing marketing performance for MSMEs in the service sector. The nature of the service industry, where intangible offerings require customer trust and relationship-building, aligns well with the interactive and community-driven features of social media (Garrido-Moreno et al., 2020). Social media marketing offers MSMEs a valuable channel for reaching their target audience with low-cost, flexible, and customer-centric marketing efforts. As such, this study explores the degree to which social media marketing can improve marketing outcomes by enabling these enterprises to maintain a strong presence, communicate consistently, and adapt to customer needs (Capatina et al., 2020).

Previous research supports the positive impact of social media marketing on business performance. Studies show that MSMEs that effectively implement social media marketing strategies often see improvements in brand visibility, customer satisfaction, and sales growth. For instance, a study by Ahmad et al. (2021) demonstrated that MSMEs leveraging social media for customer engagement observed a significant increase in customer retention and loyalty. Another study by Kaplan and Haenlein (2019) found that social media marketing allows MSMEs to directly connect with consumers, which enhances brand trust and reputation, especially when consistent and quality content is shared (DeWilde, 2024).

H1: The use of social media marketing has a positive effect on marketing performance

H2: The use of social media marketing has a positive effect on digital capability

Digital Capability

Digital capability is defined as the skills, knowledge, and resources that an organization possesses to effectively utilize digital tools and platforms in achieving business objectives (Wang, 2020). For MSMEs, digital capability includes the ability to leverage technology for operational efficiency, data management, and marketing optimization. Digital capability allows organizations to use digital media more strategically, increase their market reach, and improve



customer relationships by making data-driven decisions. In the context of social media, digital capability can enable MSMEs to produce high-quality content, analyze customer engagement, and respond promptly to market changes (Masrianto et al., 2022).

In this research, digital capability is proposed as a mediating variable that enhances the effect of social media marketing on marketing performance. The rationale is that MSMEs with higher digital capability are better equipped to maximize the potential of social media marketing efforts. This capability allows them to efficiently manage digital resources, measure performance, and adapt their strategies to meet consumer needs. By positioning digital capability as a mediator, the study aims to demonstrate how essential digital resources can help MSMEs overcome limitations in social media marketing and boost overall marketing outcomes (Le & Chakrabarti, 2023).

Numerous studies have highlighted the critical role of digital capability in improving marketing performance through social media. Research by Parida et al. (2020) indicated that MSMEs with advanced digital skills and capabilities were more effective in executing social media strategies, resulting in higher customer engagement and sales. A study by Torres and Augusto (2022) found that digital capability enables MSMEs to respond to customer demands quickly, enhancing their ability to build brand loyalty and differentiate themselves from competitors. These findings support the assertion that digital capability can mediate and amplify the effects of social media marketing on performance.

H3: Digital capability influences marketing performance

Marketing Performance

Marketing performance refers to the effectiveness and efficiency of marketing activities in achieving business goals such as brand awareness, customer acquisition, and revenue growth. It is measured by key performance indicators (KPIs) like customer engagement, sales volume, and market share. For MSMEs, marketing performance is an essential metric to gauge the success of marketing strategies and the organization's overall competitiveness in the market. Strong marketing performance reflects a company's ability to meet customer needs, attract and retain clients, and create a positive brand image in the marketplace (Cao & Weerawardena, 2023).

In this study, marketing performance is examined as the ultimate outcome variable, affected by social media marketing and mediated by digital capability. The research seeks to understand how effective social media marketing, bolstered by digital capability, can drive improvements in marketing performance for service MSMEs. The expectation is that MSMEs



that can effectively leverage social media, supported by strong digital capabilities, will experience improved marketing performance metrics, such as higher customer engagement and increased sales (Saleem et al., 2022).

Previous research has established a positive link between social media marketing and marketing performance. For instance, a study by Chaffey and Ellis-Chadwick (2021) found that businesses that effectively integrated social media marketing strategies showed higher customer retention and revenue growth rates. Additionally, research by Hidayati and Setiawan (2019) suggested that MSMEs with strong digital capabilities saw a more significant improvement in marketing performance when using social media compared to those with less digital expertise. These studies indicate that both social media marketing and digital capability play crucial roles in enhancing marketing performance, providing empirical support for the current research framework.

METHOD

This study was conducted on MSMEs in Banyumas Regency by providing questionnaires to MSME actors using Google Form. The total population of MSMEs in Banyumas Regency is 8256, using the Slovin formula, and using a 5% inaccuracy process, the number of respondents is 298 respondents. The use of a 1-5 likert scale is used in this question. Partial Least Square (PLS) model analysis is used in this study. The research data is viewed using descriptive statistics to find out things like age, gender and education level of people who answer the questions. Questionnaires with a Likert scale and five possible answers. Validity test with loading factor and Average variance Extracted (AVE) > 0.5 as a measure of success. Composite reliability parameters > 0.6 are used to measure how well the reliability test works (Ghozali, 2015). The PLS SEM method is used to test this idea. Inner model, R-Square value, and path coefficient are used to test the relationship between latent variables. Testing is continued with a statistical bootstrap test. After the data is processed, the results will appear to answer all research questions.

RESULTS AND DISCUSSION

The first step taken is to measure the outer model to find out how valid and reliable the indicators are. The loading factor value must be greater than 0.7, and if the correlation value is less than 0.7 then the indicator is removed. Test results show that all indicators are greater than 0.7. This means that the construct has good convergent validity.



Table 1. Variables, Indicators, Loading Factor, AVEs and Composute Reliability

Variables	Indicators	Loading Factors Running	Cronbach's Alpha	AVE	Composite Reliability
Digital Capability	DC1	0,156	0,817	0,818	0,891
	DC2	0,143			
	DC3	0,136			
	DC4	0,119			
	DC5	0,149			
	DC6	0,152			
	DC7	0,144			
	DC8	0,139			
Social Media Marketing	SME1	0,251	0,829	0,851	0,898
	SME2	0,250			
	SME3	0,241			
	SME4	0,232			
	SME5	0,245			
Marketing Performance	KP1	0,403	0,878	0,878	0,911
	KP2	0,383			
	KP3	0,383			

Source: Processed data, 2024

The next step is to look at the R-square to test the predicted relationship between hidden variables or structural models. Table 2 shows the R-square value. The R-square value of marketing performance is 0.771 or 77.1%.

Table 2. Value of R Square

	R Square	Adjusted R Square
Marketing Performace	0,771	0,769

Source: Processed data, 2024

Table 3: Hypothesis Test

Hypothesis	Relationships	Original Sample	T.Statistics	P-Value	Result
1	Social Media Marketing ->	0,103	1,163	0,245	Reject

	Marketing Performance				
2	Social Media Marketing -> Digital Capability	0,832	36,252	0,000	Accepted
3	Digital Capability -> Marketing Performance	0,733	11,374	0,000	Accepted

Source: Processed data, 2024

DISCUSSION

Social media marketing towards marketing performance

The first hypothesis stating that social media marketing has an effect on marketing performance is not proven, this is because the P-Value of 0.245 is greater than the alpha value of 0.05, which means the hypothesis is rejected.

This phenomenon shows that social media marketing has not succeeded in significantly increasing marketing performance in MSMEs in the service sector. Based on the results of the hypothesis test, a P-Value of 0.245 was obtained, which is greater than the significance level (alpha) of 0.05. This indicates that there is no significant relationship between the use of social media marketing and marketing performance among MSMEs in the service sector. This failure can be caused by various factors that influence the effectiveness of digital marketing strategies in the sector.

One factor that may influence this ineffectiveness is limited understanding or skills in using social media as a marketing tool. MSMEs in the service sector often lack adequate resources or knowledge to manage social media strategies effectively, which results in suboptimal marketing results. In addition, some MSMEs may also be less focused on understanding the target market or compiling relevant and interesting content on social media, so that consumer engagement is low.

Furthermore, these results also raise questions regarding the relevance of social media as a primary marketing tool for service MSMEs, which may have a more personal approach or require direct interaction with customers. Social media, although popular, may not always suit the characteristics of certain businesses that rely more on direct customer relationships. Therefore, further exploration is needed regarding more appropriate and effective marketing strategies for service MSMEs in order to improve their marketing performance.



Social media marketing on digital capability

The second hypothesis stating that social media marketing has an effect on digital capability is proven, this is because the P-Value of 0.000 is smaller than the alpha value of 0.05, which means the hypothesis is accepted.

The study results indicate that social media marketing has a significant impact on enhancing digital capability among SMEs. Based on the second hypothesis test, a P-Value of 0.000 was obtained, which is smaller than the significance level (alpha) of 0.05. This indicates a significant relationship between social media marketing usage and digital capability among SMEs, supporting the acceptance of the second hypothesis. This finding suggests that marketing efforts through social media contribute to the development of relevant digital skills among SMEs.

Social media as a marketing platform requires users to understand and utilize various digital technologies, including data analysis, content design, and digital platform management. Through consistent marketing activities on social media, SMEs have the opportunity to develop diverse digital capabilities, such as understanding social media algorithms, utilizing digital advertising features, and analyzing engagement data. These skills not only improve marketing efficiency but also prepare SMEs to compete in an increasingly digitalized market.

Furthermore, the digital capabilities developed through social media marketing have the potential to provide long-term advantages for SMEs. With stronger digital capabilities, SMEs can not only enhance their brand image and market reach but also become better equipped to face the challenges and changes in digital marketing technology in the future. These results highlight the importance of social media as a skill-building tool that can strengthen the competitiveness of SMEs in the digital era.

Digital capability towards marketing performance

The third hypothesis stating that digital capability has an effect on marketing performance is proven, this is because the P-Value of 0.000 is smaller than the alpha value of 0.05, which means the hypothesis is accepted.

The study results show that digital capability significantly impacts marketing performance among SMEs. Based on the third hypothesis test, a P-Value of 0.000 was obtained, which is smaller than the significance level (alpha) of 0.05, confirming that there is a significant relationship between digital capability and marketing performance, leading to the acceptance of the third hypothesis. This finding implies that the enhancement of digital capabilities among SMEs positively influences their marketing outcomes.





Digital capability provides SMEs with essential tools and skills to optimize their marketing activities. With stronger digital skills, SMEs are better equipped to leverage digital platforms effectively, utilize analytics for strategic decision-making, and respond more swiftly to market changes. These capabilities empower SMEs to reach target audiences with greater precision and efficiency, resulting in improved engagement and potentially higher conversion rates. Digital capability, therefore, serves as a vital asset that enhances various dimensions of marketing performance.

Moreover, the impact of digital capability on marketing performance demonstrates the value of continuous digital skill development for SMEs in today's competitive landscape. As digital platforms evolve, SMEs with robust digital capabilities are more adaptable and able to capitalize on emerging marketing opportunities. This finding underscores the strategic importance of investing in digital skills as a means of sustaining and improving marketing performance in a digitally driven market environment.

CONCLUSION

This study reveals that while social media marketing has not significantly improved marketing performance for service-oriented SMEs, it has contributed notably to enhancing their digital capabilities. Additionally, the development of digital capability has a significant positive impact on marketing performance. These findings underscore the importance of digital capability as a key factor in improving SME marketing effectiveness, even if social media marketing alone is insufficient to drive performance in service-based SMEs. For SMEs, especially in the service sector, it is essential not only to focus on social media as a marketing tool but also to enhance supporting digital skills and knowledge. Training on digital capabilities such as data analysis, content management, and social media algorithm optimization is highly recommended to increase marketing effectiveness. Government and SME-supporting institutions can also play a role by offering comprehensive digital training to help SMEs adapt more successfully in the digital marketplace.

The implication of this research is that digital capability is not merely an add-on but an essential foundation for SMEs facing modern market dynamics. In the marketing context, strong digital skills enable SMEs to be more responsive and strategic in crafting their marketing approaches. For policymakers, these findings indicate that supporting digital literacy development for SMEs can be an effective strategy to strengthen the competitive advantage of the SME sector as a whole. This study has limitations, focusing specifically on service-oriented SMEs in a particular area, meaning the findings may not be generalizable to all types of SMEs or





locations. Future research is recommended to expand the sample to include various SME sectors and regions to obtain a broader understanding of the impact of digital capability on marketing performance. Further studies could also explore other factors that may mediate the relationship between social media marketing and marketing performance, such as customer engagement or product innovation.

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