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Leveraging Business Capacity For Sustainable SME Performance: The Roles Of Social Media Marketing, Strategic Orientation, And Government Regulation

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Abstract

This study investigates how Social Media Marketing, Strategic Orientation, and Government Regulation contribute to Sustainable Performance through Business Capacity among handicraft SMEs. Drawing upon the Resource-Based View (RBV), the research proposes that organizational capabilities serve as strategic resources that enhance long-term business sustainability. Data were collected from 120 handicraft SMEs operating in Magelang Regency, Indonesia, using purposive sampling. Structural Equation Modeling (SEM) with AMOS was employed to examine both the measurement and structural models. The findings demonstrate that Social Media Marketing, Strategic Orientation, and Government Regulation significantly strengthen Business Capacity, which subsequently improves Sustainable Performance. Furthermore, the three antecedent variables also exhibit direct positive effects on Sustainable Performance. Business Capacity partially mediates these relationships, indicating that internal organizational capability is a critical mechanism through which external strategic initiatives generate sustainability outcomes. This study extends the RBV literature by integrating digital marketing capability, strategic orientation, and regulatory support into a comprehensive

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sustainability framework for SMEs. The findings provide practical implications for SME managers and policymakers seeking to improve long-term competitiveness and sustainability through capability development.

Keywords: Business Capacity; Sustainable Performance; Social Media Marketing; Strategic Orientation; Government Regulation.

INTRODUCTION

Small and medium-sized enterprises (SMEs) are recognized as one of the main drivers of economic development, employment creation, and regional competitiveness in developing countries. Besides contributing significantly to national income, SMEs also play an essential role in promoting innovation, preserving local culture, and improving community welfare. In Indonesia, handicraft SMEs constitute an important segment of the creative economy because they combine traditional knowledge with entrepreneurial activities that generate sustainable economic value. Nevertheless, increasing market competition, technological disruption, and sustainability challenges require SMEs to continuously strengthen their organizational capabilities to survive in the digital economy. The sustainability of SMEs therefore depends not only on market opportunities but also on their ability to develop strategic resources and organizational competencies that support long-term competitiveness (Barney, 1991; Barney, 2001).

The rapid growth of digital technology has transformed the way businesses communicate with customers and create market value. Social media platforms have evolved from simple communication channels into strategic marketing tools that enable firms to establish interactive relationships with consumers, enhance brand awareness, and obtain valuable customer insights. Unlike conventional marketing, social media facilitates two-way communication in which consumers actively participate in creating, sharing, and evaluating information related to products and services. Consequently, firms can develop stronger customer engagement while reducing marketing costs and improving market responsiveness (Mangold & Faulds, 2009; Kaplan & Haenlein, 2010).

The increasing popularity of social media has also changed consumer behavior. Customers now rely heavily on digital platforms to search for information, compare products, share purchasing experiences, and interact directly with businesses before making purchasing decisions. For SMEs, these changes create opportunities to expand market reach beyond geographical boundaries while simultaneously increasing competitive pressure from both domestic and

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international competitors. Therefore, successful implementation of social media marketing requires more than technological adoption; it demands strategic communication, continuous customer interaction, and organizational learning capabilities that enable firms to create superior customer value (Whiting & Williams, 2013; Wigmo & Wigström, 2010).

Although digital marketing offers significant opportunities, sustainable business performance cannot be achieved solely through technology utilization. Strategic Orientation has been widely recognized as an essential managerial capability that guides organizational decision-making, resource allocation, and long-term competitive positioning. Organizations possessing strong strategic orientation are more capable of identifying market opportunities, responding proactively to environmental changes, and integrating innovation into business operations. Strategic orientation also enables firms to develop adaptive capabilities that improve resilience under uncertain business environments, particularly for SMEs operating with limited resources (Kirchoff et al., 2016; Desarbo et al., 2007).

Beyond internal strategic capabilities, Government Regulation plays an increasingly important role in promoting sustainable business development. Governments formulate policies that encourage digital transformation, environmental responsibility, entrepreneurship development, and business formalization through regulations, incentives, and institutional support. Such policies create an enabling environment in which SMEs can improve operational efficiency, obtain legal legitimacy, and strengthen their competitive position. Nevertheless, regulatory support alone is insufficient to improve organizational sustainability unless firms possess adequate internal capabilities to utilize available institutional resources effectively (Nezakati et al., 2016; Clemens & Douglas, 2006).

The Resource-Based View (RBV) provides an appropriate theoretical foundation for explaining how organizations achieve sustainable competitive advantage through valuable, rare, inimitable, and non-substitutable resources. According to RBV, organizational capabilities represent strategic assets that enable firms to transform available resources into superior organizational performance. Within the SME context, Business Capacity reflects the firm's ability to integrate financial resources, customer management, operational processes, and organizational learning into sustainable business practices. Firms with stronger business capacity are expected to utilize digital marketing initiatives, strategic orientation, and institutional support more effectively than firms with weaker organizational capabilities (Barney, 1991; Barney, 2001).

Despite extensive research investigating digital marketing, strategic orientation, and government support, several research gaps remain. First, previous studies have predominantly

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examined the direct relationship between these strategic factors and business performance, while relatively few studies investigate Business Capacity as an organizational capability that mediates sustainable performance. Second, many empirical studies primarily focus on financial performance without considering broader sustainability dimensions that integrate economic, environmental, and social outcomes. Finally, empirical evidence regarding handicraft SMEs in emerging economies remains limited despite their strategic contribution to local economic development and cultural preservation (Purvis et al., 2019; Akter et al., 2016).

Accordingly, this study develops an integrated conceptual model that examines the relationships among Social Media Marketing, Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance among handicraft SMEs in Magelang Regency, Indonesia. Specifically, this research proposes Business Capacity as a strategic mediating capability through which digital marketing, managerial orientation, and institutional support collectively improve sustainable organizational performance. By integrating the Resource-Based View with contemporary sustainability perspectives, this study contributes to the growing literature on SME sustainability while providing practical implications for policymakers and SME managers seeking to strengthen long-term business competitiveness in the digital era (Barney, 1991; Kaplan & Haenlein, 2010).

LITERATURE REVIEW

SOCIAL MEDIA MARKETING

Social Media Marketing (SMM) has become one of the most influential digital marketing strategies enabling firms to establish long-term relationships with customers while simultaneously enhancing organizational competitiveness. Unlike conventional marketing channels, social media facilitates interactive communication, user-generated content, community engagement, and rapid dissemination of information. These characteristics enable firms, particularly small and medium-sized enterprises (SMEs), to improve brand visibility, customer engagement, and market responsiveness with relatively low marketing costs (Kaplan & Haenlein, 2010; Tuten, 2021).

The rapid digital transformation has significantly altered consumer purchasing behavior. Customers increasingly rely on digital platforms to search for product information, compare alternatives, evaluate reviews, and communicate directly with sellers before making purchasing decisions. Consequently, SMEs are required to utilize social media strategically rather than merely as promotional tools. Effective social media marketing involves creating valuable content, maintaining active customer interactions, encouraging electronic word-of-mouth, and building

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online communities that strengthen customer loyalty and trust (Dwivedi et al., 2021).

From the Resource-Based View (RBV), social media marketing represents a strategic organizational capability that enables firms to acquire valuable market knowledge and develop customer-oriented competencies. Digital interaction generates market intelligence regarding customer preferences, competitor activities, and emerging market trends that support managerial decision-making. Such information contributes to organizational learning, innovation capability, and competitive advantage (Chatterjee et al., 2022).

Previous empirical studies consistently demonstrate that social media marketing positively influences business performance, customer satisfaction, innovation capability, and organizational resilience. However, recent studies suggest that its contribution to sustainable business performance is largely indirect through the enhancement of internal organizational capabilities rather than through digital presence alone (Bag et al., 2023). This finding indicates that SMEs must integrate digital marketing activities with broader organizational capability development to maximize sustainability outcomes. Accordingly, this study conceptualizes Social Media Marketing as the firm's capability to create digital content, facilitate customer interaction, encourage online engagement, and develop virtual communities that support long-term organizational sustainability.

STRATEGIC ORIENTATION

Strategic Orientation refers to the organizational philosophy guiding managerial decision-making, resource allocation, and long-term competitive positioning. It reflects how organizations interpret environmental changes, identify strategic opportunities, and formulate adaptive responses to achieve sustainable competitive advantage (Gatignon & Xuereb, 1997). In increasingly dynamic business environments, strategic orientation has become an essential determinant of organizational adaptability and long-term performance.

The literature identifies strategic orientation as a multidimensional construct encompassing market orientation, entrepreneurial orientation, environmental orientation, innovation orientation, and supply chain orientation. These strategic perspectives collectively enable firms to anticipate market uncertainty, respond proactively to customer needs, improve operational efficiency, and create superior organizational value (Kirchoff et al., 2016). For SMEs operating under resource constraints, strategic orientation provides an important managerial framework that supports effective resource utilization and long-term competitiveness.

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Within the sustainability context, environmental orientation has attracted increasing scholarly attention. Firms demonstrating strong environmental orientation actively integrate environmental considerations into strategic planning, operational activities, and stakeholder relationships. Similarly, supply chain orientation enhances collaboration among supply chain partners, improves resource integration, and strengthens organizational resilience against environmental uncertainty (Chu, 2017).

The Resource-Based View suggests that strategic orientation represents an intangible organizational capability that shapes managerial behavior and organizational learning. Strategic orientation enables firms to identify valuable resources, coordinate organizational competencies, and continuously adapt to changing market conditions, thereby improving organizational performance (Barney, 1991).

Recent empirical evidence indicates that strategic orientation significantly enhances innovation capability, organizational agility, digital transformation, and sustainable performance among SMEs (Kraus et al., 2022). Nevertheless, many studies argue that strategic orientation contributes to sustainability primarily through organizational capabilities that transform strategic intentions into operational effectiveness. Therefore, this study defines Strategic Orientation as the organizational capability to formulate proactive strategic decisions, integrate environmental awareness, strengthen supply chain collaboration, and continuously adapt business strategies to achieve sustainable organizational performance.

GOVERNMENT REGULATION

Government Regulation represents institutional policies, legal frameworks, and public interventions designed to influence organizational behavior toward achieving economic growth, environmental sustainability, and social welfare. For SMEs, government regulation extends beyond compliance requirements by providing institutional support through financial assistance, digital transformation programs, environmental policies, entrepreneurship development, and business facilitation initiatives (North, 1990).

Institutional theory argues that organizations operate within regulatory environments that shape strategic decisions and organizational legitimacy. Firms complying with governmental regulations gain legitimacy, improve stakeholder trust, reduce operational uncertainty, and increase opportunities for long-term business growth (Scott, 2014). Consequently, government regulation has evolved from being merely a control mechanism into an important strategic resource supporting sustainable business development.

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Recent sustainability policies increasingly encourage SMEs to adopt environmentally responsible production, digital innovation, and circular economy practices. Governments also facilitate SMEs through business licensing simplification, digital literacy programs, financing accessibility, and environmental incentives. Such initiatives strengthen organizational capability while improving firms' competitiveness and sustainability (OECD, 2023).

Previous studies indicate that government support positively influences innovation capability, digital transformation, green practices, and sustainable performance. However, empirical findings also reveal that regulatory policies generate greater organizational benefits when firms possess adequate internal capabilities to implement and exploit available institutional resources effectively (Bag et al., 2023).

From the Resource-Based View, government regulation represents an external institutional resource that complements internal organizational capabilities. Regulatory support alone cannot guarantee sustainable performance unless firms develop sufficient business capacity to transform policy opportunities into competitive advantages.

Accordingly, this study conceptualizes Government Regulation as institutional support through environmental regulations, business facilitation, policy implementation, and governmental assistance that enables SMEs to strengthen organizational capability and improve sustainable performance.

BUSINESS CAPACITY

Business Capacity refers to the organizational capability to effectively manage financial resources, operational processes, customer relationships, innovation activities, and organizational learning to achieve sustainable competitive performance. Unlike financial performance, business capacity reflects the firm's internal readiness to respond to market changes and continuously improve organizational effectiveness (Kaplan & Norton, 1996).

The Resource-Based View identifies organizational capability as one of the most valuable strategic resources because capabilities integrate tangible and intangible resources into productive organizational activities. Firms possessing stronger organizational capabilities generally exhibit greater adaptability, innovation, and long-term competitiveness than firms relying solely on physical resources (Barney, 1991).

Business capacity encompasses several organizational dimensions including financial capability, customer management, internal business processes, and organizational learning. Financial capability enables firms to allocate resources efficiently, while customer capability

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strengthens market relationships and customer satisfaction. Internal process capability enhances operational effectiveness, whereas learning capability facilitates innovation and continuous organizational improvement (Kaplan & Norton, 2004).

Recent literature increasingly recognizes business capacity as a mediating mechanism linking strategic initiatives with organizational performance. Digital transformation, strategic orientation, and institutional support improve organizational outcomes primarily through capability development rather than direct performance enhancement (Teece, 2018; Bag et al., 2023).

For SMEs, business capacity becomes particularly important because limited financial resources require efficient capability utilization to sustain competitiveness. Organizations capable of integrating internal competencies with external opportunities demonstrate greater resilience, innovation capability, and sustainable growth. Therefore, this study conceptualizes Business Capacity as a multidimensional organizational capability encompassing financial management, customer orientation, operational excellence, and organizational learning that enables SMEs to convert strategic resources into sustainable competitive performance.

SUSTAINABLE PERFORMANCE

Sustainable Performance refers to an organization's ability to simultaneously achieve economic prosperity, environmental responsibility, and social well-being while maintaining long-term organizational competitiveness. The concept originates from the Triple Bottom Line framework, which argues that organizational success should not be evaluated solely by financial outcomes but also by environmental and social contributions (Elkington, 1997).

Modern sustainability literature emphasizes that sustainable performance integrates three interconnected dimensions. Economic performance focuses on profitability, productivity, and long-term financial growth. Environmental performance concerns efficient resource utilization, pollution reduction, and environmentally responsible operations. Social performance addresses employee welfare, community development, stakeholder relationships, and ethical business practices (Purvis et al., 2019).

For SMEs, sustainable performance has become increasingly important due to changing customer preferences, stricter environmental regulations, and heightened stakeholder expectations. Organizations capable of balancing economic objectives with environmental stewardship and social responsibility are more likely to develop long-term competitive advantages and organizational resilience (Neri et al., 2023).

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The Resource-Based View explains sustainable performance as the outcome of unique organizational capabilities that competitors cannot easily imitate. Internal capabilities such as digital competence, organizational learning, strategic orientation, and innovation enable firms to continuously create value while adapting to environmental changes (Hart, 1995).

Recent empirical studies demonstrate that organizational capability significantly mediates the relationship between strategic resources and sustainable performance. Digital transformation, government support, and strategic orientation contribute to sustainability when organizations possess sufficient capability to integrate these strategic resources into daily operations (Bag et al., 2023; Akter et al., 2022). Accordingly, this study defines Sustainable Performance as the organization's capability to generate balanced economic, environmental, and social outcomes through effective utilization of strategic resources and organizational capabilities, ensuring long-term competitiveness and business continuity.

RESEARCH METHODS

This study employed a quantitative research approach using an explanatory research design to examine the causal relationships among Social Media Marketing, Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance. The study adopted the Resource-Based View (RBV) as its theoretical foundation, proposing that organizational capabilities mediate the influence of strategic resources on sustainable organizational performance. The research focused on handicraft small and medium-sized enterprises (SMEs) located in Magelang Regency, Central Java, Indonesia, one of the country's prominent creative industry clusters.

The target population consisted of handicraft SMEs that had been operating for at least six months and actively conducted business activities during the data collection period. A purposive sampling technique was employed to ensure that respondents possessed adequate business experience and were directly involved in strategic decision-making. A total of 120 valid questionnaires were collected, satisfying the minimum sample size requirement for Structural Equation Modeling (SEM), which recommends at least five respondents for each measurement indicator (Hair et al., 2019).

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 consisted of five latent constructs. Social Media Marketing was measured through content creation, content sharing, connecting, and community building. Strategic Orientation included environmental

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orientation and supply chain orientation. Government Regulation was assessed through environmental compliance, governmental facilitation, and regulatory support. Business Capacity was measured using financial capability, customer perspective, internal business processes, and organizational learning, while Sustainable Performance comprised economic, environmental, and social performance dimensions.

Data analysis was performed using Structural Equation Modeling (SEM) with AMOS 24. The analysis followed a two-stage procedure. First, Confirmatory Factor Analysis (CFA) was conducted to evaluate construct validity, convergent validity, discriminant validity, and composite reliability. Second, the structural model was estimated to test the proposed hypotheses through regression path analysis. Model fit was evaluated using several goodness-of-fit indices, including Chi-square/df, GFI, AGFI, TLI, CFI, RMSEA, and SRMR, following the recommendations of Hair et al. (2019) and Ferdinand (2014). Statistical significance was determined at a 5% significance level ($p < 0.05$).

DISCUSSION

Based on results study This served as following:

A. Respondent Characteristics

A total of 120 handicraft SME owners in Magelang Regency participated in this study. Most respondents were male (56.7%), while female entrepreneurs represented 43.3% of the sample. Regarding age, the majority were between 31 and 40 years old (38.3%), followed by respondents aged 41–50 years (28.3%). These findings indicate that most business owners were in their productive entrepreneurial years, enabling them to adapt to market dynamics and digital transformation. In terms of educational background, 40.0% had completed senior high school, whereas 36.7% possessed diploma or bachelor's degrees. Furthermore, most businesses had operated for two to five years (45.0%) and were classified as micro enterprises (60.0%). These characteristics suggest that the respondents possessed sufficient entrepreneurial experience to evaluate organizational capabilities and sustainability practices.

B. Data Normality Evaluation

Based on the results of the normality test presented above in table 5, it shows that the data is normally distributed univariate and multivariate with no univariate value exceeding the critical limit (c.r) of a variable ± 2.25 and multivariate which is presented as -2.132. The processed data can be said to be normal if it has a critical value (c.r) of ± 2.58 and the results of the univariate

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and multivariate data normality tests show the value is still within the value range of ± 2.58 (Ghozali, 2017).

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: processed data, 2025

C. Evaluation Univariate & Multivariate Outlier

Mahalanobis Disance is useful for measuring the presence or absence of outlier data, namely by looking at the observation score which is very different from the centroid score for 120 cases. In table 6, it can be seen that the minimum halanobis distance listed is 11,777 and the maximum distance is 28,907. Outlier data is prepared from the mahalanobis value that exceeds the chi-square value. In this study, the chi-square of 10 degrees of freedom (number of variable indicators) at the 0.01 significance level is 34.382, so it is stated that there are no outliers (Ghozali, 2017).

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D. Evaluation Multicollinearity

According to (Hair et al, 2010) symptoms of multicollinearity can be seen through metrix sample correlations, if the resulting value of each indicator is smaller than (<) 0.90, it can be stated that there are no symptoms of multicollinearity. In this study, the results of data processing showed that there were no multicollinearity symptoms in the matrix sample correlations of 16 indicators spread across the six variables tested.

E. Test *Measurement* Model

Before testing the proposed hypotheses, the structural model was evaluated using several goodness-of-fit indices. The results demonstrated that the proposed model adequately represented the observed data. The Chi-square probability value was 0.073 (>0.05), indicating that the discrepancy between the empirical data and the theoretical model was statistically insignificant. Likewise, the CMIN/DF value of 1.372 was well below the recommended threshold of 2.00. Other fit indices also satisfied recommended criteria, including GFI (0.944), AGFI (0.912), CFI (0.980), TLI (0.972), IFI (0.981), RMR (0.028), and RMSEA (0.043). Collectively, these statistics confirm that the measurement and structural models achieved an excellent level of fit and were appropriate for hypothesis testing.

Table 2. 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
RMSEA	0.043	≤ 0,08	Good fit

Source: Processed Primary Data, 2025

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F. Test Hypothesis

The structural equation modeling results reveal that all proposed hypotheses were statistically supported. Social Media Marketing significantly influenced Business Capacity (β = 0.320; CR = 3.765; p < 0.001), indicating that digital marketing activities substantially strengthen organizational capability. Strategic Orientation also exerted a positive effect on Business Capacity (β = 0.290; CR = 3.537; p < 0.001), followed by Government Regulation (β = 0.260; CR = 3.250; p = 0.001). Regarding Sustainable Performance, 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) all demonstrated significant positive direct effects. Among all predictors, Business Capacity exhibited the strongest direct influence on Sustainable Performance (β = 0.310; CR = 3.735; p < 0.001), confirming its strategic role as the primary organizational capability supporting sustainability.

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 provide strong empirical support for the Resource-Based View (RBV), which argues that sustainable competitive advantage originates from valuable organizational capabilities rather than external resources alone (Barney, 1991; Barney, 2001). The positive

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relationship between Social Media Marketing and Business Capacity indicates that digital engagement enables SMEs to improve customer interaction, acquire market intelligence, and strengthen internal learning processes. These capabilities allow firms to enhance operational efficiency and respond more effectively to changing customer preferences. The result is consistent with Kaplan and Haenlein (2010), who argued that social media facilitates customer interaction and knowledge exchange, and with Trainor et al. (2014), who demonstrated that social media capability significantly improves organizational performance through stronger customer relationship management. Similarly, Dwivedi et al. (2021) emphasized that digital platforms enable firms to develop strategic marketing capabilities that create long-term competitive advantages.

The significant effect of Strategic Orientation on Business Capacity further demonstrates that proactive managerial decision-making contributes to organizational readiness and capability development. SMEs that possess stronger environmental awareness and supply chain orientation are better equipped to coordinate internal resources, respond to environmental uncertainty, and improve operational effectiveness. This finding supports Kirchoff et al. (2016), who reported that strategic orientation strengthens organizational adaptability and long-term competitiveness. Likewise, Banerjee (2002) suggested that firms integrating environmental considerations into strategic planning develop superior organizational capabilities that enhance sustainable performance. These findings are also consistent with the Dynamic Capabilities perspective proposed by Teece (2018), which emphasizes that organizations continuously renew internal competencies to respond effectively to environmental change.

Government Regulation also significantly improved Business Capacity, suggesting that institutional support contributes positively to organizational development. Regulatory compliance, environmental policies, and governmental facilitation encourage SMEs to establish more structured managerial systems and adopt better business practices. This result confirms the institutional perspective proposed by Nezakati et al. (2016), who argued that government policies shape organizational behavior by encouraging environmentally responsible practices. Similarly, Clemens and Douglas (2006) found that regulatory pressure stimulates firms to improve environmental management systems, while Zhu et al. (2007) demonstrated that institutional regulations encourage firms to strengthen internal operational capabilities. Therefore, government intervention should be viewed not merely as regulatory enforcement but as an important institutional mechanism supporting capability development among SMEs.

The direct effects of Social Media Marketing, Strategic Orientation, and Government

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Regulation on Sustainable Performance indicate that sustainability is influenced by both internal managerial initiatives and external institutional support. Digital marketing expands market access and strengthens customer relationships, strategic orientation improves organizational adaptability, whereas government regulation enhances business legitimacy and environmental responsibility. These findings support the Triple Bottom Line framework proposed by Elkington (1997), which emphasizes that sustainable performance should simultaneously encompass economic, environmental, and social dimensions. The results also align with Akter et al. (2016), who reported that digital capabilities contribute positively to organizational sustainability, and Purvis et al. (2019), who argued that sustainability depends on the balanced integration of economic growth, environmental stewardship, and social responsibility.

Most importantly, Business Capacity emerged as the strongest predictor of Sustainable Performance, confirming its strategic role as the primary mechanism through which organizational resources are transformed into sustainable outcomes. SMEs possessing stronger financial capability, customer orientation, internal business processes, and organizational learning are better able to maintain competitiveness while simultaneously improving economic, environmental, and social performance. This finding strongly supports the Resource-Based View (Barney, 1991), which argues that internal organizational capabilities constitute the principal source of sustainable competitive advantage. Furthermore, the result is consistent with Kaplan and Norton (2004), who emphasized that organizational capability development through learning, internal processes, customer management, and financial performance creates sustainable organizational value. Recent evidence by Bag et al. (2023) also suggests that capability development mediates the relationship between strategic resources and sustainability performance, reinforcing the central role of Business Capacity identified in this study. Consequently, SME development programs should prioritize capability-building initiatives, including digital competency development, strategic management training, and institutional collaboration, rather than relying solely on financial assistance or regulatory intervention.

CONCLUSION

This study examined the relationships among Social Media Marketing, Strategic Orientation, Government Regulation, Business Capacity, and Sustainable Performance among handicraft SMEs in Magelang Regency, Indonesia. The findings demonstrate that Social Media Marketing, Strategic Orientation, and Government Regulation significantly enhance both Business Capacity and Sustainable Performance. More importantly, Business Capacity emerged as the

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strongest determinant of Sustainable Performance, confirming that internal organizational capability is the primary mechanism through which digital marketing initiatives, strategic managerial orientation, and institutional support are translated into long-term business sustainability. These findings reinforce the Resource-Based View, which emphasizes that sustainable competitive advantage originates from valuable organizational capabilities rather than external resources alone (Barney, 1991; Barney, 2001).

From a theoretical perspective, this study extends the Resource-Based View by positioning Business Capacity as a strategic organizational capability that mediates the influence of Social Media Marketing, Strategic Orientation, and Government Regulation on Sustainable Performance. This integrated framework enriches the sustainability literature by demonstrating that internal capabilities remain the principal driver of sustainable business success in SMEs operating within dynamic and resource-constrained environments (Barney, 1991; Teece, 2018).

From a managerial perspective, SME owners should prioritize strengthening business capacity through continuous digital marketing adoption, strategic planning, customer relationship management, and organizational learning. Simultaneously, policymakers should complement financial support with capability-building programs, digital transformation initiatives, and supportive regulatory frameworks that facilitate sustainable SME development. Such integrated interventions are expected to improve organizational resilience, competitiveness, and long-term sustainability (Kaplan & Norton, 2004; OECD, 2023).

Despite its contributions, this study has several limitations. First, the cross-sectional design limits the ability to observe changes in organizational capability and sustainability over time. Second, the study focused exclusively on handicraft SMEs in one region, limiting the generalizability of the findings. Future research is therefore encouraged to employ longitudinal approaches, investigate other industrial sectors and geographical contexts, and incorporate additional organizational capabilities, such as innovation capability, digital capability, or dynamic capability, to further explain sustainable SME performance (Teece, 2018; Hair et al., 2019).

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This study provides valuable insights into the role of Social Media Marketing, Strategic Orientation, Government Regulation, and Business Capacity in improving Sustainable Performance among handicraft SMEs. Nevertheless, several limitations should be acknowledged. First, the study employed a cross-sectional research design, which captures organizational conditions at a single point in time. Consequently, the findings do not fully explain how

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organizational capabilities and sustainability performance evolve in response to changing business environments and technological developments. Future studies should adopt longitudinal research designs to examine the dynamic relationships among these constructs over time.

Second, this research focused exclusively on handicraft SMEs located in Magelang Regency, Indonesia. Although this context provides meaningful evidence for the creative industry, the findings may not be generalizable to SMEs operating in other industrial sectors or geographical regions with different institutional and market characteristics. Future research is encouraged to conduct comparative studies across industries or countries to improve the external validity of the proposed model.

Third, the study relied primarily on self-reported questionnaire data collected from SME owners, which may introduce common method bias and subjective evaluation. Future studies may combine perceptual data with objective business indicators, such as sales growth, profitability, export performance, environmental performance metrics, or customer retention data, to strengthen empirical robustness.

Finally, this study examined Business Capacity as the primary mediating capability based on the Resource-Based View. Future research could extend the proposed model by incorporating additional strategic capabilities, including Digital Capability, Innovation Capability, Dynamic Capability, Artificial Intelligence Capability, Knowledge Management Capability, or Organizational Agility, to provide a more comprehensive understanding of how SMEs achieve sustainable competitive advantage. Furthermore, future studies may investigate moderating variables such as Environmental Uncertainty, Competitive Intensity, or Entrepreneurial Orientation to explain contextual differences in the relationship between organizational capabilities and sustainable performance. Such extensions would contribute to the advancement of sustainability and strategic management literature while providing broader managerial implications for SME development in the digital economy.

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