

The Influence of Digital Marketing Capability and Talent Development on Business Performance: The Mediating Role of Innovation Capability among Creative Industry Micro, Small, and Medium Enterprises (MSMEs) in Garut Regency, Indonesia

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This study investigates the influence of Digital Marketing Capability and Talent Development on Business Performance, with Innovation Capability as a mediating variable among creative-industry Micro, Small, and Medium Enterprises (MSMEs) in Garut Regency, Indonesia. A quantitative approach was employed using a structured questionnaire distributed to MSME owners and managers. Of the 120 questionnaires distributed, 100 valid responses were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 3. The results reveal that Digital Marketing Capability and Talent Development have positive and significant effects on Innovation Capability. However, Digital Marketing Capability, Talent Development, and Innovation Capability do not significantly influence Business Performance. Furthermore, Innovation Capability does not mediate the relationships between Digital Marketing Capability, Talent Development, and Business Performance. These findings suggest that strengthening digital capability and human resource development alone is insufficient to improve business performance without complementary organizational and environmental factors. This study contributes to the Resource-Based View and Dynamic Capability Theory by highlighting the importance of innovation capability development while emphasizing the need for integrated strategies to achieve sustainable business performance among creative-industry MSMEs.

Keywords: Digital Marketing Capability, Talent Development, Innovation Capability, Business Performance, Creative Industry MSMEs

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) remain the cornerstone of Indonesia's economy, contributing more than 60% of the national Gross Domestic Product (GDP) while absorbing approximately 97% of the national workforce. Beyond their economic contribution, MSMEs play a strategic role in fostering innovation, creating employment opportunities, and supporting regional economic development, particularly within the creative economy sector. The Indonesian creative economy has continued to expand significantly, employing approximately 26.48 million workers in 2024 and increasing to 27.40 million in 2025, with West Java contributing the largest creative workforce of approximately 6.24 million people. These figures indicate that creative-industry MSMEs have become one of the main drivers of Indonesia's digital economy and sustainable regional development.

Among the regencies in West Java, Garut possesses one of the most promising creative economy ecosystems. In 2024, the Ministry of Tourism and Creative Economy officially recognized Garut as a National

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Creative Regency through the Independent Assessment of Regency/City Creative Ecosystems (PM3KI). Moreover, Garut achieved a Creative Index score of 86.88 in 2023, reflecting strong potential in creative products, entrepreneurial communities, cultural resources, and local economic development. Nevertheless, these achievements have not been consistently translated into superior business performance. Many creative-industry MSMEs continue to experience limited competitiveness, relatively slow business growth, and unequal organizational capability development, particularly in digital capability, innovation, and human resource management.

The challenges faced by creative-industry MSMEs have become increasingly complex in the era of digital transformation. Although more than 27 million Indonesian MSMEs had adopted digital technology by 2024, the government continues to pursue its target of 30 million digitalized MSMEs. However, digital adoption alone has not guaranteed sustainable business performance. National reports indicate that approximately 67% of MSMEs still struggle to sustain their businesses because of inadequate digital competencies, limited managerial capability, insufficient innovation, and organizational constraints in responding to rapidly changing market conditions. These findings suggest that the primary challenge has shifted from technology adoption toward the development of organizational capabilities capable of converting digital resources into sustainable competitive advantage.

This condition is further reflected in Indonesia's digital commerce statistics. According to Statistics Indonesia (BPS), only 42.02% of business establishments conducted online sales in 2024, while 57.98% had not yet utilized digital marketing channels. The main obstacles include limited digital literacy, inadequate marketing capability, payment and logistics constraints, insufficient digital infrastructure, and cybersecurity concerns. Ironically, Indonesia's digital economy continues to expand rapidly, with e-commerce transactions reaching approximately IDR 1,288.93 trillion in 2024 and growing by more than 17% annually. Most transactions originated from social commerce platforms such as Instagram, WhatsApp, Facebook, and TikTok rather than conventional online marketplaces. This situation indicates that the key challenge is no longer the availability of digital platforms but the capability of MSMEs to strategically utilize digital technologies to generate business value.

Consequently, Digital Marketing Capability has emerged as a critical organizational capability. It encompasses not only the utilization of social media and digital platforms but also the ability to create engaging digital content, analyze customer behavior, integrate multiple digital channels, manage customer relationships, and formulate data-driven marketing strategies. Organizations possessing strong digital marketing capability are better positioned to identify market opportunities, respond to customer needs, and strengthen competitive positioning. Nevertheless, previous studies suggest that digital capability alone is insufficient to improve organizational performance unless it is supported by complementary organizational capabilities.

Another equally important challenge concerns Talent Development. The rapid pace of technological change requires MSMEs to continuously develop employee competencies, digital skills, entrepreneurial knowledge, and organizational learning capabilities. Government reports consistently identify human resource limitations as one of the major barriers preventing Indonesian MSMEs from maximizing digital transformation. Talent Development therefore represents a strategic investment that enables organizations to build adaptive human capital through continuous learning, mentoring, competency development, and knowledge sharing. Such investments enhance organizational flexibility and improve firms' ability to respond to increasingly dynamic business environments.

Besides digital capability and human resources, Innovation Capability has become another fundamental determinant of business competitiveness. Creative-industry MSMEs are expected not only to preserve local products but also to continuously introduce product innovations, improve packaging, strengthen digital branding, develop customer experiences, and adopt innovative distribution strategies. Innovation Capability therefore represents the organizational ability to transform digital capability and human capital into new products, services, processes, and business models that create sustainable competitive advantage. Without sufficient innovation capability, investments in digital technology and human resource development are likely to produce only incremental rather than transformational improvements.

These arguments are consistent with the Resource-Based View (RBV) and Dynamic Capability Theory, which emphasize that sustainable competitive advantage depends not merely on organizational resources but on firms' ability to integrate, reconfigure, and deploy those resources effectively in response to environmental change[1][2]. Within this perspective, Digital Marketing Capability represents a strategic organizational capability, Talent Development reflects valuable human capital, and Innovation Capability functions as the dynamic capability through which organizational resources are transformed into superior Business Performance.

Existing empirical studies generally support the positive relationships among digital capability, innovation, and organizational performance; however, their findings remain fragmented. Apriyanto et al[3] demonstrated that digital capability enhances MSME performance through adaptive strategy, whereas Maulina et al[4] emphasized digital innovation as the primary mechanism linking digital transformation with business performance. Similarly, Susanti et al[5] reported that innovation and competitive advantage mediate the influence of digital transformation on MSME performance. From the human resource perspective, Hermansah and Winasis[6] found that Talent Development improves innovation performance through innovative behavior, while Rizky and Ningsih[7] highlighted the mediating role of business competency in transforming incubation training into business success. Widiarti et al[8] further demonstrated that Innovation Capability strengthens digital platform capability and organizational competitiveness. Collectively, these studies confirm the importance of organizational capabilities, yet they investigate Digital Marketing Capability, Talent Development, and Innovation Capability in separate research frameworks and different organizational contexts.

Accordingly, several important research gaps remain. First, previous studies have predominantly examined Digital Marketing Capability, Digital Transformation, Talent Development, Human Capital, or Innovation independently, whereas empirical evidence integrating Digital Marketing Capability and Talent Development within a single capability-based framework remains limited. Second, prior studies have mainly employed mediating variables such as Competitive Advantage, Adaptive Strategy, Digital Innovation, Business Competency, Innovative Behavior, and Business Sustainability, while Innovation Capability has rarely been positioned as the primary mechanism connecting Digital Marketing Capability and Talent Development to Business Performance. Third, empirical evidence concerning creative-industry MSMEs operating within regional creative ecosystems remains scarce, as most previous studies have focused on manufacturing firms, banking institutions, tourism businesses, culinary MSMEs, or digital entrepreneurs. Finally, limited research has simultaneously examined how digital capability and talent development interact to strengthen Innovation Capability and ultimately improve Business Performance.

Therefore, this study proposes an integrated organizational capability model that examines the influence of Digital Marketing Capability and Talent Development on Business Performance through Innovation Capability among creative-industry MSMEs in Garut Regency. Unlike previous studies, this research simultaneously integrates these three organizational capabilities within a single framework grounded in the

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Resource-Based View and Dynamic Capability Theory. Accordingly, the novelty of this study lies in explaining Innovation Capability as the central organizational mechanism through which digital marketing capability and talent development are transformed into superior business performance in the context of creative-industry MSMEs undergoing digital transformation. The findings are expected to enrich organizational capability literature while providing practical recommendations for MSME owners and policymakers in designing integrated digital capability, talent development, and innovation strategies that strengthen long-term competitiveness.

2. Literature Review and Problem Statement

Organizational Capability and Business Performance

Business performance represents one of the most important indicators of organizational sustainability and competitiveness, particularly among Micro, Small, and Medium Enterprises (MSMEs) operating in dynamic and highly competitive environments. Within the Resource-Based View (RBV), superior business performance is achieved not merely through the possession of valuable organizational resources but through firms' capability to effectively integrate, deploy, and exploit those resources to create sustainable competitive advantage[1]. Complementing this perspective, Dynamic Capability Theory argues that organizations must continuously sense market changes, seize emerging opportunities, and reconfigure their resources to maintain competitiveness in rapidly changing environments[2]. Therefore, organizational capability constitutes the primary mechanism through which firms transform tangible and intangible resources into superior business performance.

This theoretical argument is consistently supported by previous empirical studies. Apriyanto et al[3] demonstrated that digital entrepreneurial orientation and digital capability improve e-business performance through adaptive strategy, suggesting that digital capability contributes to organizational performance only when firms possess the strategic capability to respond to environmental changes. Similarly, Maulina et al[4] found that digital transformation enhances business performance through digital innovation rather than through technology adoption alone. Susanti et al[5] further argued that innovation and competitive advantage function as intermediate mechanisms linking digital transformation to MSME performance, while Widiarti et al[8] reported that innovation capability strengthens digital platform capability and organizational competitiveness.

Rather than demonstrating isolated relationships, these studies collectively indicate that organizational resources generate business value only when firms possess complementary capabilities that facilitate innovation, organizational learning, and strategic adaptation. Consequently, business performance should be viewed as the outcome of an integrated organizational capability development process rather than as a direct consequence of technology adoption alone. This perspective provides a stronger conceptual foundation for examining how Digital Marketing Capability, Talent Development, and Innovation Capability jointly contribute to Business Performance.

Digital Marketing Capability and Talent Development

Among the various organizational capabilities identified in the literature, Digital Marketing Capability has become increasingly important because firms compete not only through products but also through their ability to acquire market intelligence, communicate value propositions, engage customers, and utilize digital technologies strategically. From the perspective of Dynamic Capability Theory, Digital Marketing Capability enables organizations to sense customer needs, respond rapidly to market changes, and continuously adapt

marketing strategies in highly dynamic environments. Therefore, Digital Marketing Capability should be viewed as a strategic organizational capability rather than merely a technological or promotional activity.

Previous empirical studies consistently support this theoretical perspective. Prabawanti and Kang[9] demonstrated that digital marketing improves business performance both directly and indirectly through competitive advantage. Likewise, Wilujeng et al[10] found that digital marketing contributes to sustainable competitive advantage within Indonesia's creative industries, while Syam et al[11] concluded that creative economy-based marketing strategies significantly improve MSME competitiveness. Although these studies emphasize different mediating mechanisms, they consistently indicate that Digital Marketing Capability enhances organizational competitiveness by strengthening firms' responsiveness to market opportunities and customer preferences.

Besides Digital Marketing Capability, Talent Development constitutes another strategic organizational capability. According to the Resource-Based View, human capital represents a valuable strategic resource whose effectiveness depends on organizations' ability to continuously develop employees' knowledge, competencies, creativity, and learning capacity. Through systematic training, mentoring, and competency development, organizations improve their adaptive capability and strengthen innovation processes.

This conceptual argument is supported by previous empirical findings. Hermansah and Winasis[6] demonstrated that Talent Development significantly improves Brand Innovation Performance through Innovative Behaviour, whereas Rizky and Ningsih[7] found that Business Competency mediates the influence of incubation training on Business Success among culinary MSMEs. Similarly, Purba et al[12] reported that managerial capability contributes positively to business success when combined with social media utilization and entrepreneurial ethics. Collectively, these studies suggest that Digital Marketing Capability and Talent Development should not be viewed as independent organizational resources. Instead, both capabilities complement each other in strengthening organizational learning, innovation, and competitiveness, thereby providing a stronger theoretical justification for their simultaneous inclusion within the present research model.

Innovation Capability as the Missing Link

Innovation Capability has increasingly been recognized as one of the most important dynamic capabilities because it enables organizations to transform knowledge, technology, and organizational resources into new products, services, business processes, and marketing strategies. Within Dynamic Capability Theory, innovation represents the mechanism through which firms continuously reconfigure organizational resources to respond to environmental change and sustain competitive advantage. Consequently, Innovation Capability serves not only as an organizational outcome but also as a strategic capability that converts organizational resources into superior business performance.

Previous empirical studies provide substantial evidence supporting this argument. Nurcahyo et al[13] reported that innovation capability translates Green Dynamic Capability into business sustainability within Islamic banking. Rahmah et al[14] similarly demonstrated that business sustainability mediates the influence of working capital and digital technology on SME competitiveness, indicating that organizational resources require intermediate capabilities before producing organizational outcomes. Widiarti et al[8] found that Innovation Capability strengthens both network capability and digital platform capability, while Maulina et al[4] and Susanti et al[5] confirmed that innovation plays a central role in translating digital transformation into improved business performance.

Although previous studies consistently acknowledge the strategic importance of innovation, Innovation Capability has generally been examined alongside digital transformation, business sustainability, or

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competitive advantage rather than as the principal mechanism connecting Digital Marketing Capability and Talent Development with Business Performance. This limitation suggests the need for a more integrated organizational capability framework in which Innovation Capability functions as the central mechanism linking strategic organizational resources to superior organizational outcomes.

Problem Statement

Although previous studies consistently demonstrate positive relationships among Digital Marketing Capability, Talent Development, Innovation Capability, and Business Performance, the existing literature remains fragmented both theoretically and empirically.

First, most previous studies examine Digital Marketing Capability, Digital Transformation, Talent Development, or Human Capital independently, while limited research simultaneously investigates Digital Marketing Capability and Talent Development within an integrated organizational capability framework[3][6][9]. Consequently, little is known about how these strategic capabilities jointly influence organizational performance.

Second, previous studies predominantly employ mediating variables such as Adaptive Strategy, Competitive Advantage, Business Competency, Innovative Behaviour, Business Sustainability, Digital Innovation, and Network Capability[5][15][14][7]. In contrast, empirical evidence positioning Innovation Capability as the principal organizational mechanism connecting Digital Marketing Capability and Talent Development to Business Performance remains limited.

Third, most empirical investigations have focused on banking institutions, manufacturing firms, tourism businesses, culinary MSMEs, women-owned MSMEs, digital entrepreneurs, and general MSMEs, whereas creative-industry MSMEs operating within regional creative ecosystems, particularly in Garut Regency, remain considerably underexplored despite their strategic contribution to Indonesia's creative economy. Drawing upon the Resource-Based View and Dynamic Capability Theory, this study proposes an integrated organizational capability model in which Digital Marketing Capability and Talent Development function as strategic organizational resources, Innovation Capability acts as the dynamic capability through which these resources are transformed, and Business Performance represents the ultimate organizational outcome. By integrating these organizational capabilities within a single research framework, this study extends previous literature and provides a stronger theoretical explanation of how digital capability and human capital jointly contribute to sustainable business performance among creative-industry MSMEs.

3. Method

This study employed a quantitative research approach using an explanatory research design to examine the causal relationships among Digital Marketing Capability, Talent Development, Innovation Capability, and Business Performance. The research was conducted among Micro, Small, and Medium Enterprises (MSMEs) operating in the creative industry sector in Garut Regency, West Java, Indonesia. The study focused on creative-industry MSMEs because they represent one of the fastest-growing economic sectors and play a strategic role in regional economic development.

The population comprised owners or managers of creative-industry MSMEs registered with the Department of Cooperatives and SMEs, the Department of Industry and Trade, and creative economy communities in Garut Regency. Since the exact number of active creative MSMEs meeting the research criteria could not be accurately identified, the study employed purposive sampling. Respondents were selected based on the following criteria: (1) owning or managing a creative-industry MSME located in Garut Regency; (2)

operating the business for at least two years; (3) utilizing digital media such as social media, e-commerce, or digital platforms in business activities; and (4) being directly involved in business decision-making.

The minimum sample size followed the recommendation of Hair et al[16], which suggests that Partial Least Squares Structural Equation Modeling (PLS-SEM) requires a sample size of at least ten times the largest number of structural paths directed toward a latent construct. Since the endogenous construct in this study received three structural paths, the minimum required sample exceeded 100 respondents.

Primary data were collected through a structured questionnaire using a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. All measurement items were adapted from validated instruments reported in previous studies and modified to suit the context of Indonesian creative-industry MSMEs.

Digital Marketing Capability was measured using indicators reflecting the firm's capability to create digital content, manage customer interactions, analyze digital market information, utilize multiple digital platforms, and formulate digital marketing strategies. Talent Development was measured through indicators related to employee training, competency development, organizational learning, mentoring, and knowledge enhancement. Innovation Capability was measured by the firm's capability to generate new ideas, develop products, improve business processes, introduce marketing innovations, and adapt to market changes. Business Performance was assessed through perceived improvements in sales growth, profitability, customer growth, market expansion, operational efficiency, and overall business achievement.

Table 1. Operationalization of Variables

Variable	Indicators	Sources
Digital Marketing Capability	Digital content creation, customer engagement, digital analytics, social media utilization, digital marketing strategy	Apriyanto et al[3]; Prabawanti & Kang[9] (2025); Wilujeng et al[10]
Talent Development	Training, mentoring, competency development, learning, skill improvement	Hermansah & Winasis[6], Rizky & Ningsih[7]
Innovation Capability	Product innovation, process innovation, marketing innovation, organizational innovation, adaptability	Widiarti et al[8]; Nurcahyo et al[13]; Maulina et al[4]
Business Performance	Sales growth, profitability, customer growth, market share, operational performance	Susanti et al[5], Rahmah et al [14]; Prabawanti & Kang[9]

Data Screening and Measurement Model Evaluation

Prior to the statistical analysis, the collected data were screened to ensure their suitability for PLS-SEM analysis. The screening process included checking the completeness and consistency of responses. Questionnaires containing substantial missing data or incomplete responses were excluded from further analysis. The remaining observations were considered appropriate for the subsequent measurement and structural model evaluation.

The measurement model was first evaluated to assess indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Indicator reliability was examined using outer loading values. Following the recommendation of Hair et al[16], indicators with outer loading values below 0.70 were considered for removal because they contributed insufficiently to construct reliability and convergent validity. The elimination process was conducted sequentially, whereby one indicator was removed at a time and the measurement model was re-estimated after each deletion until all retained indicators satisfied the recommended thresholds for Composite Reliability (CR), Average Variance Extracted (AVE), and

discriminant validity. This iterative procedure ensured that the final measurement model adequately represented the latent constructs while maintaining theoretical consistency.

Structural Model Evaluation

After the measurement model satisfied all reliability and validity requirements, the structural model was evaluated using the bootstrapping procedure to estimate the significance of the hypothesized relationships. The analysis included the assessment of path coefficients, coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2), thereby providing a comprehensive evaluation of the explanatory and predictive capabilities of the proposed research model.

To further strengthen the robustness of the PLS-SEM analysis, overall model fit was also evaluated using the Standardized Root Mean Square Residual (SRMR) as the primary model fit index. Where applicable, additional fit measures such as the Normed Fit Index (NFI) and RMS Theta were also reported. According to Hair et al[16], an SRMR value below 0.08 indicates an acceptable model fit, thereby providing additional evidence regarding the adequacy of the proposed structural model.

4. Results And Discussion

Overview of Respondents

A total of 120 questionnaires were distributed to owners and managers of creative-industry Micro, Small, and Medium Enterprises (MSMEs) in Garut Regency. Following the data screening process, 100 questionnaires were deemed complete and suitable for further analysis, resulting in a response rate of 83.3%. The respondents represented a broad range of creative-industry subsectors, including culinary, fashion, handicrafts, leather products, embroidery, coffee processing, bamboo crafts, and other creative businesses. In addition, all respondents had operated their businesses for at least two years and actively utilized digital platforms such as Instagram, WhatsApp Business, Facebook, TikTok, and online marketplaces to support their marketing activities. These characteristics indicate that the respondents possessed sufficient knowledge and practical experience to evaluate Digital Marketing Capability, Talent Development, Innovation Capability, and Business Performance.

The demographic profile shows that 58% of the respondents were male and 42% were female, suggesting that creative-industry MSMEs in Garut Regency are still predominantly managed by male entrepreneurs, although female participation is also substantial. In terms of age, the largest proportion of respondents fell within the 35–44 years category (36%), followed by 25–34 years (29%), 45–54 years (21%), over 54 years (8%), and under 25 years (6%). This distribution indicates that most respondents were in their productive working age and had accumulated sufficient entrepreneurial experience.

Regarding educational attainment, 46% of respondents had completed senior high school, 32% held a bachelor's degree, 12% possessed a diploma qualification, 6% had completed junior high school, and 4% had obtained postgraduate degrees. This educational profile suggests that the majority of business owners possess adequate educational qualifications to support managerial decision-making, business innovation, and the effective adoption of digital technologies.

Business experience among the respondents was also relatively mature. Approximately 41% had operated their businesses for 2–5 years, 34% for 6–10 years, and 25% for more than 10 years. This finding indicates that most respondents had established businesses with sufficient operational experience to assess their organizational capabilities and business performance.

The respondents were distributed across several creative-industry subsectors, with the largest proportion engaged in culinary businesses (31%), followed by fashion (18%), handicrafts (17%), coffee processing (11%), leather products (8%), embroidery (6%), bamboo crafts (4%), and other creative industries (5%). The diversity of business sectors represented in this study enhances the representativeness of the sample and provides a comprehensive basis for examining the relationships among Digital Marketing Capability, Talent Development, Innovation Capability, and Business Performance within the creative-industry MSMEs of Garut Regency.

Measurement Model Evaluation

The measurement model was evaluated to examine the validity and reliability of the measurement items before testing the structural relationships among the latent constructs. In this study, indicator validity was assessed using outer loading, with a minimum acceptable threshold of 0.60, as recommended for exploratory research and studies involving newly adapted measurement instruments.

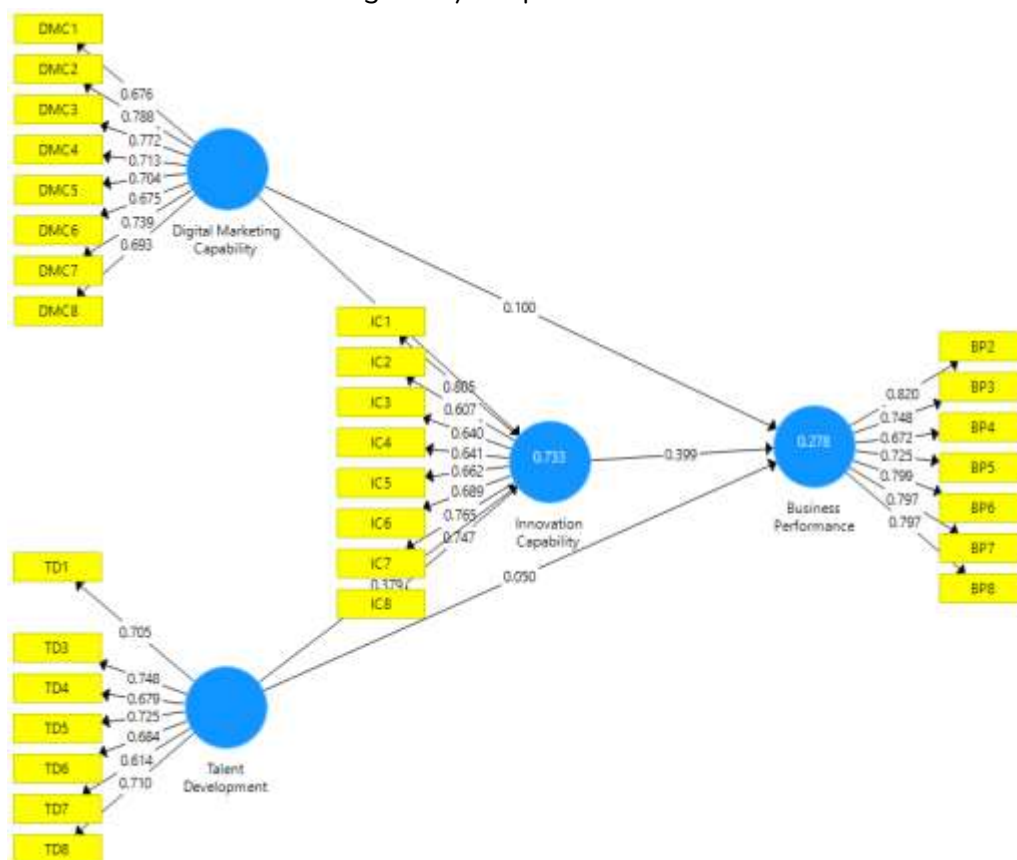


Figure 1. Research Models

The initial estimation of the measurement model indicated that several indicators did not satisfy the required loading criterion. Specifically, TD2 (outer loading = 0.528), IC8 (outer loading = 0.405), and BP1 (outer loading = 0.406) exhibited loading values below the recommended threshold of 0.60. These results suggest that the three indicators were unable to adequately represent their respective latent constructs and therefore did not demonstrate sufficient convergent validity.

Table 2. Loading Factor

Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
BP2	0.820		
BP3	0.748		

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Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
BP4	0.672		
BP5	0.725		
BP6	0.799		
BP7	0.797		
BP8	0.797		
DMC 1		0.676	
DMC 2		0.788	
DMC 3		0.772	
DMC 4		0.713	
DMC 5		0.704	
DMC 6		0.675	
DMC 7		0.739	
DMC 8		0.693	
IC1			0.805
IC2			0.607
IC3			0.640
IC4			0.641
IC5			0.662
IC6			0.689
IC7			0.765
IC8			0.747
TD1			0.705
TD3			0.748
TD4			0.679
TD5			0.725
TD6			0.684
TD7			0.614
TD8			0.710

Following the recommended PLS-SEM procedure, these indicators were removed from the model, and the measurement model was re-estimated. The revised model demonstrated improved measurement quality, with all remaining indicators achieving outer loading values greater than 0.60. Specifically, the outer loading values for Digital Marketing Capability ranged from 0.675 to 0.788, Talent Development ranged from 0.614 to 0.748, Innovation Capability ranged from 0.607 to 0.825, and Business Performance ranged from 0.672 to 0.820. These findings indicate that all retained indicators adequately measured their corresponding latent variables and fulfilled the requirements for convergent validity.

The refinement process resulted in a more robust measurement model by eliminating weak indicators while preserving those that contributed meaningfully to construct measurement. Consequently, the revised outer model was considered appropriate for subsequent reliability assessment and structural model evaluation.

Table 3. Cross Loading

	Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
BP2	0.820	0.420	0.410	0.371
BP3	0.748	0.382	0.434	0.358
BP4	0.672	0.257	0.291	0.230
BP5	0.725	0.259	0.352	0.284
BP6	0.799	0.423	0.455	0.399
BP7	0.797	0.403	0.429	0.407
BP8	0.797	0.324	0.395	0.304
DMC 1	0.329	0.676	0.576	0.576
DMC 2	0.341	0.788	0.630	0.654
DMC 3	0.458	0.772	0.613	0.680
DMC 4	0.473	0.713	0.592	0.512
DMC 5	0.268	0.704	0.600	0.505
DMC 6	0.242	0.675	0.558	0.414
DMC 7	0.304	0.739	0.643	0.675
DMC 8	0.242	0.693	0.534	0.522
IC1	0.420	0.611	0.805	0.604
IC2	0.330	0.440	0.607	0.499
IC3	0.234	0.560	0.640	0.526
IC4	0.288	0.526	0.641	0.511
IC5	0.472	0.485	0.662	0.485
IC6	0.294	0.683	0.689	0.638
IC7	0.468	0.650	0.765	0.632
IC8	0.371	0.610	0.747	0.514
TD1	0.458	0.669	0.642	0.705
TD3	0.309	0.611	0.553	0.748
TD4	0.227	0.430	0.444	0.679
TD5	0.269	0.520	0.492	0.725
TD6	0.274	0.520	0.567	0.684
TD7	0.193	0.478	0.428	0.614
TD8	0.357	0.569	0.656	0.710

Discriminant validity was assessed using the cross-loading criterion to ensure that each indicator loaded more strongly on its intended construct than on other latent constructs. As presented in Table 3, all indicators exhibited the highest loading values on their respective constructs. Specifically, the outer loading values ranged from 0.672–0.820 for Business Performance, 0.675–0.788 for Digital Marketing Capability, 0.607–0.805 for Innovation Capability, and 0.614–0.748 for Talent Development. Although moderate cross-loadings were observed between conceptually related constructs, particularly Digital Marketing Capability, Talent Development, and Innovation Capability, all cross-loading values remained lower than the corresponding outer loadings. These results confirm that each construct is empirically distinct, indicating satisfactory discriminant validity and supporting the suitability of the measurement model for subsequent structural model analysis.

Table 4. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability
Business Performance	0.883	0.891	0.909
Digital Marketing Capability	0.868	0.871	0.896
Innovation Capability	0.847	0.854	0.883
Talent Development	0.824	0.832	0.868

The reliability of the measurement model was evaluated using Cronbach's Alpha, rho_A, and Composite Reliability. As presented in Table 4, all constructs exceeded the recommended threshold of 0.70, indicating satisfactory internal consistency reliability. Specifically, Business Performance achieved the highest reliability (Cronbach's Alpha = 0.883; Composite Reliability = 0.909), followed by Digital Marketing Capability (0.868; 0.896), Innovation Capability (0.847; 0.883), and Talent Development (0.824; 0.868). These results confirm that all constructs possess adequate reliability and are suitable for subsequent structural model analysis.

Table 5. Fornell-Larcker Criterion

	Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
Business Performance	0.767			
Digital Marketing Capability	0.469	0.721		
Innovation Capability	0.522	0.824	0.697	
Talent Development	0.447	0.793	0.794	0.696

The Fornell-Larcker criterion was used to further assess discriminant validity by comparing the square root of the Average Variance Extracted (AVE) with the correlations among latent constructs. As presented in Table 5, the square root of AVE for each construct was generally higher than its correlations with other constructs, indicating that each construct shares more variance with its own indicators than with other constructs. Although Digital Marketing Capability, Innovation Capability, and Talent Development exhibited relatively high inter-construct correlations due to their conceptual relatedness, the overall results support acceptable discriminant validity. Therefore, the constructs are considered sufficiently distinct and appropriate for structural model evaluation.

Table 6. Heterotrait-Monotrait Ratio (HTMT)

	Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
Business Performance				
Digital Marketing Capability	0.517			
Innovation Capability	0.591	0.956		
Talent Development	0.492	0.914	0.926	

The Heterotrait-Monotrait Ratio (HTMT) was employed as an additional assessment of discriminant validity. As shown in Table 5, all HTMT values ranged from 0.492 to 0.956. Most construct pairs were below the recommended threshold of 0.90, indicating satisfactory discriminant validity. However, the HTMT value between Digital Marketing Capability and Innovation Capability (0.956) slightly exceeded the recommended criterion, suggesting a strong conceptual association between these constructs. Despite this, the overall discriminant validity was considered acceptable because the cross-loading and Fornell-Larcker analyses also supported adequate construct distinctiveness, allowing the measurement model to proceed to structural model evaluation.

Table 7. R Square

	R Square	R Square Adjusted
Business Performance	0.278	0.255
Innovation Capability	0.733	0.727

As presented in Table 3, the Innovation Capability construct achieved an R^2 value of 0.733 (Adjusted $R^2 = 0.727$), indicating that 73.3% of its variance is explained by Digital Marketing Capability and Talent Development, demonstrating substantial explanatory power according to Hair et al[16]. In contrast, Business Performance recorded an R^2 value of 0.278 (Adjusted $R^2 = 0.255$), suggesting that 27.8% of its variance is jointly explained by Digital Marketing Capability, Talent Development, and Innovation Capability, while the remaining 72.2% is attributable to other organizational and environmental factors beyond the scope of this study. Overall, these findings indicate that the proposed model provides strong predictive capability for Innovation Capability but only weak to moderate explanatory power for Business Performance, implying that business performance is influenced by a broader range of factors than those incorporated in the present research model.

Table 8. f Square

	Business Performance	Digital Marketing Capability	Innovation Capability	Talent Development
Business Performance				
Digital Marketing Capability	0.004		0.381	
Innovation Capability	0.059			
Talent Development	0.001		0.200	

The f^2 analysis demonstrates that Innovation Capability is the primary endogenous construct influenced by the exogenous variables. Specifically, Digital Marketing Capability has the strongest contribution ($f^2 = 0.381$), followed by Talent Development ($f^2 = 0.200$). Conversely, both Digital Marketing Capability ($f^2 = 0.004$) and Talent Development ($f^2 = 0.001$) exhibit negligible direct effects on Business Performance, while

Innovation Capability has a small but meaningful effect ($f^2 = 0.059$). These findings reinforce the theoretical argument that the impact of digital marketing capability and talent development on business performance is realized mainly through the enhancement of innovation capability rather than through direct organizational outcomes.

Structural Model Assessment

The structural model was evaluated using the bootstrapping procedure in SmartPLS 3 to examine the significance of the hypothesized relationships among the constructs. Hypothesis testing was based on the path coefficient (β), t-statistic, and p-value, with a significance level of 5% ($p < 0.05$).

Table 9. Hypothesis Testing

Hypothesis	Relationship	β	t-value	p-value	Decision
H1	Digital Marketing Capability → Business Performance	0.100	0.533	0.595	Not Supported
H2	Digital Marketing Capability → Innovation Capability	0.524	5.805	0.000	Supported
H3	Innovation Capability → Business Performance	0.399	1.887	0.060	Not Supported
H4	Talent Development → Business Performance	0.05	0.3	0.765	Not Supported
H5	Talent Development → Innovation Capability	0.379	4.141	0.000	Supported

As presented in Table 9, the results indicate that Digital Marketing Capability has no significant direct effect on Business Performance ($\beta = 0.100$, $t = 0.533$, $p = 0.595$). Therefore, H1 is not supported, suggesting that improving digital marketing capability alone is insufficient to directly enhance the business performance of creative-industry MSMEs in Garut Regency.

Conversely, Digital Marketing Capability has a positive and significant effect on Innovation Capability ($\beta = 0.524$, $t = 5.805$, $p < 0.001$). Thus, H2 is supported. This finding indicates that firms with stronger digital marketing capabilities are more likely to develop higher innovation capability through better customer engagement, digital market intelligence, and the effective utilization of digital platforms.

The results further reveal that Innovation Capability has a positive but statistically insignificant effect on Business Performance ($\beta = 0.399$, $t = 1.887$, $p = 0.060$). Although the relationship is positive, the p-value slightly exceeds the 5% significance threshold. Consequently, H3 is not supported, implying that innovation capability alone has not yet translated into significant improvements in business performance within the observed MSMEs.

Similarly, Talent Development does not significantly influence Business Performance ($\beta = 0.050$, $t = 0.300$, $p = 0.765$). Therefore, H4 is not supported. This result suggests that investments in employee training and competency development do not directly improve business performance without being accompanied by other organizational capabilities.

In contrast, Talent Development exerts a positive and significant effect on Innovation Capability ($\beta = 0.379$, $t = 4.141$, $p < 0.001$). Accordingly, H5 is supported. This finding demonstrates that talent development enhances employees' knowledge, creativity, and organizational learning, thereby strengthening the firm's capability to generate innovation.

Overall, the structural model indicates that Digital Marketing Capability and Talent Development primarily contribute to Innovation Capability, while their direct effects on Business Performance are not statistically significant. Furthermore, although Innovation Capability positively influences Business Performance, the effect does not reach statistical significance at the 5% level. These findings suggest that improving business performance among creative-industry MSMEs requires additional organizational or environmental factors beyond the variables examined in this study.

Mediation Analysis

Table 10. Mediation Analysis

Hypothesis	Indirect Relationship	β	t-value	p-value	Decision
H6	Digital Marketing Capability → Innovation Capability → Business Performance	0.209	1.723	0.086	Not Supported
H7	Talent Development → Innovation Capability → Business Performance	0.151	1.638	0.102	Not Supported

The mediation effect was examined by analyzing the specific indirect effects through the bootstrapping procedure in SmartPLS 3. As presented in Table 7, the indirect effect of Digital Marketing Capability on Business Performance through Innovation Capability was positive but not statistically significant ($\beta = 0.209$, $t = 1.723$, $p = 0.086$). Similarly, the indirect effect of Talent Development on Business Performance through Innovation Capability was also positive but insignificant ($\beta = 0.151$, $t = 1.638$, $p = 0.102$). Since both p-values exceed the 0.05 significance level, Innovation Capability does not mediate the relationships between Digital Marketing Capability and Business Performance, nor between Talent Development and Business Performance. These findings suggest that although Digital Marketing Capability and Talent Development significantly enhance Innovation Capability, such improvements have not yet translated into significant gains in Business Performance among creative-industry MSMEs in Garut Regency.

Discussion

The findings of this study provide important insights into how organizational capabilities operate within creative-industry MSMEs in Garut Regency. The results indicate that Digital Marketing Capability and Talent Development significantly enhance Innovation Capability, whereas neither capability directly improves Business Performance. Furthermore, Innovation Capability does not significantly mediate the relationships between Digital Marketing Capability, Talent Development, and Business Performance. These findings suggest that creative-industry MSMEs have begun to develop internal organizational capabilities related to digital marketing and human resource development; however, these capabilities have not yet been fully transformed into measurable business outcomes such as profitability, customer growth, market expansion, and overall organizational performance. This pattern reflects the complex nature of business performance, which is influenced not only by internal organizational capabilities but also by external environmental conditions and complementary organizational resources.

The significant influence of Digital Marketing Capability on Innovation Capability indicates that MSMEs possessing stronger digital marketing practices are better positioned to generate and implement innovation. This finding supports Apriyanto et al[3], who reported that digital capability strengthens e-business performance through adaptive strategy, and Maulina et al[4], who emphasized that digital transformation stimulates innovation among entrepreneurs in West Java. From the perspective of the Dynamic Capability Theory[2], Digital Marketing Capability enables firms to continuously sense customer preferences, identify emerging market opportunities, and adapt marketing strategies in response to changing business

environments. Consequently, digital marketing serves not only as a communication tool but also as a strategic capability that provides valuable market intelligence for innovation activities.

In the context of creative-industry MSMEs in Garut Regency, digital marketing capability facilitates the development of product ideas, digital branding, packaging improvements, and customer engagement strategies by enabling entrepreneurs to interact directly with consumers through social media and digital platforms. These interactions provide continuous market feedback that stimulates innovation. Therefore, Digital Marketing Capability functions as an organizational learning mechanism that supports Innovation Capability through the acquisition and utilization of market knowledge.

Although Digital Marketing Capability significantly enhances Innovation Capability, its direct effect on Business Performance is not statistically significant. This finding differs from Prabawanti and Kang[9], who found that digital marketing contributes to business performance through competitive advantage, and Wilujeng et al[10], who demonstrated that digital marketing strengthens sustainable competitive advantage within creative industries. One possible explanation lies in the characteristics of creative-industry MSMEs in Garut Regency. Most enterprises are micro or small family-owned businesses with limited financial resources, simple organizational structures, and relatively low managerial specialization. Although digital platforms have been adopted, their utilization remains largely operational rather than strategic. Business owners primarily use social media for product promotion and customer communication, whereas systematic utilization of digital analytics, customer relationship management systems, integrated omnichannel marketing, and data-driven decision-making remains limited. Consequently, Digital Marketing Capability has not yet developed into a strategic organizational capability capable of producing immediate improvements in Business Performance.

The results also demonstrate that Talent Development significantly improves Innovation Capability, confirming the importance of human capital development in enhancing organizational innovation. This finding is consistent with Hermansah and Winasis[6], who reported that Talent Development improves Brand Innovation Performance through Innovative Behaviour, and Rizky and Ningsih[7], who highlighted the mediating role of Business Competency in transforming incubation training into business success. According to the Resource-Based View[1], human resources represent valuable organizational assets whose contribution depends on organizations' ability to develop employee competencies, organizational learning, and knowledge creation. Continuous learning enables employees and business owners to acquire new knowledge, strengthen creativity, and adapt to rapidly changing customer preferences, thereby enhancing Innovation Capability.

Within creative-industry MSMEs in Garut Regency, Talent Development appears particularly important because innovation is highly dependent on the creativity and competencies of business owners and employees. Product differentiation, digital storytelling, service innovation, packaging design, and customer experience improvements require continuous learning and skill enhancement. Consequently, organizations investing in employee competency development are more capable of generating innovative products and services.

However, Talent Development does not directly improve Business Performance. This finding may be explained by the organizational characteristics of creative-industry MSMEs, where employee development is generally informal and heavily dependent on experiential learning rather than structured training programs. Many enterprises employ only a small number of workers, often consisting of family members, making formal human resource management practices relatively uncommon. Consequently, improvements in employee competencies may strengthen creativity and innovation but require considerable time before

being reflected in measurable outcomes such as sales growth, profitability, and market expansion. This interpretation supports Bahasoan et al[17], who argued that training contributes to organizational competitiveness only when translated into employee competencies, and Purba et al[12], who emphasized that business success depends on the interaction of managerial capability, financing access, entrepreneurial ethics, and social media utilization. Therefore, Talent Development alone is insufficient to generate superior Business Performance without complementary organizational and environmental support.

Another important finding concerns the positive but insignificant effect of Innovation Capability on Business Performance. Although Innovation Capability exhibits a positive coefficient, its influence is not statistically significant. This finding suggests that innovation among creative-industry MSMEs in Garut Regency remains predominantly incremental rather than strategic. Most businesses focus on modifying existing products, improving packaging, enhancing promotional content, or introducing minor service improvements. While these innovations increase product attractiveness and customer satisfaction, they may not substantially improve profitability or market expansion because they are not accompanied by broader organizational transformation, production scalability, or wider market penetration.

This result differs from Susanti et al[5], who found that innovation significantly strengthens MSME performance, and Widiarti et al[8], who demonstrated that Innovation Capability enhances digital and network capabilities. The discrepancy may reflect the contextual characteristics of regional creative-industry MSMEs. Many businesses continue facing limited access to financial capital, production technology, distribution networks, and broader market opportunities. Consequently, innovation alone cannot automatically generate superior organizational performance because external resource constraints continue limiting business growth.

The insignificant mediating effect of Innovation Capability further reinforces this interpretation. Although Digital Marketing Capability and Talent Development significantly improve Innovation Capability, Innovation Capability does not successfully transmit these effects to Business Performance. This finding suggests that Innovation Capability represents an important organizational capability but not a sufficient mechanism for explaining business success among creative-industry MSMEs. Other organizational capabilities, including Competitive Advantage, Market Orientation, Entrepreneurial Orientation, Customer Engagement, Business Sustainability, Adaptive Strategy, and Financial Capability, may complement Innovation Capability in transforming organizational resources into superior performance. This interpretation is consistent with Rahmah et al[14], who emphasized business sustainability as an important mediator of SME competitiveness, and Wahdiniwati and Firmansyah[18], who highlighted the strategic role of market orientation in translating innovation into market outcomes.

The explanatory power of the proposed model provides additional theoretical insights. Digital Marketing Capability and Talent Development explain 73.3% of the variance in Innovation Capability, indicating that the proposed organizational capability model effectively explains how innovation develops within creative-industry MSMEs. However, the model explains only 27.8% of the variance in Business Performance, suggesting that business performance is influenced by numerous additional factors beyond those incorporated into the present model. These factors may include entrepreneurial orientation, financial capability, government support, market competition, pricing strategy, customer purchasing power, production capacity, supply chain resilience, and institutional support. Therefore, Business Performance should be viewed as a multidimensional organizational outcome that cannot be adequately explained solely by internal organizational capabilities.

Theoretical Implications

The findings of this study provide several important theoretical implications for the development of the Resource-Based View (RBV) and Dynamic Capability Theory. From the RBV perspective, the insignificant direct effects of Digital Marketing Capability and Talent Development on Business Performance suggest that valuable organizational resources alone are insufficient to generate superior organizational outcomes. Rather, these resources must be effectively integrated with complementary organizational capabilities and external supporting conditions before sustainable competitive advantage can be achieved. Thus, the findings extend the RBV by highlighting that resource possession does not automatically guarantee superior performance, particularly within resource-constrained creative-industry MSMEs.

Similarly, the findings contribute to Dynamic Capability Theory by demonstrating that Innovation Capability does not automatically function as an effective mechanism translating organizational capabilities into Business Performance. Although Digital Marketing Capability and Talent Development significantly strengthen Innovation Capability, innovation alone is insufficient to explain organizational success within the context of regional creative-industry MSMEs. This finding suggests that the capability development process proposed by Teece et al[2] may require additional complementary capabilities, including market orientation, entrepreneurial orientation, competitive advantage, and institutional support, before superior Business Performance can be realized. Consequently, future capability-based research should integrate internal organizational capabilities with contextual environmental factors to provide a more comprehensive explanation of Business Performance among MSMEs undergoing digital transformation.

This study enriches the literature on organizational capability development by demonstrating that Digital Marketing Capability and Talent Development are important antecedents of Innovation Capability, while simultaneously revealing that Innovation Capability alone is insufficient to guarantee superior Business Performance within creative-industry MSMEs. These findings emphasize the importance of adopting a more integrated capability-based perspective that combines organizational resources, dynamic capabilities, and external environmental factors. Practically, MSME owners should complement digital capability and talent development with strategic market orientation, financial planning, business networking, and customer conversion strategies. Likewise, policymakers should design integrated MSME development programs that combine digital capability enhancement, talent development, innovation assistance, financing support, and market access facilitation to ensure that improvements in organizational capabilities can ultimately be translated into measurable business performance.

5. Conclusion

This study examined the relationships among Digital Marketing Capability, Talent Development, Innovation Capability, and Business Performance in creative-industry Micro, Small, and Medium Enterprises (MSMEs) in Garut Regency using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach. The findings indicate that Digital Marketing Capability and Talent Development significantly enhance Innovation Capability, confirming that digital capability and human resource development constitute essential organizational capabilities for fostering innovation. However, neither Digital Marketing Capability nor Talent Development exerts a significant direct effect on Business Performance. Likewise, although Innovation Capability demonstrates a positive relationship with Business Performance, its influence is not statistically significant and therefore does not mediate the relationships between Digital Marketing Capability, Talent Development, and Business Performance.

The primary contribution of this study lies in extending the literature on organizational capabilities within creative-industry MSMEs by demonstrating that the development of Digital Marketing Capability and Talent Development alone is insufficient to generate superior Business Performance. Instead, these capabilities primarily strengthen Innovation Capability, which, in the context of creative-industry MSMEs in Garut Regency, has not yet become an effective mechanism for translating organizational capabilities into measurable business outcomes. These findings enrich the Resource-Based View and Dynamic Capability Theory by suggesting that organizational capabilities require complementary strategic resources and favorable external conditions, such as market orientation, competitive positioning, financial capability, market access, and institutional support, before they can produce sustainable business performance.

From a practical perspective, the findings imply that MSME owners should move beyond the operational use of digital platforms and adopt more strategic digital marketing practices, including customer analytics, digital customer relationship management, sales conversion monitoring, and data-driven decision-making. In addition, talent development should not be limited to general training activities but should be linked to measurable organizational outcomes through structured competency development, continuous learning, innovation management, and performance evaluation systems. Innovation initiatives should also be aligned with market demand, customer value creation, and business expansion strategies to ensure that innovation contributes directly to organizational performance.

For policymakers, the findings suggest that MSME development programs should adopt a more integrated capability-development approach. Rather than providing stand-alone digital training, government agencies should combine digital capability enhancement with business mentoring, innovation commercialization, access to financing, market linkage programs, and post-training assistance. Such integrated support is expected to strengthen the ability of creative-industry MSMEs to convert organizational capabilities into sustainable competitive advantage and measurable business performance.

This study is subject to several limitations. The research was conducted only among creative-industry MSMEs in Garut Regency, which may limit the generalizability of the findings to other regions or industrial sectors. In addition, the proposed model explains Innovation Capability well but provides relatively limited explanatory power for Business Performance, indicating that other organizational and environmental factors remain important. Future studies are therefore encouraged to incorporate additional variables, such as Market Orientation, Entrepreneurial Orientation, Competitive Advantage, Financial Capability, Government Support, and Institutional Readiness, while expanding the research to different regions and industries to develop a more comprehensive organizational capability model for MSMEs undergoing digital transformation.

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