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## STRATEGY FOR STRENGTHENING MSMES THROUGH ECONOMIC LITERACY AND DIGITAL MARKETING ON BUSINESS PERFORMANCE IN THE CITY OF LUBUKLINGGAU

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### Abstract

*Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in economic development, particularly in regional contexts such as Lubuklinggau City. However, regional MSMEs frequently encounter challenges in resource management, digital adoption, and strategic decision-making. Grounded in the Resource-Based View (RBV) and the Theory of Planned Behavior (TPB), this study proposes an integrated conceptual framework to explain how an MSME Strengthening Strategy and Economic Literacy drive Business Performance through the mediating role of Digital Marketing Capability. In this model, the MSME Strengthening Strategy (encompassing capacity building, business capability, and market access) and Economic Literacy (financial management, business planning, and economic decision-making) serve as organizational and knowledge-based antecedents. Digital Marketing Capability (utilizing social media, marketplaces, and online promotions) acts as a transformational mechanism that converts resources and knowledge into multidimensional business outcomes, including sales growth, profitability, customer loyalty, and business sustainability. To empirically validate the proposed framework, a quantitative explanatory design using Partial Least Squares Structural Equation Modeling (PLS-SEM) is outlined for a sample of at least 200 registered MSMEs in Lubuklinggau City. This framework provides theoretical insights into the resource-knowledge-capability-performance transformation and offers practical guidance for designing integrated regional MSME development programs.*

**Keywords:** MSME Strengthening Strategy, Economic Literacy, Digital Marketing Capability, Business Performance, Lubuklinggau City, Resource-Based View (RBV), Theory of Planned Behavior (TPB), PLS-SEM.

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute a strategic sector in the Indonesian economy because of their contribution to employment, income generation, entrepreneurship, and regional economic development. Their importance is particularly evident in emerging-market contexts, where MSMEs function not only as business entities but also as mechanisms for distributing economic opportunities across local communities. Nevertheless, the ability of MSMEs to sustain growth is increasingly influenced by their capacity to manage resources, respond to market changes, and develop appropriate business capabilities. Research on Indonesian MSMEs indicates that financial literacy is positively associated with business growth, demonstrating that knowledge-based capabilities are an important foundation for entrepreneurs in managing and developing their businesses (Susan, 2020). Thus, strengthening MSMEs requires attention not only to financial resources but also to the managerial and knowledge capabilities that determine how available resources are utilized. The Scopus Insight similarly identifies economic and digital literacy as interconnected foundations for MSME growth, competitiveness, and resilience.

The transformation of the digital economy has further changed the competitive environment in which MSMEs operate. Changes in consumer behavior, increasing dependence on digital platforms, and the expansion of online markets require entrepreneurs to make more informed decisions regarding investment, financing, marketing, and resource allocation. Financial literacy has been shown to contribute to MSME profitability, particularly when entrepreneurs combine financial knowledge with personal capital and appropriate utilization of external financing (Hasanah et al., 2025). This finding suggests that knowledge does not operate independently from other business resources; rather, its contribution becomes meaningful when entrepreneurs are capable of translating knowledge into appropriate economic decisions. Consequently, economic literacy in the present study is positioned as an enabling capability involving financial management, business planning, and economic decision-making, consistent with the conceptual framework proposed for regional MSMEs.

The importance of economic literacy is also reflected in the broader relationship between financial capability, financial inclusion, and MSME development. Evidence from North Sumatra indicates that financial literacy, financial inclusion, and access to finance are associated with MSME growth and welfare, with business growth functioning as an important mechanism connecting these factors to entrepreneurial outcomes (Harahap et al., 2024). This perspective is relevant because MSMEs frequently operate under resource constraints and must determine which opportunities deserve investment. Entrepreneurs with stronger economic understanding may be better positioned to evaluate financial consequences, assess risks, plan business activities, and allocate scarce resources. However, economic knowledge alone does not necessarily ensure superior market outcomes. Its strategic value depends on whether entrepreneurs can convert knowledge into organizational actions and capabilities that are relevant to changing market conditions.

One important capability in the contemporary business environment is digital marketing. Digital platforms provide MSMEs with opportunities to overcome geographical limitations, communicate directly with customers, increase market visibility,

and access broader consumer segments through social media, marketplaces, and online promotional activities. Recent evidence demonstrates that digital marketing combined with product innovation is associated with MSME sales performance in the digital economy (Wulan et al., 2025). Digital marketing therefore represents more than a promotional instrument because its effectiveness depends on an organization's ability to select appropriate platforms, develop relevant content, engage customers, and integrate digital activities with business objectives. Accordingly, the present conceptual model treats digital marketing as a capability that may translate economic knowledge and organizational resources into market-related outcomes rather than simply as an independent marketing activity.

Despite these opportunities, MSMEs do not automatically obtain benefits from digitalization. Digital adoption can be constrained by limited digital skills, inadequate infrastructure, financial limitations, cybersecurity concerns, and resistance to organizational change. Research examining Indonesian Batik MSMEs demonstrates that barriers to digital adoption involve interconnected technological, organizational, and capability-related factors (Susanty et al., 2025). This challenge is also relevant in Lubuklinggau, where research on cloud accounting adoption among MSMEs indicates that technological understanding, competent human resources, financial data availability, and business management are important considerations in the digital transformation process (Pradesa et al., 2023). Such evidence indicates that improving MSME digitalization requires a broader strengthening strategy rather than isolated training in the use of digital platforms. In the proposed framework, MSME Strengthening Strategy consists of capacity building, business capability, and market access, which together represent organizational foundations for developing the ability to utilize digital marketing effectively.

The relationship between digital marketing and business performance is also dependent on the capabilities of entrepreneurs to transform digital activities into business value. Evidence from emerging-market MSMEs indicates that social media marketing is associated with marketing performance, while entrepreneurial competencies influence how effectively firms obtain value from social media activities (Anyadighibe et al., 2024). Therefore, merely having access to social media or e-commerce platforms cannot be considered equivalent to possessing a digital marketing capability. MSMEs must be able to connect digital activities with customer engagement, market access, brand visibility, and business objectives. In this context, digital marketing can function as a mechanism through which organizational strengthening and economic literacy are translated into business outcomes. The proposed model consequently identifies digital marketing as a mediating capability between the antecedent factors and business performance.

The challenge becomes particularly significant for regional MSMEs such as those in Lubuklinggau, where business actors may face limitations in digital media utilization, market access, managerial capabilities, and economic decision-making. The Scopus Insight indicates that rural and regional MSMEs frequently encounter greater difficulties in accessing finance and digital technologies and therefore require context-sensitive interventions rather than uniform digitalization strategies. It also emphasizes that integrated economic literacy, digital capabilities, and community-based interventions are important for strengthening MSME

competitiveness and resilience. In parallel, research on digitalized MSME competitiveness indicates that digital capabilities are increasingly relevant to market expansion, export capacity, and sustainable development outcomes (Wulandari et al., 2026). These findings strengthen the relevance of investigating an integrated framework within a specific regional context rather than assuming that relationships identified in other markets automatically apply to Lubuklinggau.

The sustainability dimension further reinforces the need for an integrated conceptual perspective. Digital transformation has increasingly been associated with the ability of MSMEs to innovate, adapt, and maintain competitiveness under changing environmental conditions. Recent research emphasizes the contribution of digital transformation to sustainable innovation among MSMEs, suggesting that digital capabilities may influence not only short-term market outcomes but also longer-term organizational adaptation (Purnomo et al., 2026). In the proposed framework, business performance therefore encompasses sales growth, profitability, customer loyalty, and business sustainability, allowing performance to be understood from both immediate and longer-term perspectives.

However, the existing literature remains relatively fragmented across economic literacy, financial inclusion, digital marketing, technology adoption, digital transformation, and institutional support. The Scopus Insight synthesizes evidence from more than 200 empirical studies and identifies the need for greater integration of economic literacy and digital capabilities, particularly because knowledge does not always translate automatically into technology adoption or business outcomes. The research outline similarly identifies a limited conceptual integration explaining how MSME strengthening strategy and economic literacy can be transformed into business performance through digital marketing, particularly in regional MSME contexts such as Lubuklinggau. This gap provides the basis for developing a conceptual model that connects **MSME Strengthening Strategy and Economic Literacy → Digital Marketing Capability → Business Performance**.

Based on this gap, this conceptual paper proposes an integrated framework grounded in the Resource-Based View (RBV) and Theory of Planned Behavior (TPB). RBV provides a theoretical explanation of how capacity building, business capability, and market access can function as organizational resources that support the development of digital capabilities, while TPB provides a complementary perspective for understanding how economic knowledge may influence decision-making and behavioral engagement with digital marketing. The model consequently conceptualizes MSME strengthening strategy and economic literacy as antecedent factors, digital marketing as a mediating capability, and business performance as the principal outcome. The proposed framework is intended to provide a theoretical explanation of how resources and knowledge can be transformed into digital capability and, subsequently, sustainable business performance among MSMEs in Lubuklinggau.

## LITERATURE REVIEW

### **MSME Strengthening Strategy as an Organizational Capability**

The literature increasingly conceptualizes MSME development as a capability-building process rather than merely an issue of

financial assistance or resource provision. From a Resource-Based View (RBV), organizational resources become strategically meaningful when they are transformed into capabilities that enable firms to respond to environmental changes and create value (Barney, 1991). For MSMEs, this perspective is particularly relevant because resource limitations make the effective configuration and utilization of existing resources critical. Empirical work on MSMEs in Lubuklinggau further illustrates the importance of strengthening products, services, and marketing strategies in expanding local and regional market opportunities, as demonstrated in research on the development strategy of Batik Alpukat (Sakti et al., 2024). The conceptual framework developed in this study therefore defines MSME Strengthening Strategy through three complementary dimensions: capacity building, business capability, and market access. These dimensions suggest that strengthening should encompass both internal capability development and external market positioning.

Empirical evidence supports the importance of capability-oriented strengthening but also demonstrates that resources do not automatically generate superior outcomes. Research on Indonesian MSMEs found a positive relationship between financial literacy and business growth, indicating that knowledge constitutes an important intangible resource for entrepreneurial development (Susan, 2020). However, the finding also implies that the possession of knowledge alone does not explain how firms convert resources into competitive outcomes. MSMEs must combine knowledge with managerial routines, market access, and operational capabilities. This distinction is important for the present framework because MSME Strengthening Strategy is positioned upstream of digital marketing capability, rather than being treated simply as a direct determinant of performance. Thus, capacity building and business capability may provide the organizational foundation through which MSMEs become capable of adopting and strategically using digital marketing.

### **Economic Literacy as a Knowledge-Based Capability**

Economic literacy represents another important dimension of MSME capability because entrepreneurs routinely make decisions concerning financing, investment, pricing, resource allocation, and business planning. Evidence from recent MSME research demonstrates that financial literacy contributes to profitability, particularly when combined with personal capital and appropriate loan utilization (Hasanah et al., 2025). This finding provides an important qualification to a simple knowledge-performance relationship: literacy creates value when entrepreneurs are able to apply knowledge in resource allocation and business decision-making. Within the present conceptualization, economic literacy therefore encompasses financial management, business planning, and economic decision-making. Its theoretical significance lies in its potential to improve the quality of entrepreneurial choices rather than merely increasing knowledge levels. Nevertheless, the literature leaves open an important question: through what organizational or behavioral mechanism does economic literacy become translated into market performance? This question provides the rationale for examining digital marketing capability as an intermediary mechanism.

The relationship between literacy and MSME development becomes more complex when financial inclusion and access to finance are considered. Harahap et al. (2024) demonstrate that financial literacy, financial inclusion, and access to finance are associated with MSME growth and welfare, with business growth

functioning as an important mediating mechanism. This evidence indicates that knowledge operates within a broader ecosystem of resources and opportunities rather than in isolation. Complementing this perspective, Herlita et al. (2023) applied the Theory of Planned Behavior and PLS-SEM to SMEs' financing decisions and highlighted the relevance of subjective norms, perceived behavioral control, and product knowledge in explaining entrepreneurial financing behavior. For MSMEs, an entrepreneur may therefore understand financial principles but still face difficulties converting that knowledge into growth when access to markets, technology, finance, and behavioral conditions are constrained. The implication for the present conceptual model is that economic literacy should not be expected to produce business performance mechanically. Instead, its contribution may become stronger when knowledge facilitates decisions concerning the adoption and utilization of productive business capabilities.

### **Digital Marketing as a Transformational Capability**

Digitalization has expanded the strategic options available to MSMEs by providing relatively accessible channels for market communication, customer engagement, and market expansion. The Scopus Insight identifies social media marketing, e-commerce platforms, and digital payment systems as important mechanisms through which MSMEs can improve sales, market reach, customer relationships, and operational efficiency. Recent empirical evidence further indicates that digital marketing and product innovation are associated with MSME sales performance in the digital economy (Wulan et al., 2025). Nevertheless, the literature should distinguish technology adoption from digital marketing capability. Adoption refers primarily to whether an MSME uses a digital platform, whereas capability concerns the firm's ability to select, integrate, manage, and strategically exploit digital channels. This distinction is theoretically important because platform access by itself cannot explain differences in performance among MSMEs using similar technologies.

The capability perspective is reinforced by evidence showing that digital adoption is affected by technological, organizational, and human constraints. Susanty et al. (2025), for example, identify interconnected barriers to digital adoption among Indonesian Batik MSMEs, including limitations in digital skills, infrastructure, financial resources, and organizational readiness. These findings challenge the assumption that providing MSMEs with digital platforms or training automatically produces successful digital transformation. Instead, digital marketing requires complementary capabilities that enable entrepreneurs to transform technological access into effective market activities. The present framework consequently conceptualizes digital marketing through social media utilization, marketplace utilization, and online promotion, consistent with the dimensions specified in the conceptual model. The synthesis suggests that digital marketing is better understood as a dynamic organizational capability than as a collection of promotional tools.

### **Digital Marketing and Business Performance**

The performance implications of digital marketing depend substantially on how firms deploy digital channels and integrate them with broader entrepreneurial capabilities. Anyadighibe et al. (2024) show that social media marketing is associated with marketing performance among MSMEs, while entrepreneurial competencies influence the ability of firms to obtain value from social media activities. This evidence is significant because it shifts

the analytical focus from whether MSMEs use digital media toward how effectively they use it. Social media may enhance customer engagement, while marketplaces may expand market access and online promotion may increase market visibility; however, these mechanisms require strategic coordination. The conceptual framework therefore defines business performance through sales growth, profitability, customer loyalty, and business sustainability. Such multidimensional performance is preferable to a narrow sales-based measure because digital marketing can influence customer relationships and longer-term business continuity in addition to immediate revenue.

The sustainability dimension further extends the conventional interpretation of digital marketing performance. Research on digitalized MSMEs indicates that digital capabilities are increasingly connected with competitiveness, export capacity, and sustainable development outcomes (Wulandari et al., 2026). At the organizational level, research on SMEs also indicates that strategic leadership can be associated with sustainable competitive advantage through capabilities such as adaptive innovation, resource access, and diversification (Herlita, 2025). In addition, research involving Effendi and colleagues links entrepreneurship education with sustainability innovation, sustainability intention, and sustainability-oriented business models, highlighting the importance of translating knowledge and innovation into sustainable business practices (Purwana et al., 2025). These findings suggest that digital marketing may contribute to performance not simply through short-term promotional effectiveness but through the development of more responsive relationships with customers and markets.

### **Integrating Economic Literacy, MSME Strengthening, and Digital Marketing**

An emerging stream of research argues for combining economic or financial literacy with digital capabilities rather than examining them independently. Tandilino et al. (2025), for example, examine digital financial inclusion as a mechanism connecting digital financial literacy and government support with MSME performance. The broader evidence synthesized in the Scopus Insight similarly reports that integrated interventions combining economic literacy, cognitive capabilities, and digital capacity-building are more relevant to MSME competitiveness than isolated interventions. The critical implication is that literacy represents potential knowledge resources, whereas digital capability represents the mechanism through which such knowledge can be operationalized in contemporary markets. From this perspective, the relationship between economic literacy and business performance should not be assumed to be exclusively direct. Entrepreneurs with stronger economic literacy may be better positioned to evaluate the costs, benefits, risks, and expected returns associated with digital marketing, thereby increasing their capacity to engage in purposeful digital marketing behavior.

This integrated logic can also be explained through the combination of RBV and the Theory of Planned Behavior (TPB). RBV explains why capacity building, business capability, and market access can constitute strategic organizational resources that support capability development, whereas TPB provides a behavioral explanation for how knowledge and decision-making may influence behavioral engagement. Empirical evidence from Indonesian SMEs supports the relevance of TPB for entrepreneurial decision-making, particularly in the context of financing behavior (Herlita et al., 2023). At the same time,

research on digital entrepreneurship education indicates that knowledge-oriented interventions can contribute to digital entrepreneurial intentions through entrepreneurial alertness, reinforcing the importance of translating knowledge into digital entrepreneurial action (Wibowo et al., 2023). The proposed framework therefore combines two complementary levels of analysis: organizational resources and capabilities through RBV and entrepreneurial decision-making and behavioral engagement through TPB.

Critical Synthesis and Research Gap

Taken together, the literature indicates three important insights. First, MSME strengthening should be understood as an integrated process involving capacity building, business capability, and market access rather than as isolated financial or training interventions. Second, economic literacy provides an important knowledge-based foundation for entrepreneurial decision-making, but its contribution to performance depends on the entrepreneur's ability to translate knowledge into productive actions. Third, digital marketing can provide the mechanism through which organizational resources and economic knowledge are converted into market outcomes, but effective utilization requires capabilities that extend beyond basic technology adoption. The Scopus Insight, which synthesizes evidence from more than 200 empirical studies, explicitly identifies the need for greater integration of economic literacy and digital capabilities and notes that knowledge does not always translate automatically into technology adoption or business outcomes.

The central research gap therefore lies not in the absence of studies on economic literacy, digital marketing, or MSME performance individually, but in the limited theoretical integration explaining the transformation process among these constructs. The research outline identifies this gap specifically in regional MSME contexts such as Lubuklinggau, where the relationship between organizational strengthening, economic knowledge, digital capability, and performance remains insufficiently conceptualized. Accordingly, the proposed model advances a resource–knowledge–capability–performance logic: MSME Strengthening Strategy provides organizational resources and capabilities; Economic Literacy provides knowledge for informed decision-making; Digital Marketing Capability represents the mechanism through which these antecedents are translated into market activities; and Business Performance captures the resulting sales, profitability, customer loyalty, and sustainability outcomes. This synthesis provides the conceptual basis for the propositions developed below.

Propositions

Based on the critical synthesis above, the conceptual paper proposes the following relationships:

- Proposition1(P1).MSME Strengthening Strategy positively contributes to the development and utilization of Digital Marketing Capability among MSMEs.
- Proposition2(P2).Economic Literacy positively contributes to the development and utilization of Digital Marketing Capability among MSMEs.
- Proposition3(P3).Digital Marketing Capability positively contributes to MSME Business Performance.

Proposition4(P4).Digital Marketing Capability mediates the relationship between MSME Strengthening Strategy and Business Performance.

Proposition5(P5).Digital Marketing Capability mediates the relationship between Economic Literacy and Business Performance.

Kelima proposisi tersebut mengikuti model konseptual yang telah ditetapkan dalam outline, yaitu dua antecedents (MSME Strengthening Strategy dan Economic Literacy), satu transformational/mediating capability (Digital Marketing), dan satu outcome (Business Performance). Posisi digital marketing sebagai mediator merupakan elemen konseptual yang paling penting karena mengubah model dari sekadar hubungan langsung antarvariabel menjadi penjelasan mengenai bagaimana resources dan knowledge ditransformasikan menjadi performance.

Proposed Methods

This study will employ a quantitative explanatory research design using Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the proposed relationships among MSME Strengthening Strategy, Economic Literacy, Digital Marketing Capability, and Business Performance. PLS-SEM is appropriate because the proposed model contains multiple latent constructs and includes both direct and mediating relationships, while the analysis is oriented toward explaining variance and developing predictive understanding. The research population will comprise registered MSMEs in Lubuklinggau City. Respondents will be selected using purposive sampling, with the criteria that business owners/managers have operated their businesses for at least one year and actively use digital media in business activities. A minimum sample of 200 respondents will be targeted to provide an adequate basis for estimating the measurement and structural models. The original research design similarly specifies registered MSMEs in Lubuklinggau, purposive sampling, and active use of digital media as key sampling criteria.

Data will be collected through a structured questionnaire using a Likert-type scale. The analysis will be conducted using SmartPLS and will proceed through evaluation of the measurement model and structural model. This approach is consistent with established PLS-SEM reporting guidelines, which emphasize separate assessment of measurement quality, structural relationships, predictive relevance, and mediation effects (Hair et al., 2019). (ScienceDirect) The measurement model will be evaluated through indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Outer loadings should preferably be ≥ 0.708, although indicators between 0.40 and 0.70 may be retained when theoretically justified and when construct-level validity remains satisfactory. Cronbach's alpha, rho\_A, and composite reliability should generally fall between 0.70 and 0.90, while values above 0.95 may indicate indicator redundancy. Convergent validity will be established when Average Variance Extracted (AVE) ≥ 0.50. Discriminant validity will primarily be assessed using the Heterotrait–Monotrait ratio (HTMT), with a threshold of < 0.85 for conceptually distinct constructs or < 0.90 for conceptually similar constructs (Hair et al., 2022; Sarstedt et al., 2022). (Wiley Online Library)

The structural model will subsequently be assessed through collinearity, coefficient of determination (R²), effect size (f²), predictive relevance (Q²), path coefficients, and statistical significance. Inner VIF values below 5.00 will be used as an

indication that critical collinearity is absent.  $R^2$  values will be interpreted contextually, with approximately 0.25, 0.50, and 0.75 representing weak, moderate, and substantial explanatory power, respectively. Effect sizes will be assessed using  $f^2$  values of 0.02, 0.15, and 0.35 as approximate benchmarks for small, medium, and large effects. Predictive relevance will be supported when  $Q^2 > 0$ , indicating that the model has predictive relevance for the endogenous construct (Hair et al., 2019). (ScienceDirect) Hypothesis testing will use bootstrapping with 5,000 resamples. Direct effects will be evaluated through path coefficients, t-statistics, p-values, and confidence intervals, with statistical significance generally assessed at  $p < .05$ . Mediation will be examined through the significance and confidence interval of the indirect effects of MSME Strengthening Strategy and Economic Literacy on Business Performance through Digital Marketing Capability. In addition, PLSpredict may be reported as a complementary assessment of out-of-sample predictive performance, consistent with contemporary recommendations for PLS-SEM reporting (Hair et al., 2019).

## Conclusion

This conceptual paper develops an integrated framework for explaining how MSME strengthening and economic literacy can contribute to business performance through digital marketing capability in Lubuklinggau. The framework moves beyond a direct resource–performance perspective by positioning digital marketing as an organizational capability that enables MSMEs to convert internal resources, managerial competencies, and economic knowledge into market-oriented activities. This perspective is particularly relevant in regional MSME contexts, where digital adoption may be constrained by technological, human-resource, financial, and managerial limitations.

The theoretical contribution lies in integrating the Resource-Based View and Theory of Planned Behavior. RBV explains how capacity building, business capability, and market access provide resources that can support capability development, while TPB helps explain how knowledge and decision-making influence entrepreneurial engagement with digital practices. Their integration creates a resource–knowledge–capability–performance perspective that connects organizational conditions with behavioral processes.

The framework also contributes to the MSME literature by distinguishing digital marketing capability from simple technology adoption. Effective digital marketing requires MSMEs to strategically utilize social media, marketplaces, and online promotion to develop customer relationships, expand market access, and generate business value. Consequently, business performance is considered multidimensionally through sales growth, profitability, customer loyalty, and business sustainability rather than through short-term financial outcomes alone.

From a practical perspective, the proposed model suggests that MSME development programs should combine economic literacy, organizational strengthening, and digital capability development rather than relying on isolated interventions. Empirical testing using PLS-SEM with MSMEs in Lubuklinggau can subsequently assess the proposed direct and mediating relationships and determine the extent to which digital marketing capability explains the transformation of resources and knowledge into business performance.

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