



Digital Marketing and Service Quality in Driving the Performance of Lampung Coffee Smes: The Role of Business Strategy Mediation

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ABSTRACT

This study examines the relationships between digital marketing, service quality, business strategy, and SME performance in the coffee industry in Lampung, Indonesia. This study employed a quantitative explanatory design, collecting data from 243 coffee SME owners through structured questionnaires and analyzing them using SEM-PLS. The results show that digital marketing and service quality significantly enhance SME performance, both directly and through business strategy. Digital marketing was found to have the strongest influence on business strategy, highlighting its role as a critical source of market intelligence and competitive advantage. Service quality also significantly contributes to shaping customer-oriented strategies. Furthermore, business strategy acts as a partial mediator, strengthening the impact of internal capabilities on performance outcomes. The model demonstrates strong explanatory power and good fit, confirming its robustness. The findings support the integration of Resource-Based View (RBV) and Balanced Scorecard (BSC) perspectives in explaining SME performance. Practically, the study emphasizes the importance of integrating digital capabilities and service quality into strategic planning to enhance competitiveness and sustainability in SMEs

INTRODUCTION

In recent years, the coffee industry in Indonesia has experienced significant growth, especially in Lampung Province. This region is known as one of the main centers of robusta coffee production in Indonesia and occupies the second position nationally, thus making a significant contribution to the economy, both at the regional and national levels (Tawakal et al., 2022). However, despite being supported by the potential of abundant natural resources, coffee SMEs still face various obstacles in improving their performance. These challenges are mainly related to limitations in marketing, service quality, and the ability to develop business strategies that are responsive to changes in the increasingly digital business environment.

The growing digital transformation has made digital marketing a strategic element in increasing the competitiveness of SMEs. Through the use of digital technology, business actors have the opportunity to reach a wider market effectively, while optimizing marketing cost efficiency compared to conventional methods (Kumar & Paswan, 2022). Several recent studies have demonstrated that the adoption of digital technologies in marketing practices enhances business visibility, improves customer engagement, and positively contributes to overall business performance (Chaffey & Ellis-Chadwick, 2022; James & Verissimo, 2021).

On the other hand, the quality of service is also a crucial factor in building and maintaining customer loyalty. In the coffee industry, consumer experience is influenced by the quality of the products offered, as well as service interactions, speed in presentation, and the comfort of the business environment. Service quality, as conceptualized by the SERVQUAL model, is measured through five dimensions – reliability, responsiveness, assurance, empathy, and tangibles – that significantly contribute to customer satisfaction and loyalty (Parasuraman et al., 1988; Slack et al., 2020).

Nevertheless, the effects of digital marketing and service quality on SME performance do not always occur directly. In many cases, the success of both factors depends heavily on how the business person formulates and implements an effective business strategy. (Sharabati et al., 2024). Business strategy acts as a transformation mechanism that connects internal capabilities to performance outcomes (Barney et al., 2021).

In the Resource-Based View (RBV) study, digital marketing and service quality are considered as strategic assets that have important value in building and maintaining long-term competitive advantages. These two factors represent internal capabilities that, when managed optimally, are able to provide added value to the organization. In contrast, the Balanced Scorecard (BSC) offers a comprehensive framework for assessing performance, covering financial, customer, internal process, and learning and growth dimensions (Kaplan & Norton, 1996).

However, a review of the literature shows that there is still a research gap, especially related to the role of business strategy as a mediating variable in linking digital marketing and service quality to SME performance. This gap is becoming increasingly relevant in the context of the local coffee industry in

Indonesia, which has its own unique characteristics and market dynamics. Therefore, this study seeks to answer these gaps by developing an integrated conceptual model to explain the relationships between variables more comprehensively.

LITERATURE REVIEW

Digital Marketing

Digital marketing is a transformation from conventional marketing practices to the use of internet-based technology in creating, communicating, and delivering value to customers. In the context of Small and Medium Enterprises (SMEs), digital marketing has a role as a promotional medium, as well as a strategic instrument to build sustainable relationships with customers, increase brand awareness, and expand market reach more effectively and efficiently (Shegai, 2023). Platforms such as social media, marketplaces, websites, and messaging applications act as key tools facilitating real-time and interactive interactions between business actors and customers.

From a theoretical point of view, digital marketing can be understood through the Resource-Based View (RBV) approach, which places digital capabilities as strategic resources with valuable, rare, difficult-to-replicate, and irreplaceable characteristics (VRIN). These capabilities provide opportunities for SMEs to create a sustainable competitive advantage, especially in increasingly complex and rapidly changing market competition (Teng et al., 2022). In addition, the concept of digital marketing is also relevant to dynamic capabilities theory, which emphasizes the ability of organizations to respond to environmental changes through technological innovation (Teece, 2020).

Empirical research also confirms that the implementation of digital marketing makes a positive contribution to business performance through increased sales, promotion cost efficiency, and wider market access (Dwivedi et al., 2021; Chaffey & Ellis-Chadwick, 2022). In the context of coffee SMEs in Lampung, the use of various digital platforms such as Instagram, Tokopedia, and Shopee allows business actors to reach market access beyond local boundaries, while strengthening the position and brand image in the minds of consumers.

Quality of Service

Service quality significantly contributes to building customer satisfaction and loyalty. In a service- and experience-based industry such as coffee, service quality not only reflects functional aspects, but also involves the emotional dimension felt by consumers during the interaction process (Saputra et al., 2024). The SERVQUAL model introduced by Parasuraman identifies five main dimensions, namely reliability, responsiveness, assurance, empathy, and tangibles, which collectively affect customers' perception of the services received.

In the perspective of contemporary marketing, service quality serves as a differentiating element that is a means of achieving competitive advantage. This is consistent with service-dominant logic, which suggests that value arises not only from products but also from the interactions between firms and customers (Vargo & Lusch, 2017). In the context of coffee SMEs, customer experience such as barista-friendly attitude, speed in presentation, comfort in the business

environment, and consistency of taste are important determinants in building customer loyalty.

Various previous studies indicate that service quality has a significant relationship with customer satisfaction levels, which further contributes to improving business performance (Kotler et al., 2021; Slack et al., 2020). In addition, the quality of service also encourages business actors to develop business strategies that are more oriented to customer needs, such as the implementation of differentiation strategies and customer relationship management.

SME Performance

SME performance can be seen as the main indicator in assessing the extent to which a business has succeeded in achieving the business goals that have been decided. Performance evaluation is not only limited to financial aspects, including revenue growth and profitability levels, but also includes non-financial dimensions, including customer satisfaction, loyalty, and business sustainability (Momtaz & Parra, 2024). Within the framework of the Balanced Scorecard (BSC), organizational performance is comprehensively analyzed through four main dimensions, namely finance, customers, internal processes, and learning and growth (Kaplan & Norton, 1996).

In the context of coffee SMEs, business performance can be reflected in the ability of business actors to maintain a customer base, increase sales volume, expand market share, and maintain consistency in product and service quality. In addition, performance is also greatly influenced by managerial ability to manage resources effectively and respond to changes in the dynamic market environment (Amin et al., 2025). So that the performance of SMEs is considered as an outcome, but also as a reflection of the effectiveness of the strategies implemented and the internal capabilities possessed by business actors. Recent research shows that the performance of SMEs is greatly influenced by internal factors such as managerial skills, innovation, and technology adoption (OECD, 2023). This shows that improving the performance of SMEs requires a holistic approach, which integrates operational, strategic, and technological aspects. The OECD (2023) states that the biggest challenge faced by SMEs, especially micro enterprises, is the lack of technical skills and digital knowledge, which emphasizes the importance of innovation and technology adoption for SME performance.

Business Strategy as a Mediation Variable

Business strategy can be understood as an integrated plan that is prepared in order to achieve organizational goals through optimal management and utilization of resources. In its implementation, this strategy involves various important decisions, such as determining market segmentation, positioning, product differentiation, and managing operational activities (Phuong, 2024). In the context of SMEs, business strategy plays a crucial role in determining the direction of business development as well as success in facing increasingly competitive competition.

In the framework of the Resource-Based View (RBV), business strategy is considered a means that transforms and integrates internal resources into a sustainable competitive advantage (Barney et al., 2021). This shows that

resources such as digital capabilities and service quality will not make an optimal contribution to performance if they are not processed through the formulation of the right strategy. In addition, the Balanced Scorecard (BSC) approach emphasizes the importance of alignment between strategy and organizational performance, so that strategy acts as a link between capabilities as inputs and performance as outputs.

Furthermore, the position of business strategy as a mediation variable indicates that the influence between digital marketing and service quality on SME performance does not occur directly, but through a strategic transformation process. The findings support previous studies which suggest that business strategies amplify the influence of internal capabilities on organizational performance outcomes (Barney et al., 2021). In the context of Lampung coffee SMEs, business strategies can be in the form of local brand development, coffee product innovation, the use of digital platforms for marketing, and improving customer experience. Therefore, business strategy is an important element in bridging internal capabilities and business performance achievements.

Based on this explanation, the hypothesis formulated is as follows:

- H1: Digital marketing has a positive effect on the performance of SMEs.
- H2: The quality of service has a positive effect on the performance of SMEs.
- H3: Digital marketing has a positive effect on business strategy.
- H4: The quality of service has a positive effect on business strategy.
- H5: Business strategy has a positive effect on the performance of SMEs.
- H6: Business strategy mediates the relationship between digital marketing and SMB performance.
- H7: Business strategy mediates the relationship between service quality and SME performance.

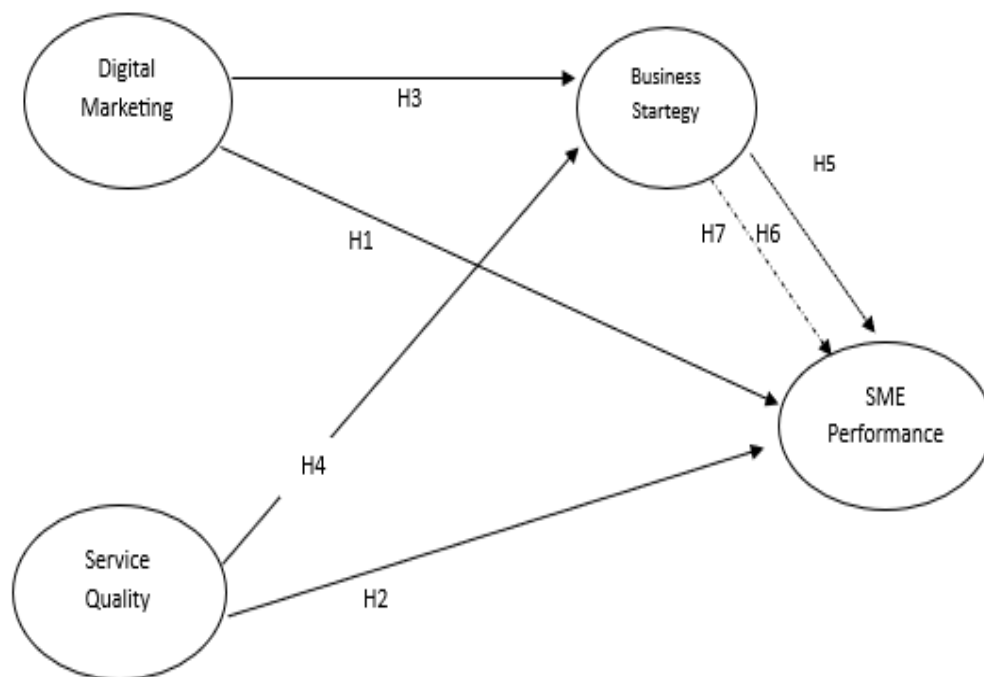


Figure 1. Conceptual Framework

METHODOLOGY

This research adopts a quantitative explanatory design to analyze causal links between digital marketing, service quality, business strategy, and coffee SME performance in Lampung Province, as it enables objective measurement and rigorous statistical testing. The explanatory design in this study is used to decipher the relationships between variables, both direct and indirect, with the main focus on testing the mediating role of business strategies (Amin et al., 2025). The research data was obtained through a survey method involving 243 coffee SME owners spread across various production and marketing center areas in Lampung Province. The selection of respondents was carried out using purposive sampling techniques, which are based on certain criteria, such as business actors who are active in carrying out business activities and have experience in marketing and customer service. The sample size was deemed sufficiently representative for analysis using Partial Least Squares Structural Equation Modeling (SEM-PLS), which is well-suited for relatively small samples and non-normal data distributions (Hair et al., 2022).

The research instrument used was a structured questionnaire with a five-point Likert scale, which ranged from a score of 1 (strongly disagree) to a score of 5 (strongly agree). This scale was chosen because it is able to systematically capture respondents' perceptions, attitudes, and evaluations of the variables being studied (Muhenje, 2023). Each construct in this study is operationalized into a number of indicators developed based on previous literature and adjusted to the context of coffee SMEs. Digital marketing variables are measured through the use of social media, marketplaces, and digital interactions with customers. The measurement of service quality is grounded in the dimensions of reliability, responsiveness, assurance, empathy, and tangibles. Business strategy includes aspects of business planning, differentiation, and innovation, while SME performance is measured through indicators of sales growth, profitability, and customer satisfaction. Before the analysis is carried out, the instrument is tested first in terms of validity and reliability to ensure the quality of the data produced (Bari et al., 2022).

Data analysis in this study was conducted using Partial Least Squares Structural Equation Modeling (SEM-PLS) with the support of SmartPLS 4 software. This method was selected due to its capability to analyze complex research models involving multiple latent constructs, as well as its flexibility in handling data that does not require a normal distribution (Hair et al., 2022; Sarstedt et al., 2021). Moreover, SEM-PLS is widely recognized for its effectiveness in predictive and exploratory studies, making it particularly appropriate for examining relationships among variables in the context of dynamic SMEs.

The analytical procedure was carried out in several stages. The first stage involved the evaluation of the outer model to assess the quality of the measurement instrument in terms of validity and reliability. Convergent validity was examined through outer loading values and Average Variance Extracted (AVE), indicating the extent to which indicators reflect their respective latent constructs. Construct reliability was evaluated using Cronbach's alpha and

composite reliability to ensure internal consistency. In addition, discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio (HTMT) to confirm that each construct is empirically distinct (Sugianto et al., 2025).

Subsequently, the inner model was evaluated to analyze the structural relationships among latent variables. This stage involved assessing model quality using indicators such as R-square (R^2), which reflects the explanatory power of independent variables on dependent variables, f-square (f^2) to determine the effect size of each relationship, and Q-square (Q^2) to evaluate predictive relevance. Higher R-square values indicate stronger explanatory capability, while positive Q-square values suggest that the model possesses adequate predictive accuracy for empirical data.

Furthermore, hypothesis testing was carried out using bootstrapping techniques with a total of 5,000 resamples. This approach is used to obtain t-statistical and p-value values which are the basis for determining the significance of the relationship between variables. The hypothesis is declared acceptable if the t-statistic value is greater than 1.96 and the p-value is less than 0.05 at a significance level of 5 percent. Furthermore, mediation analysis was conducted by assessing indirect effects to determine the extent to which business strategy functions as an intermediary variable in the relationship between digital marketing, service quality, and SME performance.

Through these analytical stages, the study aims to provide a more comprehensive understanding of the underlying mechanisms linking the examined variables. Additionally, the findings are expected to offer a meaningful empirical contribution to the development of SME performance models, particularly those that integrate digital capabilities, service quality, and business strategies in response to increasingly competitive business environments.

RESEARCH RESULT

Model Evaluation (Outer Model)

The evaluation results indicated that most indicator outer loadings across constructs exceeded the 0.70 threshold, suggesting that the indicators adequately represent their respective latent constructs. However, there are several indicators with values slightly below that threshold, such as X1.2 (0.673), Y3 (0.679), and Y6 (0.693). This value is still acceptable in exploratory studies because it is above the minimum tolerance limit, which is 0.60.

Overall, these results indicate that the validity of the convergence has been met, as the majority of indicators show strong loading values and are able to explain the well-measured construct. Thus, the research instrument is deemed valid in representing the constructs of Digital Marketing, Service Quality, Business Strategy, and SME Performance.

In addition, cross-loading analysis reveals that each indicator loads more strongly on its own construct than on others, as observed in X1, X2, Y, and Z. Although there are several loading values between relatively adjacent constructs, these values are still lower than the main loading values in the construct in question.

Based on these findings, it can be concluded that the validity of the discriminant based on the cross-loading criteria has been met, so that each indicator is able to distinguish the construct clearly. In addition, no indication of multicollinearity between latent variables was found in the research model.

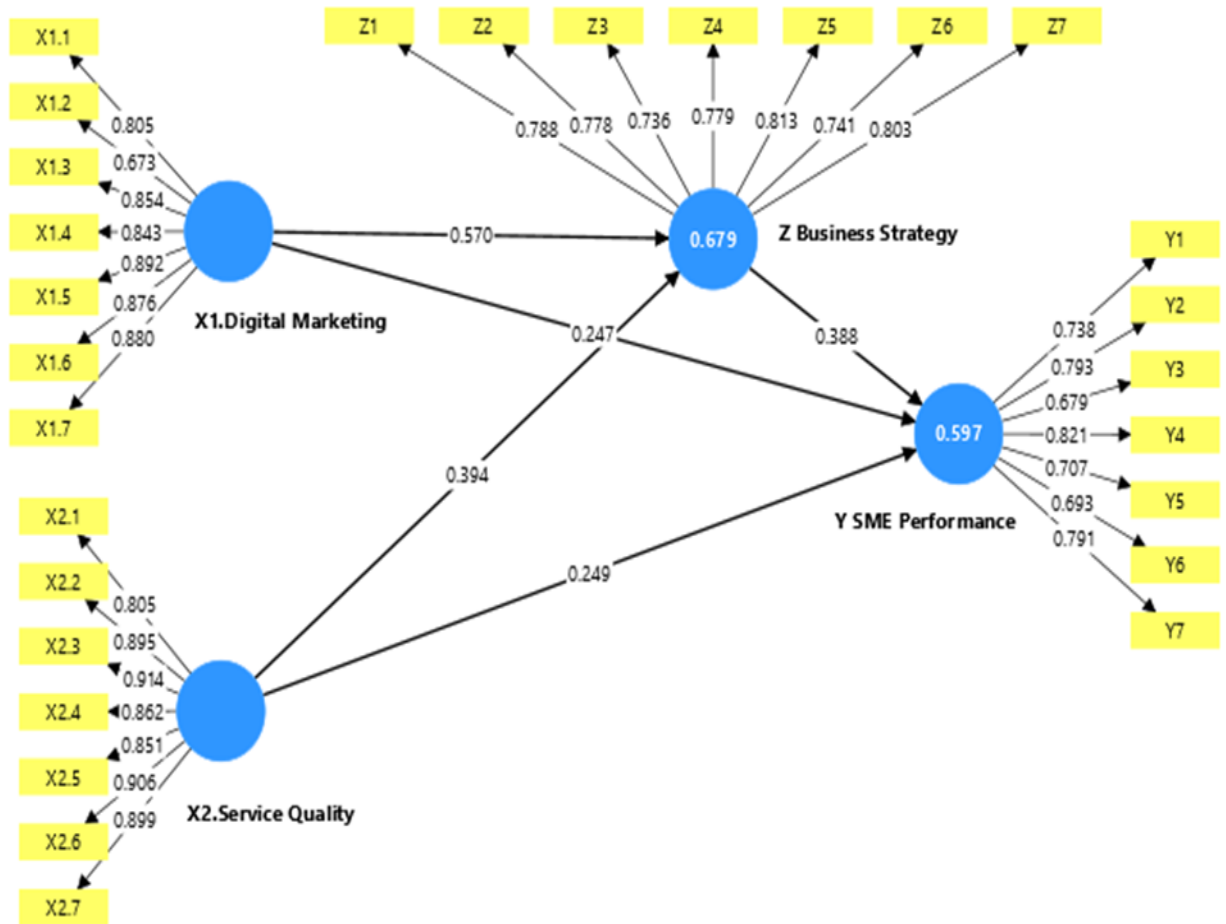


Figure 2. Path diagram with loading factor values

Table 1. Construct Validity and Reliability

Construct	Cronbach's Alpha	Composite Reliability	AVE	Remarks
Digital Marketing (X1)	0.926	0.941	0.697	Reliable
Service Quality (X2)	0.950	0.959	0.769	Reliable
Business Strategy (W)	0.891	0.914	0.604	Reliable
SME Performance (Y)	0.868	0.898	0.559	Reliable

Based on the results of the evaluation, all constructs used in this study, namely Digital Marketing (X1), Service Quality (X2), Business Strategy (Z), and SME Performance (Y) showed a very good level of reliability. This is reflected in Cronbach's Alpha and Composite Reliability values which all exceed the minimum limit of 0.70, so it can be concluded that each construct has a high internal consistency in representing latent variables.

In addition, the Average Variance Extracted (AVE) value of each construct is also above 0.50, which indicates that more than half of the variance of the indicator is able to be explained by the constructed being measured. These

findings indicate that the validity of the convergence has been met, so that the indicators used can adequately reflect the construct.

Overall, these results confirm that the research instrument has good and reliable measurement quality, making it suitable for further analysis on the structural model (inner model).

Discriminatory Validity Evaluation Table

Table 2. Fornell-Larcker Criterion

Variable	Z	X1	X2	Y
Z	0.777			
X1	0.744	0.835		
X2	0.647	0.443	0.877	
Y	0.733	0.646	0.610	0.748

Discriminant validity testing using the Fornell-Larcker Criterion method showed that the square root values of AVE on the diagonal elements for each construct, namely Z (0.777), X1 (0.835), X2 (0.877), and Y (0.748), were consistently higher than the correlation values between other constructs in the same row and column.

These findings indicate that each construct has a more dominant ability to explain its own indicator variance compared to other constructs. Therefore, it can be concluded that the validity of the discriminant has been met, so that each latent variable in this research model has clear differences both conceptually and empirically, and does not show any overlap between constructs.

Table 3. Heterotrait Monotrait Ratio (HTMT)

Indicator	X1. Digital Marketing	X2. Service Quality	Y SME Performance	Z Business Strategy
X1. Digital Marketing				
X2. Service Quality	0.470			
Y SME Performance	0.715	0.654		
Z Business Strategy	0.817	0.694	0.823	

Evaluation of discriminant validity using the HTMT (Heterotrait-Monotrait Ratio) approach showed that all correlation values between constructs were below the threshold limit of 0.85. These values include X1-X2 of 0.470, X1-Y of 0.715, X2-Y of 0.654, X1-Z of 0.817, X2-Z of 0.694, and Z-Y of 0.823.

These results indicate that the level of correlation between constructs is still within acceptable limits and does not show any indication of multicollinearity or overlap between latent variables. Thus, it can be concluded that the validity of the discriminant based on HTMT has been met, so that each construct in this research model has clear differences both conceptually and empirically.

Model Evaluation Table (Inner Model)

Table 4. R-Square (Power of Model Explanatory Force)

Endogenous Variable	R ²	Explanatory Power of the Model
Business Strategy (Z)	0.679	Strong
SME Performance (Y)	0.597	Strong

The extent to which independent variables explain variations in dependent variables within the research model is indicated by the R-square (R²) values. The findings reveal that the R² for Business Strategy (Z) is 0.679, suggesting that 67.9% of its variance is explained by Digital Marketing (X1) and Service Quality (X2). This value falls within the strong category, indicating that both variables contribute substantially to the development of SME business strategies.

Similarly, the R² value for SME Performance (Y) is 0.597, meaning that 59.7% of the variation in performance is accounted for by Digital Marketing (X1), Service Quality (X2), and Business Strategy (Z). This also reflects a relatively strong explanatory power, demonstrating the model’s effectiveness in explaining SME performance.

Overall, these results indicate that the structural model possesses strong explanatory capability, confirming the relevance of the selected variables in capturing the phenomenon under investigation.

The evaluation of the outer model further indicates that the measurement instrument demonstrates good validity. Most outer loading values exceed the 0.70 threshold, while a few indicators slightly below this level remain acceptable as they surpass the minimum criterion of 0.60. In addition, all constructs exhibit AVE values above 0.50, confirming convergent validity.

Disriminant validity is also established based on multiple criteria. First, cross-loading results show that each indicator loads highest on its respective construct. Second, the Fornell-Larcker criterion confirms that the square root of AVE for each construct exceeds its correlations with other constructs. Third, the HTMT value is entirely below 0.85, which indicates no overlap between constructs.

Overall, the constructs of Digital Marketing, Service Quality, Business Strategy, and SME Performance were declared valid and feasible to be used for structural model analysis.

SEM Test Results Table (Path Coefficients and Significance)

Table 5. Path Coefficients (Direct Influence)

Hypothesis	Pathway	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	t-statistic	p-value	Verdict
H1	X1 → Y	0.247	0.255	0.074	3.358	0.001	Accepted
H2	X2 → Y	0.249	0.232	0.096	2.591	0.010	Accepted
H3	X1 → Z	0.570	0.574	0.050	11.494	0.000	Accepted
H4	X2 → Z	0.394	0.381	0.069	5.750	0.000	Accepted
H5	Z → Y	0.388	0.388	0.090	4.325	0.000	Accepted

Testing the path coefficient showed that all hypotheses in this study were proven and accepted, which was shown by a t-statistical value that exceeded 1.96 and a p-value that was less than 0.05. This indicates that the relationships between variables in the model are statistically significant.

More specifically, Digital Marketing (X1) was found to exert a positive and significant effect on SME Performance (Y), with a coefficient of 0.247 ($t = 3.358$; $p = 0.001$), indicating that increased digital marketing activities contribute to enhanced business performance. Likewise, Service Quality (X2) demonstrated a positive and significant influence on SME Performance (Y), with a coefficient of 0.249 ($t = 2.591$; $p = 0.010$), suggesting that improvements in service quality lead to better performance outcomes.

The most substantial effect in the model was observed in the relationship between Digital Marketing (X1) and Business Strategy (Z), with a coefficient of 0.570 ($t = 11.494$; $p < 0.001$), highlighting the dominant role of digital marketing in shaping SME business strategies. Additionally, Service Quality (X2) also showed a positive and significant impact on Business Strategy (Z), with a coefficient of 0.394 ($t = 5.750$; $p < 0.001$), indicating that customer experience contributes to strategic decision-making.

Furthermore, Business Strategy (Z) was shown to have a positive and significant effect on SME Performance (Y), with a coefficient of 0.388 ($t = 4.325$; $p < 0.001$), confirming that well-formulated strategies can substantially enhance business performance.

Overall, these findings suggest that digital marketing and service quality not only directly affect SME performance but also indirectly strengthen it through their role in shaping effective business strategies

Table of Indirect Effects (Mediation)

Table 6. Indirect Effects (Pengaruh Tidak Langsung / Mediasi)

Hypothesis	Mediation Pathway	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	t-statistic	p-value	Verdict
H6	X1 → Z → Y	0.221	0.223	0.055	4.005	0.000	Accepted
H7	X2 → Z → Y	0.153	0.148	0.043	3.566	0.000	Accepted

The results of the indirect influence analysis showed that all mediation hypotheses in this study were proven to be significant, which was characterized by a t-statistical value that exceeded 1.96 and a p-value that was smaller than 0.05. These findings indicate that the role of mediation in the research model is statistically acceptable.

In more detail, the indirect relationship between Digital Marketing (X1) and SME Performance (Y) through Business Strategy (Z) has a coefficient of 0.221 ($t = 4.005$; $p < 0.001$). This shows that business strategy functions as an effective mediator in strengthening the influence of digital marketing on business performance. Thus, the impact of digital marketing on performance will be more optimal if integrated in the formulation of the right business strategy.

In addition, the indirect influence of Service Quality (X2) on SME Performance (Y) through Business Strategy (Z) was also proven to be significant, with a coefficient of 0.153 ($t = 3.566$; $p < 0.001$). These findings indicate that service quality not only has a direct influence on performance, but also through business strategies that are able to transform customer experience into competitive advantage.

Therefore, it can be concluded that Business Strategy (Z) has a role as a significant mediating variable (partial mediation) in the relationship between digital marketing and service quality to SME performance. These findings show that the success of SMEs is determined by their operational capabilities as well as by their ability to formulate and implement effective business strategies.

Model Evaluation Results

Table 7. Model Fit

Indicator	Value	Remarks
GoF (W)	0.698	Excellent fit model for Z
GoF (Y)	0.582	Model fit good enough for Y
SRMR	0.058	Excellent fit model (SRMR < 0.08)
NFI	0.911	Good fit model (NFI > 0.90)

The model fit evaluation indicates that the research model demonstrates a level of fit ranging from good to very good. The Goodness of Fit (GoF) value for Business Strategy (Z), which is 0.698, reflects a very strong capacity of the model to explain the construct. Meanwhile, the GoF value of 0.582 for SME Performance (Y) suggests that the model explains performance variation with a fairly good level of fit. In addition, the SRMR value of 0.058, which is below the threshold of 0.08, indicates a low level of model error, signifying an excellent model fit. This is further supported by the NFI value of 0.911 and the CFI value of 0.935, both exceeding 0.90, which confirms that the model achieves a good to very good fit compared to the baseline model.

At the outer model stage, the analysis reveals that all constructs, namely Digital Marketing (X1), Service Quality (X2), Business Strategy (Z), and SME Performance (Y), exhibit high levels of reliability and validity. This is evidenced by Cronbach's Alpha and Composite Reliability values that exceed the minimum threshold of 0.70, indicating strong internal consistency. Furthermore, AVE values above 0.50 across all constructs confirm the establishment of convergent validity. Discriminant validity is also supported by the Fornell-Larcker criterion, where the square root of AVE for each construct exceeds its correlations with other constructs. This result is reinforced by HTMT values below 0.85, indicating no overlap among constructs.

The evaluation of the inner model indicates strong explanatory capability. The R-square (R^2) value of 0.679 for Business Strategy (Z) suggests that 67.9% of its variance is accounted for by digital marketing and service quality. In addition, the R-square value of 0.597 for SME Performance (Y) implies that 59.7% of its variation is explained by digital marketing, service quality, and business strategy. The results of the path coefficient test show that all hypotheses proposed are proven to be significant, where digital marketing and service quality have a positive effect on the performance of SMEs and business strategies.

In addition, business strategies have also been proven to have a significant positive influence on the performance of SMEs. The mediation analysis results indicate that business strategy serves as a significant mediator in the relationship between digital marketing, service quality, and SME performance, suggesting that the effects of these two variables are strengthened when supported by an appropriate business strategy.

Overall, the results of this evaluation confirm that the SEM-PLS model used has good quality, both in terms of measurement and structural. This model is regarded as viable as it effectively explains the relationships among variables in a manner that is both accurate and consistent with empirical data, thereby providing a strong foundation for analyzing the effects of digital marketing, service quality, and business strategy on SME performance.

DISCUSSION

The findings of this study indicate that the developed model has sufficient empirical strength in explaining the relationship between digital marketing, service quality, business strategy, and SME performance. Overall, the results of the evaluation of both the outer and inner models show that the constructs used have met the criteria of validity and reliability, and have strong predictive capabilities. This confirms that the conceptual model built with reference to the Resource-Based View (RBV) and Balanced Scorecard (BSC) approaches is relevant in explaining the dynamics of SME performance, especially in the coffee industry sector in Indonesia.

The Influence of Digital Marketing on SME Performance

The results of the study show that digital marketing has a positive and significant influence on the performance of SMEs. These findings indicate that the use of digital technology, such as social media, marketplaces, and various other online platforms, is able to increase business exposure, expand market coverage, and drive sales growth more effectively. With digital channels, SMEs are no longer limited to the local market, but can reach a wider range of consumers with relatively efficient marketing costs.

From a theoretical perspective, these findings are in line with the Resource-Based View (RBV) approach, which places digital capabilities as a strategic resource that has competitive value. The ability to manage digital marketing, including content management, customer interaction, and digital data analysis, is an important factor in creating a sustainable competitive advantage. In addition, in the context of dynamic capabilities, digital marketing also reflects the ability of SMEs to adapt to changes in the increasingly digitized business environment.

However, the relatively smaller amount of path coefficient compared to other relationships shows that the influence of digital marketing on SME performance does not occur directly. This indicates that the success of digital marketing is highly dependent on how business actors integrate it into a targeted business strategy. Without the right strategy support, digital marketing activities tend to be operational and do not have the maximum impact on performance improvement.

Furthermore, the effectiveness of digital marketing is also influenced by several factors, such as the level of digital literacy of business actors, consistency in content management, and the ability to build engagement with customers. Therefore, SMEs that are able to optimize digital marketing strategically, not only in terms of technology use, but also in terms of planning and management, tend to have better performance.

Thus, it can be concluded that digital marketing is an important factor in improving the performance of SMEs, but its impact will be more optimal if it is supported by an integrated business strategy that is adaptive to market dynamics.

The Effect of Service Quality on SME Performance

The results of the study show that the quality of service has a positive and significant influence on the performance of SMEs. These findings indicate that improving the quality of services provided to customers directly contributes to improving business performance. This is in line with SERVQUAL's approach and service-dominant logic, which emphasizes that value creation in a business depends not only on product quality, but also on the experience that customers feel during the interaction process.

In the context of the coffee industry, the quality of service is reflected in various aspects, such as the barista-friendly attitude, speed in serving, the accuracy of service, and the comfort of the atmosphere of the business place. These factors not only affect customer satisfaction, but also shape the perception of value and a memorable emotional experience. A consistent positive experience will drive customer loyalty, which ultimately increases the frequency of repeat purchases and strengthens long-term relationships between customers and businesses.

Furthermore, service quality also plays an important role as an important source of differentiation in the face of increasingly fierce competition, especially in the coffee SME sector which tends to have relatively homogeneous products. Under these conditions, competitive advantage is no longer only determined by the product, but also by the quality of the interaction of the services provided. Therefore, SMEs that are able to maintain high service standards tend to have better performance, both from financial aspects such as increased revenue and profitability, as well as from non-financial aspects such as customer satisfaction and loyalty.

Thus, it can be concluded that service quality is a strategic factor that not only affects customer satisfaction, but is also the main driver in improving the performance of SMEs in a sustainable manner.

The Influence of Digital Marketing and Service Quality on Business Strategy

The findings of the study show that digital marketing has the most dominant influence on the formation of business strategies compared to other variables. This indicates that market data and information obtained through digital platforms, such as social media and marketplaces, are an important basis in the strategic decision-making process. Through digital channels, SMEs can understand consumer preferences, market trends, and purchasing behavior more quickly and accurately, so that the strategies formulated become more responsive and data-based.

In the perspective of dynamic capabilities, the ability of SMEs to utilize digital technology reflects their adaptive capacity in responding to changes in the dynamic business environment. These capabilities include not only the use of technology, but also the ability to integrate digital information into strategic planning and decision-making processes. Thus, digital marketing not only serves as a promotional tool, but also as a strategic source of business intelligence.

On the other hand, service quality has also been proven to have a positive and significant influence on business strategy. This shows that customer experience is one of the main considerations in formulating a business strategy. The interaction that occurs between customers and service providers provides valuable feedback for SMEs in developing strategies that are more oriented towards customer value and satisfaction. In this context, service quality plays a role as a strategic input that helps SMEs in determining differentiation, positioning, and service innovation.

Furthermore, the integration between digital marketing and service quality in the formation of business strategies reflects a more holistic approach in business management. SMEs that are able to combine digital excellence with quality service experiences tend to have a more adaptive, competitive, and long-term oriented strategy.

Thus, it can be concluded that both digital marketing and service quality have a strategic role in shaping the direction and quality of business strategies, which will ultimately determine the success and competitiveness of SMEs in an increasingly competitive market.

The Role of Business Strategy on SME Performance

The findings of this study show that business strategy has a positive and significant influence on the performance of SMEs. This indicates that business strategy is a key element in transforming internal resources and capabilities into measurable performance results. A properly formulated strategy allows business actors to allocate resources more efficiently, determine the direction of business development, and increase competitiveness in the market.

In the framework of the Balanced Scorecard (BSC), business strategy serves as a link between the organization's internal processes and the results of the performance produced, both from a customer and financial perspective. SMEs that are able to design strategies clearly, such as through product differentiation, determination of the right market segmentation, and innovation in services, tend to have superior performance. This shows that the success of the business does not only depend on the resources owned, but also on how those resources are managed through effective strategies.

The Role of Business Strategy Mediation

A significant finding in this study is the identification of the role of business strategy as a significant mediation variable. The findings of the study show that business strategy is able to mediate the relationship between digital marketing and service quality to the performance of SMEs. These findings show that the influence of these two variables does not only occur directly, but also through a structured strategic transformation process.

Viewed from the perspective of the Resource-Based View (RBV), business strategy acts as a mechanism that integrates various internal resources into a sustainable competitive advantage. In other words, capabilities such as digital marketing and service quality will contribute more optimally to performance when combined in a targeted business strategy. In addition, these findings suggest that the type of mediation that occurs is partial mediation, where both direct and indirect influences are equally significant. This confirms that business strategy not only strengthens relationships between variables, but is also an important path in optimizing the impact of internal capabilities on performance.

Model Evaluation and Theoretical Implications

The results of the model evaluation showed that the research model had a good level of suitability, as indicated by the GoF, SRMR, NFI, and CFI values that met the model's feasibility criteria. This indicates that the developed model is able to explain the relationships between variables comprehensively and consistently with empirical data.

From a theoretical perspective, this research contributes by strengthening the integration between the Resource-Based View (RBV) approach, dynamic capabilities, and Balanced Scorecard (BSC) in explaining the performance of SMEs. In addition, this study also enriches the literature by placing business strategy as a mediating variable that connects internal capabilities with organizational performance, which is still relatively limited in the context of SMEs in developing countries. The integration of these three approaches provides a more comprehensive conceptual framework for understanding how resources, adaptive capabilities, and strategies contribute to performance achievement.

Practical Implications in the Context of Indonesian SMEs

In the context of SMEs in Indonesia, especially the coffee sector, the results of this study show that it is not enough to improve business performance only by relying on digital marketing or service quality separately. SMEs need to integrate these two factors in a planned and customer-oriented business strategy. Strengthening digital capabilities, improving service quality, and formulating adaptive strategies are the main keys in facing competition in the digital era. In addition, support from the government and related institutions in the form of digital training and strengthening strategic management is also an important factor in increasing the competitiveness of SMEs.

CONCLUSIONS AND RECOMMENDATIONS

Overall, the findings indicate that the enhancement of SME performance, particularly within the coffee industry, is strongly influenced by three key factors: digital marketing, service quality, and business strategy. The results demonstrate that both digital marketing and service quality significantly affect the performance of coffee SMEs in Lampung, either directly or indirectly through business strategy as a mediating variable. Moreover, business strategy has been shown to strengthen these relationships by optimizing the utilization of these two factors in improving business performance.

From the theoretical side, this research contributes by integrating the perspective of Resource-Based View (RBV) and Balanced Scorecard (BSC) in the

context of SME performance development. Meanwhile, practically, these findings provide important implications for business actors to improve digital capabilities, improve service quality, and develop business strategies that are more targeted and adaptive to market dynamics.

ADVANCED RESEARCH

Future research is recommended to extend the model by incorporating additional variables such as innovation, digital literacy, entrepreneurial orientation, and government support to enrich the understanding of factors influencing SME performance. Furthermore, studies can be expanded to other industry sectors or different regions to enhance the generalizability of the findings. A longitudinal approach is also suggested to capture the dynamic changes in SME performance over time. In addition, the use of mixed methods may provide a more comprehensive understanding, particularly in exploring behavioral aspects and business strategies in greater depth.

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