

Building small medium enterprise competitive advantage through situational leadership, digital marketing capabilities and innovation

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Abstract

Small and medium enterprises increasingly need adaptive leadership and digital marketing capabilities to sustain competitiveness in dynamic digital markets. This study examines the influence of situational leadership and digital marketing capability on sustainable competitive advantage among SMEs in Makassar, with digital marketing innovation positioned as a mediating variable. Data were collected from 304 SME owners through a structured questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that situational leadership and digital marketing capability significantly enhance digital marketing innovation, with situational leadership emerging as the stronger determinant. Digital marketing innovation and situational leadership were found to exert significant positive effects on sustainable competitive advantage, while digital marketing capability showed no significant direct effect on competitive outcomes. Mediation analysis confirmed that digital marketing innovation significantly mediates both the relationship between digital marketing capability and situational leadership to sustainable competitive advantage. These results suggest that digital marketing capability functions as a strategic prerequisite rather than a direct driver of competitive advantage, and that its value is only realized when actively transformed into innovative marketing practices. The study contributes to the dynamic capabilities literature and extends situational leadership theory by demonstrating that adaptive leadership and digital capabilities must be channeled through innovation to generate sustainable competitive value in resource-constrained SME environments.

Keywords: *situational leadership, digital marketing capability, digital marketing innovation, sustainable competitive advantage.*

Introduction

Small and medium enterprises (SMEs) increasingly operate in a market environment shaped by digital disruption, shifting consumer behavior, and intensifying competition. In Indonesia, SMEs play a central role in supporting economic resilience, employment creation, income distribution, and regional economic development (D'souza et al., 2021; Munandar et al., 2025; Ongbali et al., 2024). MSMEs contribute approximately 61% to national gross domestic product and absorb around 97% of the workforce, making their sustainability highly relevant not only for business development but also for broader socioeconomic stability (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2021, 2025). This contribution demonstrates that the sustainability of SMEs has important implications for both national and regional economic stability. In the context of the regional economy, the presence of SMEs also serves as a vital instrument in strengthening local economic activities, expanding business opportunities, and maintaining community

economic resilience (Aprilia et al., 2024). This issue has become increasingly important as digital platforms, customer data, online communication, and technology enabled marketing practices have reshaped the way firms compete and create value.

The rapid development of digital technology has changed how consumers search for information, evaluate alternatives, interact with businesses, and make purchasing decisions. For SMEs, these changes offer opportunities to expand market reach, improve customer engagement, strengthen brand visibility, and respond to market needs more effectively (Sharabati et al., 2024; Zahara et al., 2023). Digital technology also enables SMEs to improve service responsiveness, personalize customer interaction, accelerate transactions, and communicate value propositions more creatively (Meier et al., 2025). Nevertheless, digital technology does not automatically generate competitive advantage. Many SMEs adopt digital platforms such as social media, marketplaces, messaging applications, and local search tools, but their use often remains tactical, routine, and transactional. As a result, digital adoption may improve visibility and communication, yet fail to produce differentiated, valuable, and difficult to imitate competitive outcomes. This suggests that the central issue is no longer whether SMEs use digital technology, but how they transform digital resources and managerial capabilities into innovation-driven competitive advantage.

One theoretical lens that can explain this transformation is the dynamic capabilities perspective. This perspective argues that firms achieve competitive advantage not merely by possessing resources, but by integrating, reconfiguring, and deploying those resources in response to changing market conditions (Canhoto et al., 2021; Matarazzo et al., 2021). In the SME context, digital marketing capability can be viewed as a strategic resource, while digital marketing innovation represents the process through which such capability is converted into market value. However, this conversion process also depends on leadership capacity. SMEs are commonly characterized by centralized decision making, limited resources, and strong dependence on owner manager capabilities. Therefore, leadership is likely to play an important role in guiding digital adaptation, encouraging experimentation, and aligning digital marketing activities with broader business objectives. This study argues that situational leadership and digital marketing capability are not sufficient by themselves to create sustainable competitive advantage unless they are translated into digital marketing innovation.

Situational leadership is relevant in this context because it emphasizes the ability of leaders to adjust their leadership style according to the readiness, competence, commitment, and needs of followers in different organizational situations (Hersey et al., 2013; Northouse, 2021). Aggarwal (2022) further explain that effective leadership requires adaptive judgment in interpreting environmental changes and selecting appropriate managerial actions. For SMEs operating in digitally dynamic markets, situational leadership may help owners and managers provide direction when employees lack digital readiness, offer support during learning processes, encourage participation in innovation activities, and delegate responsibilities when employees become more capable. Previous studies have shown that leadership supports digital transformation, innovation, and competitive advantage by shaping strategic direction, organizational learning, and adaptive responses to environmental change (Cai et al., 2024; Erhan et al., 2022; Leso et al., 2023; Malodia et al., 2023; Sawaeen & Aburumman, 2025). However, existing studies have mostly examined

digital leadership, transformational leadership, or general leadership capabilities, while the specific role of situational leadership in shaping digital marketing innovation and sustainable competitive advantage among SMEs remains underexplored.

Digital marketing capability is another important factor in explaining SME competitiveness in the digital era. It refers to a firm's ability to utilize digital technologies, platforms, customer data, content, and online channels to conduct marketing activities effectively. Chaffey & Ellis-Chadwick (2022) explain that digital marketing supports marketing objectives through integrated communication, customer relationship management, and value creation. Kotler et al. (2021) emphasize that digital capability enables firms to understand customer needs, build relevant experiences, and create value through digital interaction. Kingsnorth (2016) further highlights that digital marketing capability involves strategy formulation, channel selection, content management, performance measurement, and data-driven optimization. Prior research has demonstrated that digital marketing capability improves customer relationship management, business performance, market responsiveness, and competitive positioning (Hazzam et al., 2025; Homburg & Wielgos, 2022; Matarazzo et al., 2021; Sharabati et al., 2024; Wu et al., 2024). However, the direct effect of digital marketing capability on competitive advantage remains theoretically and empirically debatable. Digital marketing capability may provide SMEs with the tools and knowledge to operate in digital markets, but it may not create sustained advantage unless it is transformed into innovative marketing practices that are distinctive, adaptive, and difficult for competitors to replicate.

Digital marketing innovation provides a potential mechanism to explain how leadership and digital capability are translated into competitive advantage. Digital marketing innovation refers to the renewal of marketing strategies, content, channels, processes, and customer engagement practices through the use of digital technology, data, and online platforms. It involves creative content development, experimentation with new digital channels, personalization of customer interaction, continuous campaign improvement, and the development of more responsive digital offerings. Previous studies indicate that marketing innovation and digital marketing innovation can enhance SME performance, marketing effectiveness, competitiveness, and business sustainability (Al Madani & Adawiyah, 2024; AlKoliby et al., 2024; Noer et al., 2025; Nuvriasari, 2024). Innovation has also been identified as a mediating variable in the relationship between digital marketing, knowledge application, digital capabilities, leadership, and business performance (AlKoliby et al., 2024; Putra et al., 2024; Utomo & Susanta, 2020). However, limited research has examined digital marketing innovation as a mediating mechanism that simultaneously links situational leadership and digital marketing capability to sustainable competitive advantage. This omission limits the theoretical understanding of how SMEs convert managerial and digital resources into durable competitive outcomes.

Based on the above discussion, this study identifies three important research gaps. First, there is a theoretical gap in the SME competitiveness literature. Prior studies have frequently examined leadership, digital marketing capability, innovation, and competitive advantage as separate constructs, but have paid less attention to the mechanism through which leadership and digital capability are converted into sustainable competitive advantage. This study addresses that gap by positioning digital marketing innovation as a strategic conversion mechanism within a dynamic capabilities framework. Second, there is

an empirical gap regarding the role of situational leadership in digital marketing innovation. Although leadership has been widely linked to digital transformation and innovation, the specific contribution of situational leadership to digital marketing innovation and competitive advantage among SMEs remains insufficiently tested. Third, there is a contextual gap. Much of the existing literature focuses on firms in more digitally mature economies or broader SME settings, while less attention has been given to urban SMEs in emerging economies such as Indonesia, particularly in Makassar, where SMEs increasingly use accessible digital platforms but may still lack the capability to transform digital use into sustained competitive differentiation.

The novelty of this study lies in its integrated examination of situational leadership, digital marketing capability, digital marketing innovation, and sustainable competitive advantage in a single empirical model. Unlike previous studies that mainly investigate the direct effect of digital capability or leadership on firm performance, this study proposes that digital marketing innovation functions as a mediating mechanism that explains how these antecedents generate sustainable competitive advantage. This study also extends situational leadership theory by demonstrating its relevance beyond internal employee management and applying it to the context of digital marketing innovation in SMEs. Furthermore, it contributes to the dynamic capabilities literature by showing that digital marketing capability should not be treated as an automatically valuable resource, but as a strategic input whose competitive value depends on its transformation into innovation. In this way, the study offers a more nuanced explanation of why some SMEs benefit from digital capability while others fail to convert digital adoption into sustained competitive outcomes.

Accordingly, this study aims to examine the influence of situational leadership and digital marketing capability on sustainable competitive advantage among SMEs in Makassar, Indonesia, with digital marketing innovation positioned as a mediating variable. This study contributes theoretically by clarifying the mediating role of digital marketing innovation in the relationship between managerial capability, digital capability, and competitive advantage. It also contributes practically by offering insights for SME owners and managers on the need to move beyond routine digital platform adoption toward more adaptive, innovative, and customer centered digital marketing practices. In resource-constrained SME environments, sustainable competitive advantage is more likely to emerge when adaptive leadership and digital marketing capability are actively transformed into continuous digital marketing innovation.

Based on the theoretical arguments and empirical gaps discussed above, this study proposes the following hypotheses:

- H1: Situational leadership has a positive effect on digital marketing innovation.*
- H2: Situational leadership has a positive effect on sustainable competitive advantage.*
- H3: Digital marketing capability has a positive effect on digital marketing innovation.*
- H4: Digital marketing capability has a positive effect on sustainable competitive advantage.*
- H5: Digital marketing innovation has a positive effect on sustainable competitive advantage.*
- H6: Digital marketing innovation mediates the effect of situational leadership on sustainable competitive advantage.*
- H7: Digital marketing innovation mediates the effect of digital marketing capability on sustainable competitive advantage.*

Methods

This study employed a quantitative explanatory research design to examine the relationships among situational leadership, digital marketing capabilities, digital marketing innovation, and competitive advantage among SMEs. The quantitative approach was considered appropriate because the study aims to test causal relationships between latent constructs and evaluate the mediating role of digital marketing innovation in the proposed research model. The research context focuses on SMEs in Makassar, Indonesia, as urban SMEs increasingly face digital transformation, changing consumer behavior, and intense market competition. The conceptual model was developed based on the hypotheses formulated in the literature review, where situational leadership and digital marketing capabilities serve as independent variables, digital marketing innovation acts as a mediating variable, and competitive advantage serves as the dependent variable. This design enables the study to empirically assess how managerial and digital capabilities are transformed into competitive advantage through innovation in digital marketing practices.

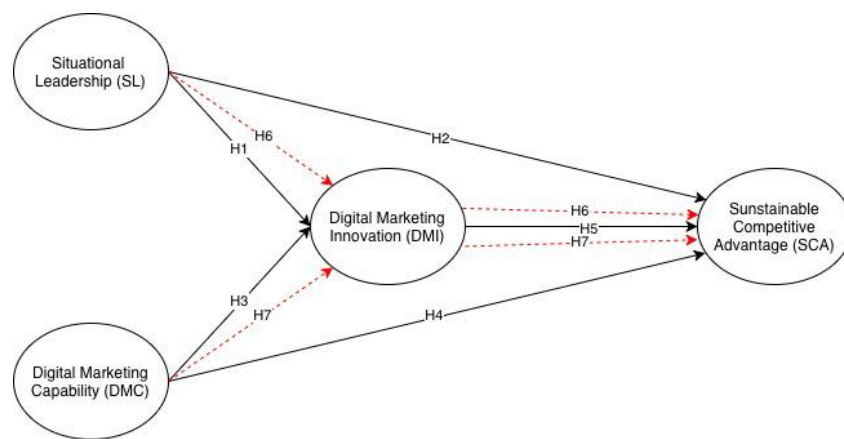


Figure 1. Conceptual Framework

The population of this study consisted of 5,080 SMEs registered in the SME incubator database of Makassar City. SME owners or managers were selected as the unit of analysis because they are directly involved in strategic decision-making, leadership practices, digital marketing activities, and business innovation. From this population, a total of 304 valid responses were collected and used as the final sample for data analysis. This sample size is considered appropriate for PLS-SEM analysis because it provides sufficient statistical power to examine the relationships among situational leadership, digital marketing capability, digital marketing innovation, and sustainable competitive advantage. This study applied a purposive sampling technique with several criteria: the business must be classified as an SME, operate in Makassar City, have used at least one digital marketing channel such as social media, marketplace platforms, websites, or messaging applications, and have been operating for at least one year. These criteria were established to ensure that respondents had sufficient experience in managing business activities and implementing digital marketing practices. Data were collected through a structured questionnaire distributed to eligible SME owners or managers.

The research instrument was developed using a six-point Likert scale, ranging from 1 as strongly disagree to 6 as strongly agree. The measurement items were adapted from

previous studies and adjusted to the SME digital business context. The measurement of each construct is presented in Table 1.

Table 1. Measurement of Research Variables

Variable	Definition	Measurement Items	Source
Situational Leadership (SL)	The ability of leaders to adapt leadership practices according to organizational conditions, employee readiness, and digital business changes.	SL1: Clear digital business vision SL2: Encourages digital technology adoption SL3: Integrates business and digital strategy SL4: Uses digital data for decision-making SL5: Encourages digital learning culture SL6: Supports digital innovation and change	(Del Pino-Marchito et al., 2025; Hersey et al., 2013; Malodia et al., 2023; Northouse, 2021; Sawaeen & Aburumman, 2025)
Digital Marketing Capability (DMC)	The capability of SMEs to utilize digital technologies, platforms, and customer information to implement marketing activities effectively.	DMC1: Social media management capability DMC2: Digital content management capability DMC3: Digital campaign execution capability DMC4: Digital analytics utilization DMC5: Understanding customer needs digitally DMC6: Digital customer relationship management	(Chaffey & Ellis-Chadwick, 2022; Hazzam et al., 2025; Homburg & Wielgos, 2022; Kingsnorth, 2016; Kotler et al., 2021; Sharabati et al., 2024)
Digital Marketing Innovation (DMI)	The ability of SMEs to develop new digital marketing approaches, strategies, processes, and customer engagement practices.	DMI1: New digital promotion methods DMI2: Experimentation with new digital channels DMI3: Creative digital content development DMI4: Innovative digital customer interaction DMI5: Regular digital campaign updates DMI6: Innovative digital offerings and pricing	(Chaffey & Ellis-Chadwick, 2022; Kingsnorth, 2016; Kotler et al., 2021; Noer et al., 2025; Utomo & Susanta, 2020)
Sustainable Competitive Advantage (SCA)	The ability of SMEs to create superior value and maintain a stronger competitive position that is difficult for competitors to imitate.	SCA1: Cost or price efficiency advantage SCA2: Product or service quality advantage SCA3: Service or delivery reliability advantage SCA4: Fast market and customer response SCA5: Product or service innovation advantage SCA6: Difficult-to-imitate business advantage	(Cai et al., 2024; D'souza et al., 2021; Hussein et al., 2024; Matarazzo et al., 2021; Meier et al., 2025; Munandar et al., 2025)

Result and Discussions

The study involved a total of 304 respondents drawn from SME operators in Makassar, with female respondents constituting a slight majority at 51.97% and male respondents accounting for the remaining 48.03%, reflecting a relatively balanced gender composition within the sampled population. In terms of age, the largest segment fell within the 35–44 year bracket (53.62%), followed by respondents aged 26–34 years (24.01%), those aged 45 years and above (19.08%), and a notably smaller proportion aged 25 years and below (3.29%), suggesting that the majority of SME operators in this context are mid-career individuals who may possess a meaningful combination of practical business experience and receptiveness to digital adoption. With respect to educational attainment, more than half of the respondents held a bachelor's degree (57.89%), while senior high school graduates represented a substantial portion of the sample at 39.80%, with diploma, master's, and doctoral degree holders collectively accounting for comparatively smaller proportions. The relatively high prevalence of university-educated respondents suggests that the majority of participants possessed a sufficient educational foundation to comprehend business development strategies and engage meaningfully with digital marketing practices, thereby lending confidence to the interpretive validity of the self-reported data collected in this study.

Table 2. Respondent Profile

Characteristics	Category	Frequency	Percentage
Gender	Female	158	51.97%
	Male	146	48.03%
Age	≤ 25 years	9	2.96%
	26–34 years	73	24.01%
	35–44 years	163	53.62%
	≥ 45 years	58	19.08%
	Invalid or unspecified	1	0.33%
Education Level	Senior high school	121	39.80%
	Diploma	3	0.99%
	Bachelor degree	176	57.89%
	Master degree	3	0.99%
	Doctoral degree	1	0.33%
Position in Business	Owner	292	96.05%
	Manager/Director	5	1.64%
	Staff or Admin or Marketing	5	1.64%
	Others	2	0.66%

In terms of business position, the majority of respondents were business owners, indicating that the data were obtained from individuals directly involved in strategic decision making, leadership practices, and digital marketing activities. Based on business sector, most respondents operated in the culinary sector (69.08%), followed by services (12.17%), trade or retail (9.87%), fashion (3.29%), handicrafts (2.96%), and other sectors. Regarding business age, most SMEs had been operating for 1–3 years (55.59%), followed by 4–6 years (35.20%) and more than 6 years (9.21%). Most SMEs employed 2–3 employees (47.04%), while the majority reported monthly revenue between IDR 1 million–2.5 million (29.61%) and IDR 2.6 million–5 million (29.28%). This profile suggests that the sample represents small scale SMEs that are actively operating and facing relevant

challenges in building digital marketing capability and competitive advantage.

In terms of digital adoption, all respondents reported using WhatsApp or WhatsApp Business (100%), indicating that messaging applications are the most widely used digital channel among SMEs in Makassar. Google Business Profile was the second most widely adopted platform, with 91.45% of respondents utilizing it to enhance their business visibility in local search environments. Marketplace platforms and Instagram were also considerably prevalent, adopted by 68.42% and 68.09% of respondents, respectively, reflecting the growing integration of social commerce and e-commerce channels into SME operations. In contrast, the ownership of dedicated business websites remained markedly low, with only 1.97% of respondents reporting its use. This pattern suggests that SMEs in Makassar tend to gravitate toward platforms that are accessible, cost-efficient, and require minimal technical expertise, rather than investing in owned digital infrastructure. Such a digital adoption profile underscores the contextual relevance of investigating digital marketing capability and digital marketing innovation as antecedents of competitive advantage in this setting.

To assess the proposed conceptual model and examine both the direct and indirect relationships among the latent constructs, this study employed Partial Least Squares Structural Equation Modeling (PLS-SEM), a method particularly well-suited for exploratory research and models involving complex, multi-path relationships (Hair & Alamer, 2022; Hair et al., 2017). The analytical procedure followed a two stage approach namely the assessment of measurement models and the evaluation of structural models. In the first stage, the measurement model was evaluated to confirm that the observed indicators adequately and reliably captured their respective latent constructs. This evaluation encompassed assessments of indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Only upon satisfying the requisite psychometric criteria did the analysis advance to the second stage, wherein the structural model was examined to test the hypothesized relationships among the constructs.

The assessment of the measurement model revealed that all constructs demonstrated satisfactory levels of convergent validity. Indicator outer loadings ranged from 0.770 to 0.895, surpassing the widely accepted threshold of 0.70, which confirms that each indicator shared a substantial proportion of its variance with the underlying latent construct it was designed to represent (Hair et al., 2017). Complementing these findings, the Average Variance Extracted (AVE) values for all constructs exceeded the minimum criterion of 0.50, with Digital Marketing Capability recording an AVE of 0.737, Digital Marketing Innovation 0.715, Situational Leadership 0.613, and Sustainable Competitive Advantage 0.651 (Fornell & Larcker, 1981). Collectively, these results indicate that the constructs explained the majority of variance in their respective indicators, thereby providing robust evidence of convergent validity across the measurement model.

Internal consistency reliability was similarly well established. Cronbach's alpha coefficients ranged from 0.732 to 0.920, and composite reliability (CR) values ranged from 0.848 to 0.938, both exceeding the recommended threshold of 0.70 (J. F. Hair et al., 2017). These estimates confirm that the indicators within each construct exhibited a high degree of consistency in measuring their intended constructs. The rho_A coefficients, which serve as a more conservative reliability estimate compared to CR, ranged from 0.736 to 0.921, further corroborating the reliability of the measurement model. Collectively, the reliability

and validity assessments indicate that the measurement model provides a sound and rigorous basis for proceeding to structural model evaluation.

Table 3. Measurement Model Evaluation

Variable	Items	Loading Factors	Cronbach's Alpha	Rho_C	AVE
Situational Leadership (SL)	SL.1	0.778	0.843	0.888	0.613
	SL.2	0.779			
	SL.3	0.787			
	SL.4	0.801			
	SL.6	0.770			
Digital Marketing Capability (DMC)	DMC.1	0.824	0.911	0.933	0.737
	DMC.2	0.895			
	DMC.3	0.889			
	DMC.4	0.863			
	DMC.6	0.819			
Digital Marketing Innovation (DMI)	DMI.1	0.870	0.920	0.938	0.715
	DMI.2	0.852			
	DMI.3	0.811			
	DMI.4	0.806			
	DMI.5	0.874			
	DMI.6	0.856			
Sustainable Competitive Advantage (SCA)	SCA.1	0.811	0.732	0.848	0.651
	SCA.5	0.829			
	SCA.6	0.779			

Discriminant validity was examined to determine whether each construct was empirically distinguishable from the remaining constructs in the model. The Fornell Larcker criterion was satisfied, as the square root of the AVE for each construct exceeded its correlations with all other constructs (Fornell & Larcker, 1981). In addition, the Heterotrait Monotrait Ratio (HTMT) values ranged from 0.486 to 0.840, remaining below the conservative threshold of 0.85. These findings provide strong evidence that the constructs are conceptually and statistically distinct, with no meaningful overlap between them. On the basis of these results, the measurement model is deemed to possess adequate validity and reliability, warranting progression to the assessment of the structural model.

Table 4. Discriminant Validity

Variable	DMC	DMI	SL	SCA
Digital Marketing Capability (DMC)	0.859	0.804	0.680	0.486
Digital Marketing Innovation (DMI)	0.737	0.845	0.840	0.661
Situational Leadership (SL)	0.594	0.743	0.783	0.692
Sustainable Competitive Advantage (SCA)	0.400	0.544	0.552	0.807

The second stage of the analysis focused on evaluating the structural model to examine whether the hypothesized relationships among the constructs were empirically supported. Path coefficients were estimated alongside the coefficient of determination (R^2) and effect size indices (f^2) to assess both the direction and practical magnitude of each relationship. Prior to interpreting the path estimates, Variance Inflation Factor (VIF) values were inspected to rule out multicollinearity concerns among the predictor constructs. Statistical significance was determined through a bootstrapping procedure with 5,000 subsamples,

generating bias corrected t-statistics, p-values, and 95% confidence intervals for all direct and indirect paths, including those involving mediation. Overall model fit was further evaluated using the Standardized Root Mean Square Residual (SRMR). Together, these assessments provided a comprehensive and methodologically sound basis for drawing substantive conclusions regarding the structural relationships posited in the conceptual model.

The overall fit of the structural model was evaluated using multiple indices to ensure that the proposed model adequately represented the observed data. The SRMR was 0.059 for both the saturated and estimated models, falling below the commonly accepted threshold of 0.08, which indicates that the discrepancy between the observed and model implied correlation matrices was sufficiently small to support an acceptable model fit (Henseler et al., 2015). The d_ULS and d_G values of 0.671 and 0.264, respectively, further suggested that the estimated model did not deviate substantially from the saturated model, reinforcing the adequacy of the model specification. The Normed Fit Index (NFI) yielded a value of 0.874, which, while marginally below the ideal benchmark of 0.90, remains within a range that is broadly regarded as indicative of reasonable comparative fit, particularly when considered alongside the favorable SRMR result. A chi-square value of 484.157 was additionally reported as a supplementary fit indicator, consistent with standard reporting practice in PLS-SEM studies (Hair et al., 2017). Collectively, these model fit indices provide sufficient evidence that the proposed model achieved an acceptable level of fit, warranting confidence in the subsequent interpretation of the structural path relationships.

The structural model demonstrated meaningful explanatory power across the endogenous constructs, with the R^2 value for Digital Marketing Innovation reaching 0.687, indicating that Digital Marketing Capability and Situational Leadership jointly accounted for 68.7% of its variance, a level broadly characterized as substantial in the PLS-SEM literature (J. F. Hair et al., 2017). This finding implies that an organization's digital marketing capability and situational leadership orientation are critical antecedents of innovation in digital marketing practices. The R^2 value for Sustainable Competitive Advantage was 0.345, suggesting that Digital Marketing Capability, Digital Marketing Innovation, and Situational Leadership collectively explained 34.5% of the variance in competitive advantage formation, which reflects a moderate yet meaningful level of explanatory power (Hair et al., 2017). The remaining unexplained variance acknowledges the inherently multifaceted nature of sustainable competitive advantage, which is likely shaped by a broader constellation of strategic, organizational, and environmental factors beyond the scope of the present model.

Effect size analysis using the f^2 index provided additional insight into the relative contribution of each predictor construct within the structural model. Both Digital Marketing Capability and Situational Leadership demonstrated large effects on Digital Marketing Innovation, with f^2 values of 0.431 and 0.461 respectively. Situational Leadership as the strongest individual contributor to innovation in digital marketing. In contrast, the effect sizes on Sustainable Competitive Advantage were considerably more modest, with Digital Marketing Innovation and Situational Leadership recording small effects of $f^2 = 0.050$ and $f^2 = 0.075$ respectively, while Digital Marketing Capability yielded a negligible direct effect of $f^2 = 0.001$ on competitive advantage. This pattern suggests that Digital Marketing Capability does not contribute meaningfully to Sustainable Competitive Advantage through

a direct pathway, and that its strategic value is more effectively realized when it is first channeled through and transformed into Digital Marketing Innovation. Taken together, these findings point to the importance of examining not only the presence of digital capabilities within an organization, but also the mechanisms through which such capabilities are translated into competitive outcomes.

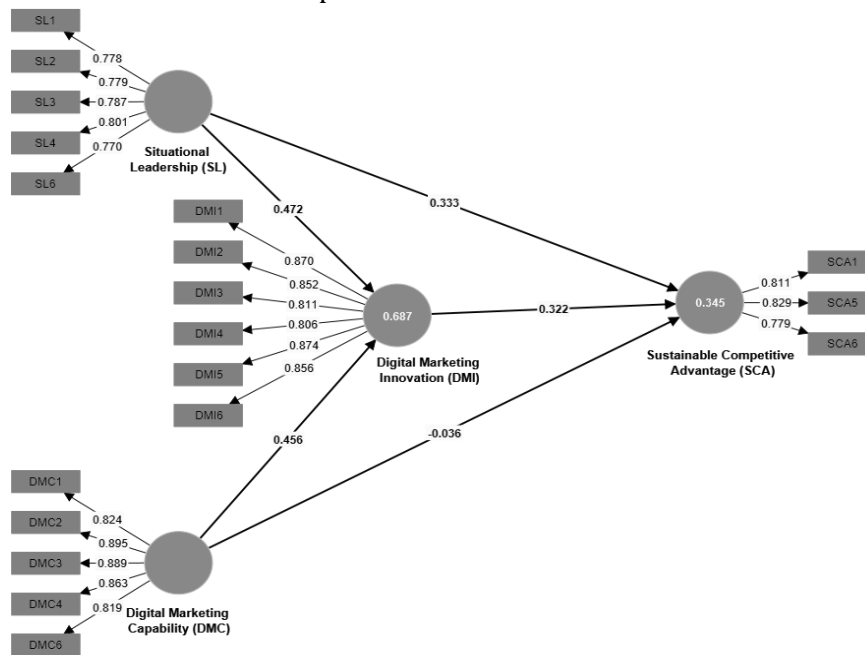


Figure 2. Structural Model Result

The structural model was evaluated using a bootstrapping procedure and the results are summarized in Table 5. Situational Leadership emerged as a significant positive predictor of both Digital Marketing Innovation ($\beta = 0.472$, $t = 7.393$, $p < 0.001$) and Sustainable Competitive Advantage ($\beta = 0.333$, $t = 2.614$, $p = 0.009$), suggesting that adaptive and context sensitive leadership fosters both innovative marketing practices and long term competitive resilience, supporting H1 and H2 respectively. Digital Marketing Capability was found to exert a significant positive effect on Digital Marketing Innovation ($\beta = 0.456$, $t = 8.724$, $p < 0.001$), confirming that organizations with stronger digital marketing capabilities tend to exhibit higher levels of marketing innovation, thus supporting H3. However, the direct effect of Digital Marketing Capability on Sustainable Competitive Advantage was statistically insignificant and marginally negative ($\beta = -0.036$, $t = 0.560$, $p = 0.575$), indicating that digital marketing capability alone does not translate directly into competitive advantage, and H4 is therefore not supported. Digital Marketing Innovation, on the other hand, demonstrated a significant positive effect on Sustainable Competitive Advantage ($\beta = 0.322$, $t = 2.922$, $p = 0.003$), underscoring the role of innovation as a meaningful driver of competitive positioning, thereby supporting H5.

The mediation analysis revealed that Digital Marketing Innovation significantly mediated the relationship between Digital Marketing Capability and Sustainable Competitive Advantage ($\beta = 0.147$, $t = 3.041$, $p = 0.002$), indicating that the strategic value of digital marketing capability is more effectively realized when it is channeled through and expressed as marketing innovation, thus supporting H7. A parallel mediation effect was

observed for Situational Leadership, whereby Digital Marketing Innovation significantly mediated its relationship with Sustainable Competitive Advantage ($\beta = 0.152$, $t = 2.377$, $p = 0.017$), demonstrating that situational leadership enhances competitive advantage not only through a direct pathway but also indirectly by cultivating a culture of digital marketing innovation within the organization, thereby supporting H6. Collectively, these findings highlight the critical mediating role of Digital Marketing Innovation in bridging organizational capabilities and leadership with sustained competitive outcomes, and suggest that neither capability nor leadership alone is sufficient to secure competitive advantage without being translated into meaningful innovation in digital marketing practices.

Table 5. Structural Model Estimates and Hypothesis Testing

Hypothesis	Relationship	Effect	β	t	p	Decision
H1	SL $\rightarrow$ DMI	Direct	0.472	7.393	0.000	Support
H2	SL $\rightarrow$ SCA	Direct	0.333	2.614	0.009	Support
H3	DMC $\rightarrow$ DMI	Direct	0.456	8.724	0.000	Support
H4	DMC $\rightarrow$ SCA	Direct	-0.036	0.560	0.575	Reject
H5	DMI $\rightarrow$ SCA	Direct	0.322	2.922	0.003	Support
H6	SL $\rightarrow$ DMI $\rightarrow$ SCA	Indirect	0.152	2.377	0.017	Support
H7	DMC $\rightarrow$ DMI $\rightarrow$ SCA	Indirect	0.147	3.041	0.002	Support

This study offers empirical evidence on how situational leadership, digital marketing capability, and digital marketing innovation collectively shape the formation of sustainable competitive advantage among SMEs. The findings reveal that both situational leadership and digital marketing capability serve as meaningful antecedents of digital marketing innovation, which in turn, alongside situational leadership, contributes significantly to competitive advantage. Notably, digital marketing capability was found to have no meaningful direct effect on sustainable competitive advantage, yet this relationship became significant once digital marketing innovation was introduced as a mediating mechanism, suggesting that capability alone is insufficient without being actively transformed into innovation. Taken together, these findings offer a more nuanced understanding of how SMEs convert their managerial and digital resources into sustained competitive outcomes within an increasingly dynamic digital market environment.

The significant effect of Situational Leadership on both Digital Marketing Innovation and Sustainable Competitive Advantage underscores the strategic importance of adaptive leadership in SME contexts. This finding supporting the theoretical position that leaders who adjust their guidance and decision making style to the readiness and needs of their followers are better positioned to stimulate innovation oriented behavior and strengthen organizational competitiveness (Hersey et al., 2013; Northouse, 2021). This finding is consistent previous studi that highlighted the pivotal role of leadership in shaping SME digital transformation journeys, while extending their arguments by demonstrating that situational leadership specifically strengthens digital marketing innovation rather than merely supporting digital transformation in a general sense (Leso et al., 2023; Malodia et al., 2023). The direct contribution of situational leadership to sustainable competitive advantage further aligns with Cai et al. (2024), who found that digital leadership enhances competitive advantage through innovation and value co-creation. Hussein et al. (2024) and Wibowo & Maulida (2024) also found that the strategic role of leadership in building

competitive positioning. In the SME context, where owners and managers frequently serve as the central architects of strategic direction, marketing decisions, and innovation practices, situational leadership may enhance competitiveness by improving organizational responsiveness, guiding employees through periods of change, fostering digital learning, and aligning business decisions with evolving market dynamics. These findings collectively suggest that leadership adaptability is not merely a managerial virtue but a critical strategic capability for sustaining competitiveness in environments characterized by digital disruption and market uncertainty.

The significant effect of Digital Marketing Capability on Digital Marketing Innovation suggests that SMEs equipped with stronger competencies in managing digital platforms, content, customer data, and digital customer relationships are considerably more likely to develop and sustain innovative marketing practices. This finding aligns with prior scholarly work arguing that digital marketing capability enables firms to optimize their use of digital channels, decode customer behavior more accurately, and respond with greater agility to shifting market conditions (Homburg & Wielgos, 2022; Sharabati et al., 2024; Zahara et al., 2023). In the present study, this relationship carries particular weight given that SMEs in Makassar rely predominantly on accessible digital tools such as WhatsApp Business, Google Business Profile, marketplace platforms, and Instagram, which collectively provide practical channels through which SMEs can experiment with content creation, promotional strategies, and customer engagement. Rather than functioning merely as an operational marketing tool, digital marketing capability appears to serve as a foundational resource from which innovation in marketing practices naturally emerges. A particularly noteworthy finding is that Digital Marketing Capability did not exert a significant direct effect on Sustainable Competitive Advantage, a result that stands in partial contrast to prior studies linking digital marketing capability directly to firm performance and competitive outcomes (Hazzam et al., 2025; Homburg & Wielgos, 2022; Wu et al., 2024). This divergence may be attributed to the nature of digital engagement among SMEs in Makassar, where the use of digital channels tends to remain tactical, routine, and transactional rather than strategically innovative, which may limit the extent to which capability alone translates into meaningful competitive differentiation. These findings collectively suggest that digital marketing capability functions less as a direct source of competitive advantage and more as a prerequisite that must be actively transformed into innovation before its strategic value can be fully realized.

This finding can be further interpreted through the lens of dynamic capabilities theory argued that digital value creation in SMEs requires not merely the possession of digital resources, but the capacity to integrate, reconfigure, and deploy those resources in ways that generate meaningful market value (Canhoto et al., 2021; Matarazzo et al., 2021). From this perspective, digital marketing capability represents a latent strategic resource whose competitive potential remains unrealized unless it is actively channeled through innovative marketing practices. The insignificant direct path therefore does not diminish the importance of digital marketing capability. Rather, it clarifies that its strategic contribution is fundamentally indirect, contingent upon whether SMEs can successfully convert capability into innovation. This reinforces the broader argument that digital capability should not be treated as an automatic or self-sufficient source of competitive advantage, but as a strategic input that requires the mediating force of innovation to become genuinely

valuable, rare, and difficult for competitors to imitate.

The findings also show positive effect of Digital Marketing Innovation on Sustainable Competitive Advantage. It confirms that SMEs are better positioned to strengthen their competitive standing when they actively renew their digital marketing approaches, develop creative content, experiment with digital channels, and enhance the quality of customer interaction. This finding is consistent with previous study that demonstrated the growing importance of digital marketing innovation for SME competitiveness and performance (AlKoliby et al., 2024; Noer et al., 2025). In highly competitive SMEs markets, innovation in digital marketing enables firms to differentiate their offerings, communicate value more compellingly, and create customer experiences that are considerably more difficult for rivals to replicate, suggesting that competitive advantage stems not merely from being present on digital platforms, but from using them in ways that are more creative, adaptive, and customer centered.

Perhaps the most theoretically meaningful contribution of this study lies in the mediation results, which reveal that Digital Marketing Innovation serves as a significant mediating mechanism. The first mediation finding suggests that digital marketing capability, on its own, is not enough to secure competitive advantage. What truly matters is whether SMEs can take that capability and turn it into genuinely innovative marketing actions. Previous Study identifying digital marketing innovation as the bridge connecting capability to competitive outcomes (AlKoliby et al., 2024; Utomo & Susanta, 2020). This points to a practical implication worth taking seriously, as SMEs need to go beyond simply building digital skills and instead actively use those skills to refresh their content, explore new channels, deepen customer interactions, and rethink how they communicate value in ways that competitors would find difficult to copy. The second mediation finding adds another layer to this picture, showing that situational leadership strengthens competitive advantage not only directly but also by creating the internal conditions under which digital marketing innovation can take root (Malodia et al., 2023; Sawaeen & Aburumman, 2025). Read together, these findings suggest that neither capability nor leadership alone is sufficient to drive sustained competitive advantage, as both need to be channeled through innovation before their strategic value can be fully expressed.

On a theoretical level, this study contributes to the SMEs competitiveness literature by offering a clearer picture of the mechanisms through which digital marketing capability and situational leadership shape sustainable competitive advantage, moving beyond the tendency in prior research to examine these constructs in isolation rather than as part of an integrated model. By bringing together digital marketing capability, situational leadership, digital marketing innovation, and competitive advantage within a single empirical framework, the study demonstrates that digital marketing innovation occupies a central mediating role that previous work had not explicitly articulated. The findings also speak to the dynamic capabilities perspective, reinforcing the argument that digital marketing capability only becomes strategically meaningful when firms actively reconfigure it into innovative marketing practices rather than treating it as a static organizational asset. Beyond this, the study extends situational leadership theory into new terrain by showing that its relevance reaches well beyond internal employee management, encompassing the cultivation of digital marketing innovation and the formation of sustainable competitive advantage in resource constrained SMEs environments.

From a practical standpoint, the findings carry an important message for SME owners and managers, as the mere adoption of digital platforms does not automatically translate into competitive advantage. While tools such as WhatsApp Business, Google Business Profile, marketplace platforms, and Instagram undoubtedly improve business visibility and customer communication, their strategic value depends heavily on how creatively and purposefully they are used. SMEs would benefit from moving beyond routine digital presence toward a more deliberate innovation mindset, one that involves continuously experimenting with digital campaigns, developing distinctive content, personalizing customer interactions, leveraging customer data for informed decision making, and refining digital offerings in response to real market feedback. Equally important is the role of leadership, as SMEs owners and managers are encouraged to adopt a more situational and adaptive approach that supports digital learning within the organization, creates space for experimentation, guides team members according to their individual readiness and competence, and ensures that digital marketing initiatives are aligned with broader business objectives. When digital marketing capability and adaptive leadership are managed in this way, they are far more likely to generate the kind of innovation that produces sustainable competitive advantage rather than merely operational activity.

Conclusion

This study concludes that situational leadership and digital marketing capability play distinct but complementary roles in shaping digital marketing innovation and sustainable competitive advantage among SMEs. Both situational leadership and digital marketing capability significantly enhance digital marketing innovation, with situational leadership emerging as the stronger determinant. However, digital marketing capability does not directly influence sustainable competitive advantage, indicating that digital capability alone is insufficient to generate competitive outcomes. Its strategic value becomes meaningful only when transformed into digital marketing innovation. These findings confirm that digital marketing innovation serves as a key mechanism through which leadership adaptability and digital marketing capability are converted into sustainable competitive value.

The findings provide theoretical and practical implications. Theoretically, this study supports the dynamic capabilities perspective by showing that digital marketing capability should be understood as a strategic input rather than an automatic source of competitive advantage. It also extends situational leadership theory by demonstrating its relevance in encouraging digital marketing innovation among SMEs. Practically, SME owners and managers should not rely solely on the use of digital platforms for routine promotion or customer communication. Instead, they need to strengthen innovative digital marketing practices through creative content development, data-informed decisions, personalized customer engagement, and experimentation with new digital channels. SME leaders also need to adapt their leadership style to employee readiness, business conditions, and market changes in order to support continuous digital innovation.

This study has several limitations. First, the cross-sectional design limits the ability to draw strong causal conclusions, so future studies may adopt longitudinal designs to examine how leadership, digital marketing capability, and innovation evolve over time. Second, the focus on SMEs in Makassar may limit the generalizability of the findings, making

comparative studies across different regions or levels of digital maturity necessary. Third, future research may extend the model by incorporating other relevant factors such as market orientation, entrepreneurial orientation, digital transformation readiness, organizational learning, or customer relationship management capability. Further studies may also examine sectoral differences to understand whether digital marketing innovation works differently across culinary, retail, service, fashion, and creative industries.

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