



Original Article

## The Effect of Digital Capability and Digital Marketing Capability on Firm Performance in Samarinda, Indonesia: The Mediating Role of Digital Innovation

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**Citations:** Syafiq, U., Yudhyani, E., & Kulsum, U. (2025). The Effect of Digital Capability and Digital Marketing Capability on Firm Performance in Samarinda, Indonesia: The Mediating Role of Digital Innovation. *Frontiers in Business and Economics*, 4(2), 80-91.

Received: 12 June 2025

Revised: 26 July 2025

Accepted: 7 August 2025

Published: 31 August 2025

**Abstract:** The rapid advancement of digital technologies has transformed business operations and intensified competition, requiring firms to develop digital capabilities to remain competitive. This study aims to analyze the effect of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable, in the context of Daya Motor Samarinda, Indonesia. A quantitative, explanatory design was employed, using data collected from 152 respondents via a structured questionnaire. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results indicate that digital capability has a significant positive effect on digital innovation but does not directly influence firm performance. Digital marketing capability, on the other hand, has a significant positive effect on both digital innovation and firm performance, demonstrating its strategic role in enhancing organizational outcomes. Furthermore, digital innovation does not have a significant effect on firm performance and fails to mediate the relationships between digital capability, digital marketing capability, and firm performance. These findings suggest that while digital capabilities are important for fostering innovation, their impact on performance depends on effective implementation and alignment with business strategies. The study concludes that digital marketing capability plays a more immediate role in improving firm performance, while digital innovation has not yet been fully optimized to generate measurable outcomes. These results contribute to the literature on digital transformation and provide practical insights for organizations seeking to enhance performance through digital strategies.

**Keywords:** Digital capability; Digital marketing capability; Digital innovation; Firm performance.



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### 1. Introduction

The rapid development of digital technology has fundamentally reshaped the global business landscape, creating a new paradigm characterized by connectivity, data-driven decision-making, and continuous innovation. The emergence of the Industry 4.0 era has accelerated the adoption of advanced technologies such as big data analytics, the Internet of Things (IoT), artificial intelligence (AI), and cloud computing, which collectively transform how

organizations operate, interact, and create value. In this context, firms are required to adapt dynamically to increasingly complex and volatile environments, where the ability to leverage digital technologies becomes a critical determinant of competitiveness and long-term performance (Ciampi et al., 2022; Ma et al., 2021). Digital transformation has not only improved operational efficiency but also enhanced the speed and accuracy of managerial decision-making through data-driven processes. Firms that successfully integrate digital systems demonstrate greater adaptability to market changes than those that rely on conventional approaches (Nugroho et al., 2024). Moreover, digital transformation extends beyond technological adoption to include changes in organizational culture, leadership, and human resource capabilities. The development of digital skills and competencies is therefore essential to ensure effective utilization of technology and to sustain organizational performance in a digital economy (Budiarti & Firmansyah, 2024).

In Indonesia, digital transformation has progressed significantly, driven by increased internet penetration, widespread use of digital devices, and supportive government initiatives such as the Making Indonesia 4.0 program. These developments have enabled businesses to expand their market reach, improve customer communication, and enhance operational efficiency. Empirical evidence suggests that digital transformation contributes positively to economic and organizational performance, particularly through improvements in productivity and competitiveness (Kristyanto & Jamil, 2023; Nugroho et al., 2024). Consequently, strengthening digital capabilities has become a strategic priority for organizations operating in Indonesia. Within this digital context, digital capability refers to a firm's ability to acquire, integrate, and utilize digital technologies effectively to support business processes and strategic objectives. This capability encompasses technological infrastructure, data management, and human resource competencies. Prior studies have shown that digital capabilities play a significant role in enhancing firm performance and enabling organizations to respond to environmental changes (Wielgos et al., 2021; Ma et al., 2021). However, digital capability alone may not directly translate into improved performance without being complemented by other strategic capabilities and mechanisms.

One such complementary capability is digital marketing capability, which reflects a firm's ability to design and implement marketing strategies using digital platforms to engage customers and create value. The increasing importance of digital marketing is evident in its positive impact on firm performance, as it enhances market reach, customer engagement, and brand visibility (Liang et al., 2025; Purwanti et al., 2022; Nofrisel et al., 2023). Additionally, digital marketing capabilities enable firms to adapt to changing consumer behavior, particularly in e-commerce and online interactions (Apasrawirote et al., 2022; Masrianto et al., 2022). Despite the importance of digital capability and digital marketing, recent studies suggest their impact on performance may not always be direct. For instance, Anggitasari et al. (2023) found that digital capability does not significantly influence business performance unless mediated by innovation. Similarly, research on digital marketing highlights the role of mediating variables such as product innovation, competitiveness, and organizational capabilities in translating digital efforts into performance outcomes (Sundari et al., 2025; Kustami et al., 2025). These findings indicate that additional mechanisms are required to fully explain how digital capabilities contribute to firm performance.

In this regard, digital innovation emerges as a crucial mediating variable that links digital capabilities with performance outcomes. Digital innovation enables firms to develop new products, services, and processes that meet evolving market demands and create competitive advantage (Hidayat et al., 2022). Empirical evidence supports the mediating role of digital innovation in strengthening the relationship between digital capability and business performance (Yasa et al., 2019). Furthermore, digital innovation is positioned as a central mechanism in digital transformation, connecting organizational resources, capabilities, and performance across multiple levels (Uršič & Čater, 2025). Although previous studies have examined the relationships between digital capability, digital marketing capability, digital innovation, and firm performance, several research gaps remain. First, most studies focus on either digital capability or digital marketing capability independently, with limited research integrating both variables within a single comprehensive model. Second, the mediating role of digital innovation has not been extensively explored in the context of simultaneously combining these two capabilities. Third, empirical evidence in developing countries, particularly at the firm level in specific industries such as automotive distribution, remains limited. Finally, many studies have focused on SMEs, leaving a gap in understanding how these relationships operate in established businesses with more complex organizational structures.

This study addresses these gaps by examining the combined effect of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable, in the context of Daya Motor Samarinda, Indonesia. The automotive industry is currently undergoing a significant transformation due to digitalization and changing consumer behavior, making it a relevant context for investigating these relationships. Daya Motor Samarinda, as a distributor of Honda automotive products, operates in an increasingly competitive environment characterized by the emergence of digital platforms and the shift toward online customer engagement. Despite efforts to adopt digital technologies, the company faces several challenges, including limited digital competencies among employees, inadequate integration of information systems, and suboptimal utilization of customer data for strategic decision-making. These challenges highlight the need to strengthen digital capabilities and leverage digital innovation to enhance firm

performance. Thus, this study aims to analyze the effect of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable, at Daya Motor Samarinda, Indonesia.

## 2. Literature Review

The growing importance of digitalization in business has led to increasing scholarly attention on the roles of digital capability, digital marketing capability, and digital innovation in enhancing firm performance. These constructs are often examined within the framework of dynamic capabilities theory, which emphasizes a firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Ciampi et al., 2022; Ma et al., 2021). This section synthesizes prior studies, critically evaluates their findings, and identifies research gaps addressed in the present study.

### 2.1 Digital Capability and Firm Performance

Digital capability is an organization's ability to use digital technologies effectively to support business processes and strategic objectives. Prior research has consistently demonstrated a positive relationship between digital capability and firm performance. For instance, Wielgos et al. (2021) found that digital business capability significantly enhances firm and customer performance, particularly when firms reach a certain level of internal dynamism. Similarly, Ma et al. (2021) showed that information technology capabilities improve firm performance through absorptive capacity and dynamic capabilities. However, not all studies confirm a direct effect. Anggitasari et al. (2023) reported that digital capability does not significantly influence business performance unless mediated by employee innovation. This suggests that digital capability alone may be insufficient to generate performance outcomes without being transformed into innovative outputs. Supporting this view, Yasa et al. (2019) found that digital innovation mediates the relationship between digital capability and business performance, indicating that innovation acts as a key mechanism in converting capability into value creation. Despite these insights, existing studies largely focus on digital capability in isolation, without considering its interaction with other strategic capabilities, particularly digital marketing capability. This creates a gap in understanding how multiple digital-related capabilities jointly influence firm performance.

### 2.2 Digital Marketing Capability and Firm Performance

Digital marketing capability reflects a firm's ability to leverage digital platforms and tools to design and implement effective marketing strategies. Empirical evidence strongly supports its positive impact on firm performance. Liang et al. (2025) demonstrated that digital marketing capability significantly improves firm performance, with additional mediation effects through production and R&D capabilities. Similarly, Purwanti et al. (2022) found that digital marketing capability positively influences MSME performance, with environmental dynamism strengthening this relationship. Other studies reinforce these findings in different contexts. Nofrisel et al. (2023) showed that digital marketing enhances marketing performance and acts as a strategic mechanism linking capabilities and outcomes. Masrianto et al. (2022) further highlighted that firms with higher digital marketing utilization achieve better competitiveness and performance. Additionally, Sundari et al. (2025) and Kustami et al. (2025) confirmed that digital marketing contributes to performance both directly and indirectly through mediating variables such as product innovation and competitiveness. Nevertheless, a critical limitation of these studies is their predominant focus on MSMEs, particularly in developing countries. While this provides valuable insights, it limits the generalizability of findings to larger or more structured firms. Furthermore, many studies treat digital marketing capability as an independent driver of performance, without integrating it with broader digital capabilities, leading to a fragmented understanding of digital transformation processes.

### 2.3. Digital Innovation as a Mediating Mechanism

Digital innovation refers to the development and implementation of new products, services, or processes enabled by digital technologies. It plays a central role in translating digital capabilities into performance outcomes. Hidayat et al. (2022) found that digital innovation mediates the relationship between company resources and business performance, with the indirect effect being stronger than the direct effect. Similarly, Yasa et al. (2019) demonstrated that digital innovation significantly mediates the effect of digital capability on business performance. From a broader perspective, Uršič and Čater (2025) conceptualized digital innovation as a multi-level mechanism linking organizational capabilities to outcomes, emphasizing its role in value creation across individual, organizational, and industry levels. Budiarti and Firmansyah (2024) also highlighted the importance of digital talent and human resource transformation in fostering innovation capabilities, further reinforcing the link between digital transformation and innovation. In the context of marketing, Utama and Indarwati (2023) and Sundari et al. (2025) showed that innovation mediates the relationship between digital marketing and performance. These findings collectively suggest that innovation is a critical pathway through which both digital capability and digital marketing capability influence firm performance. However, prior research often examines the mediating role of innovation only partially, focusing separately on digital capability or digital

marketing capability. There is limited research that simultaneously investigates digital innovation as a mediator between both capabilities and firm performance within a unified framework.

## 2.4 Digital Transformation and Organizational Performance

Digital transformation has been widely recognized as a key driver of organizational performance. Nugroho et al. (2024) found that digital transformation improves operational efficiency, productivity, and customer satisfaction across multiple sectors. Kristyanto and Jamil (2023) further demonstrated that digital transformation contributes to inclusive economic growth, particularly through technological advancements in the manufacturing sector. At the organizational level, digital transformation enhances agility, enabling firms to respond effectively to environmental changes (Ciampi et al., 2022). The integration of digital technologies with organizational processes and capabilities is therefore essential for achieving sustainable competitive advantage. Despite these contributions, existing studies often adopt a macro-level or sectoral perspective, focusing on broad impacts rather than firm-level mechanisms. There is a lack of empirical research that examines how specific capabilities, such as digital capability and digital marketing capability, interact within the digital transformation process to influence firm performance. In conjunction with the review of prior studies, several key insights and limitations emerge. First, digital capability and digital marketing capability have both been shown to positively influence firm performance.

However, these variables are often examined independently, resulting in a fragmented understanding of their combined effects. Second, digital innovation has been identified as a critical mediating mechanism, yet most studies focus on its role in relation to a single antecedent variable rather than multiple capabilities simultaneously. Third, much of the existing literature focuses on MSMEs, particularly in developing countries, limiting the applicability of its findings to larger or more structured firms. Fourth, there is limited empirical evidence in specific industry contexts, such as the automotive sector, where digital transformation is rapidly reshaping business models and customer interactions. Finally, prior studies often overlook firm-level challenges in implementing digital capabilities, such as human resource limitations, system integration issues, and data utilization constraints. To address these gaps, the present study proposes an integrated model examining the combined effects of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable. By focusing on Daya Motor Samarinda, this study provides a firm-level analysis in the automotive industry, contributing to both theoretical development and practical insights in the field of digital transformation and performance management.

## 2.5. Hypothesis Development and Research Framework

Drawing on the theoretical arguments and empirical findings from previous studies, this study develops the following hypotheses to examine the direct and indirect relationships among the variables.

- H1: Digital capability has a positive and significant effect on firm performance.
- H2: Digital marketing capability has a positive and significant effect on firm performance.
- H3: Digital capability has a positive and significant effect on digital innovation.
- H4: Digital marketing capability has a positive and significant effect on digital innovation.
- H5: Digital innovation has a positive and significant effect on firm performance.
- H6a: Digital innovation mediates the relationship between digital capability and firm performance.
- H6b: Digital innovation mediates the relationship between digital marketing capability and firm performance.

On the basis of the theoretical foundations and empirical findings discussed in the preceding sections, this study develops an integrated research framework that explains the relationships among digital capability, digital marketing capability, digital innovation, and firm performance. The framework posits that digital capability and digital marketing capability serve as key antecedents that directly influence firm performance and, indirectly, through the mediating role of digital innovation. This conceptual model provides a structured basis for examining both the direct and indirect effects among the variables. The proposed research framework is illustrated in Figure 1.

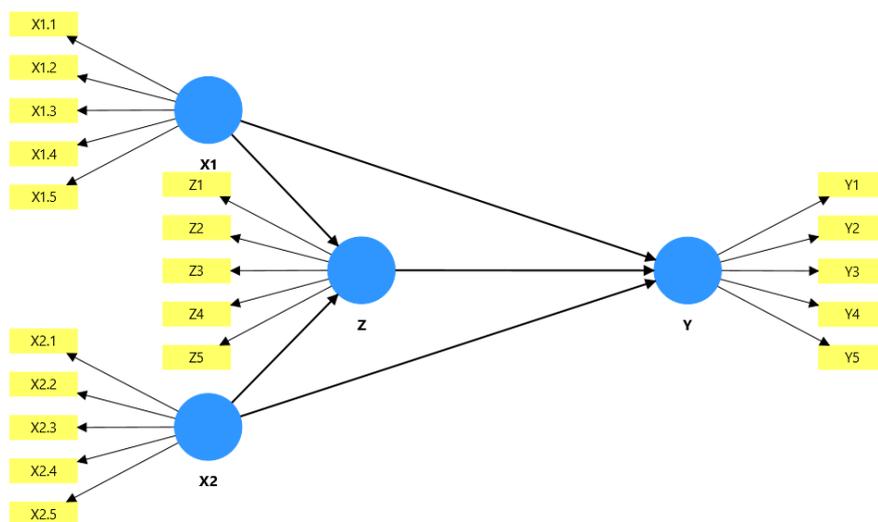


Figure 1. Research Framework

### 3. Materials and Methods

This study adopts a quantitative, explanatory research design to examine the causal relationships among digital capability, digital marketing capability, digital innovation, and firm performance at Daya Motor Samarinda. The quantitative method is employed to generate empirical findings based on measurable data and to test the proposed structural model, including the mediating role of digital innovation. The explanatory design enables objective hypothesis testing using inferential statistical techniques. The research was conducted at Daya Motor Samarinda, an automotive company operating as an official distributor and seller of Honda products in the Samarinda area. The study focuses on organizational activities related to the implementation of digital systems, digital marketing practices, digital innovation, and firm performance. The research scope emphasizes identifying how digital capabilities contribute to performance improvement, both directly and indirectly through digital innovation.

A saturated sampling technique was used, in which all members of the population meeting the research criteria were included as respondents, yielding a total sample of 152. The respondents consisted of employees or work units directly involved in digital capability implementation, digital marketing activities, digital innovation processes, and performance evaluation. This approach ensures comprehensive representation of the target population without partial selection. Data were collected using a structured, closed-ended questionnaire based on a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The questionnaire items were developed from validated constructs in previous studies and adapted to the Daya Motor Samarinda context. The instrument was distributed directly to eligible respondents to ensure accuracy and relevance of responses.

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. This method is suitable for analyzing complex models with multiple constructs and mediating variables, particularly when sample sizes are relatively small. The analysis consisted of two stages: evaluation of the measurement model (outer model) and the structural model (inner model). The outer model was assessed through convergent validity (factor loadings  $\geq 0.70$ ), discriminant validity (Average Variance Extracted  $\geq 0.50$ ), and reliability (Cronbach's Alpha and Composite Reliability  $\geq 0.70$ ). The inner model was evaluated using the coefficient of determination ( $R^2$ ) to assess predictive accuracy and bootstrapping procedures to test the significance of path coefficients and hypothesized relationships.

## 4. Results

### 4.1. Assessment of Measurement Model

#### 4.1.1. Construct Validity and Reliability

Table 1 presents the results of the measurement model evaluation, including indicator loadings, Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) for all constructs. These results are used to assess convergent validity, internal consistency reliability, and overall construct validity.

**Table 1.** Results of Construct Validity and Reliability

| Variable(s)                       | Item | Loadings | Cronbach's Alpha | Composite Reliability | AVE   |
|-----------------------------------|------|----------|------------------|-----------------------|-------|
| Digital Capability (X1)           | X1.1 | 0.823    | 0.899            | 0.902                 | 0.714 |
|                                   | X1.2 | 0.86     |                  |                       |       |
|                                   | X1.3 | 0.851    |                  |                       |       |
|                                   | X1.4 | 0.886    |                  |                       |       |
|                                   | X1.5 | 0.802    |                  |                       |       |
| Digital Marketing Capability (X2) | X2.1 | 0.861    | 0.891            | 0.895                 | 0.7   |
|                                   | X2.2 | 0.707    |                  |                       |       |
|                                   | X2.3 | 0.853    |                  |                       |       |
|                                   | X2.4 | 0.872    |                  |                       |       |
|                                   | X2.5 | 0.877    |                  |                       |       |
| Company Performance (Y)           | Y1   | 0.853    | 0.936            | 0.887                 | 0.683 |
|                                   | Y2   | 0.924    |                  |                       |       |
|                                   | Y3   | 0.891    |                  |                       |       |
|                                   | Y4   | 0.875    |                  |                       |       |
|                                   | Y5   | 0.915    |                  |                       |       |
| Digital Innovation (Z)            | Z1   | 0.846    | 0.883            | 0.938                 | 0.796 |
|                                   | Z2   | 0.792    |                  |                       |       |
|                                   | Z3   | 0.889    |                  |                       |       |
|                                   | Z4   | 0.789    |                  |                       |       |
|                                   | Z5   | 0.812    |                  |                       |       |

Table 1 indicates that all loading values exceed the minimum threshold of 0.70, indicating that each indicator adequately reflects its respective latent construct, in terms of indicator reliability. For digital capability ( $X_1$ ), the loadings range from 0.802 to 0.886, indicating strong indicator contributions. Similarly, digital marketing capability ( $X_2$ ) shows loadings between 0.707 and 0.877, with the lowest (0.707) still acceptable. The company performance (Y) construct exhibits high loadings ranging from 0.853 to 0.924, indicating a strong measurement model. Meanwhile, digital innovation (Z) shows loadings ranging from 0.789 to 0.889, confirming that all indicators are valid representations of the construct. Second, regarding internal consistency reliability, all variables demonstrate high reliability, as indicated by Cronbach's Alpha and Composite Reliability values above 0.70. The digital capability ( $X_1$ ) construct has a Cronbach's Alpha of 0.899 and Composite Reliability of 0.902, indicating excellent reliability. The digital marketing capability ( $X_2$ ) construct also shows strong reliability, with values of 0.891 and 0.895, respectively. The company performance (Y) variable records a Cronbach's Alpha of 0.936 and Composite Reliability of 0.887, indicating very high internal consistency. Likewise, digital innovation (Z) demonstrates strong reliability with Cronbach's Alpha of 0.883 and Composite Reliability of 0.938. Third, convergent validity is confirmed by the AVEs, all of which exceed the recommended minimum of 0.50. Specifically, the AVE values are 0.714 for digital capability, 0.700 for digital marketing capability, 0.683 for company performance, and 0.796 for digital innovation. These results indicate that each construct explains more than 50% of the variance of its indicators, confirming adequate convergent validity.

**4.1.2. Discriminant Validity**

Table 2 presents the results of discriminant validity testing using the Fornell–Larcker criterion, which assesses whether each construct is empirically distinct from the others in the model. According to this criterion, the square root of the Average Variance Extracted (AVE) for each construct (diagonal values) must be greater than the correlations between that construct and other constructs (off-diagonal values).

**Table 2.** Results of Discriminant Validity using Fornell and Lucker Criterion

| Variable(s)                            | $X_1$ | $X_2$ | Z     | Y     |
|--|-------|-------|-------|-------|
| Digital Capability ( $X_1$ )           | 0.845 | 0.377 | 0.695 | 0.377 |
| Digital Marketing Capability ( $X_2$ ) | 0.377 | 0.837 | 0.26  | 0.38  |
| Digital Innovation (Z)                 | 0.695 | 0.26  | 0.892 | 0.179 |
| Firm Performance (Y)                   | 0.377 | 0.38  | 0.179 | 0.826 |

Table 2 shows that the diagonal values representing the square roots of the AVEs are as follows: digital capability (0.845), digital marketing capability (0.837), digital innovation (0.892), and firm performance (0.826). These values are compared with the corresponding inter-construct correlations to assess discriminant validity. For digital capability ( $X_1$ ), the square root of AVE (0.845) is higher than its correlations with digital marketing capability (0.377), digital innovation (0.695), and firm performance (0.377). This indicates that digital capability is empirically distinct and captures unique variance not explained by other constructs. Similarly, digital marketing capability ( $X_2$ ) shows an AVE of 0.837, which exceeds its correlations with digital capability (0.377), digital innovation (0.260), and firm performance (0.380). This confirms that digital marketing capability is a distinct construct within the model.

For digital innovation (Z), the square root of AVE is 0.892, which is substantially higher than its correlations with digital capability (0.695), digital marketing capability (0.260), and firm performance (0.179). This result demonstrates strong discriminant validity and indicates that digital innovation is clearly differentiated from the other variables. Likewise, firm performance (Y) has an AVE of 0.826, which is greater than its correlations with digital capability (0.377), digital marketing capability (0.380), and digital innovation (0.179). This confirms that firm performance is also a distinct construct in the model. Thus, all diagonal values are higher than the corresponding off-diagonal values, indicating that each construct shares more variance with its own indicators than with other constructs. Therefore, the model satisfies the Fornell–Larcker criterion, confirming adequate discriminant validity. This study concludes that all constructs, namely digital capability, digital marketing capability, digital innovation, and firm performance, are empirically distinct and free from multicollinearity issues. This confirms that the measurement model has strong discriminant validity and is suitable for further structural model analysis.

### 4.2. Assessment of Structural Model

**Table 3.** Results of Coefficient of Determination ( $R^2$ ) and Effect Size ( $f^2$ )

| Variable(s)            | R-square | R-square adjusted | f square |
|------------------------|----------|-------------------|----------|
| Firm Performance (Y)   | 0.827    | 0.816             | 0.466    |
| Digital Innovation (Z) | 0.882    | 0.877             |          |

Table 3 presents the results for the coefficients of determination ( $R^2$ ) and adjusted  $R^2$ , and the effect size ( $f^2$ ) for the endogenous variables, namely firm performance (Y) and digital innovation (Z). These indicators are used to evaluate the model's explanatory power and the magnitude of exogenous variables' effects on endogenous constructs. The results show that the  $R^2$  value for firm performance (Y) is 0.827, with an adjusted  $R^2$  of 0.816. This indicates that 82.7% of the variance in firm performance can be explained by digital capability, digital marketing capability, and digital innovation. The adjusted  $R^2$ , which accounts for model complexity, remains high (0.816), confirming the model's robustness. According to common guidelines in PLS-SEM, an  $R^2$  value above 0.75 is considered substantial, indicating strong predictive power for firm performance.

For digital innovation (Z), the  $R^2$  value is 0.882, with an adjusted  $R^2$  of 0.877. This means that 88.2% of the variance in digital innovation is explained by digital capability and digital marketing capability. This value is also categorized as substantial, suggesting that both digital capability and digital marketing capability are strong predictors of digital innovation within the model. In terms of effect size ( $f^2$ ), the value reported for firm performance (Y) is 0.466. Based on Cohen's (1988) criteria, where 0.02 indicates a small effect, 0.15 a medium effect, and 0.35 a large effect, the  $f^2$  value of 0.466 falls into the large effect size category. This implies that the combined influence of digital capability, digital marketing capability, and digital innovation has a strong and meaningful impact on firm performance. Although the  $f^2$  value for digital innovation (Z) is not explicitly reported in the table, the very high  $R^2$  value (0.882) indicates that the predictors ( $X_1$  and  $X_2$ ) collectively exert a very strong explanatory effect on digital innovation.

### 4.3. Hypothesis testing

**Table 4.** Results of Hypothesis Testing for the Direct Effect

| Path Analysis   | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values | Decision |
|---|---------------------|-----------------|----------------------------|--------------------------|----------|----------|
| Digital Capability ( $X_1$ ) → Digital Innovation (Z) | 0.695               | 0.682           | 0.118                      | 5.883                    | 0.000    | Accepted |
| Digital Capability ( $X_1$ ) → Firm Performance (Y)   | 0.377               | 0.393           | 0.240                      | 1.570                    | 0.117    | Rejected |

| Path Analysis   | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values | Decision |
|---|---------------------|-----------------|----------------------------|--------------------------|----------|----------|
| Digital Marketing Capability (X <sub>2</sub> ) → Digital Innovation (Z) | 0.260               | 0.272           | 0.120                      | 2.167                    | 0.030    | Accepted |
| Digital Marketing Capability (X <sub>2</sub> ) → Firm Performance (Y)   | 0.380               | 0.363           | 0.177                      | 2.147                    | 0.032    | Accepted |
| Digital Innovation (Z) → Firm Performance (Y)                           | 0.179               | 0.182           | 0.188                      | 0.949                    | 0.343    | Rejected |

Table 4 presents the results of hypothesis testing for direct relationships among digital capability, digital marketing capability, digital innovation, and firm performance. The evaluation is based on the path coefficients (from the original sample), T-statistics, and p-values obtained via the bootstrapping procedure in PLS-SEM. A hypothesis is considered supported when the T-statistic exceeds 1.96, and the p-value is less than 0.05. First, the relationship between digital capability (X<sub>1</sub>) and digital innovation (Z) shows a positive, statistically significant effect ( $\beta = 0.695$ ,  $t = 5.883$ ,  $p = 0.000$ ). This indicates that digital capability strongly enhances digital innovation within the organization. The high coefficient suggests that improvements in digital infrastructure, human resource competencies, and data integration significantly contribute to the development of innovative digital products, services, and processes. Therefore, H3 is accepted.

Second, the effect of digital capability (X<sub>1</sub>) on firm performance (Y) is positive but not statistically significant ( $\beta = 0.377$ ,  $T = 1.570$ ,  $p = 0.117$ ). Although the direction of the relationship is consistent with theoretical expectations, the result indicates that digital capability alone is insufficient to directly improve firm performance. This implies that digital capability may require intermediary mechanisms, such as innovation, to generate performance outcomes. Thus, H1 is rejected. Third, digital marketing capability (X<sub>2</sub>) has a positive and significant effect on digital innovation (Z) ( $\beta = 0.260$ ,  $T = 2.167$ ,  $p = 0.030$ ). This finding suggests that the effective use of digital marketing tools, such as customer data analytics, digital content, and integrated marketing platforms, contributes to the firm's ability to innovate digitally. Although the effect size is smaller than that for digital capability, it remains statistically meaningful. Therefore, H4 is accepted.

Fourth, the relationship between digital marketing capability (X<sub>2</sub>) and firm performance (Y) is also positive and significant ( $\beta = 0.380$ ,  $T = 2.147$ ,  $p = 0.032$ ). This indicates that digital marketing capability plays a direct and important role in enhancing firm performance, particularly through improved customer engagement, market reach, and marketing effectiveness. Among the direct effects on firm performance, this relationship shows the strongest influence. Hence, H2 is accepted. Finally, the effect of digital innovation (Z) on firm performance (Y) is positive but not statistically significant ( $\beta = 0.179$ ,  $T = 0.949$ ,  $p = 0.343$ ). This result suggests that, although digital innovation contributes to performance in theory, its impact in this context is not strong enough to produce significant performance improvements. This may be due to implementation challenges, time lags in innovation outcomes, or insufficient integration of innovation into business strategies. Consequently, H5 is rejected.

**Table 5.** Results of Hypothesis Testing for Indirect Effect (Mediation Effect)

| Path Analysis  | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics ( O/STDEV ) | P values | Decision |
|--|---------------------|-----------------|----------------------------|--------------------------|----------|----------|
| Digital Capability (X <sub>1</sub> ) → Digital Innovation (Z) → Firm Performance (Y)           | 0.124               | 0.118           | 0.129                      | 0.966                    | 0.334    | Rejected |
| Digital Marketing Capability (X <sub>2</sub> ) → Digital Innovation (Z) → Firm Performance (Y) | 0.046               | 0.055           | 0.064                      | 0.731                    | 0.465    | Rejected |

Table 5 presents the results of the mediation analysis examining the indirect effects of digital capability and digital marketing capability on firm performance through digital innovation. The evaluation is based on the bootstrapping results, including path coefficients (original sample), T-statistics, and p-values. A mediating effect is considered significant when the T-statistic exceeds 1.96, and the p-value is less than 5 percent. First, the indirect effect of digital capability (X<sub>1</sub>) on firm performance (Y) through digital innovation (Z) shows a positive coefficient ( $\beta = 0.124$ ), indicating that digital capability contributes to firm performance via digital innovation. However, the effect is not statistically

significant ( $T = 0.966$ ,  $p = 0.334$ ). This result suggests that although digital capability strongly influences digital innovation, the latter does not sufficiently translate into improved firm performance. Therefore, digital innovation does not mediate the relationship between digital capability and firm performance, and H6a is rejected. Second, the indirect effect of digital marketing capability ( $X_2$ ) on firm performance ( $Y$ ) through digital innovation ( $Z$ ) also shows a positive but weak coefficient ( $\beta = 0.046$ ). The statistical results indicate that this relationship is not significant ( $T = 0.731$ ,  $p = 0.465$ ). This implies that digital marketing capability does not improve firm performance through digital innovation. Instead, its impact on performance is more direct rather than mediated. Thus, digital innovation does not mediate the relationship between digital marketing capability and firm performance, and H6b is rejected.

## 5. Discussion

This study aims to examine the effect of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable, in the context of Daya Motor Samarinda. The findings provide several important insights when interpreted in light of prior studies and the proposed hypotheses. First, the results indicate that digital capability has a significant positive effect on digital innovation, supporting H3. This finding is consistent with previous studies that highlight digital capability as a key driver of innovation. For instance, Yasa et al. (2019) and Hidayat et al. (2022) emphasized that organizations with strong digital capabilities are better able to develop innovative products, services, and processes. Similarly, Budiarti and Firmansyah (2024) showed that the digital transformation of human resources and digital talent significantly enhances innovation capability. In this study, digital capability, reflected in IT infrastructure, data integration, and digital competencies, enables the company to adapt and innovate in response to market demands. This result also aligns with the dynamic capabilities perspective, where digital capability serves as a foundational resource for organizational transformation (Ciampi et al., 2022).

However, the findings reveal that digital capability does not have a significant direct effect on firm performance, thereby rejecting H1. This result contrasts with studies such as Wielgos et al. (2021) and Ma et al. (2021), which found a direct positive relationship between digital capability and firm performance. Nevertheless, the result is consistent with that of Anggitasari et al. (2023), who reported that digital capability does not directly improve business performance unless it is mediated by innovation or other mechanisms. This suggests that in the context of Daya Motor Samarinda, digital capability may still be in a developmental stage and has not yet been fully leveraged to produce measurable performance outcomes. Organizational challenges such as limited employee digital skills and suboptimal system integration may hinder the direct impact of digital capability on performance.

Second, the study finds that digital marketing capability has a significant positive effect on both digital innovation and firm performance, supporting H4 and H2. These findings align with previous research highlighting the strategic importance of digital marketing. Liang et al. (2025) demonstrated that digital marketing capability significantly enhances firm performance, while Purwanti et al. (2022) found similar results in the context of MSMEs. Furthermore, Masrianto et al. (2022) highlighted that firms with higher digital marketing utilization achieve better competitiveness and performance outcomes. In this study, digital marketing capability, through the effective use of digital media, customer data, and content development, directly contributes to improved performance. This suggests that digital marketing capability provides more immediate and tangible benefits compared to broader digital capabilities, particularly in enhancing customer engagement and market reach.

The significant effect of digital marketing capability on digital innovation also supports prior findings. Sundari et al. (2025) and Utama and Indarwati (2023) demonstrated that digital marketing activities facilitate innovation by generating customer insights and enabling firms to respond quickly to market changes. This indicates that marketing-driven digital initiatives can serve as a catalyst for innovation within organizations. Third, the results show that digital innovation does not have a significant effect on firm performance, thereby rejecting H5. This finding contrasts with several studies that emphasize the importance of innovation in driving performance. For example, Hidayat et al. (2022) found that digital innovation significantly improves business performance and even mediates the relationship between resources and performance. Similarly, Uršič and Čater (2025) positioned digital innovation as a central mechanism linking capabilities to performance outcomes. However, the current result suggests that, in this context, digital innovation has not yet translated into measurable performance improvements.

This discrepancy may be explained by several factors. First, innovation outcomes often require time to generate financial or operational benefits, indicating a possible time-lag effect. Second, digital innovation may not yet be fully integrated into the company's strategic processes. Third, limitations in technological infrastructure or human resource capabilities may reduce the effectiveness of innovation initiatives. These findings highlight that innovation alone is insufficient unless it is properly executed and aligned with organizational goals. Fourth, the mediation analysis reveals that digital innovation does not mediate the relationship between digital capability, digital marketing capability, and firm performance, leading to the rejection of H6a and H6b. This result differs from prior studies such as Yasa et al. (2019) and Anggitasari et al. (2023), which found significant mediation effects of innovation. It also contrasts with Sundari et al. (2025) and Kustami et al. (2025), who reported that innovation and competitiveness act as mediators between digital marketing and performance.

The absence of mediation in this study is primarily due to the non-significant relationship between digital innovation and firm performance. This suggests that while digital capabilities and digital marketing capability successfully drive innovation, the innovation outcomes are not yet effectively converted into performance gains. In other words, there is a gap between innovation creation and value realization. From a broader perspective, these findings contribute to the literature by highlighting that the relationship between digital capabilities, innovation, and performance is context-dependent. While previous studies often report positive, significant relationships, this study demonstrates that such relationships may not always hold, particularly in organizations still in the early stages of digital transformation. This aligns with Kristyanto and Jamil (2023), who emphasized that the impact of digital transformation depends on the level of technological readiness and sectoral characteristics. Furthermore, the results reinforce the importance of considering multiple capabilities simultaneously. As noted by Apasrawirote et al. (2022), digital marketing capability should not be viewed in isolation but as part of a broader capability system. This study shows that digital marketing capability has a more direct and immediate impact on performance, while digital capability plays a more indirect role through innovation.

## 6. Conclusions

This study examines the effect of digital capability and digital marketing capability on firm performance, with digital innovation as a mediating variable, in the context of Daya Motor Samarinda, Indonesia. The findings provide several important conclusions. First, digital capability has a significant positive effect on digital innovation but does not directly influence firm performance. This indicates that while digital capability is essential for fostering innovation, it does not automatically translate into improved performance outcomes without effective utilization and alignment with business strategies. Second, digital marketing capability has a significant positive effect on both digital innovation and firm performance. This suggests that digital marketing capability plays a more immediate and strategic role in enhancing firm performance, particularly through improved customer engagement, market reach, and marketing effectiveness. Third, digital innovation does not have a significant effect on firm performance. Consequently, it does not mediate the relationship between digital capability, digital marketing capability, and firm performance. This finding implies that the organization's innovation activities have not yet been fully optimized or effectively translated into measurable performance outcomes. The study highlights that while digital transformation initiatives are important, their effectiveness depends on how well they are implemented and aligned with organizational goals. Digital marketing capability emerges as a key driver of performance, whereas digital capability requires further development and integration to generate tangible benefits.

### 6.1. Research Limitations

Despite its contributions, this study has several limitations. First, the research is conducted in a single company (Daya Motor Samarinda), which may limit the generalizability of the findings to other industries or organizational contexts. Second, a cross-sectional design restricts the ability to capture dynamic changes and long-term effects of digital transformation and innovation. Third, the study focuses on a limited number of variables, excluding other potential factors such as organizational culture, leadership, environmental dynamism, and technological readiness that may influence firm performance. Finally, the measurement of digital innovation may not fully capture the complexity and maturity level of innovation practices within the organization.

### 6.2. Research Implications

#### 6.2.1. Theoretical Implications

This study contributes to the literature on digital transformation and dynamic capabilities in several ways. First, it provides empirical evidence that digital capability alone is insufficient to directly improve firm performance, highlighting the importance of intermediary mechanisms. Second, it demonstrates that digital marketing capability plays a more direct role in driving performance, thus extending the understanding of capability-based perspectives in the digital era. Third, the study challenges previous findings regarding the mediating role of digital innovation by showing that such mediation is context-dependent and may not always be significant. This enriches theoretical discourse by underscoring the need to account for organizational readiness and implementation effectiveness in digital transformation research.

#### 6.2.2. Practical and Policy Implications

From a practical perspective, the findings suggest that organizations should prioritize strengthening digital marketing capability as a strategic tool to enhance performance. Companies should invest in digital marketing technologies, customer data analytics, and content development to improve market competitiveness. Additionally, firms need to enhance their digital capabilities by developing employees' digital skills, improving system integration, and leveraging data for strategic decision-making. In terms of innovation, organizations should align digital initiatives with business objectives to ensure they generate measurable performance outcomes. This requires effective management

of innovation processes, adequate resource allocation, and continuous evaluation of innovation impact. From a policy perspective, the results highlight the need for government and stakeholders to support digital transformation through capacity-building programs, particularly to develop digital skills and strengthen technological infrastructure. Policies that encourage digital adoption, innovation ecosystems, and knowledge sharing can help organizations maximize the benefits of digital transformation. Furthermore, industry-specific strategies, especially in sectors such as automotive distribution, are needed to address unique challenges and accelerate digital integration.

**Author Contributions:** Conceptualization, U.S. and E.Y.; methodology, U.S.; software, U.S.; validation, E.Y. and U.K.; formal analysis, U.S.; investigation, U.S.; resources, U.S.; data curation, E.Y. and U.K.; writing—original draft preparation, U.S.; writing—review and editing, E.Y. and U.K.; visualization, U.S.; supervision, E.Y. and U.K.; project administration, U.S.; funding acquisition, U.S. All authors have read and agreed to the published version of the manuscript.

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**Funding:** This research received no external funding.

**Institutional Review Board Statement:** Not applicable.

**Informed Consent Statement:** Informed consent was obtained from all subjects involved in the study.

**Data Availability Statement:** The data used in this study are available from the corresponding author upon reasonable request.

**Acknowledgments:** The authors would like to thank Universitas 17 Agustus 1945 Samarinda, Indonesia, for supporting this research and publication. The authors would also like to thank the reviewers for their constructive comments and suggestions.

**Conflicts of Interest:** The authors declare no conflict of interest.

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