



Digital Marketing Capability and Performance: Moderated Mediation Approach

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ABSTRACT

The study aims to identify the nexus between digital marketing capability and the performance of small and medium enterprises, as well as the moderated mediation effect of competitive intensity and relationship marketing. Quantitative methodology is appropriate for analysing the above nexus. I adopted convenient sampling to select the respondents and developed a structured questionnaire to collect data from the respondents. Structural equation modelling analysis was applied to analyse the influence, mediation effect, and moderation effect; the SPSS process was applied for moderated mediation analysis. The result revealed that digital marketing significantly influences performance and relationship marketing. Relationship marketing significantly influences the performance of SMEs. Relationship marketing significantly mediates the relationship between digital marketing capability and the performance of SMEs. Competitive intensity significantly moderates the relationship between relationship marketing and the performance of SMEs. The indirect effect of digital marketing on the performance of SMEs via relationship marketing significantly reduces as the competitive intensity level increases from low to high. This study offers significant academic contributions. It introduces a comprehensive moderated mediation mechanism to explore how digital marketing capability impacts SME performance, with relationship marketing acting as a mediator and competitive intensity as a moderator. The findings confirm the mediation effects and provide robust evidence for the moderated mediation mechanism, filling a gap in SME marketing literature by emphasising digital marketing's role in improving performance. Additionally, the study may face challenges in capturing the dynamic nature of competitive intensity, which can vary with market conditions and technological advancements.

Keywords: *Competitive Intensity, Digital Marketing Capability, Performance, Relationship Marketing, Small and Medium Enterprises*



1. INTRODUCTION

Digital platforms have become instrumental in enhancing the operational efficiency and resilience of “small and medium-sized enterprises” (SMEs). Abate et al. (2024) highlighted that SMEs leveraging digital platforms can significantly improve their innovation performance by effectively orchestrating resources and capabilities. Adopting digital platforms has bolstered SMEs' resilience during crises by enabling rapid adaptation to changing customer behaviours and market conditions (Jiang et al., 2023). Furthermore, the integration of digital platforms facilitates business model innovation, allowing SMEs to reconfigure their capabilities to better meet evolving market demands (Xie et al., 2022). Digital marketing capabilities are increasingly recognised as pivotal for the success of SMEs (Mushi, 2024). Furthermore, the development of robust marketing capabilities, including marketing communication, channel management, and product development, has been shown to positively influence various performance metrics, such as financial outcomes, customer satisfaction, and adaptability (Alalwan et al., 2024). “Digital marketing capability” (DMC) plays a critical role in enhancing “relationship marketing” (RM) by leveraging advanced technologies and digital tools to foster stronger customer relationships. DMC encompasses an organisation's ability to effectively utilise digital platforms, such as digital media, search engines, and email marketing, to engage with customers and deliver personalised experiences (Malthouse et al., 2016). This capability allows firms to collect, analyse, and apply customer data to create value-driven interactions, which are central to relationship marketing strategies. Relationship marketing, characterised by its focus on long-term customer engagement rather than transactional exchanges, benefits significantly from DMC as it enables consistent communication and tailored offerings (Thaichon et al., 2022). Moreover, the integration of artificial intelligence (AI) and predictive analytics within DMC facilitates the identification of customer needs and preferences, further deepening trust and loyalty (Wang et al., 2021). Thus, the synergistic relationship between DMC and relationship marketing enhances an organisation's ability to achieve customer trust, commitment, communication, engagement, satisfaction, retention, and competitive advantage in an increasingly digital marketplace.



Digital marketing capability (DMC) is a pivotal driver of organisational performance, particularly in highly competitive markets where differentiation and customer loyalty are vital. DMC enables firms to collect, analyse, and apply customer data to personalise engagement and strengthen relationship marketing strategies (Hat et al., 2024). This capability is especially critical under conditions of highly competitive intensity (CI), as it supports dynamic, data-driven marketing approaches that enhance customer retention and acquisition (Shah et al., 2024; Wang et al., 2023). Through advanced technologies such as artificial intelligence, machine learning, and predictive analytics, firms can elevate customer satisfaction and engagement, improving financial and non-financial outcomes (Zahay, 2021). The synergistic relationship between DMC, relationship marketing, and CI highlights the strategic role of digital transformation in securing sustainable competitive advantage and superior organisational performance.

Despite the growing body of literature on digital marketing capability (DMC), relationship marketing, performance, and competitive intensity, critical research gaps persist, particularly concerning the mediating role of relationship marketing and the moderating role of competitive intensity in these relationships. Current studies recognise DMC as a driver of firm performance and relationship marketing (Ahmad et al., 2022; Gelgile & Shukla, 2024). However, limited research investigates relationship marketing as a mediator that translates DMC into improved performance outcomes by leveraging personalised and value-driven customer interactions. Additionally, limited attention has been given to how competitive intensity moderates the relationship between relationship marketing and performance, particularly in varying market conditions. While relationship marketing is recognised for fostering long-term customer engagement, its integration with DMC in shaping performance outcomes remains underexplored (Shah et al., 2024). The role of competitive intensity as a moderator influencing the strength and direction of these relationships remains underexplored. Competitive intensity amplifies or dampens the effectiveness of DMC and relationship marketing, yet its interplay with these constructs in dynamic market environments is not well understood. Additionally, few studies address whether the benefits of DMC and relationship marketing are equally significant across industries with differing levels of competitive intensity (Wang et al., 2021). A more nuanced investigation into how



relationship marketing mediates the link between DMC and performance, alongside how competitive intensity moderates these relationships, is essential to provide deeper insights into achieving sustainable performance in highly competitive markets (Singh et al., 2024). To fill these gaps, this research aimed to identify the link between digital marketing capability and the performance of SMEs and the moderated mediation effect of competitive intensity and relationship marketing.

2. LITERATURE REVIEW

2.1. Digital Marketing Capability (DMC)

The concept of Digital Marketing Capability has garnered increasing attention in recent literature as a critical determinant of organisational success in the digital era. DMC refers to a firm's ability to leverage digital tools, platforms, and data analytics to design and execute effective marketing strategies (Abate et al., 2024). It encompasses technical, strategic, and operational competencies that enable organisations to engage customers, personalise offerings, and respond to dynamic market demands (Al Koliby et al., 2024). Recent studies highlight the role of DMC in enhancing customer experience, driving innovation, and achieving superior business performance (Wang et al., 2021). Furthermore, DMC facilitates data-driven decision-making and enables firms to integrate digital channels, such as digital media, email, and e-commerce platforms, to create seamless customer journeys (Apasrawirote et al., 2022). However, research emphasises that the development of DMC requires significant investment in technology, employee skills, and organisational culture, making its implementation complex, especially for small and medium enterprises. Despite its recognised importance, scholars call for further investigation into how firms can adapt their DMC to emerging technologies like artificial intelligence and machine learning to sustain competitive advantage in rapidly changing environments.

2.2. Relationship Marketing (RM)

Relationship marketing has been extensively studied in the marketing literature as a strategy focused on building and sustaining long-term, mutually beneficial relationships with



customers, rather than prioritising short-term transactions. Rooted in relationship theory, RM emphasises customer trust, commitment, and satisfaction as key drivers of loyalty and business success (Morgan & Hunt, 1999). Recent research highlights the role of technology in enhancing RM, particularly through innovative tools, which enable firms to deliver personalised and value-added interactions (Morgan, 2024). RM has been shown to contribute significantly to customer retention, word-of-mouth advocacy, and lifetime value, especially in competitive markets where customer loyalty is a critical differentiator (Hat et al., 2024). Scholars argue that RM is instrumental in fostering value co-creation, where customers and firms collaboratively shape products and services to meet evolving needs (Palmatier & Steinhoff, 2019). Despite its strategic importance, gaps remain in understanding how RM can adapt to the growing emphasis on digitalisation and how it integrates with emerging technologies like artificial intelligence to drive deeper customer engagement and business performance.

2.3. Performance of SMEs

The performance of small and medium-sized enterprises (SMEs) has been a critical area of focus in academic literature due to their significant contribution to economic growth, job creation, and innovation. SME performance is often measured through financial metrics such as profitability, revenue growth, and return on investment, as well as non-financial indicators like customer satisfaction, market share, and employee retention (Sooriyakumaran et al., 2022; Yahaya & Nadarajah, 2023). Scholars emphasise the role of internal capabilities, such as innovation, digital transformation, and managerial expertise, in driving SME performance in competitive markets (Amoa-Gyarteng et al., 2024). Additionally, external factors, including access to financing, regulatory environments, and market conditions, significantly influence SME success, particularly in developing economies (Zhang et al., 2019). Recent studies highlight the critical role of digital tools and marketing capabilities in enhancing SME performance, enabling firms to expand their market reach, improve customer engagement, and optimise operational efficiency (Ahmad et al., 2022). However, gaps remain in understanding the intersection of these factors, particularly how SMEs can balance resource



constraints while leveraging digitalisation and innovation to achieve sustainable performance in volatile environments.

2.4. Competitive Intensity

Competitive intensity, defined as the degree of rivalry among firms in a given market, has been extensively studied in the literature for its significant impact on organisational strategies and performance. Competitive intensity compels firms to innovate, enhance efficiency, and adopt customer-centric strategies to sustain their competitive edge (Porter, 1980). Recent studies emphasise that in highly competitive markets, firms face pressures to invest in advanced capabilities, such as digital transformation and marketing technologies, to differentiate their offerings (Wang et al., 2021). Moreover, competitive intensity amplifies the need for agility, forcing firms to respond swiftly to market changes and competitors' actions (Houessou et al., 2024). The construct also moderates the relationship between organisational capabilities, such as digital marketing capability, and performance, indicating that firms in high-intensity markets derive greater benefits from leveraging technological and operational resources (Kmieciak & Michna, 2018).

In summary, I synthesise digital marketing capability, relationship marketing, SMEs' performance, and competitive intensity from the perspective of SMEs. DMC is increasingly recognised as a vital driver of SME success, encompassing the technical, strategic, and operational skills needed to leverage digital tools, platforms, and data analytics for customer engagement. Research highlights DMC's role in enhancing customer experience, fostering innovation, and integrating digital channels into seamless, data-driven customer journeys in SMEs (Wang et al., 2021; Apasrawirote et al., 2022). Relationship marketing (RM) focuses on cultivating long-term, trust-based customer relationships that drive SMEs' loyalty, retention, and business performance. While RM is recognised for its contribution to value co-creation and competitive advantage, scholars highlight the need for further research on how it can evolve alongside digitalisation to deepen customer engagement and sustain SME success (Palmatier & Steinhoff, 2019). SME performance is assessed through the financial and non-financial indicators, and is shaped by internal capabilities. While recent research emphasises the importance of digital tools and marketing capabilities in enhancing SME



competitiveness and efficiency (Ahmad et al., 2022), further inquiry is needed to understand how SMEs can effectively navigate resource constraints and environmental volatility to achieve sustainable performance through the digitalisation of SMEs. Competitive intensity, defined as the degree of market rivalry, significantly shapes organisational strategies and performance by driving SMEs to innovate, adopt customer-centric approaches, and invest in advanced capabilities such as digital transformation and marketing technologies.

2.5. Underpinning Theories

The Resource-Based View (RBV) argues that “valuable, rare, and inimitable resources help firms gain a competitive advantage and superior performance” (Barney, 1991, 2000). Digital marketing capabilities (DMC) and relationship marketing are considered such resources that SMEs use to build strong, lasting customer relationships, leading to better performance. SMEs with advanced DMC can implement effective relationship marketing strategies that enhance trust, commitment, communication, conflict management, and competency, directly influencing business performance. Dynamic Capabilities Theory highlights a firm’s ability to integrate, build, and reconfigure its resources to adapt to changing market conditions (Teece et al., 1997). DMC is a dynamic capability that enables SMEs to adapt their relationship marketing strategies to meet evolving customer needs. Relationship marketing plays a mediator role by translating DMC into customer trust, commitment, communications, conflict management, and competency, which are vital for performance improvement. Competitive intensity serves as a moderator, influencing the degree to which DMC and relationship marketing contribute to performance. In highly competitive markets, SMEs with robust DMC are better positioned to strengthen relationships and outperform competitors.

2.6. Hypothesis Development

Digital marketing capability is a firm's ability to effectively utilise digital tools, platforms, and strategies to enhance marketing activities, engage customers, and drive business outcomes (Day, 2011). In the context of SMEs, DMC is particularly significant as it allows firms to overcome traditional constraints such as limited budgets, geographic limitations, and resource shortages, enabling them to compete effectively in dynamic markets (Trainor et al.,



2014). The Resource-Based View (RBV) theory provides a foundational framework for understanding the link between DMC and SME performance (Barney, 1991). According to RBV, firms that possess unique, valuable, and inimitable resources, such as digital marketing capabilities, can achieve superior performance. For SMEs, digital marketing capabilities encompass the ability to leverage tools like social media, email marketing, search engine optimisation (SEO), and data analytics to reach target audiences, enhance customer engagement, and optimise marketing campaigns (Gelgile & Shukla, 2024). These capabilities can lead to increased revenue, growth, market value, ROI, business expansion, and overall profitability (Apasrawirote et al., 2022). Moreover, the Dynamic Capabilities Theory emphasises the ability of firms to adapt to rapidly changing environments (Teece et al., 1997). SMEs with strong digital marketing capabilities can quickly respond to market changes, adjust their strategies to evolving customer preferences, and stay ahead of competitors, ultimately improving their performance. Firms utilising real-time data analytics and personalised marketing strategies are more likely to deliver value to customers and achieve superior financial outcomes (Rialti et al., 2019). Empirical studies also support this relationship; previous researchers indicated that SMEs with higher digital marketing capabilities experience enhanced performance (Al Koliby et al., 2024; Deku et al., 2024; Hat et al., 2024; Mero et al., 2020), driven by their ability to target and convert customers more effectively. Similarly, Quinton and Simkin (2017) found that SMEs leveraging digital tools achieve greater customer engagement and competitive advantages, which translate into improved business performance. Based on this theoretical and empirical foundation, it is proposed that:

H1: Digital marketing capability has a significant influence on the performance of SMEs.

Relationship marketing is a strategic approach where firms build and maintain long-term relationships with customers by focusing on trust, commitment, communication, conflict management, and competency. For SMEs, digital marketing capabilities play a crucial role in achieving these objectives by leveraging tools, technologies, and platforms to engage customers effectively. Research suggests that digital marketing allows SMEs to personalise communications, enhance customer engagement, and build stronger relational bonds (Hat et



al., 2024). Digital marketing capability, defined as the ability of a business to use digital tools to identify, connect, and interact with customers, has been identified as a key driver of relationship marketing outcomes (Gelgile & Shukla, 2024). Resources of SMEs are often limited, and leveraging digital platforms offers cost-effective and scalable means to build and sustain customer relationships (Dwivedi et al., 2021). DMC is a dynamic capability that enables SMEs to adapt their relationship marketing strategies to meet evolving customer needs (Teece et al., 1997). Furthermore, studies have shown that integrating digital marketing into relationship marketing strategies enables businesses to improve performance (Bargoni et al., 2024). The digital marketing capability is expected to significantly influence relationship marketing, especially in SMEs. Based on these, the following hypothesis is proposed:

H2: Digital marketing capability significantly influences the relationship marketing of SMEs

Relationship marketing, which emphasises building trust, commitment, and long-term customer relationships, has emerged as a critical strategy for enhancing organisational performance. For small and medium-sized enterprises (SMEs), relationship marketing plays a pivotal role in overcoming resource constraints, improving customer retention, and driving competitive advantage. Recent studies underscore the significant impact of relationship marketing on SME performance, including financial growth, revenue, market value, ROI, business expansion, and overall profitability (Jain et al., 2024). In today's dynamic business environment, SMEs that effectively implement relationship marketing strategies are more likely to enhance customer loyalty, increase repeat purchases, and achieve sustainable growth. This is particularly true in competitive markets where personalised engagement and value-added services strengthen customer relationships and contribute to overall firm performance (Payne & Frow, 2017). Resource-based theory explained that relationship marketing is a resource; SMEs use it to build strong, lasting customer relationships, leading to better performance (Barney, 1991, 2000). Research also highlights that trust and commitment, as core components of relationship marketing, serve as critical predictors of performance outcomes (Cunningham, 2018).

In highly competitive environments, small and medium-sized enterprises (SMEs) face significant challenges in maintaining performance and sustaining growth. Relationship



marketing (RM), with its focus on fostering trust, commitment, and loyalty, has been shown to play a pivotal role in enhancing SME performance. However, the strength of this relationship can vary depending on external factors such as competitive intensity (CI), which refers to the level of competition a business faces within its industry or market (Porter, 1980). Competitive intensity can act as a moderating factor by influencing the effectiveness of relationship marketing strategies. In highly competitive markets, relationship marketing may become even more critical, as customers are more likely to switch brands or businesses without strong relational ties. Conversely, in low-intensity markets, the impact of relationship marketing on performance may be less pronounced, as customers face fewer choices (Sanzo & Vázquez, 2011). Research indicates that in highly competitive environments, SMEs that effectively build and sustain strong customer relationships can gain a distinct competitive advantage, resulting in enhanced outcomes such as increased customer retention, market share, and profitability (O'Cass & Weerawardena, 2010). The dynamic capability theory suggests that competitive intensity moderates the relationship between relationship marketing and SME performance by amplifying the need for firms to adapt, integrate, and reconfigure their resources and strategies to sustain relational advantages in highly competitive environments (Teece et al., 1997). This implies that competitive intensity not only influences the dynamics of the market but also moderates the relationship between relationship marketing and SME performance.

Based on this evidence, the following hypotheses are proposed:

H3: Relationship marketing significantly influences the performance of SMEs

H4: Competitive Intensity moderates the relationship between relationship marketing and the performance of SMEs

Digital marketing capability has been widely recognised as a critical factor influencing the performance of SMEs. The dynamic capability theory explains the mediation effect of relationship marketing on the relationship between digital marketing capability and SME performance by emphasising how firms utilise adaptive and integrative relational strategies to transform digital marketing capabilities into enhanced performance outcomes (Teece et al.,



1997). However, the mechanism through which DMC translates into improved performance requires deeper exploration. Relationship marketing (RM), which focuses on building and sustaining long-term relationships with customers, has been identified as a strategic mediator that connects technological capabilities with business outcomes (Van Tonder & Petzer, 2018). DMC enables SMEs to reach customers efficiently, collect real-time feedback, and personalise interactions, all of which enhance relationship-building efforts. Studies suggest that relationship marketing mediates the impact of digital capabilities by converting them into enhanced customer loyalty, satisfaction, and retention, thereby improving SME performance. Furthermore, SMEs that integrate relationship marketing into their digital strategies are better positioned to foster trust and commitment, which are crucial for long-term growth and competitive advantage (Gelgile & Shukla, 2024). Based on this theoretical and empirical evidence, the following hypothesis is proposed:

H5: Relationship marketing mediates the relationship between digital marketing capability and the performance of SMEs

The integration of digital marketing capabilities within SMEs has been widely acknowledged as a critical driver of performance outcomes. Previous studies have demonstrated that DMC positively impacts SME performance by enhancing customer acquisition, retention, and operational efficiency (Shah et al., 2024). However, this relationship is often mediated by relationship marketing (RM), which emphasises building and maintaining long-term, mutually beneficial relationships with customers. Relationship marketing is a critical mechanism for leveraging digital marketing tools to strengthen customer loyalty and satisfaction, ultimately driving improved performance outcomes (Hat et al., 2024). The mediating role of RM in the relationship between DMC and SME performance is well-established. RM facilitates personalised communication and customer engagement, which are central to the effective use of digital marketing tools. RM strategies such as loyalty programs, customer feedback loops, and personalised content marketing can amplify the impact of DMC on performance by fostering stronger customer relationships. However, the strength of this mediating effect may vary depending on external environmental factors, such as competitive intensity (CI).



Competitive intensity refers to the degree of competition within an industry or market. It shapes the external business environment by influencing customer preferences, market dynamics, and competitive pressures. Research has highlighted that CI moderates the relationship between firm capabilities and performance outcomes (Zhang et al., 2019). In highly competitive markets, SMEs face increased pressure to differentiate themselves and sustain their competitive advantage. Under such conditions, utilising DMC with RM becomes even more critical. SMEs in competitive markets may need to rely more heavily on relationship marketing to retain customers and build loyalty, thereby enhancing the indirect effect of RM on the DMC-performance relationship (Otache, 2024). Conversely, in markets with low competitive intensity, the urgency to adopt aggressive relationship marketing strategies may diminish. Firms may achieve satisfactory performance outcomes through moderate use of DMC without the need for robust RM practices. Thus, CI likely serves as a significant contextual factor that influences the strength and direction of the indirect effect of RM on the relationship between DMC and SME performance. Based on this reasoning, we propose the following hypothesis:

H6: Competitive intensity moderates the indirect effect of relationship marketing on the relationship between digital marketing capability and the performance of SMEs

3. METHODOLOGY

This research aimed to identify the nexus between digital marketing capability and the performance of SMEs, as well as the moderated mediation effect of competitive intensity and relationship marketing. Quantitative methodology is appropriate for analysing the above link. The study population consists of SMEs in the Northern Province; SME managers or owners serve as the sample units. I have adopted convenient sampling to select the respondents due to the absence of data about the application of digital marketing capability in SMEs. I have developed a structured questionnaire in a Google Form to collect data from the respondents. After clarifying and ensuring the digital marketing applications in SMEs, I issued questionnaires to 400 respondents. I received responses from 257 SMEs, yielding a response rate of 64.25%. The surveys were sent via email and WhatsApp. The Google link was sent to



the randomly selected e-mail addresses of SME owners obtained from the Department of Industries and the Industrial Development Board.

3.1. Measures

The survey questionnaire contains two sections. The first section includes demographic information; the second comprises items relating to study constructs. The items measuring study constructs were derived from previously validated scales. This study has four variables; I measured “Digital marketing capability” using five items from the measures of Hat et al. (2024). Measurement scales for the Digital marketing capability were adapted from previously validated scales as “creates and manages durable customer relationships through digital media, predicts changes in customer preferences, uses channel bonding with wholesalers, and retailers, uses digital platform capabilities to create durable relationships with suppliers and use digital marketing to retain customers”. I measured Relationship Marketing by using a five-items from the measures of Gelgile and Shukla (2024); which includes items as “Trust, Commitment, Communications, Conflict management and Competency”. I derived the measure of performance from Apasrawirote(2022) which include seven items as “Return on investment (ROI), Profit growth, Customer satisfaction, Conversation engagement, reduces unexpected losses, Market (share) values and Business expansion”. I derived the measures of Competitive Intensity (CI) from Anning-Dorson and Nyamekye (2020) and Kmiecik and Michna (2018) which includes five items as “One hears of a new competitive move almost every day, Anything that one competitor can offer others can match readily, There are many “promotion wars” in our industry, Competition in our market is cutthroat and Price competition is a hallmark of our industry”. The items operationalizing all the constructs were measured with a five-point scale ranging from 1 to 5 “strongly agree to strongly disagree”.



Table 1: Profile of SMEs

	No. of respondents	%
Location of the Organisation		
Jaffna	113	44
Mullaitivu	29	11
Killinochchi	32	12
Vavuniya	46	18
Mannar	37	15
Ownership		
Individual	124	48
Family	88	34
Institutional ownership	45	18
Education level of managing directors (owners)		
Advanced level	84	33
Diploma	37	14
Graduate	93	36
Postgraduate	20	8
Professional qualifications	23	9
Capital investment of your organisation		
Below Rs 5 million	46	18
Rs 6- 10 million	58	23
Rs 11 - 50 million	74	28
Rs 51-100 million	32	12
Rs 101- 250 million	23	9
Rs 251- 750 million	12	5
Over Rs 750 million	12	5

Respondents' profiles include the “organisation's location, ownership, educational level of the owner or manager, and capital investment” (Table 1). The location of SMEs reveals 44% of respondents from Jaffna, 11% from Mullaitivu, 12% from Killinochchi, 18% from Vavuniya, and 15% from Mannar. The ownership explains that 48% of SMEs have individual businesses, 34% have family businesses, and 18% have institutional ownership. The education level of owners or managers illustrates that 33% of owners or managers completed an advanced level of education, 14% of respondents completed a diploma level, 36%-graduate level, 8% -postgraduate level, and 9% - professional level. Capital investment of SMEs explains that 18% of SMEs are below 5 million, 23% of SMEs are 6-10 million, 28% of SMEs are 11-50 million, 12% of SMEs are 51-100million, 9% of SMEs are 101-250 million, 5% of SMEs are 251-750 million and 5% of SMEs are above 750 million.

4. RESULTS

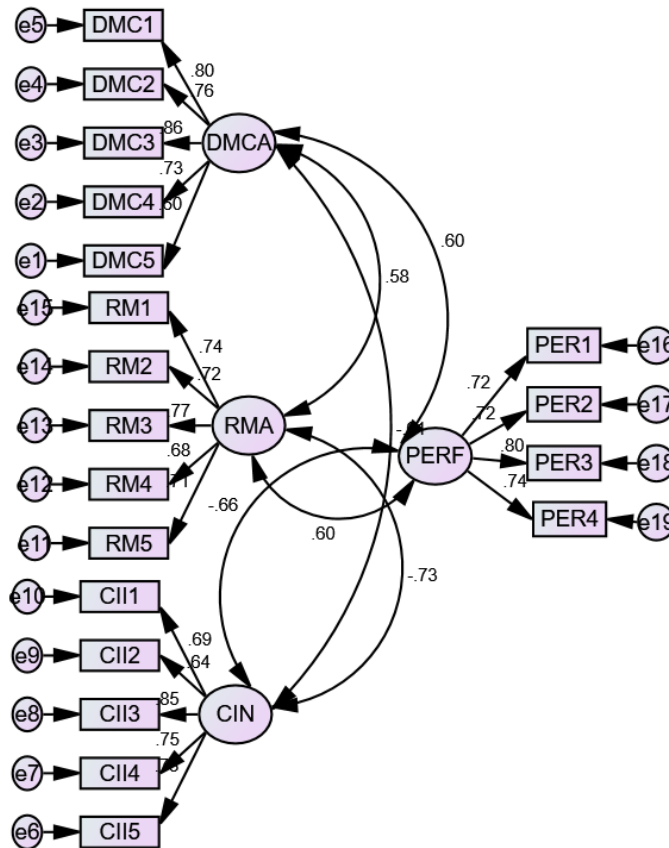
4.1. Measurement Model

Confirmatory Factor Analysis (CFA) was conducted using AMOS to assess the validity, reliability, and dimensionality of the constructs. The results in Table 2 revealed that the variable “performance” included seven items, and the factor loadings for three items “, market share, business expansion, and business reduce unexpected losses”, were below the minimum threshold value of 0.6. In contrast, the factor loadings for all other constructs were significant ($P = 0.001$) and exceeded 0.6 (Figure 1). Additionally, the Average Variance Extracted (AVE) values for all constructs are above 0.5, and the Construct Reliability (CR) for each construct exceeded 0.7 (Table 2). These findings confirm the convergent validity of the items measuring the constructs, as suggested by Hair et al. (2010).

Table 2: Summary of the measurement model

Construct	Items		FL
Digital marketing capability (DCM) AVE-0.571 CR-0.868 $\alpha - 0.864$			
	Creates and manages durable customer relationships through digital media.	DMC1	0.803
	Predicts changes in customer preferences	DMC2	0.761
	Uses channel bonding with wholesalers and retailers	DMC3	0.861
	Uses digital platform capabilities to create durable relationships with suppliers.	DMC4	0.729
	Use digital marketing to retain customers.	DMC5	0.600
Relationship Marketing (RM) AVE- 0.524 CR-0.846 $\alpha - 0.841$			
	Trust	RM1	0.739
	Commitment	RM2	0.720
	Communications	RM3	0.772
	Conflict management	RM4	0.678
	Competency	RM5	0.708
Performance (PER) AVE-0.555 CR-0.833 $\alpha - 0.832$			
	Return on investment (ROI)	PER1	0.720
	Profit growth	PER2	0.734
	Customer satisfaction	PER3	0.772
Competitive Intensity (CI) AVE- 0.554 CR- 0.0.860 $\alpha - 0.859$			
	One hears of a new competitive move almost every day	CII1	0.694
	Anything that one competitor can offer, others can match readily	CII2	0.636
	There are many “promotion wars” in our industry	CII3	0.848
	Competition in our market is cutthroat	CII4	0.746
	Price competition is a hallmark of our industry.	CII5	0.780

Figure 1: First-order measurement model



The discriminant validity of the study constructs is demonstrated through the square roots of the AVE values, presented in the upper diagonal of Table 3. Each construct's square root of AVE is greater than its correlation coefficients with other constructs, confirming discriminant validity among the constructs (Fornell & Larcker, 1981). Furthermore, the reliability of the constructs is evidenced by Cronbach's α coefficients shown in Table 2, all of which exceed 0.7, indicating strong reliability. The goodness-of-fit indices reflect an acceptable model fit (CMIN/DF = 2.797, $p = 0.001$; CFI = 0.948; GFI = 0.937; AGFI = 0.898; NFI = 0.923; TLI = 0.932; RMSEA = 0.064; RMR = 0.023), confirming the unidimensionality of the measurement model (Hair et al., 2010).

Table 3: Discriminant validity of the construct

	DCM	CI	RM	PER
DMC	0.756			
CI	-0.613	0.744		
RM	0.579	-0.713	0.724	
PER	0.598	-0.662	0.603	0.745

4.2. Hypotheses Testing

Direct influences

A structural equation model was used to test the direct, mediation, and moderation effects. The results in Table 4 show that the digital marketing capability has a significant influence on the performance of SMEs ($\beta=0.60$, C.R=6.690, $p=0.00$)(figure 2), and relationship marketing($\beta=0.57$, C.R=6.400, $p=0.00$)(figure 3); relationship marketing has a significant influence on the performance of SMEs ($\beta=0.51$, C.R=6.073, $p=0.00$)(figure 4). Hence, H1, H2 and H3 were accepted. This is a strong positive effect of digital marketing capability on SME performance. The Critical Ratio is essentially a t-value in SEM; a value of 1.96 indicates statistical significance at the 95% confidence level. The effect is statistically significant since 6.690 is much higher than 1.96 (Table 4). The p-value tells us the probability that the observed result occurred by chance; $p = 0.00$ indicates the result is highly statistically significant. Digital marketing capabilities significantly and strongly improve how well SMEs perform. The relationship marketing involves maintaining long-term customer relationships digitally, has a strong and significant positive impact on SME performance and $p = 0.00$ confirms this is not due to chance. This indicates that relationship marketing has a strong and statistically significant positive effect on SME performance. Both digital marketing capabilities and relationship marketing independently and significantly boost the performance of SMEs. Digital marketing has a slightly stronger impact ($\beta = 0.60$) than relationship marketing ($\beta = 0.51$).

Table 4: Direct effect of variables

	B(standardized)	C.R	P Value
DMC→PER	0.60	6.690	0.000
DCM→RM	0.57	6.400	0.000
RM→PER	0.51	6.073	0.000

Figure 2: DMC and Performance of SMEs

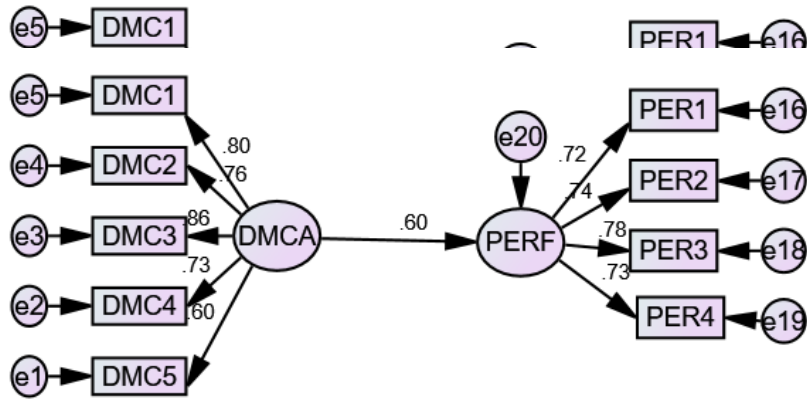


Figure 2: DMC and RM

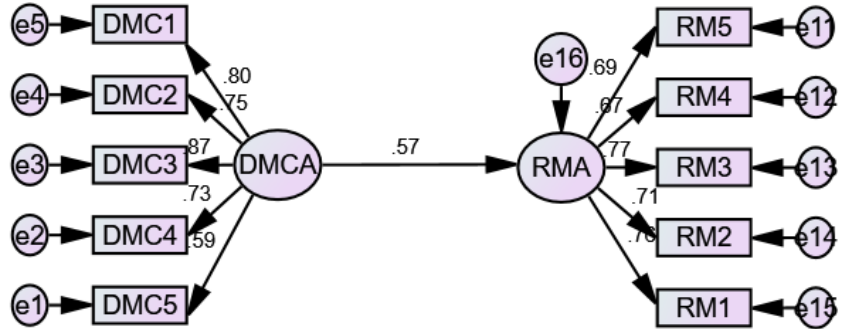


Figure 3: DMC and RM

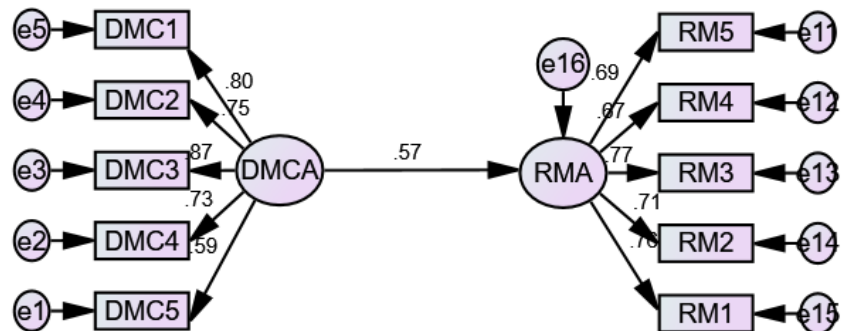
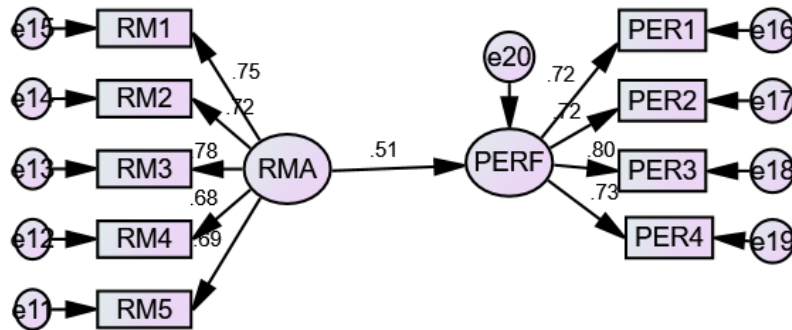


Figure 4: RM and performance of SMEs



Moderation analysis

The study investigated the moderating effect of competitive intensity on the relationship between relationship marketing and SME performance. The findings indicate that competitive intensity significantly moderates this relationship (unstandardised $\beta = -0.162$, C.R. = -1.988, $p = 0.049$). Hence, the H4 is accepted. The results of the moderation analysis are presented in Table 5.

Figure 5: Moderation effect of competitive intensity

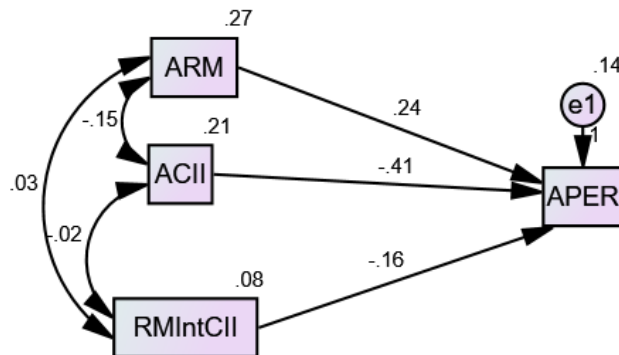
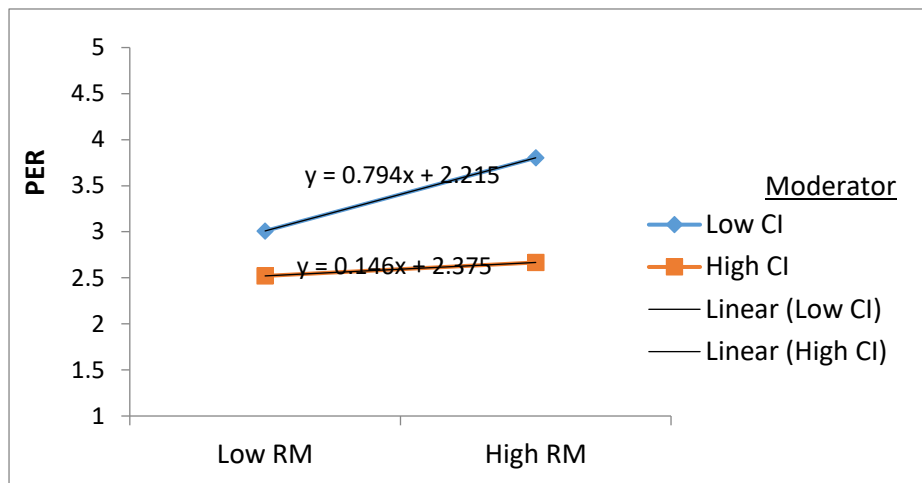


Table 5: Moderation effect of competitive intensity

Relationship	β	C.R	P-value
RM→PER	0.235	3.966	***
CI→PER	-0.406	-6.068	***
RM*CI-PER	-0.162	-1.988	.049

The moderation effect is explained by the slope of the diagram in Figure 6. The diagram illustrates that the line is much steeper for low competitive intensity; this indicates that at a low level of competitive intensity, the impact of relationship marketing on performance is significantly more substantial. Additionally, the diagram shows that the line is not steeper at a high level of competitive intensity, suggesting that the effect of relationship marketing on performance is weaker at a high level of competitive intensity.

Figure 6: Slope of the moderation effect of competitive intensity



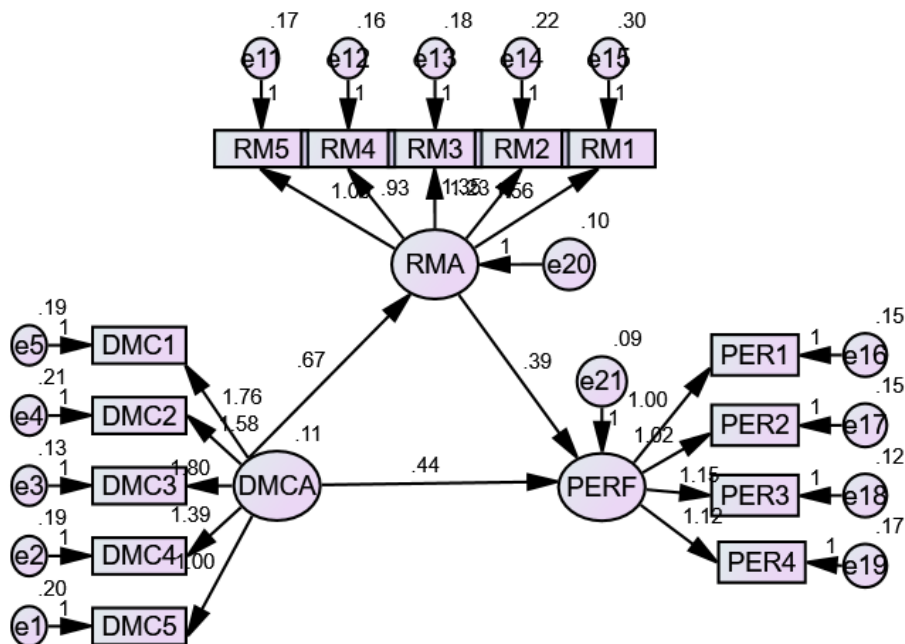
Mediation analysis

The effect of digital marketing on the relationship marketing of SMEs is significant, with an unstandardised regression weight of 0.67, $p = 0.00$, and a relationship marketing coefficient on performance of 0.39, $p = 0.000$ (see Table 6). The direct effect of digital marketing on performance is 0.443, $p = 0.000$. Using the bootstrapping method, the mediation effect was assessed by examining the indirect effects and their statistical significance. Bootstrapping was performed with 5,000 resamples at a 95% confidence interval to evaluate the indirect effects. The results of the mediation analysis are summarised in Table 6.

Table 6: The result of the mediation model

	B(unstandardized)	P value
DCM→RM	0.670	0.000
RM→PER	0.390	0.000
Total Effect	0.704	0.000
Direct Effect	0.443	0.000
Indirect effect	0.261	0.000

Figure 7: Mediation effect of relationship marketing



There are two types of mediation: partial and full mediation. Partial mediation is derived from the significance of direct effect and indirect effect; full mediation from a significant indirect effect and a non-significant direct effect (Cheung & Lau, 2008). The relationship marketing partially mediates the relationship between digital marketing and the performance of SMEs (direct effect = 0.443 ***, indirect effect = 0.261***); Table 6 shows this result. Hence, H5 is accepted. Since both the direct effect (0.443) and the indirect effect (0.261) are significant, relationship marketing acts as a partial mediator. Digital marketing improves SME performance directly. At the same time, it enhances relationship marketing via engaging customers online, which also improves performance. So, the impact of digital marketing on performance works both directly and indirectly. SMEs invest in digital marketing and use



digital tools to build strong customer relationships. These strong relationships encourage repeat business and word-of-mouth referrals, further improving the business's performance. Relationship marketing acts as a bridge that explains part of the positive impact of digital marketing on SME success. Digital marketing helps SMEs succeed in two ways: directly through better online tools and reach, and indirectly by improving how well they build and manage customer relationships.

Moderated Mediation

We tested the moderated mediation effect using the SPSS process (Model 14). For the mediation analysis, “there should be mediation and one or both of the indirect paths from the treatment to the outcome must be moderated” (Muller et al., 2005; Hayes, 2015). Table 7 shows that the direct effect between DMC and Performance is significant ($\beta = 0.4897$, $t = 9.4686$, $p < 0.001$). Table 8 shows that the indirect effect of relationship marketing on the relationship between digital marketing capability and SMEs' performance is significant ($\beta = 0.0790$, $t = 2.2316$, $p < 0.001$), indicating mediation. The moderation effect of competitive intensity in the relationship between relationship marketing and performance is significant ($\beta = -0.162$, $t = 1.888$, $p = 0.049$) (see Table 7). Both conditions are supported.

Table 7: Mediation and moderation effect

Direct relationship	Unstandardized coefficient	T value	P value
Direct Effect	0.4897	9.4686	0.0000
Indirect effect	0.0790	2.2316	0.000
RM*CI→PER	-0.162	-1.888	0.049

To examine whether the mediation effects differ based on the level of competitive intensity (low and high), the moderated mediation test proposed by Hayes (2013) was applied. Moderated mediation occurs when the indirect effects of digital marketing capability on performance through relationship marketing vary significantly between one standard deviation above (+1 SD) and below (-1 SD) the mean value of competitive intensity. The results of this analysis are presented in Table 8.

Table 8: Result of conditional indirect effect for lower and higher competitive intensity

Paths	Competitive intensity	β	Confidence interval Low/High	t-statistics
DCM→RM→ Per	Low	0.2364	0.1413/0.3334	4.8443
	High	0.0982	0.0118/0.1995	1.9601
Index of moderated mediation		-0.0862	-0.1444/-0.0723	-2.001

As shown in Table 8, the indirect effect of digital marketing capability ($\beta = 0.2364$ for low competitive intensity, $\beta = 0.0982$ for highly competitive intensity) on performance through relationship marketing is significant at both lower and higher levels of competitive intensity. The confidence intervals (which do not include zero) and t-values (above 1.96/1.64) confirm the significance of the indirect effects at both levels. Table 8 also reports the overall moderated mediation index for the relationship between digital marketing capability and performance as -0.0862, with confidence intervals ranging from LLCI = -0.1444 to ULCI = -0.0723. This indicates that the mediation effect (indirect effect) significantly diminishes as competitive intensity increases from low to high levels. Therefore, H6 is supported.

The moderated mediation analysis reveals that the indirect effect of digital marketing capability on SME performance through relationship marketing significantly decreases as competitive intensity increases from low to high. This indicates the presence of significant negative moderated mediation effects in the relationship between digital marketing capability and performance. These findings suggest that digital marketing capability significantly affects performance, and relationship marketing partially mediates the association between digital marketing and performance. The mediation effect of relationship marketing on the association between digital marketing and performance significantly reduces as competitive intensity increases from low to high levels.

5. DISCUSSION

This study aimed to propose a moderated mediated model to enhance SME performance via digital marketing practices and developed six hypotheses. The first hypothesis was about the direct effects of digital marketing capability on performance. The findings showed that digital marketing capability had a significant effect on the performance of SMEs. Digital marketing capabilities, including social media, data analytics, content marketing, and customer



relationship management tools, enable organisations to target customers more precisely and enhance engagement. This finding is consistent with those reported in the literature (Laila et al., 2024) and an empirical study (Deku et al., 2024). Digital marketing capability (DCM) significantly improves customer acquisition, retention, and profitability (Al Omoush et al., 2024). The businesses with advanced digital marketing capabilities experience higher market responsiveness and adaptability, translating into better performance outcomes (Al Koliby et al., 2024). These studies suggest that organisations investing in digital marketing tools and skills are more likely to gain competitive advantages and achieve long-term success in dynamic markets.

The second hypothesis examined the influence of digital marketing capability (DMC) on relationship marketing in SMEs. The findings confirmed that DMC significantly enhances relationship marketing, consistent with prior literature (Nguyen et al., 2021) and empirical evidence (Gelgile & Shukla, 2024). Through digital tools, DMC enables SMEs to build stronger, more personalised customer relationships. Studies have shown that digitally capable SMEs are better positioned to foster engagement, trust, and loyalty (Ahmed et al., 2022; Le et al., 2021). Digital platforms support the delivery of tailored content and interactive communication, strengthening emotional bonds and long-term customer retention. These results underscore the strategic value of DMC in shaping effective relationship marketing and driving sustainable SME growth.

The third hypothesis explored the impact of relationship marketing on SME performance. The findings revealed a significant positive effect, aligning with foundational research (Morgan & Hunt, 1994) and empirical studies (Hasaballah et al., 2019). Relationship marketing enhances SME performance by cultivating long-term customer loyalty, trust, and engagement as key drivers of growth and sustainability. Recent studies highlight that personalised communication, value co-creation, and continuous customer engagement lead to improved financial and non-financial outcomes. Rasool et al. (2020) found that effective relationship marketing reduces customer acquisition costs and boosts retention, thereby increasing profitability. Similarly, Zhang et al. (2019) emphasised that SMEs focused on relationship marketing benefit from stronger brand advocacy, customer referrals, and resilience in



competitive markets. These findings affirm that relationship marketing is not merely a customer satisfaction tool but a strategic lever for SMEs' long-term performance and competitive advantage.

The fourth hypothesis examined the moderating effect of competitive intensity on the relationship between relationship marketing and SME performance. The results indicated that competitive intensity negatively moderates this relationship, with the impact of relationship marketing being more substantial in low-competition environments. This aligns with prior theoretical insights (Teece et al., 2005) and empirical findings (Keskin et al., 2021). Competitive intensity can influence the effectiveness of relationship marketing. While firms in highly competitive markets may rely more heavily on relationship marketing to differentiate, retain customers, and sustain performance (Gelgile & Shukla, 2024), its relative importance diminishes in less competitive contexts where customer switching is lower. Anning-Dorson and Nyamekye (2020) further noted that intense competition heightens the need for customer loyalty to mitigate the effects of price pressure and market saturation. These findings underscore competitive intensity as a critical contextual factor shaping relationship marketing performance outcomes, highlighting the importance of aligning marketing strategies with market dynamics.

Another key hypothesis is that relationship marketing mediates the link between digital marketing capability and SME performance. The findings confirm this mediation effect, aligning with prior theoretical work (Teece et al., 1997) and empirical studies (Gelgile & Shukla, 2024). Digital marketing capabilities enhance SMEs' ability to build and maintain customer relationships, improving performance outcomes. Gelgile and Shukla (2024) found that relationship marketing fully mediates the impact of digital marketing on customer retention and satisfaction, highlighting that digital tools require strategic relationship-building to be effective. Similarly, Alalwan et al. (2024) showed that SMEs leveraging digital marketing to cultivate trust and loyalty achieve superior financial and market performance. These findings emphasise relationship marketing as the critical conduit through which digital capabilities translate into measurable business success.



The final hypothesis explored whether competitive intensity moderates the mediating role of relationship marketing in the link between digital marketing capabilities and SME performance. Results indicate that the strength of this mediation varies significantly between low and high levels of competitive intensity. This aligns with recent literature emphasising that competitive intensity, which is defined by the degree of industry rivalry, shapes how effectively relationship marketing channels digital capabilities into performance outcomes. Gelgile and Shukla (2024) found that in highly competitive markets, the mediating role of relationship marketing intensifies, as SMEs must leverage digital tools to deepen customer engagement and loyalty to remain competitive. In contrast, in less competitive environments, this mediating effect weakens due to reduced pressure for customer retention. Similarly, Anning-Dorson and Nyamekye (2020) observed that competitive intensity heightens the necessity of relationship marketing to ensure digital efforts translate into customer trust and improved performance. These findings suggest that competitive intensity not only moderates the direct relationship between digital marketing and SME performance but also significantly influences the mediation effect through relationship marketing. Consequently, SMEs operating in highly competitive markets must invest more strategically in digital marketing capabilities to sustain performance and gain a competitive edge.

6. IMPLICATIONS

This study highlights several potential contributions. It introduces a comprehensive moderated mediation framework to examine the impact of digital marketing capability on SME performance. Such moderated mediation models have not yet been explored in the SME marketing literature, offering new insights into enhancing SME performance through digital marketing practices. I articulated that the effect of digital marketing capability on performance is mediated by relationship marketing, and this mediation effect is moderated by competitive intensity. The findings support the mediation effects, while the moderated mediation effects are supported. This study was conducted in Northern Province, Sri Lanka. The Sri Lankan economy depends on the SME sector; more than 90% of industries are in the SME sector, providing employment opportunities and contributing to the nation's GDP. Digital marketing is a significant tool for the SME sector to penetrate the competitive market



and keep relationships via digital media. I have utilised the theory of resource-based theory (Barney, 1991) to link digital marketing with the performance of SMEs, which theoretically argues the above link. Dynamic Capabilities Theory (Teece et al., 1997) highlighted a firm's ability to integrate, build, and reconfigure its dynamic capability resources to adapt to changing market conditions. The resource-based view theory explains that digital marketing capabilities (DMC) and relationship marketing are considered dynamic capability resources that SMEs use to build strong, lasting customer relationships, leading to better performance. A dynamic need for digitalisation in the SME sector is a relationship behaviour towards the performance of SMEs. Thus, this study contributes to understanding dynamic capability theory in the SME marketing context.

In addition, this study offers practical implications for SME marketing to enhance the relationship and performance of SMEs by providing digital services. The findings suggest that digital marketing plays a crucial role in building relationships and improving performance in the SME sector. Digital Marketing is a primary concern for SMEs in general; it is of greater importance in highly competitive environments than in low-competitive environments. Therefore, it is recommended that the SME sector make a special effort to communicate more effectively in highly competitive environments.

7. LIMITATIONS AND FUTURE RESEARCH SUGGESTIONS

This research focused on the SME sector in the Northern Province of Sri Lanka, a region heavily affected by war, where SMEs face significant challenges. As a result, the study's findings are context-specific and may not be directly generalisable to other regions or countries. Similar studies should be conducted in other regions and countries to enhance the applicability of these findings. The primary limitation of this research lies in its regional focus, which may not capture the dynamics of SMEs in different contexts or industries. Additionally, the study may encounter challenges in addressing the dynamic nature of competitive intensity, which can shift with market conditions and technological advancements. If a cross-sectional design were used, it would limit the ability to establish causal relationships. Moreover, the complexity of relationship marketing and the rapidly evolving nature of digital marketing tools may constrain the depth of the analysis. External factors, such as government policies,



economic fluctuations, or industry-specific challenges that were not accounted for, could also influence the relationships observed in this study, potentially affecting its overall validity.

Future research could explore the link between digital marketing capability and SME performance using longitudinal studies to establish causal relationships and understand how these dynamics evolve. Expanding the study across diverse industries and geographic regions would enhance generalizability and provide insights into contextual differences. Furthermore, future studies could delve deeper into the nuances of relationship marketing by examining specific elements, such as trust, loyalty, and customer engagement, to uncover their contributions to SME performance. Investigating the role of emerging digital technologies, such as artificial intelligence and automation, could provide a broader understanding of digital marketing capabilities. Moreover, examining how external factors, such as government policies, economic conditions, or industry-specific trends, interact with competitive intensity and relationship marketing may reveal additional moderating or mediating effects that influence performance outcomes.

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