


Market Orientation, Digital Marketing Capabilities, and Product Innovation on Competitive Advantage through Customer Engagement: Evidence from the Creative Economy Sector in Indonesia

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Article Info	ABSTRACT	
<p>Article history:</p> <p>Received May, 2025 Revised May, 2025 Accepted May, 2025</p>	<p>This study examines the influence of market orientation, digital marketing capabilities, and product innovation on competitive advantage through customer engagement in the Indonesian creative economy sector. A quantitative approach was employed, with data collected from 250 respondents using a five-point Likert scale. Structural Equation Modeling–Partial Least Squares (SEM-PLS 3) was used for data analysis. The results demonstrate that market orientation, digital marketing capabilities, and product innovation significantly enhance customer engagement, which in turn strongly contributes to competitive advantage. Customer engagement also mediates the relationships between these strategic factors and competitive advantage, emphasizing its role as a critical pathway to sustainable competitiveness. The findings highlight the importance of aligning market-oriented strategies, leveraging digital platforms, and fostering continuous innovation to build stronger customer relationships and long-term market advantage. The study contributes to both academic understanding and managerial practices in strengthening the creative economy sector in Indonesia.</p>	
<p>Keywords:</p> <p>Competitive Advantage; Customer Engagement; Digital Marketing Capabilities; Market Orientation; Product Innovation</p>		
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1. INTRODUCTION

The creative economy has become one of the fastest-growing sectors in Indonesia, contributing to national income, job creation, and cultural development. Covering industries such as fashion, culinary arts, crafts, digital media, and performing arts, it plays a vital role in shaping Indonesia's global competitiveness. However, intense market competition, rapid technological

change, and dynamic consumer behavior present major challenges. To address them, businesses must strengthen market orientation, digital marketing, and product innovation while fostering customer engagement. Digitalization expands market reach and efficiency through e-commerce, social media, and digital platforms [1]. Market and entrepreneurial orientation enhance dynamic capabilities and competitive advantage by enabling firms to adapt to

market shifts [2]. Innovation is crucial for creating products that meet evolving consumer needs, supported by human capital and business incubation focused on customers and creativity [2], [3] Government support is also essential, particularly in improving infrastructure, capital access, and targeted policies for leading subsectors [4]. Collaboration between government, private sector, and community is therefore key to realizing the creative economy's potential as a driver of sustainable growth [1].

Market orientation is widely recognized as a key driver of business performance because it emphasizes responsiveness to consumer needs, competitor strategies, and environmental changes, making it essential for creative economy businesses to adapt to shifting preferences and cultural trends. At the same time, the rapid growth of digital technology has positioned digital marketing capabilities as a strategic necessity, enabling firms to reach wider audiences, enhance interaction, deliver personalization, and create greater customer value [5], [6]. Product innovation further serves as a cornerstone of sustainable competitiveness, particularly in industries where creativity and differentiation are highly valued, as it ensures that businesses continuously develop unique products aligned with evolving consumer demands [5], [7], [8]. Market orientation fosters innovation and customer satisfaction by gathering, analyzing, and responding to market information effectively [7], [9], while also keeping creative economy enterprises attuned to cultural shifts to sustain relevance [8]. Digital platforms play a vital role in supporting this by facilitating real-time communication and feedback, helping businesses remain agile in the face of rapid change [5]. Collectively, market orientation, digital marketing capabilities, and product innovation form an integrated strategy that drives growth, strengthens competitiveness, and ensures long-term sustainability in the creative economy.

In the digital era, achieving competitive advantage in Indonesia's creative economy requires more than internal

capabilities; it demands strong customer engagement, which encompasses emotional, cognitive, and behavioral dimensions and directly strengthens a company's position through loyalty, advocacy, and repeat purchases. Market orientation significantly influences customer engagement by aligning strategies with consumer needs and preferences, fostering innovation performance as seen in SMEs in Bali, where customer engagement mediates the link between market orientation and innovation performance [10], and by enhancing innovation capabilities that reinforce competitive advantage [11]. Digital marketing capabilities, particularly through social media, further drive engagement and loyalty, as consistent interaction and relevant content boost customer commitment in the creative industry [12], while digital loyalty programs, such as those by Lazada, improve satisfaction and provide an edge in the digital marketplace [13]. Product innovation also plays a vital role, with the development of new and improved offerings enhancing customer engagement and meeting evolving expectations [14], while the integration of customer relationship management (CRM) with innovation capabilities ensures a customer-oriented approach that strengthens sustainable competitive advantage [11].

Previous studies have shown that market orientation, digital marketing, and product innovation positively influence business performance across sectors, yet limited empirical research has examined these dynamics within Indonesia's creative economy, particularly regarding the mediating role of customer engagement. Given the sector's reliance on creativity, cultural values, and consumer experience, exploring these relationships offers both challenges and opportunities for enhancing performance. Market orientation significantly impacts competitive advantage by fostering dynamic capabilities and innovation, enabling firms to adapt and strengthen their market position [2], [8], while customer engagement mediates the link between market orientation and innovation performance, amplifying its benefits [10].

Product innovation further connects creativity, market orientation, and entrepreneurial orientation to improved marketing outcomes, driving differentiation and customer satisfaction in the creative economy [15], and also acts as a mediator between market orientation and competitive advantage [16]. Thus, customer engagement emerges as a crucial mediator that deepens relationships, enhances innovation outcomes, and ultimately strengthens competitive advantage [10].

This study aims to fill this gap by examining the impact of market orientation, digital marketing capabilities, and product innovation on competitive advantage through customer engagement in the Indonesian creative economy sector. By employing a quantitative approach with 250 respondents and analyzing the data using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), this study provides new insights into the strategic pathways that enhance competitiveness. The findings are expected to contribute to both theoretical development and practical strategies for policymakers, entrepreneurs, and stakeholders in strengthening Indonesia's creative economy in the era of digital transformation.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Market Orientation

Market orientation is a strategic approach that emphasizes understanding and responding to customer needs, competitor strategies, and market dynamics, making it particularly crucial in the creative economy where consumer preferences are dynamic and culturally driven. Firms with strong market orientation gather market intelligence, disseminate information across departments, and respond effectively to changing demands, thereby enhancing customer satisfaction and fostering long-term performance. Its components include customer orientation, which entails

understanding both declared and undeclared needs to align organizational efforts [17], [18], competitor orientation, which involves collecting intelligence to anticipate and respond to rival strategies for maintaining competitiveness [19], and interfunctional coordination, which ensures effective dissemination of intelligence across departments to achieve shared market-oriented goals [17]. The impacts of this approach are significant: market orientation enhances market-sensing capability, allowing firms to adapt in unpredictable environments [19], supports superior value creation that drives customer satisfaction and loyalty [20], and contributes to improved firm performance, with studies showing positive links to growth and market expansion [20].

2.2. Digital Marketing Capabilities

Digital marketing capabilities (DMCs) are vital for creative economy businesses as they enable wider audience reach, promotion of cultural products, and personalized engagement through the integration of digital platforms, technologies, and analytics, thereby enhancing marketing performance, innovation, and competitive advantage. Integrating digital business management into marketing strategies optimizes outcomes by aligning initiatives with business objectives and leveraging advanced tools like CRM systems and AI [21]. DMCs improve performance by streamlining processes, integrating value chains, and boosting efficiency to enhance financial results [22], while also providing a competitive edge by adapting effectively to market changes [21], [23], and fostering innovation and engagement through personalized, interactive experiences [24]. They also complement

traditional marketing, contributing to profitability beyond classic approaches, with effects influenced by organizational and environmental factors, highlighting the importance of balancing both strategies [23]. However, gaps remain in understanding their full impact on customer aspects and variations across industries and countries, underscoring the need for further research [22], while strategic alignment with business strategies is critical for consistency, innovation, and effectiveness [21].

2.3. *Product Innovation*

Product innovation is a multifaceted process that significantly influences firm competitiveness, particularly in industries where creativity and uniqueness are paramount, as it not only introduces new or improved products but also enhances customer experiences by integrating cultural and design elements, which is crucial in the creative economy where value extends beyond functionality to aesthetic and experiential dimensions. Serving as a primary driver of organic growth and market differentiation, product innovation engages all organizational levels from senior management to front-line employees [25], and encompasses the full lifecycle from conceptualization to commercialization, requiring strategic alignment with market trends and customer expectations to ensure exceptional value and reliability [26]. Its success depends on organizational engagement, often led by small, empowered teams that ensure agility and alignment with broader goals [25], while being deeply rooted in knowledge creation and creativity, involving both radical and incremental innovations that shape market dynamics and competitiveness [27]. When

effectively implemented, product innovation strengthens market presence, improves customer satisfaction, and drives sustainable growth, which is especially critical in dynamic markets where adaptability and creativity determine success [28].

2.4. *Customer Engagement*

Customer engagement in the creative economy is a multifaceted concept encompassing emotional, cognitive, and behavioral connections between consumers and businesses, which is crucial in translating organizational capabilities into competitive advantages in industries where cultural meaning and personal expression are central. Engaged customers strengthen a company's market position by fostering loyalty, advocacy, and repeat purchases, making engagement a pivotal mediator in enhancing competitiveness, particularly in interactive and experience-driven sectors. Its dimensions—cognitive, emotional, and behavioral—form the foundation of relationships between customers and firms, products, or brands, and are essential for shaping effective marketing strategies [29]. Key antecedents such as brand attitudes, interactivity, intimacy, involvement, and perceived value drive engagement, which in turn mediates these factors into competitive advantage by deepening loyalty and commitment [30], [31]. Moreover, engaged customers help firms counter commoditization by fostering unique offerings, generating new revenue streams, and contributing to value creation through feedback, idea generation, and recommendations [32]. Beyond this, in interconnected markets, customer engagement extends to co-creation and innovation, where

consumers collaborate with firms and other stakeholders to enhance service systems and contribute to shared goals [33].

2.5. *Competitive Advantage*

Achieving competitive advantage in the creative economy requires firms to adopt differentiation strategies that highlight cultural uniqueness, creativity, and strong customer relationships, enabling them to deliver distinctive products and services that foster loyalty and long-term competitiveness in dynamic markets. By integrating market orientation, digital marketing capabilities, and product innovation, firms can effectively engage customers and create unique value propositions. Differentiation is achieved through innovative features, advanced technologies, and a well-designed marketing mix [34], [35], with real-world cases showing its impact on loyalty and competitiveness [34]. Innovation capability is crucial for adapting to evolving preferences, while technologies like artificial intelligence and the Internet of Things enhance products and customer experiences [35], [36]. In sectors such as live streaming, innovation strengthens loyalty and competitive positioning [36]. Customer-centric approaches that focus on desired outcomes rather than product features encourage creative value delivery [37], acknowledging consumer heterogeneity and marginal utility helps tailor strategies for sustainable advantage [38].

2.6. *Hypothesis Development*

The development of hypotheses in this study is based on theoretical perspectives and findings from previous research that connect market orientation, digital marketing capabilities, and product

innovation to customer engagement and competitive advantage in the creative economy sector.

a. *Market Orientation and Customer Engagement*

A strong market orientation encourages businesses to continuously analyze customer needs, competitor activities, and environmental changes, leading to improved customer relationships. Firms that adopt a market-driven culture are more likely to design strategies that resonate with consumer expectations, thereby strengthening customer engagement. Previous studies have shown that market orientation positively influences customer engagement by aligning business offerings with customer value creation [39]–[41].

H1: Market orientation has a positive and significant effect on customer engagement.

b. *Digital Marketing Capabilities and Customer Engagement*

Digital marketing capabilities enable firms to communicate effectively, provide personalized experiences, and create interactive platforms for customers. These capabilities enhance consumer involvement by facilitating two-way communication and building long-term connections through digital channels. Prior studies suggest that firms with superior digital marketing capabilities can significantly improve customer engagement levels [42]–[44].

H2: Digital marketing capabilities have a positive and significant effect on customer engagement.

c. Product Innovation and Customer Engagement

Product innovation allows firms to offer new and unique products that capture customer interest and enhance their experiences. Innovative products not only satisfy functional needs but also engage customers emotionally and cognitively, particularly in creative industries where uniqueness is highly valued. Empirical studies confirm that innovation enhances consumer involvement and strengthens engagement [45]–[47].

H3: Product innovation has a positive and significant effect on customer engagement.

d. Market Orientation and Competitive Advantage

Market orientation helps firms anticipate market changes, align with consumer expectations, and respond faster than competitors. This responsiveness creates differentiation and enhances competitive positioning. Research indicates that market-oriented firms are more likely to sustain long-term competitive advantage [48]–[50].

H4: Market orientation has a positive and significant effect on competitive advantage.

e. Digital Marketing Capabilities and Competitive Advantage

Digital marketing capabilities support competitive advantage by enabling firms to leverage technology for better targeting, wider reach, and stronger customer relationships. By optimizing digital platforms, firms reduce costs, improve market visibility, and increase brand strength. Prior studies highlight that digital marketing capabilities are strategic assets

for achieving competitive advantage [51]–[53].

H5: Digital marketing capabilities have a positive and significant effect on competitive advantage.

f. Product Innovation and Competitive Advantage

Innovation provides firms with differentiation strategies that are difficult for competitors to imitate. By offering creative, unique, and value-added products, businesses can establish a stronger market presence. Past studies suggest that innovation contributes significantly to competitive advantage by fostering originality and customer loyalty [54], [55].

H6: Product innovation has a positive and significant effect on competitive advantage.

g. Customer Engagement and Competitive Advantage

Customer engagement builds loyalty, advocacy, and repeat purchases, which are critical elements of competitive advantage. Engaged customers contribute to sustained revenue streams and strengthen brand equity, making customer engagement a vital determinant of long-term competitiveness [42], [56].

H7: Customer engagement has a positive and significant effect on competitive advantage.

h. The Mediating Role of Customer Engagement

Customer engagement acts as a bridge between organizational strategies and business outcomes. Market orientation, digital marketing capabilities, and product innovation first enhance customer involvement and commitment, which then

translate into competitive advantage. Previous research suggests that customer engagement mediates the relationship between strategic drivers and firm performance [57]–[59].

H8: Customer engagement mediates the relationship between market orientation and competitive advantage.

H9: Customer engagement mediates the relationship between digital marketing capabilities and competitive advantage.

H10: Customer engagement mediates the relationship between product innovation and competitive advantage.

3. RESEARCH METHODS

3.1. Research Design

This study adopts a quantitative research design to empirically test the relationship between market orientation, digital marketing capabilities, and product innovation on competitive advantage through customer engagement in the Indonesian creative economy sector. The research employs a survey method to gather primary data, as it enables the collection of standardized responses from a large number of respondents, ensuring reliability and generalizability. Structural Equation Modeling–Partial Least Squares (SEM-PLS 3) was utilized to analyze the data, given its suitability for testing complex models with multiple constructs and mediation effects.

3.2. Population and Sample

The population of this study consists of entrepreneurs and business owners engaged in various subsectors of the creative economy in Indonesia, such as fashion, culinary, craft, digital media, and

performing arts. The sample size of 250 respondents was determined based on the minimum requirement for SEM-PLS analysis, which recommends at least ten times the maximum number of structural paths directed at any construct in the research model. The sampling technique employed was purposive sampling, focusing on business actors who had been operating for at least two years and were actively involved in digital marketing activities.

3.3. Data Collection

Primary data were collected using a structured questionnaire distributed both online and offline to creative economy entrepreneurs across several regions in Indonesia. The questionnaire consisted of closed-ended questions measured on a five-point Likert scale, ranging from 1 (“strongly disagree”) to 5 (“strongly agree”). This scale was chosen to capture the intensity of respondents’ agreement with statements related to the research constructs. A total of 280 questionnaires were distributed, with 250 valid responses obtained after data cleaning, resulting in a response rate of approximately 89.3%.

3.4. Research Instrument and Measurement

The research instrument was developed using validated scales from previous studies and adapted to the Indonesian creative economy context, where market orientation was measured through customer orientation, competitor orientation, and interfunctional coordination [60]; digital marketing capabilities were assessed using indicators of digital platform usage, online customer interaction, and analytical capability (Trainor et al., 2014); product innovation was measured through new product

development, product uniqueness, and product improvement [61]; customer engagement was evaluated using cognitive, emotional, and behavioral indicators [62]; and competitive advantage was assessed through differentiation, customer loyalty, and market performance [63]. Each construct was represented by multiple items, with content validity ensured through expert judgment and pre-testing on a small group of respondents.

3.5. *Data Analysis Technique*

The collected data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS 3), which is suitable for predictive research models with mediation effects and latent constructs. The analysis consisted of two stages: first, the measurement model (outer model) evaluation, which assessed construct validity and reliability through indicator reliability, convergent validity (factor loadings, Average Variance Extracted/AVE), discriminant validity (Fornell-Larcker criterion, HTMT), and internal consistency reliability (Cronbach's alpha, composite reliability); and second, the structural model (inner model) evaluation, which tested hypothesized relationships between constructs using path coefficients, t-statistics, and p-values obtained from bootstrapping with 5,000 resamples, while also examining the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2) to evaluate the model's explanatory power.

4. RESULTS AND DISCUSSION

4.1. *Descriptive Analysis*

The study collected valid responses from 250 entrepreneurs and business actors in Indonesia's creative economy sector,

representing diverse subsectors including culinary (30%), fashion (25%), crafts (20%), digital media (15%), and performing arts (10%), which reflects the strong contributions of culinary and fashion to the national creative economy. In terms of business age, 42% of respondents had operated for 2–5 years, 38% for 6–10 years, and 20% for more than 10 years, indicating that most businesses are relatively young but show sustained growth and resilience. Regarding respondent demographics, 56% were aged 25–40 years, 28% above 40 years, and 16% below 25 years, highlighting the dominance of young entrepreneurs who are generally adaptive to digital technologies and innovation. Gender distribution showed that 60% of respondents were male and 40% female, reflecting relatively balanced participation in the creative economy sector.

Descriptive statistics were used to summarize respondents' perceptions of the research constructs measured on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Market Orientation had a mean score of 4.02 (SD = 0.51), showing that businesses actively monitor customer needs, observe competitor strategies, and coordinate internally to respond to market changes. Digital Marketing Capabilities scored 4.15 (SD = 0.49), suggesting effective use of social media, e-commerce, and online analytics to connect with customers and promote products. Product Innovation had a mean of 4.08 (SD = 0.52), reflecting strong agreement that creative businesses continuously develop unique offerings, enhance features, and emphasize creativity as a source of value. Customer Engagement scored 4.10 (SD = 0.50), indicating that

customers are highly engaged through repeat purchases, emotional attachment, and advocacy. Lastly, Competitive Advantage had a mean of 4.05 (SD = 0.54), suggesting that respondents perceive their businesses as capable of differentiating products, building loyalty, and maintaining a favorable market position.

4.2. Measurement Model Evaluation (Outer Model)

The outer model was evaluated to ensure the reliability and validity of the constructs used in this study. The evaluation focused on indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

Table 1. Measurement Model Evaluation Results

Construct	Indicator	Loading	Cronbach's α	CR	AVE
Market Orientation (MO)	MO1	0.812	0.841	0.892	0.675
	MO2	0.846			
	MO3	0.821			
Digital Marketing Capabilities (DMC)	DMC1	0.721	0.874	0.917	0.734
	DMC2	0.892			
	DMC3	0.866			
Product Innovation (PI)	PI1	0.799	0.791	0.864	0.615
	PI2	0.822			
	PI3	0.754			
Customer Engagement (CE)	CE1	0.828	0.853	0.901	0.696
	CE2	0.841			
	CE3	0.846			
Competitive Advantage (CA)	CA1	0.787	0.802	0.874	0.634
	CA2	0.821			
	CA3	0.801			

Table 1 presents the results of the measurement model evaluation, which indicate that all constructs meet the reliability and validity criteria in SEM-PLS. For Market Orientation (MO), the factor loadings of MO1–MO3 range from 0.812 to 0.846, with Cronbach's α = 0.841, Composite Reliability (CR) = 0.892, and Average Variance Extracted (AVE) = 0.675, confirming good internal consistency and convergent validity. Digital Marketing Capabilities (DMC) show strong performance, with loadings between 0.721 and 0.892, Cronbach's α = 0.874, CR = 0.917, and AVE = 0.734, indicating high reliability and strong convergent validity. Similarly, Product Innovation (PI) has loadings between 0.754 and 0.822, Cronbach's α = 0.791, CR =

0.864, and AVE = 0.615, which are acceptable values demonstrating adequate reliability and validity. For Customer Engagement (CE), the loadings (0.828–0.846), Cronbach's α = 0.853, CR = 0.901, and AVE = 0.696 suggest strong measurement quality, while Competitive Advantage (CA) also demonstrates satisfactory results with loadings of 0.787–0.821, Cronbach's α = 0.802, CR = 0.874, and AVE = 0.634.

The Fornell-Larcker criterion was applied to assess discriminant validity by comparing the square root of the Average Variance Extracted (AVE) of each construct with the correlations among constructs. Discriminant validity is achieved when the square root of AVE is greater than the inter-construct correlations.

Table 2. Fornell-Larcker Criterion

Construct	MO	DMC	PI	CE	CA
MO	0.822				
DMC	0.561	0.857			
PI	0.524	0.576	0.784		
CE	0.497	0.542	0.563	0.834	
CA	0.511	0.538	0.549	0.612	0.796

Table 2 presents the Fornell-Larcker criterion results, which are used to assess the discriminant validity of the constructs. The square roots of AVE, shown on the diagonal, are higher than the inter-construct correlations, confirming that each construct is distinct from the others. For Market Orientation (MO), the AVE square root is 0.822, which is greater than its correlations with DMC (0.561), PI (0.524), CE (0.497), and CA (0.511), indicating good discriminant validity. Digital Marketing Capabilities (DMC) has a square root of 0.857, which is higher than its correlations with MO (0.561), PI (0.576), CE (0.542), and CA (0.538). Similarly, Product Innovation (PI) shows a square root of 0.784, exceeding its correlations with MO (0.524), DMC (0.576), CE (0.563), and CA (0.549). Customer Engagement

(CE) has a square root of 0.834, which is greater than its correlations with MO (0.497), DMC (0.542), PI (0.563), and CA (0.612). Finally, Competitive Advantage (CA) reports a square root of 0.796, surpassing its correlations with MO (0.511), DMC (0.538), PI (0.549), and CE (0.612). These results confirm that the constructs satisfy the Fornell-Larcker criterion, establishing discriminant validity and ensuring that each construct measures a unique aspect of the research model.

4.2.1. Heterotrait-Monotrait Ratio (HTMT)

The HTMT ratio was further used to confirm discriminant validity. Values below 0.90 (conservative threshold 0.85) indicate satisfactory discriminant validity.

Table 3. HTMT Ratio

Construct Pair	HTMT Value
MO – DMC	0.653
MO – PI	0.611
MO – CE	0.587
MO – CA	0.624
DMC – PI	0.668
DMC – CE	0.694
DMC – CA	0.707
PI – CE	0.721
PI – CA	0.735
CE – CA	0.768

Table 3 presents the HTMT (Heterotrait-Monotrait) ratio values, which are used to further assess discriminant validity between constructs. All HTMT values fall well below the conservative threshold of

0.85 (and even the more liberal threshold of 0.90), indicating that discriminant validity is established across the model. Specifically, the HTMT values between Market Orientation (MO) and other constructs

range from 0.587 with CE to 0.653 with DMC, showing moderate but acceptable correlations. Digital Marketing Capabilities (DMC) demonstrates values of 0.668 with PI, 0.694 with CE, and 0.707 with CA, reflecting strong yet distinct relationships. Product Innovation (PI) records HTMT ratios of 0.721 with CE and 0.735 with CA, suggesting that while PI is closely related to both customer engagement and competitive advantage, it remains conceptually distinct. Finally, the highest HTMT value is observed between Customer Engagement (CE) and Competitive Advantage (CA) at 0.768, still well within

acceptable limits, highlighting the strong but non-redundant connection between these constructs.

4.3. Structural Model Evaluation (Inner Model)

The inner model evaluation was performed to test the relationships among constructs and to assess the explanatory power of the model. The evaluation includes path coefficients, coefficient of determination (R^2), effect sizes (f^2), and predictive relevance (Q^2).

4.3.1. Path Coefficients

The significance of the hypothesized paths was tested using bootstrapping (5,000 subsamples). Table 4 presents the results.

Table 4. Path Coefficients and Significance

	Hypothesized Relationship	Path Coefficient (O)	t-Statistic	P-Value	Decision
H1	Market Orientation (MO) → Customer Engagement (CE)	0.276	3.833	0.000	Supported
H2	Digital Marketing Capabilities (DMC) → Customer Engagement (CE)	0.298	4.382	0.000	Supported
H3	Product Innovation (PI) → Customer Engagement (CE)	0.331	4.534	0.000	Supported
H4	Customer Engagement (CE) → Competitive Advantage (CA)	0.412	5.971	0.000	Supported
H5	Market Orientation (MO) → Competitive Advantage (CA)	0.153	2.284	0.023	Supported
H6	Digital Marketing Capabilities (DMC) → Competitive Advantage (CA)	0.142	2.254	0.024	Supported
H7	Product Innovation (PI) → Competitive Advantage (CA)	0.127	2.082	0.037	Supported

Table 4 presents the results of hypothesis testing through path coefficients, t-statistics, and p-values, which collectively confirm the significance of all hypothesized relationships in the model. The results show that Market Orientation (MO), Digital Marketing Capabilities (DMC), and Product Innovation (PI)

each have a positive and significant effect on Customer Engagement (CE), with path coefficients of 0.276, 0.298, and 0.331 respectively, and all supported by high t-statistics (>3.8) and p-values of 0.000. This indicates that strategic orientations and capabilities in marketing and innovation play a crucial role in strengthening

customer engagement in the creative economy sector. Furthermore, Customer Engagement (CE) has the strongest direct effect on Competitive Advantage (CA) with a path coefficient of 0.412, t-statistic of 5.971, and p-value of 0.000, underscoring its central role as both a mediator and driver of competitiveness. Direct effects of MO, DMC, and PI on CA are also significant, though with smaller path coefficients (0.153, 0.142, and 0.127 respectively) and moderate t-statistics, suggesting that while strategic

orientations and innovation contribute directly to competitive advantage, their effects are amplified when mediated through customer engagement.

4.3.2. Indirect Effects (Mediation via Customer Engagement)

The mediating role of Customer Engagement (CE) between Market Orientation (MO), Digital Marketing Capabilities (DMC), Product Innovation (PI), and Competitive Advantage (CA) was tested using the bootstrapping method (5,000 resamples).

Table 5. Indirect Effects via Customer Engagement

	Indirect Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t-Statistic	p-Value	Decision
H8	MO → CE → CA	0.114	0.113	0.041	2.780	0.006	Supported
H9	DMC → CE → CA	0.123	0.122	0.039	3.154	0.002	Supported
H10	PI → CE → CA	0.136	0.135	0.042	3.238	0.001	Supported

The mediation test results in Table 5 confirm that Customer Engagement (CE) significantly mediates the effects of Market Orientation (MO), Digital Marketing Capabilities (DMC), and Product Innovation (PI) on Competitive Advantage (CA). MO → CE → CA ($\beta = 0.114$, $t = 2.780$, $p = 0.006$) shows that strong market orientation enhances competitiveness both directly and through customer engagement. DMC → CE → CA ($\beta = 0.123$, $t = 3.154$, $p = 0.002$) highlights the role of digital marketing in fostering customer interaction that strengthens competitive edge. The strongest effect, PI → CE → CA ($\beta = 0.136$, $t = 3.238$, $p = 0.001$), indicates that innovation

not only differentiates products but also drives customer loyalty, reinforcing competitiveness through engagement.

4.3.3. Coefficient of Determination (R^2)

The coefficient of determination (R^2) indicates that the model has substantial explanatory power, with market orientation, digital marketing capabilities, and product innovation collectively explaining 61.2% of the variance in customer engagement (CE), while together with CE they account for 54.7% of the variance in competitive advantage (CA), which is considered moderate. This suggests that the proposed model effectively captures the

key drivers of customer engagement and competitive advantage in the creative economy.

4.3.4. Effect Size (f^2)
Effect size (f^2) was used to assess the contribution of each exogenous variable.

Table 6. f^2 Effect Sizes

Relationship	f^2	Effect Size Interpretation
MO → CE	0.082	Small
DMC → CE	0.097	Small
PI → CE	0.112	Medium
CE → CA	0.184	Medium
MO → CA	0.046	Small
DMC → CA	0.043	Small
PI → CA	0.039	Small

Table 6 presents the f^2 effect sizes, which indicate the relative impact of each exogenous construct on the endogenous constructs within the model. The results show that Product Innovation (PI) → Customer Engagement (CE) has the largest effect among the antecedents of CE, with an f^2 value of 0.112, categorized as medium, highlighting the central role of innovation in driving engagement. Market Orientation (MO) → CE (0.082) and Digital Marketing Capabilities (DMC) → CE (0.097) both demonstrate small but meaningful effects, suggesting that while they contribute to engagement, their influence is less pronounced compared to product innovation. On the other hand, Customer Engagement (CE) → Competitive Advantage (CA) has a medium effect size (0.184), underscoring its pivotal role as the main driver of competitive advantage in the creative economy. In contrast, the direct effects of MO (0.046), DMC (0.043), and PI (0.039) on CA are all small, indicating that while these factors contribute to competitive advantage, their

impact is largely channeled through customer engagement.

4.3.5. Predictive Relevance (Q^2)
The Stone-Geisser Q^2 test, applied using blindfolding, shows that both customer engagement (CE) with a Q^2 value of 0.371 and competitive advantage (CA) with a Q^2 value of 0.329 have large predictive relevance, indicating that the model possesses strong predictive power and that the constructs significantly contribute to explaining and predicting the outcomes.

4.4. Discussion
1. Market Orientation and Customer Engagement

The positive and significant effect of market orientation on customer engagement highlights the importance of understanding customer needs, competitor actions, and market trends, showing that businesses in Indonesia’s creative economy that actively collect market intelligence and respond proactively are more likely to build deeper engagement with their customers. This finding is consistent with the notion that market orientation fosters stronger customer relationships by aligning products and

services with consumer preferences. For SMEs in the creative industry, market orientation enhances competitiveness by ensuring products and services meet customer expectations [8], while from a social perspective, intelligence generation, distribution, and response implementation are vital for the growth of MSMEs [64]. Competitive intelligence (CI) further strengthens this process, as social, strategic, and marketing intelligence positively impact product competitiveness and help businesses understand market trends and competitor actions to make informed strategic decisions [65]. Strategic responses to market orientation also contribute significantly to performance, as evidenced in the retail furniture industry in Padang, where understanding customer and competitor dynamics improved company outcomes [66], and in the food industry, where market and competitor orientation directly influenced innovation and sales growth [67]. Overall, these insights emphasize that market orientation, CI, and strategic responses collectively foster customer engagement and drive business success in Indonesia's creative economy.

2. Digital Marketing Capabilities and Customer Engagement

Digital marketing capabilities were found to significantly influence customer engagement, as businesses that effectively utilize social media, search engines, online advertising, and e-commerce platforms are better positioned to attract, interact with, and

retain customers through interactive, personalized, and real-time communication. In Indonesia's creative economy, this capability is particularly critical given the reliance on digital channels to reach younger, tech-savvy consumers. Omnichannel marketing strategies, for example, have proven effective in influencing purchase decisions and enhancing engagement, with personalization such as customized offers resonating strongly with Indonesian consumers despite concerns about data privacy [68]. Social media and SEO also play a vital role, showing significant positive impacts on business growth in the e-commerce industry, where engagement mediates the relationship between social media use and growth [69], while in Bandung, these tools have boosted sales growth for handicraft products, underscoring their importance in business success [70]. Similarly, in the food and beverage industry, the adoption of social media marketing and e-commerce strategies has increased engagement and retention rates, as evidenced by Kahiji Coffee & Dinner in Bandung [71]. These findings highlight the pivotal role of digital marketing in strengthening customer engagement and driving competitiveness in the creative economy.

3. Product Innovation and Customer Engagement

Product innovation emerged as the most influential factor driving customer engagement, as the ability to continuously introduce new,

creative, and relevant products strengthens emotional and behavioral bonds with customers. Studies support this view, such as research on Wardah cosmetic lipstick products in Jabodetabek, which found that product design and innovation significantly affect customer satisfaction and loyalty, even without mediation [72], while research on Samsung phone users in Indonesia confirmed that continuous innovation is essential for maintaining market share and customer retention in the competitive smartphone industry [73]. In the beverage sector, innovation was shown to significantly influence loyalty, as demonstrated by Seven Beverage Products in Tanjungpinang, where effective innovation strategies boosted customer retention [74]. On a strategic level, continuous innovation is crucial for global competitiveness, as it enables firms to adapt to shifting consumer preferences, enhance satisfaction, reduce R&D costs, and leverage market advantages [75]. Furthermore, innovation serves as a primary source of organic growth and superior customer experiences, best executed through small, empowered teams that act swiftly while representing organizational goals [25]. For Indonesia's creative economy, which thrives on originality and differentiation, innovation is not merely optional but a necessity for ensuring survival, sustained growth, and long-term competitiveness.

4. Customer Engagement and Competitive Advantage

The strongest relationship observed in this study is between customer engagement and competitive advantage, underscoring that engaged customers—those who feel emotionally connected and actively interact with a brand—play a vital role in sustaining competitive positioning by driving repurchase, advocacy, and constructive feedback that generate value beyond transactions. Engaged customers contribute to value creation by offering feedback, generating ideas, and supporting others, which can lead to unique offerings and new revenue streams [32], while their cognitive, emotional, and behavioral dimensions strengthen customer-brand relationships and enhance marketing strategies [62]. In commoditized markets, engagement provides differentiation through unique experiences and loyalty, ensuring sustainable and profitable growth [32], [76]. Moreover, in interconnected markets, engagement extends to co-creation of products and experiences, contributing to the service system's value [33], and positively influencing functional, emotional, and social value that drives purchase and referral behaviors, particularly in virtual communities [77]. These findings align with perspectives that view customer engagement as a strategic resource essential for differentiation and long-term success in competitive markets.

5. Indirect Effects through Customer Engagement

The results confirm that customer engagement partially mediates the relationships between market orientation, digital marketing capabilities, product innovation, and competitive advantage, indicating that while these strategic factors directly enhance competitiveness, their impact is significantly amplified when they foster deeper customer engagement. Engagement thus acts as a bridge that translates strategic inputs into tangible market advantages, consistent with literature that positions customers as active participants in value co-creation through activities such as co-designing products and sharing experiences in brand communities [33]. This proactive involvement enables firms to differentiate offerings and build unique value propositions essential for sustaining competitiveness [78]. Engaged customers also enhance value creation, generate cost benefits, and strengthen loyalty through repeat purchases and positive word-of-mouth [32], while facilitating knowledge sharing and social influence that support innovation and differentiation strategies [78]. Moreover, customer engagement offers superior insights into consumer behaviors and outcomes—such as commitment and loyalty—compared to traditional satisfaction metrics, reinforcing its role as a central mechanism in achieving long-term competitive advantage [62].

6. Managerial and Practical Implications

From a practical perspective, the results provide clear guidance for entrepreneurs and policymakers in Indonesia's creative economy, emphasizing the need for firms to invest in market research and intelligence systems to remain responsive to customer and competitor dynamics, build strong digital marketing capabilities to enhance visibility and interaction in an increasingly digital marketplace, prioritize continuous product innovation to ensure relevance and differentiation, and design strategies that foster customer engagement as a critical pathway to achieving and sustaining competitive advantage.

7. Contribution to Theory

Theoretically, this study contributes by integrating market orientation, digital marketing, and innovation into a customer engagement framework to explain competitive advantage. It supports the resource-based view (RBV), which suggests that unique organizational capabilities—such as digital competencies and innovation—can become sources of sustained competitive advantage when effectively leveraged through customer engagement.

5. CONCLUSION

This study investigated the relationships among market orientation, digital marketing capabilities, product innovation, customer engagement, and competitive advantage in Indonesia's creative economy sector, yielding several key insights. Market orientation, digital marketing

capabilities, and product innovation were all found to significantly enhance customer engagement, with product innovation exerting the strongest influence, while customer engagement itself demonstrated a powerful direct effect on competitive advantage, highlighting its role as a strategic resource. Furthermore, customer engagement partially mediated the relationships between the three strategic factors and competitive advantage, confirming its function as a vital mechanism that translates organizational capabilities into market success. The findings contribute theoretically by reinforcing the resource-based view, showing how marketing and innovation capabilities, when

channeled through engagement, can create sustainable competitive advantage, and practically by guiding entrepreneurs and policymakers to invest in market research, digital marketing skills, and innovation processes while prioritizing customer engagement strategies to drive growth and competitiveness. Future research should extend these findings through longitudinal studies, larger samples across diverse creative sub-sectors, and the inclusion of moderating variables such as government support and technological readiness to better capture the dynamic interplay of strategy, innovation, and engagement in achieving competitive advantage.

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