

Market Orientation, Digital Capability, and Brand Image Driving Customer Loyalty: Evidence from Indonesian Retail MSMEs

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Abstract: This study investigates how market orientation, digital capability, and brand image influence customer loyalty, with customer satisfaction as a mediating factor, within retail MSMEs. It aims to understand how internal organizational competencies and marketing strategies foster long-term customer relationships in a competitive and digitalized marketplace. Using a quantitative survey approach, data were collected from 160 customers of retail MSMEs, following the ten-times rule for 16 indicators. Analyses were conducted with PLS-SEM to assess measurement validity and structural relationships. Results indicate that brand image directly enhances both customer satisfaction and loyalty, while digital capability and market orientation affect loyalty indirectly through satisfaction. Moreover, customer satisfaction significantly mediates these relationships, serving as a critical mechanism by which organizational capabilities and strategies are translated into loyalty. The findings underscore the importance for MSMEs of strengthening brand image, advancing digital competencies, and maintaining market-oriented strategies to improve satisfaction and loyalty, offering both theoretical contributions to relationship marketing and practical guidance for managers in the digital era.

Keywords: market orientation; digital capability; brand image; customer satisfaction; customer loyalty; retail MSMEs

INTRODUCTION

The retail market and consumer behavior in the digital era have become increasingly complex, particularly for micro, small, and medium enterprises (MSMEs) in Indonesia, which dominate the national economy yet face intense competition from modern and digital-native firms (Khan et al., 2022; Nasir, 2025). In this dynamic environment, market orientation serves as a strategic foundation that enables MSMEs to understand customer needs and respond effectively to market changes (Lailiyah et al., 2025; Trisnawati et al., 2024). At the same time, digital capability—defined as the firm’s ability to leverage technology for marketing, communication, and customer engagement—has become a critical driver of innovation and responsiveness (Pangkey & Kainde, 2026; Setiawan & Arifiyanto, 2025). In addition, brand image functions as a strategic asset that shapes consumer perceptions and strengthens competitiveness across digital platforms (Saputra, 2024; Yaqub et al., 2025). These three factors are widely recognized as key determinants of

customer loyalty, which is essential for sustaining long-term relationships and business performance in the MSME retail sector.

The growing digitalization of MSMEs in Indonesia further underscores this issue, with more than 60% adopting integrated offline and online marketing strategies (INDEF, 2024). Despite this progress, many MSMEs still face challenges in building strong brand awareness and maintaining customer loyalty in an increasingly competitive digital landscape. While prior studies have examined the individual effects of market orientation, digital capability, and brand image on customer loyalty, the findings remain fragmented. Existing research often focuses on isolated variables, is conducted in non-Indonesian contexts or different sectors, and provides limited insight into how these factors interact in shaping customer loyalty within local MSME environments (Abbas et al., 2025; Acikdilli et al., 2022; Muis & Jusuf, 2025; Mujianto et al., 2023; Trisnawati et al., 2024). Accordingly, this study addresses these gaps by investigating the integrated effects of market orientation, digital capability, and brand image on customer loyalty in Indonesian retail MSMEs. By examining their combined and interactive roles, this research offers a more comprehensive understanding of the mechanisms that drive customer loyalty, thereby contributing to both theoretical development and practical strategies for enhancing MSME competitiveness in the digital era.

Numerous studies have emphasized the significance of market orientation, digital capability, and brand image as key determinants of customer loyalty, particularly within retail and MSME contexts. Market orientation enables firms to understand consumer needs and respond effectively to market dynamics (Khan et al., 2022; Nasir, 2025), while digital capability enhances customer engagement and interactions in the digital era (Pangkey & Kainde, 2026; Setiawan & Arifiyanto, 2025). Similarly, a strong brand image strengthens loyalty by shaping positive perceptions of product value and quality (Saputra, 2024; Yaqub et al., 2025). However, systematic reviews and meta-analyses (Abbas et al., 2025; Mujianto et al., 2023; Trisnawati et al., 2024) reveal notable gaps: most studies focus on isolated variables without examining their combined, interactive effects; research is largely conducted outside Indonesia or in different sectors, limiting applicability to Indonesian retail MSMEs (Muis & Jusuf, 2025; Setiawan & Arifiyanto, 2025); and debate remains regarding how digital capability and brand image mutually reinforce loyalty in local, heterogeneous business environments (Mujianto et al., 2023; Trisnawati et al., 2024). Consequently, the existing literature offers an incomplete understanding of the integrative mechanisms through which these three factors jointly influence customer loyalty, underscoring the need for this study to address empirical and theoretical gaps and provide strategic insights for MSME development in the digital era.

Therefore, this study offers a clear novelty by developing an integrated model that simultaneously examines the combined and interactive effects of market orientation, digital capability, and brand image on customer loyalty in Indonesian retail MSMEs. Unlike prior research that treats these variables independently, this study positions them as interrelated strategic capabilities, providing a more holistic explanation of customer loyalty formation. This approach not only contributes to the refinement of marketing and strategic management theories in the MSME context but also offers practical insights for designing more effective, synergy-based strategies to enhance competitiveness in the digital era.

LITERATURE REVIEW

Market Orientation

Market orientation refers to a strategic capability through which firms generate, disseminate, and respond to market intelligence to better understand and satisfy customer needs. Rather than viewing it solely as a set of activities or cultural values, prior literature converges on three core dimensions: customer focus, competitor awareness, and interfunctional coordination (Deshpandé et al., 1993; Kohli & Jaworski, 1990; Lailiyah et al., 2025; Narver & Slater, 1990). These dimensions collectively position market orientation as an integrative mechanism that aligns internal processes with external market dynamics, enabling firms—particularly retail MSMEs—to enhance customer value and relational outcomes.

From a theoretical perspective, the Resource-Based View (RBV) (Barney, 1991) conceptualizes market orientation as a strategic resource that contributes to sustainable competitive advantage when effectively embedded within organizational routines. More importantly, recent studies suggest that its impact on customer loyalty is not standalone but contingent upon its interaction with complementary capabilities, such as digital capability and brand image (Kohli & Jaworski, 1990; Lailiyah et al., 2025; Narver & Slater, 1990; Setiawan & Arifiyanto, 2025). In this sense, market orientation functions as a foundational capability that strengthens customer experience and engagement by enabling firms to leverage digital tools and reinforce brand perceptions, ultimately fostering sustained customer loyalty.

Digital Capability

Digital capability reflects a firm's ability to effectively deploy digital technologies to support marketing, communication, and customer engagement. Rather than being limited to technical proficiency, the literature frames digital capability as a dynamic organizational competence that integrates digital tools with business strategy to enhance responsiveness and innovation (Pangkey & Kainde, 2026; Setiawan & Arifiyanto, 2025; Teece, 2025). This capability enables

firms to adapt to rapidly changing market conditions, personalize customer interactions, and optimize digital touchpoints.

From the perspective of Dynamic Capabilities theory, digital capability plays a critical role in sensing market changes, seizing opportunities, and reconfiguring resources in the digital environment. Importantly, its contribution to customer loyalty is amplified when aligned with market orientation and supported by a strong brand image. In this integrated framework, digital capability acts as an enabler that translates market insights into effective digital engagement strategies, thereby enhancing customer experience and strengthening long-term loyalty.

Brand Image

Brand image represents the set of perceptions and associations held by consumers toward a brand, formed through cumulative experiences and interactions across multiple touchpoints. Drawing from the Customer-Based Brand Equity (CBBE) framework (Keller, 2013b), brand image is not merely an outcome of communication but a strategic asset that shapes perceived value, trust, and emotional connection with customers.

Within the context of MSMEs, brand image becomes increasingly important in digital environments where competition is intense and switching costs are low. A strong brand image reinforces the effectiveness of both market orientation and digital capability by translating customer insights and digital interactions into consistent and meaningful brand perceptions. Furthermore, supported by Expectancy-Disconfirmation and Commitment-Trust theories, positive brand image contributes to satisfaction and trust, which are key antecedents of customer loyalty. Thus, brand image functions not only as an outcome variable but also as a mediating mechanism that strengthens the relationship between strategic capabilities and sustained customer loyalty.

Customer Satisfaction

Customer satisfaction refers to consumers' evaluative judgment of whether a product or service meets or exceeds their expectations, integrating cognitive and experiential assessments across interactions. Rather than being viewed as a purely evaluative outcome, the literature converges in positioning satisfaction as a key relational mechanism that links firm strategies with behavioral outcomes. Grounded in Expectancy-Disconfirmation Theory (Oliver, 1980), satisfaction arises from the alignment between expected and perceived performance and is reinforced through cumulative customer experiences.

In this study, customer satisfaction is conceptualized as a mediating construct that translates strategic capabilities—such as market orientation, digital capability, and brand image—into customer loyalty. By aligning market insights, digital interactions, and brand perceptions with customer expectations, firms can create consistent and positive experiences that enhance

satisfaction, which in turn strengthens engagement, repeat purchase intentions, and long-term relational outcomes.

Customer Loyalty

Customer loyalty reflects a sustained psychological and behavioral commitment to a brand, manifested through repeat purchases, preference stability, and positive advocacy. Rather than being solely an outcome of satisfaction, loyalty is increasingly understood as a relational construct shaped by trust, commitment, and cumulative customer experiences. The Commitment-Trust Theory (Morgan & Hunt, 1994) highlights that enduring loyalty is built on the development of trust and relational commitment between customers and firms.

Within this framework, customer loyalty emerges as the ultimate outcome of the interaction between customer satisfaction and key strategic capabilities, including market orientation, digital capability, and brand image. Satisfaction strengthens emotional attachment and trust, while consistent value delivery reinforces long-term relationships. Thus, loyalty is not only a behavioral response but also a reflection of successfully integrated strategies that sustain customer relationships and enhance firm competitiveness over time.

Influence of Market Orientation on Brand Image

The influence of market orientation on brand image arises from the premise that organizations capable of understanding customer needs, analyzing competitor behavior, and aligning internal strategies with market dynamics are more likely to cultivate a positive brand perception. Kohli & Jaworski, (1990) argue that market orientation enhances a firm's ability to respond effectively to consumer expectations, while Aaker, (2012) and (Keller, 2013b) highlight that favorable consumer perceptions serve as the foundation for a strong brand image. Logically, higher levels of market orientation translate into a more robust brand image, as consumers perceive greater relevance and value in the products or services offered.

H1: Market orientation has a positive and significant effect on brand image.

Influence of Market Orientation on Customer Loyalty

Market orientation not only shapes brand perception but also exerts a direct effect on customer loyalty. Firms that actively understand consumer needs, implement relevant innovations, and respond promptly to market changes create satisfying experiences that encourage repeat purchases and strengthen emotional engagement (Kotler & Keller, 2016; Oliver, 1999). Therefore, market orientation emerges as a critical determinant of loyalty, as consumers appreciate consistency and the alignment of products or services with their expectations.

H2: Market orientation has a positive and significant effect on customer loyalty.

Influence of Digital Capability on Brand Image

Digital capability enhances brand image by enabling organizations to deliver services that are fast, accurate, and consistent, leading to favorable consumer evaluations (Bharadwaj, 2000; Kane et al., 2015). It also supports product innovation, personalized customer experiences, and relevant communication, all of which strengthen brand perceptions. In essence, digitally proficient organizations can highlight their value and competitive advantages, thereby reinforcing brand image in the eyes of consumers.

H3: Digital capability has a positive and significant effect on brand image.

Influence of Digital Capability on Customer Loyalty

Digital capability directly affects customer loyalty by enabling faster interactions, personalized experiences, and consistent service, which collectively enhance consumer satisfaction and engagement (Kane et al., 2015; Oliver, 1999). Organizations with strong digital capabilities can maintain consistent quality, minimize the risk of customer dissatisfaction, and build trust, making customers more likely to repurchase and remain loyal to the brand.

H4: Digital capability has a positive and significant effect on customer loyalty.

Influence of Brand Image on Customer Satisfaction

Brand image affects customer satisfaction because favorable perceptions of a brand help establish realistic expectations and contribute to satisfying experiences (Aaker, 2012; Keller, 2013b). Consumers who view a brand positively are more likely to feel satisfied when the performance of its products and services meets their expectations. Therefore, a strong brand image enhances customer satisfaction, as it reinforces trust in the quality, value, and consistency of the brand.

H5: Brand image has a positive and significant effect on customer satisfaction.

Influence of Brand Image on Customer Loyalty

The impact of brand image on customer loyalty is grounded in the idea that positive brand perceptions foster emotional attachment, trust, and long-term preference (Kotler & Keller, 2016; Zeithaml et al., 1996). Consumers who hold strong perceptions of a brand are more likely to engage in repeat purchases, recommend the brand to others, and resist switching to competitors, thereby significantly enhancing customer loyalty.

H6: Brand image has a positive and significant effect on customer loyalty.

Influence of Customer Satisfaction on Customer Loyalty

Customer satisfaction directly affects loyalty, as satisfied consumers are more likely to make repeat purchases, recommend the brand to others, and develop emotional attachment (Kotler & Keller, 2016; Oliver, 2014). Consistent satisfaction fosters trust and commitment toward the brand, making loyalty the cumulative outcome of positive experiences that customers perceive over time.

H7: Customer satisfaction has a positive and significant effect on customer loyalty.

Indirect Effect of Market Orientation on Customer Loyalty through Brand Image

Market orientation also exerts an indirect influence on customer loyalty via brand image. Strategies that emphasize understanding consumer needs and responding to market dynamics contribute to a positive brand perception (Keller, 2013b; Kohli & Jaworski, 1990). A strong brand image, in turn, enhances customer loyalty. Therefore, market orientation generates a mediated effect through brand image, reinforcing consumer attachment to the brand.

H8: Market orientation has a positive and significant indirect effect on customer loyalty through brand image.

Indirect Effect of Digital Capability on Customer Loyalty through Brand Image

Digital capability enhances customer loyalty not only directly but also indirectly through the development of brand image. Advanced technological use enables faster service, personalized interactions, and positive experiences, which collectively strengthen brand perception (Bharadwaj, 2000; Kane et al., 2015). This brand image then acts as a mediator, amplifying the impact of digital capability on customer loyalty.

H9: Digital capability has a positive and significant indirect effect on customer loyalty through brand image.

Indirect Effect of Brand Image on Customer Loyalty through Customer Satisfaction

Brand image also contributes to customer loyalty indirectly by enhancing customer satisfaction. Positive perceptions of the brand shape realistic expectations and satisfying experiences (Aaker, 2012; Keller, 2013b), and this satisfaction, in turn, fosters greater customer loyalty. In other words, customer satisfaction serves as a mediating mechanism linking brand image to loyalty.

H10: Brand image has a positive and significant indirect effect on customer loyalty through customer satisfaction.

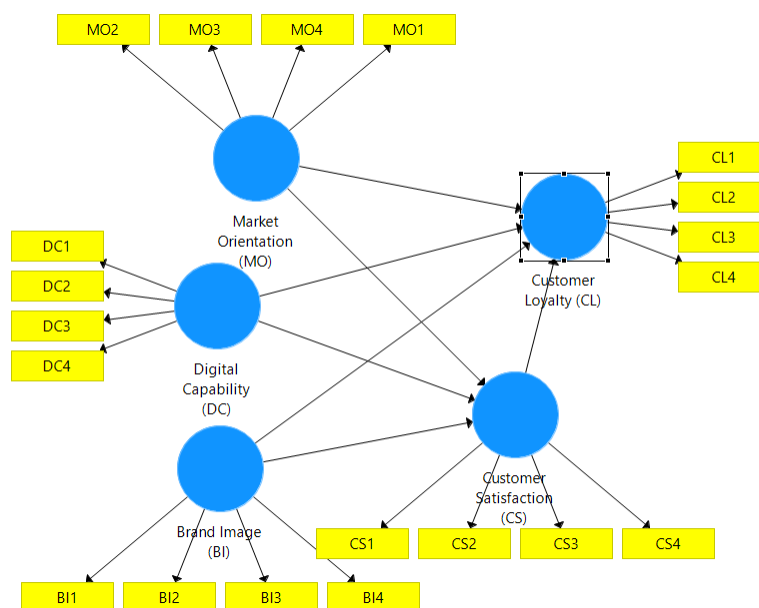
Conceptual Framework

Understanding customer loyalty in the context of Indonesian retail MSMEs requires examining the interconnected roles of three strategic variables: market orientation, digital capability, and brand image. Market orientation enables organizations to identify consumer needs and respond proactively to competitive pressures (Kohli & Jaworski, 1990; Narver & Slater, 1990). Meanwhile, digital capability facilitates fast, adaptive, and interactive services, creating more personalized and relevant customer experiences (Bharadwaj, 2000; Kane et al., 2015). Brand image, as noted by Keller, (2013) and Aaker, (2012), shapes consumer perceptions regarding quality, trust, and the emotional value of products or services. However, most prior studies have focused on large corporations or global contexts (Abbas et al., 2025; Mujianto et al., 2023), leaving empirical understanding of local Indonesian retail MSMEs limited and creating a research gap.

Theoretically, this framework is grounded in the Resource-Based View (Barney, 1991) and Dynamic Capabilities theory (Teece et al., 1997), which posit that market orientation and digital capability constitute strategic assets capable of generating sustainable competitive advantages. In this context, brand image acts as a mediator connecting internal strategies to customer loyalty through perceptions of quality and experience (Keller, 2013b; Kotler & Keller, 2016). The conceptual model emphasizes both direct and indirect interactions: market orientation and digital capability influence customer loyalty directly and through brand image, while brand image also affects customer satisfaction, which in turn strengthens loyalty. This integrated approach distinguishes the study from prior research by simultaneously examining all three variables in the local retail MSME context, offering a more comprehensive theoretical and empirical contribution.

Consequently, this research underscores that combining consumer behavior insights, enhanced digital capabilities, and the development of a strong brand image constitutes a critical strategy for increasing customer loyalty in Indonesian retail MSMEs. While prior literature confirms that market orientation, digital capability, and brand image each influence loyalty (Keller, 2013b; Kohli & Jaworski, 1990; Oliver, 1999), their integrated effect in the local context remains underexplored. Therefore, this study not only provides theoretical novelty by addressing empirical gaps in marketing strategy and digital management literature but also offers practical guidance for MSME managers to strategically cultivate sustainable customer loyalty.

Figure 1. Diagram Visual Model (Research Framework)



METHOD

Research Design

This study employs an explanatory quantitative approach to examine the causal relationships among market orientation, digital capability, brand image, customer satisfaction, and customer loyalty within Indonesian retail MSMEs (Hair et al., 2022; Sarstedt et al., 2022). This methodology enables empirical testing of hypotheses through multivariate statistical analysis, providing a robust means to assess both the direction and magnitude of variable effects in a rapidly digitalizing and highly competitive market environment (Henseler & Schuberth, 2020; Ringle et al., 2024; Schivinski et al., 2016).

Population and Sample

The study population consisted of owners and managers of Indonesian retail MSMEs who are actively operating their businesses and leveraging digital technologies for marketing and operational purposes, as they serve as the primary implementers of digital strategies (Nasir, 2025; Pangkey & Kainde, 2026). A purposive non-probability sampling technique was employed to ensure that respondents were relevant to the research objectives, specifically to understand marketing management practices and digital adoption within MSMEs (Etikan et al., 2016; Hair et al., 2022). A total of 160 respondents were selected based on the rule of ten times the number of indicators used in the study. Inclusion criteria required participants to be owners or managers, operate their business for at least two years, utilize digital media, and possess knowledge of marketing practices, ensuring that the collected data were valid and representative for PLS-SEM analysis.

Data Collection Procedure

Data were collected using a 5-point Likert scale online questionnaire, a method widely recognized as valid in marketing and consumer behavior research (Hair et al., 2022; Rahi, 2017). The instrument was adapted from recent studies and validated by marketing and entrepreneurship experts to ensure that each item accurately represented its construct. Distribution via Google Forms and WhatsApp facilitated participation among digitally active MSME respondents and helped enhance response rates.

Measurement of Variables

This study assessed five primary constructs: market orientation, defined as MSMEs' ability to understand customer needs, monitor competitors, and respond to market dynamics (Khan et al., 2022; Nasir, 2025); digital capability, reflecting the use of technology to enhance operational efficiency and customer interactions (Abbas et al., 2025; Guo et al., 2020; Herhausen et al., 2020);

brand image, representing consumers' perceptions of a brand's reputation, quality, and credibility (Acikdilli et al., 2022; Anggraini et al., 2022; Muamalah & Sari, 2023); customer satisfaction, as the overall evaluation of the brand experience (Kotler & Keller, 2016; Oliver, 2014); and customer loyalty, indicating commitment through repeat purchases, recommendations, and preference over competitors (Riswanto et al., 2019; Yaqub et al., 2025). All constructs were measured using indicators validated in both international and local studies.

Data Analysis Technique

Data analysis was conducted using PLS-SEM via SmartPLS, an appropriate method for latent constructs and non-normal data distributions (Hair et al., 2022; Ringle et al., 2024). The procedure consisted of two stages: first, the measurement model (outer model) was assessed for convergent validity (indicator loadings > 0.70; AVE > 0.50), reliability (Composite and Cronbach's Alpha > 0.70), and discriminant validity (Fornell-Larcker criterion and HTMT). Second, the structural model (inner model) was evaluated using R^2 , path coefficients, t-statistics, p-values (via bootstrapping), and f^2 effect sizes to determine the strength and significance of relationships among variables (Hair et al., 2022; Sarstedt et al., 2022).

In addition, the sample size of 100 respondents is considered adequate for PLS-SEM analysis, as it meets both the "10-times rule" and more rigorous statistical recommendations that suggest a minimum of 100–150 observations for stable model estimation in studies with moderate model complexity (Hair et al., 2022; Sarstedt et al., 2022). This study also ensured variability in respondent characteristics to enhance generalizability, including differences in business age, scale of operations, and types of retail activities. The respondent profile primarily consisted of MSME owners and managers with at least two years of business experience, actively utilizing digital platforms such as social media and online marketplaces. Collecting these demographic and business-related characteristics allows for a more comprehensive understanding of the sample context and supports the robustness and external validity of the findings.

RESULT

Measurement Model Evaluation

Convergent Validity

Table 1 Outer Loadings and Convergent Validity

Construct	Indicator	Loading	AVE
Market Orientation	MO1	0.873	0.746
	MO2	0.908	
	MO3	0.860	
	MO4	0.796	

Digital Capability	DC1	0.902	0.800
	DC2	0.819	
	DC3	0.908	
	DC4	0.914	
Brand Image	BI1	0.717	0.611
	BI2	0.830	
	BI3	0.802	
	BI4	0.779	
Customer Satisfaction	CS1	0.569	0.701
	CS2	0.933	
	CS3	0.947	
	CS4	0.912	
Customer Loyalty	CL1	0.942	0.859
	CL2	0.890	
	CL3	0.932	
	CL4	0.934	

The convergent validity of the measurement model was assessed using outer loadings and Average Variance Extracted (AVE). Most indicators exceeded the recommended loading threshold of 0.70, indicating adequate representation of their respective constructs (Hair et al., 2022). One indicator, CS1, showed a lower loading (0.569), slightly below the preferred threshold. However, it was retained because the AVE of Customer Satisfaction remained above 0.50 (0.701), indicating sufficient convergent validity at the construct level. Additionally, CS1 captures an important evaluative aspect of satisfaction, and its removal did not significantly improve AVE or composite reliability. Therefore, retaining this indicator preserves content validity without compromising the overall measurement quality.

All constructs achieved AVE values above 0.50, confirming that each construct explains the majority of variance in its indicators. Customer Loyalty exhibited the highest AVE (0.859), followed by Digital Capability (0.800), Market Orientation (0.746), Customer Satisfaction (0.701), and Brand Image (0.611). These results confirm that the model meets the criteria for convergent validity.

Reliability Test

Table 2 Construct Reliability

Construct	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Brand Image (BI)	0,814	0,887	0,863	0,613
Customer Loyalty (CL)	0,943	0,945	0,959	0,855
Customer Satisfaction (CS)	0,866	0,911	0,913	0,731
Digital Capability (DC)	0,911	0,936	0,936	0,786
Market Orientation (MO)	0,882	0,886	0,919	0,740

The reliability assessment indicates that all constructs meet the recommended PLS-SEM thresholds. Cronbach's Alpha and Composite Reliability values exceed 0.70 for all variables,

demonstrating strong internal consistency. Customer Loyalty shows the highest reliability (CR = 0.959; AVE = 0.855), indicating that its indicators consistently represent the underlying construct. Overall, Market Orientation, Digital Capability, Brand Image, Customer Satisfaction, and Customer Loyalty are both reliable and valid, supporting further structural model evaluation.

Discriminant Validity

Table 3 Fornell–Larcker Criterion

Construct	BI	CL	CS	DC	MO
Brand Image (BI)	0.783				
Customer Loyalty (CL)	0.552	0.925			
Customer Satisfaction (CS)	0.781	0.654	0.855		
Digital Capability (DC)	0.859	0.320	0.533	0.887	
Market Orientation (MO)	0.340	0.517	0.525	0.245	0.860

Discriminant validity was evaluated using the Fornell–Larcker criterion. The square root of the AVE for each construct is greater than its correlations with other constructs, confirming that each variable shares more variance with its own indicators than with others. This result indicates that all constructs are empirically distinct and the model satisfies discriminant validity requirements.

Structural Model Evaluation (Inner Model)

Coefficient of Determination (R²)

The R² value is used to measure the ability of the independent variables to explain the variance in the dependent variable.

Table 4 Coefficient of Determination

Endogenous Variable	R ²	Adjusted R ²	Interpretation
Customer Loyalty (CL)	0.514	0.494	Moderate
Customer Satisfaction (CS)	0.746	0.738	Substantial

The coefficient of determination (R²) reflects the predictive accuracy of the model. Customer Loyalty has an R² value of 0.514, indicating that Market Orientation, Digital Capability, Brand Image, and Customer Satisfaction explain 51.4% of its variance, which can be categorized as moderate. Meanwhile, Customer Satisfaction shows an R² of 0.746, indicating substantial explanatory power. These findings suggest that the model has adequate predictive capability in explaining the relationships among constructs.

Hypothesis Testing

Table 5 Path Coefficients and Hypothesis Testing

Hypothesis	Relationship	Path Coefficient	t-value	p-value	Result
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H1	Brand Image (BI) → Customer Loyalty (CL)	0.214	2.229	0.026	Supported
H2	Brand Image (BI) → Customer Satisfaction (CS)	0.356	4.092	0.000	Supported
H3	Customer Satisfaction (CS) → Customer Loyalty (CL)	0.471	5.176	0.000	Supported
H4	Digital Capability (DC) → Customer Loyalty (CL)	0.118	1.439	0.151	Not Supported
H5	Digital Capability (DC) → Customer Satisfaction (CS)	0.298	3.772	0.000	Supported
H6	Market Orientation (MO) → Customer Loyalty (CL)	0.109	1.473	0.141	Not Supported
H7	Market Orientation (MO) → Customer Satisfaction (CS)	0.327	3.847	0.000	Supported
H8	Brand Image (BI) → Customer Satisfaction (CS) → Customer Loyalty (CL)	0.168	2.667	0.008	Supported
H9	Digital Capability (DC) → Customer Satisfaction (CS) → Customer Loyalty (CL)	0.140	2.692	0.007	Supported
H10	Market Orientation (MO) → Customer Satisfaction (CS) → Customer Loyalty (CL)	0.154	2.655	0.008	Supported

The hypothesis testing results reveal several significant relationships. Brand Image significantly influences both Customer Satisfaction and Customer Loyalty, confirming its strategic role in shaping positive perceptions and fostering loyalty. Customer Satisfaction also has a strong positive effect on Customer Loyalty, indicating that satisfied customers are more likely to maintain long-term relationships.

Digital Capability and Market Orientation significantly affect Customer Satisfaction but do not have a direct significant impact on Customer Loyalty. This suggests that their influence on loyalty operates indirectly rather than directly. The mediation analysis supports this interpretation, as Customer Satisfaction significantly mediates the relationships between Brand Image, Digital Capability, Market Orientation, and Customer Loyalty.

These findings highlight that, within retail MSMEs, customer loyalty is primarily driven by satisfaction as a central mechanism through which strategic capabilities are translated into behavioral outcomes.

DISCUSSION

The findings of this study provide a nuanced understanding of customer loyalty formation by demonstrating that Brand Image is the most consistent and influential determinant, exerting both direct and indirect effects through Customer Satisfaction. This reinforces prior research emphasizing the strategic role of brand perception in shaping consumer responses (Acikdilli et al., 2022; Anggraini et al., 2022; Muamalah & Sari, 2023). while also extending brand equity

theory by empirically confirming its dual pathway influence within MSME contexts (Keller, 2013a). In contrast, although Customer Satisfaction significantly predicts Customer Loyalty—consistent with Expectancy-Disconfirmation Theory (Oliver, 2014) and relationship marketing literature (Kotler & Keller, 2016). this study shows that satisfaction is not merely an outcome variable, but a central transmission mechanism linking firm capabilities to behavioral loyalty.

A key contribution of this study lies in challenging the commonly assumed direct effects of Market Orientation and Digital Capability on Customer Loyalty. While prior studies often report significant direct relationships (Abbas et al., 2025; Kohli & Jaworski, 1990; Narver & Slater, 1990), the present findings reveal that these effects become non-significant when Customer Satisfaction is introduced as a mediator. This suggests that earlier models may have overstated the direct impact of strategic and technological capabilities by not accounting for intervening psychological processes. In the MSME retail context, capabilities alone are insufficient to secure loyalty; rather, their effectiveness depends on how well they are translated into customer-perceived value and satisfying experiences.

From a theoretical standpoint, these results extend the Resource-Based View (Barney, 1991) and Dynamic Capabilities framework (Teece et al., 1997) by incorporating a customer-centric mechanism into capability-based explanations of performance. Specifically, the findings suggest that valuable and rare resources (e.g., market orientation and digital capability) do not directly generate relational outcomes unless they are operationalized into experiential value that enhances satisfaction. This highlights the importance of integrating strategic management and consumer behavior perspectives, offering a more comprehensive explanation of how internal capabilities are converted into external market success in digitally evolving MSMEs.

Furthermore, the model demonstrates relatively strong explanatory power ($R^2 = 0.514$ for Customer Loyalty; $R^2 = 0.746$ for Customer Satisfaction), indicating that incorporating mediation mechanisms yields a more robust and contextually relevant understanding compared to prior fragmented models (Abbas et al., 2025; Mujianto et al., 2023). The results also reaffirm the centrality of Brand Image as a bridging construct that connects strategic actions with customer perceptions, thereby amplifying both satisfaction and loyalty outcomes.

Practically, these findings imply that MSME managers should move beyond a capability-centric approach and adopt a value-delivery orientation. Investments in digital tools and market intelligence must be aligned with efforts to enhance customer experience and perceived value. Strengthening Brand Image, ensuring consistency across digital touchpoints, and actively managing customer satisfaction are critical to building sustainable loyalty in highly competitive

and digitally mediated markets (Riswanto et al., 2019; Yaqub et al., 2025).

In summary, this study contributes to the literature by proposing and empirically validating a mechanism-based model of customer loyalty, where Customer Satisfaction serves as the key mediator linking Market Orientation, Digital Capability, and Brand Image to Customer Loyalty. By bridging strategic capability theory and customer experience perspectives, the study offers a more integrative and context-sensitive framework for understanding loyalty formation in MSMEs, particularly within emerging digital economies.

CONCLUSION

This study demonstrates that brand image, digital capability, and market orientation play critical roles in shaping customer loyalty among retail MSMEs, with customer satisfaction acting as a central mediating mechanism. The findings reveal that brand image exerts both direct and indirect effects on loyalty, while digital capability and market orientation influence loyalty primarily through their impact on customer satisfaction. This indicates that organizational capabilities and marketing strategies do not directly translate into loyalty, but must first be transformed into positive customer experiences. From a theoretical perspective, this study offers a more specific contribution by advancing a mechanism-based model of customer loyalty that integrates strategic capability theory with customer experience frameworks. Unlike prior studies that predominantly emphasize direct relationships between market orientation, digital capability, and loyalty, this research demonstrates that these effects are indirect and fully mediated by customer satisfaction. In doing so, the study extends the Resource-Based View and Dynamic Capabilities perspectives by incorporating a customer-centric explanatory layer, showing that the value of firm resources is realized only when they generate perceived satisfaction. This integrative approach provides a more precise explanation of how internal capabilities are converted into relational outcomes, particularly within the context of digitally evolving MSMEs. Practically, the findings suggest that MSME managers should prioritize enhancing customer satisfaction by aligning digital initiatives, market-oriented strategies, and brand development with customer expectations. Strengthening brand image and delivering consistent, value-driven experiences across digital touchpoints are essential to fostering sustainable customer loyalty in competitive markets. However, this study is subject to several limitations, including its cross-sectional design, the focus on retail MSMEs, and the exclusion of additional variables such as service quality, trust, and perceived value. Future research is encouraged to employ longitudinal approaches, expand to other industry contexts, and incorporate broader constructs to develop a more comprehensive understanding of customer loyalty. As digital transformation and market competition intensify, firms that effectively

integrate strategic capabilities with customer experience management will be better positioned to achieve long-term loyalty and competitive advantage.

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