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Investigating The Performance Of SMEs in Urban Areas: Does The Issue of Literacy, Skills, and Digital Marketing Matter?

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Abstract: This research aims to develop a theoretical proposition for the business performance of SMEs in urban areas. Urban areas are highly strategic as they are the easiest to reach for cultural and policy changes. Therefore, this study examines how urban communities manage SMEs. Urban areas compete to provide education and training for developing SMEs and even digital start-up businesses. Therefore, it is crucial to conduct a thorough evaluation of the program's effectiveness. The economic sector must address the problem of income and welfare inequality among the urban poor. We used a quantitative research method to analyze the direct and indirect influence of digital literacy, business skills, and digital marketing on the business performance of SMEs in urban areas. We analyzed the test data using smart PLS. The modelingWe bootstrap the modeling results using the goodness of fit criteria to generalize them to urban business development in developing countries. results show that digital literacy, business skills, and digital marketing are the main predictors of the business performance of SMEs in urban areas. This research also explains theoretical measurement factors for future researchers and describes, explains, and measures the business performance of SMEs in urban areas based on this theoretical study. The results of this research succeeded in testing eight hypotheses and rejecting one, namely that the influence of digital literacy on business development was not significant. Future researchers can further develop this research empirically using exploratory factor analysis or confirmatory factor analysis, utilizing a larger population and sample size.

Keyword: Digital Literacy, Business Skills, Digital Marketing, Business Performance, SMEs Urban Areas.

INTRODUCTION

Although small and medium-sized enterprises (SMEs) were able to survive and thrive amidst economic crises, digital transformation and online marketplaces have become the primary drivers of competitiveness in the digital era. According to Fitriati & Hermiati (2011) and Raposo & do Paço (2011), SMEs significantly contribute to economic growth. SMEs contribute to innovation, productivity (Ambad & Damit, 2016a), job creation (Fitriati &

Hermiati, 2011; Heinonen & Poikkijoki, 2006b), and economic growth (Van Gelderen et al., 2008) in order to grow and remain competitive (Siswanto, 2009).

Compared to large-scale enterprises, Indonesian SMEs are more resilient. SMEs have played a strategic and important role in every sector of the economy during Indonesia's economic crisis and recovery, among others: they have greater potential to create more employment opportunities than the same investment in larger-scale enterprises. SMEs significantly contribute to increasing employment opportunities, promoting income equality, fostering rural economic development, and boosting non-oil and gas exports, all while maintaining a stable export value. If SMEs in Indonesia enhance their creativity and innovation in their products, they can solve numerous problems in the country. Small businesses, which contribute to local economic growth and can improve bargaining power, are crucial to improving the welfare of the poor (Vandenberg et al., 2016). These conditions emphasize the strategic importance of strengthening SME performance in urban areas as part of sustainable economic development and national welfare improvement (Sujarwo et al., 2022).

Digital literacy plays a crucial role in altering the mindset, behavior, and conduct of an entrepreneur (Budi et al., 2012). It motivates them to pursue entrepreneurship as a career, explore, develop, and implement innovative work methods, technologies, and products, thereby enhancing efficiency to deliver superior services and generate higher profits (Wiratno, 2012). To survive and improve, MSME actors require sufficient knowledge and economic literacy. They will be able to manage their finances and businesses as efficiently as possible if they have sufficient knowledge of economics and finance. MSME actors believe that they must know how to manage finances and invest (Rubens, 2002; Jindrichovska, 2014). However, previous studies indicate that digital literacy alone may not directly improve SME performance unless it is transformed into practical managerial and entrepreneurial capabilities.

Business skills are an important part of a person's work; for SMEs, skills are the main predictor of business performance. On the other hand, one's digital literacy will increase the ability to market digitally. Digital literacy, the ability to understand, operate, and develop digital-based electronic media, strongly influences entrepreneurs. Android, an easy-to-use and powerful small computer, enables marketing through social media, distribution of raw material news, formation of groups, and monitoring of trends in consumer goods and services models. This condition reflects the importance of transforming digital literacy into practical business capabilities that support operational and marketing activities.

Small and medium-sized firms (SMEs) have acknowledged digital marketing as an essential approach for improving their efficiency. By utilizing online platforms, SMEs may expand their consumer base, enhance client engagement and loyalty, and eventually augment sales. Transitioning to digital channels allows these enterprises to employ cost-efficient marketing strategies, such as search engine optimization and social media, which are crucial for competing with larger corporations. An effective online presence markedly improves brand awareness and client loyalty, fostering long-term success. Furthermore, SMEs that use digital marketing may adjust to changing consumer tastes and habits, promoting innovation in their products and services. For SMEs seeking to excel in this competitive environment, the adoption of digital marketing tactics is essential.

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awareness and client loyalty, fostering long-term success. Furthermore, SMEs that use digital marketing may adjust to changing customer tastes and habits, promoting innovation in their products and services. Therefore, digital marketing capability becomes an important mechanism through which digital literacy can be translated into measurable business performance.

Enhancing entrepreneurs' digital literacy is essential for enhancing financial management and company operations, alongside marketing initiatives. Armed with essential digital skills, SMEs can assess market trends, optimize operations, and make data-driven choices in real time. This information enables businesses to discern new market prospects and customize their services to efficiently satisfy client requests. Moreover, improved digital literacy fosters networking and cooperation, thereby advancing the overall growth of SMEs. By emphasizing both digital marketing and literacy, these enterprises may effectively address difficulties and capitalize on possibilities in a more digital environment. This finding supports the perspective of dynamic capability theory, which emphasizes that organizational performance depends on the ability to transform knowledge into strategic business actions.

Entrepreneurs who do not keep up with digital business will miss out on opportunities. To fulfill customer desires, some entrepreneurs even bring in employees from outside the region to sell their products online according to customer preferences. Cities are centers of change, shapers of civilization, and developers of culture. In the realm of business, cities serve as the hub for development. Given the paucity of studies on SME performance in urban areas, this research proposes a theoretical model for the development of urban SME performance. Empirically, the low aspects of the dimensions and indicators will be known and resolved by policymakers. The novelty of this study lies in examining the indirect role of business skills and digital marketing in explaining how digital literacy influences SME performance in urban areas. Academics in higher education need to research Jakpreneur, the flagship program of the National SME Development, to ascertain its effectiveness in enhancing the performance of SMEs in metropolitan areas.

METHOD

The goal of this research is to gather reliable and empirically proven data that provides information about causality and the strength of the relationship between research variables. This research refers to a direct and indirect relationship between Digital Literacy (DLT), Business Skills (BSK), Digital Marketing (DM), and Business Performance (BUP) in SMEs.

The study's population consisted of 1,251 MSME actors in the food and beverage sector, with assistance from Jakpreneurs in Senen District. Isaac Michael purposively sampled 213 individuals from the affordable East Jakarta City area. Up to 200 business actors in the food and beverage sector in the National Capital completed and returned the questionnaires to the researchers, with assistance from Jakpreneur Subdistrict.

This research employs a quantitative method, collecting data through survey techniques and processing it using a causal approach. The goal of using the SEM model to look at relationship patterns between variables is to find out whether exogenous and endogenous variables have a direct or indirect effect on each other. The research data collection technique employs a questionnaire in the form of item statements, which are developed based on conceptual definitions, operational definitions, and research variable instrument grids. The questionnaire uses a rating scale and Likert and inferential scales to measure attitudes and behavior.

Data Analysis

This research employs partial least squares (PLS) as the data analysis technique. The PLS method is highly effective as it does not necessitate a normally distributed data set or a large sample size. Ghazali and Latan (2015) explained that the aim of PLS-SEM is to develop

or build a theory with a predictive orientation. You can use PLS to analyze the relationship between latent variables. Given the complexity of this research model and the limited number of samples, we conducted data analysis using SmartPLS software, which employs the bootstrapping or random doubling method. This approach eliminates the need for the assumption of normality, enabling the use of SmartPLS even with small sample sizes (Latan & Ghazali, 2012).

To test the validity and reliability of the construct measurement model, the Cronbach score criterion is used, which must be equal to or more than 0.6 (Hair et al., 2006) and acceptable if it is more than 0.5 and reaches 0.7 (Hair et al., 2006). After fulfilling the prerequisites for data normality, linearity, and the significance of regression and correlation coefficients, we proceed with hypothesis testing. To test the suitability of the model, several measurement criteria must be met, such as probability > 0.5 (Schermelleh-engel et al., 2003), RMSEA < 0.05 (Hu & Bentler, 1999), CFI > 0.95 (Hu & Bentler, 1999), and CMIN/DF value < 2 (Tabachnick & Fidell, 2007). We analyzed the mediating effects of variables using the Hayes model (Hayes, 2015), which can measure partial and total effects in research with moderator and mediator variables.

Outer Model Evaluation

The external model or measurement model explains the relationship between each indicator block and the manifest variable in the form of indicators or instruments related to the latent variable. In PLS-SEM, latent variables refer to quantitative value variables that cannot be observed directly but can be estimated through mathematical methods based on other variables that are measured immediately. In this research, the respondent's score on each questionnaire reflects manifest variables, whose quantitative value is directly known.

1. Inner Model Evaluation

The process of testing this model involves developing a concept- and theory-based model to analyze the relationship between exogenous and endogenous variables, as described in the conceptual framework. Exogenous latent variables are latent variables that act as independent variables, while endogenous latent variables act as variables that were previously dependent variables. Thus, we evaluate the structural model using R-square, -square, and the variance inflation factor (VIF).

2. Hypothesis Testing

Carrion et al. (2017) stated that to analyze mediation effects, it is important to observe changes in the influence of direct and indirect relationships. The bootstrapping results demonstrate that other variables mediate the influence of the independent variable on the dependent variable, testing the hypothesis. The specific indirect effects column illustrates how the intervening variable influences the relationship between the independent and dependent variables. To determine the relationship between effects in the prWe conducted exploratory factor analysis (EFA) and confirmatory factor analysis (CFA) to determine tWe arrange predictor variables, outcome variables, and mediating variables according to standard procedures for theory testing to develop theory and enhance scientific understanding of the relationship between independent and dependent variables.

RESULT AND DISCUSSION

Overview of Research Data

Variable data for digital literacy (DLT), business skills (BSK), digital marketing (DM), and business performance (BUP) in SMEs. Does the primary data come from a questionnaire that uses an inferential semantic scale? The scale provides options ranging from 1 to 5. The criteria range from 1 (rare or low) to 5 (frequent or high). Based on the data analysis above, the highest Business Performance Score is BUP2, "Increasing the use of capital to increase

the production capacity of my business" with 15.1%. The lowest score was on BUP6, "I experienced an increase in the number of new customers, by 13.1%. Digital Literacy Variable The highest score is on DLT7, "I am able to analyze the sources of information I obtain to ensure the validity of those sources" with 15.0%. Meanwhile, the lowest score was on DLT4, "I understand the characteristics of web pages such as HTTP, HTML, and URL" with 13.7%. Digital Marketing Variable The highest score was DM 5, "Digital marketing allows consumers to freely give negative reviews, thereby creating a negative image of my product" with 15.2%. Meanwhile, the lowest score was DM 1, "I use digital marketing, such as social media marketing to introduce my business and market products", with 13.2%. The Business Skills variable has the highest score in BSK3, "I am able to assess product quality in accordance with industry-standard requirements, with 14.7%. Meanwhile, the lowest score was on BSK2, "I manage my product production process" with 13.9%.

Evaluation of the Outer Model

Evaluation of the measurement model (outer model) is used to assess the validity and reliability of the model, including discriminant validity. Table 1 presents the results of the measurement model (outer model). Based on Table 1, the Business Skills variable has 5 indicators, which are the result of developing theoretical studies. Each indicator is coded "BSK" (Business Skills) 1 to 5.

Based on the convergent validity test that has been carried out, it can be seen in Table 1 that all indicators in the Business Skills variable have loading factor values in the range of 0.733 – 0.818. Apart from that, table 1 shows that no indicators in the Business Skills variable were deleted or excluded because they all had loading factor values above 0.70. Thus, all indicators in the Business Skills variable meet convergent validity. Furthermore, 1 show that the AVE value of the Business Skills variable is $0.604 > 0.50$, so it meets discriminant validity. Table 1 also shows the CR and Cronbach Alpha (α) values for the Business Skills variable, respectively 0.896 and $0.892 > 0.70$, which means it meets the composite reliability criteria.

The results of the convergent validity test for the variables Business Skills, Business Performance, Digital Literacy, and Digital Marketing show that all indicators have loading factor values above 0.70. This means that each indicator in the Business Performance variable listed in Table 1 has met the convergent validity criteria. The variables Business Skills, Business Performance, Digital Literacy, and Digital Marketing have AVE values of 0.604, 0.676, 0.614, and 0.629 > 0.50 respectively, indicating that all variables meet discriminant validity. Table 1 also shows that the variables Business Skills, Business Performance, Digital Literacy, and Digital Marketing have CR values (0.896, 0.921, 0.901, and 0.901) and Cronbach Alpha (0.892, 0.920, 0.896, and 0.901) > 0.70 . all of these variables meet the composite reliability criteria with values above 0.70. The complete results of the model measurements (outer model) can be seen in Table 1 below:

Table 1. Outer Measurement Results of the Research: Performance Development Model for SMEs

Variable	Item	λ	α	CR	AVE
Business Skills					
BSK1	Develop new ideas and products.	0.758	0.896	0.892	0.604
BSK2	Manage the production process.	0.775			
BSK3	Assess product quality according to industry standards.	0.781			
BSK4	Conduct market research.	0.764			
BSK5	Monitor and compare competitor businesses.	0.733			
BSK6	Read and analyze financial reports.	0.818			
BSK7	Take risks in decision-making.	0.809			
Business Performance					
BUP1	Experiencing increased demand for products.	0.793	0.921	0.920	0.676

BUP2	Using capital to increase production capacity.	0.852			
BUP3	Production numbers have increased in the last two years.	0.840			
BUP4	Using credit to purchase quality raw materials.	0.849			
BUP5	Product and packaging variations are increasingly attractive.	0.852			
BUP6	Increased number of new customers.	0.776			
BUP7	Old customers are coming back.	0.789			
Digital Literacy					
DLT1	Understand the steps to find online information for business.	0.800	0.901	0.896	0.614
DLT2	Able to use Google Chrome, Firefox, and Internet Explorer to download files.	0.827			
DLT3	Applying the World Wide Web for information retrieval.	0.795			
DLT4	Understand the characteristics of web pages (HTTP, HTML, URL).	0.785			
DLT5	Know the different types of websites (blogs, forums, social media).	0.778			
DLT6	Trace the source of the information and its creator.	0.753			
DLT7	Analyze the validity of information sources.	0.744			
Digital Marketing					
DM 1	Using digital marketing to introduce products.	0.752	0.901	0.901	0.629
DM 2	Interact with customers through digital marketing.	0.771			
DM 3	Facilitate transactions via marketplaces and online motorcycle taxi applications.	0.762			
DM 4	The promotion reflects product quality and increases trust.	0.850			
DM 5	Digital marketing allows negative reviews from consumers.	0.807			
DM 6	Positive interactions improve product reputation.	0.746			
DM 7	Digital marketing makes information and transactions easier, expanding business reach.	0.854			

Source: Research data processing, 2026

Apart from that, it is known that the cross-loading value of the Business Skills, Business Performance, Digital Literacy, and Digital Marketing variables is 0.70. The square root of AVE > correlation between latent constructs. Thus, the variables of Business Skills, Business Performance, Digital Literacy, and Digital Marketing meet discriminant validity. The complete results of the discriminant validity test can be seen in Table 2 below:

Table 2. Discriminant Validity Test Results: Performance Development Model for SMEs

Variable	BSK	BUP	DLT	DM
Business Skills (BSK)	0.777			
Business Performance (BUP)	0.497	0.822		
Digital Literacy (DLT)	0.512	0.392	0.784	
Digital Marketing (DM)	0.473	0.503	0.475	0.793

Source: Data processed by researchers, 2026

Evaluation of the Inner Model

The collinearity test is carried out to determine whether there is high collinearity between variables. The method used is to look at the VIF value, which must be less than 5.00. The results of the collinearity test for all variables are shown in Table 3, where the VIF coefficient value is <5.00, so it can be concluded that no collinearity occurs. Thus, all indicators of the constructs tested are considered valid. Complete results of the collinearity test can be seen in table 3 below:

Table 3. Variance Inflation Factor Coefficient Values: Performance Development Model for SMEs

Variable	BSK	BUP	DLT	DM
Business Skills (BSK)		1.493		1.356
Business Performance (BUP)				

Digital Literacy (DLT)	1.000	1.498	1.356
Digital Marketing (DM)		1.423	

Source: Data processed by researchers, 2026

In effect test/influence size (f^2) is used to assess how big the independent latent influence is on the dependent variable. Table 4 is the result of the effect size test (f^2) of each predictor latent variable on the structural model. Based on this table 4, it is known that the f^2 value of Business Skills on the Business Performance variable is 0.093, which indicates a weak size effect. Furthermore, the f^2 value of Business Skills on Digital Marketing is 0.102 which shows a medium effect size. Then, the f^2 value of digital literacy on Business Skills is 0.356 which shows a strong size effect, the f^2 value of digital literacy on business performance is 0.007 which shows a weak size effect, and digital literacy on digital marketing is 0.105 which shows a strong size effect. Finally, the f^2 value of digital marketing on business performance is 0.109, which shows a strong size effect. The complete results of the f^2 effect size test for each predictor latent variable on the structural model can be seen in Table 4 below:

Table 4. Effect Size Test Results (f^2)

Variable	BSK	BUP	DLT	DM
Business Skills (BSK)		0.093		0.102
Business Performance (BUP)				
Digital Literacy (DLT)	0.356	0.007		0.105
Digital Marketing (DM)		0.109		

Source: Data processed by researchers, 2026

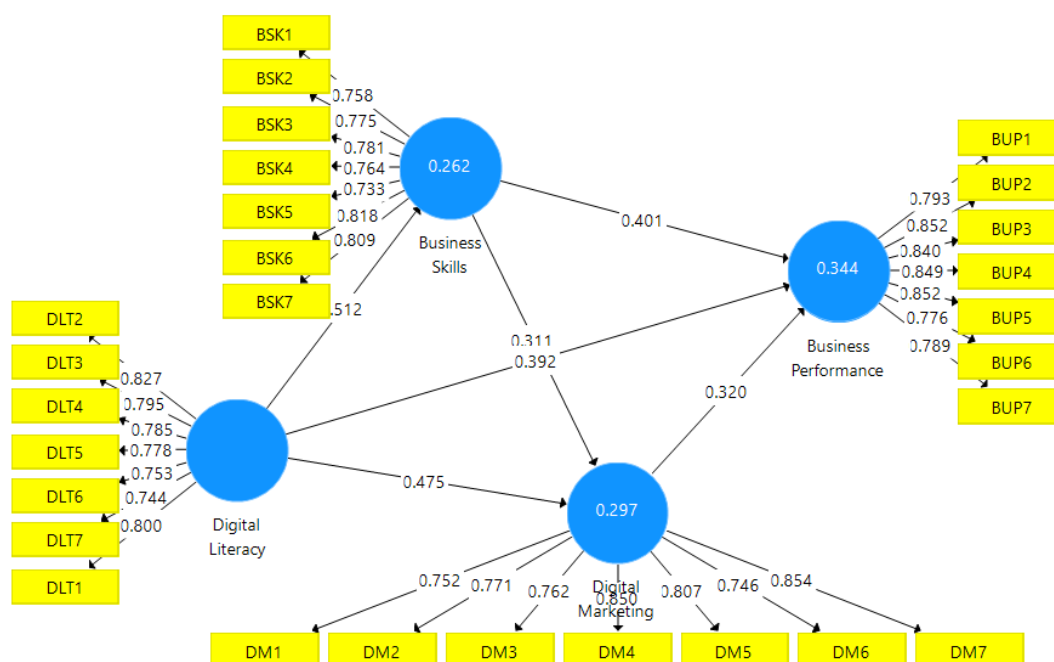
Hypothesis Testing

The image of the structural model test results in this study, which are fully explained in the previous Table 5, shows that the 8 relationships between variables have a t-value greater than 1.96 so that the relationship between the variables in the hypothesis is significant. Meanwhile, the third hypothesis has a t-value smaller than 1.96 so the relationship between these variables is not significant. In testing the mediation effect, it was found that the t-value was also above 1.96, so it could be said that there was a mediation effect. Based on Table 5, it can be seen that direct hypothesis testing, namely the first to sixth hypotheses, was declared accepted with a P value of 0.00. Except for the third hypothesis with a P Value of 0.36 the results were rejected. Hypothesis test result data is presented in Table 5 below:

Table 5. Hypothesis Testing: Performance Development Model for SMEs

Hypothesis Testing	Variable Relations	Original Sample	Sample Mean	Standard deviation	T-Value	P Value
H1	BSK → BUP	0,30	0,30	0,08	3,55	0,00 Accepted
H2	BSK → DM	0,31	0,31	0,08	4,08	0,00 Accepted
H3	DLT → BUP	0,09	0,08	0,09	0,92	0,36 Rejected
H4	DL → BSK	0,51	0,52	0,07	7,28	0,00 Accepted
H5	DL → DM	0,32	0,32	0,08	4,11	0,00 Accepted
H6	DM → BUP	0,32	0,33	0,09	3,73	0,00 Accepted
H7	DLT → BSK → BUP	0.155	0.162	0.052	2.953	0.003 Accepted
H8	DLT → BSK → DM → BUP	0.051	0.053	0.023	2.218	0.027 Accepted
H9	DLT → DM → BUP	0.101	0.102	0.039	2.601	0.010 Accepted

Source: Data processed by researchers, 2026



Source: Research data processing, 2026

Figure 2. Structural Model: Performance Development Model for SMEs

Business skills have a significant influence on firm performance, as indicated by H1's t-value of 3.463, exceeding the 1.96 significance threshold. This finding supports the hypothesis that business skills are essential to achieve optimal performance. Resource-based view theory asserts that managerial skills are critical assets that provide a competitive advantage. With adequate skills, managers can utilize resources efficiently and innovate. Literature reviews, including the views of Barney (1991) and Hitt et al. (2001), suggest that unique and managerial skills enhance a firm's ability to deal with opportunities and threats. Research by Kotler and Keller (2016) and Prahalad and Hamel (1990) highlights that skills in marketing and management are key to high performance. These findings are consistent with the results of current research showing that effective business skills directly affect the success and development of companies. From the experts above, it is concluded that the performance of MSME entrepreneurs is the achievement of the company's operational activities in managing resources according to predetermined objectives as measured by indicators: 1) increase in production, 2) development of business units, 3) increase in the number of sales, and 4) business profits obtained.

Business skills have a significant influence on digital marketing, as evidenced by H2's t-value of 3.679, which exceeds 1.96. This finding supports the hypothesis that effective business skills influence digital marketing strategy outcomes. Digital strategy management theory confirms the importance of skills in designing and analyzing marketing strategies to achieve optimal results. With good skills, companies can utilize digital platforms to reach target audiences and increase conversions. Literature reviews, including the views of Chaffey and Ellis-Chadwick (2019), show that digital marketing management skills, such as SEO and data analysis, contribute to campaign success. Research by Kotler and Keller (2016) and Jansen et al. (2009) also supports that an understanding of digital marketing techniques and online consumer behavior improves marketing outcomes. These findings confirm that business skills are critical to digital marketing success in today's digital age.

Digital literacy has a significant influence on business skills, as shown by H3's t-value of 6.915, which far exceeds the limit of 1.96. This finding supports the hypothesis that proficiency in digital literacy contributes directly to the development of business skills.

Digital literacy theory underscores the importance of understanding information technology and digital media, which enables individuals to access and use information more effectively, thereby improving skills in various aspects of business, including marketing and management. Literature review, as stated by Helsper and Eynon (2010), shows that effective use of digital tools increases competence in information management. Research by Jones et al. (2015) also confirms that digital literacy influences adaptability to new technologies. Previous research, including Van Deursen and Van Dijk (2014), and Bawden and Robinson (2012), supports that good digital skills assist individuals in utilizing technology for better business decisions. These findings are in line with the results of the current study which confirm the influence of digital literacy on business skills.

Digital literacy has no significant effect on business performance, as evidenced by H4's t-value of 0.094, which is well below the significance threshold of 1.96. This finding suggests that while digital literacy is important for information management, it does not necessarily have a direct impact on improving business performance. Business performance theory emphasizes that factors such as strategy, innovation, and operational efficiency often have a greater impact. Literature, including Christensen's (1997) view, suggests that an effective strategy is more decisive for a company's success. Miller et al. (2010) also point out that digital skills do not necessarily lead to better performance if the strategy is not effective. Research by Brey (2012) and Zhao et al. (2010) reinforce the argument that digital skills without innovation do not necessarily improve business performance. Ko et al. (2013) emphasize that management and market strategy are more influential in determining performance. These findings are consistent with the results of the current study, which show that digital literacy has no significant effect on business performance.

Digital literacy significantly affects digital marketing, with the test results showing a t-value of H5 of 3.988, exceeding the significant limit of 1.96. This finding supports the hypothesis that proficiency in digital literacy directly contributes to the effectiveness of marketing strategies. Digital literacy theory emphasizes the importance of a deep understanding of digital tools and platforms to design, manage, and evaluate marketing campaigns more efficiently. This includes data analysis skills, content management, and social media usage. The literature review supports that digital literacy has a significant impact; according to Chaffey and Ellis-Chadwick (2019), skills in digital technology increase campaign effectiveness. Ryan and Jones (2009) add that understanding digital media allows for better utilization of communication channels. In addition, Kotler and Keller (2016) revealed that digital marketing skills are important for designing strategies and measuring marketing success (Kannan and Li, 2017).

Digital marketing significantly affects business performance, with the test results showing a t-value of H6 of 3.690, which exceeds the significance threshold of 1.96. This finding confirms that an effective digital marketing strategy can improve overall business outcomes. Digital marketing theory reveals that the use of channels such as social media and online advertising can increase brand visibility and attract more customers. The literature review supports this view; according to Kotler and Keller (2016), good digital marketing expands market reach and increases consumer engagement. Chaffey and Ellis-Chadwick (2019) added that techniques such as SEO and PPC can increase conversions. Research by Jansen et al. (2009) shows that an integrated digital marketing strategy increases campaign effectiveness. This finding is consistent with research results that show the positive impact of digital marketing on business performance.

Digital literacy significantly affects business performance through business skills, which acts as a mediating variable. The test results show H7's t-value of 2.953, exceeding the significance threshold of 1.96, indicating this effect. This finding supports the hypothesis that business skills gained from digital literacy can improve managerial and operational

capabilities. According to Baron and Kenny (1986), mediation occurs when the mediator variable explains the relationship between the independent and dependent variables. Research by Compeau and Higgins (1995) also shows that technological skills affect task performance and business outcomes. This finding confirms that business skills play an important role in linking digital literacy with better business performance.

Digital literacy significantly affects business performance through business skills and digital marketing. The test results show H9's t-value of 2.218, which exceeds the significance threshold of 1.96, indicating this effect. This finding concludes that skills in both areas can simultaneously mediate the effect of digital literacy on business performance. The dual mediation theory explains that digital business and marketing skills improve marketing strategies, leading to improved performance. According to Baron and Kenny (1986), dual mediation works to influence the dependent variable. This research confirms that the combination of skills serves as an effective channel for translating digital literacy into better business outcomes.

Digital literacy significantly affects business performance through digital marketing, where digital marketing variables can partially mediate this relationship. The test results show H10's t-value of 2.601, exceeding the significance threshold of 1.96, indicating such an effect. This finding confirms that digital marketing serves as a mediating variable in the relationship between digital literacy and business performance. Mediation theory explains that digital skills enable individuals to utilize digital marketing more effectively, improving business outcomes. This suggests that proficiency in digital literacy can translate into better marketing strategies. The literature review supports that understanding digital technology helps companies design effective marketing strategies. Past research has also shown that digital marketing can mediate the relationship between digital literacy and business performance, emphasizing the importance of digital skills in achieving better outcomes.

CONCLUSION

Higher levels of business skills will improve the business performance of SMEs in urban areas. A higher level of business skills will improve digital marketing for SMEs in urban areas. Better digital literacy will improve business skills for SMEs in urban areas. A better level of digital literacy will be able to improve business performance for SMEs in urban areas. A better level of digital literacy will be able to improve digital marketing for SMEs in urban areas, and a better level of digital marketing will be able to improve business performance for SMEs in urban areas.

A better level of digital literacy can improve business performance through business skills. High business skills can partially mediate the increase in digital literacy on business performance for SMEs in urban areas. High digital literacy improves business performance through business skills and digital marketing. Business skills and digital marketing variables together can mediate the high level of digital literacy on business performance for SMEs in urban areas. High digital literacy improves business performance through digital marketing. High digital marketing skills can partially mediate digital literacy on business performance for SMEs in urban areas.

Based on the conclusions described above, the researchers provide several suggestions that are expected to be useful input, among others: Based on the empirical findings of the research data, it is necessary to increase the business performance aspect in increasing the number of new customers, the highest score digital literacy variable on understanding the characteristics of web pages such as HTTP, HTML, and URL. Digital marketing variables on using digital marketing, such as social media marketing to introduce businesses and market products. The results of this study can strengthen the argumentation of factors that influence digital literacy, business skills, digital marketing, and business performance in the

development of SMEs in urban areas. For the SME department to be able to improve digital literacy, business skills, digital marketing, and business performance in SMEs with indicators and measurement models.

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