ENHANCING THE COMPETITIVENESS OF MICRO, SMALL AND MEDIUM ENTERPRISES CLUSTERS IN LAMONGAN REGENCY THROUGH DIGITAL MARKETING WITH GOVERNMENT POLICY AS A MODERATING VARIABLE

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Abstract : Urgency study This done Because the importance of Micro, Small and Medium Enterprises (MSMEs) for the economy in Indonesia which is not only become backbone in move wheel economy will but MSMEs also play a role as creator field Work as well as sustainability economy . Goal study namely analyze the influence of digital marketing on Power MSMEs competitiveness in the Regency Lamongan, analyzing influence policy government to Power MSME competitiveness in the Regency Lamongan , analyzing policy government moderate connection between digital marketing and power MSMEs competitiveness in the Regency Lamongan . The method used in study namely method quantitative with do survey use distributed questionnaires to respondents. Research This apply purposive sampling technique for determine sample. Respondents in the study This namely perpetrator MSMEss Center businesses in the Regency Lamongan , totaling 190 respondents . Method research data analysis use Partial Least Square (PLS) derived from from the Structural Equation Modeling (SEM) model with approach Second order confirmatory factor analysis. Research results This namely mark coefficient track of 0.604, t-statistic 13.865, and p-value 0.000 indicates that the more optimal the implementation of digital marketing, the more the more power also increases Company competitiveness , value coefficient path 0.336, t-statistic 5.072, and p-value 0.000, meaning support policy government capable strengthen position Power competition whereas mark coefficient 0.285, t-statistic 2.707, and p-value 0.007, meaning policy government play a role as variables strengthening moderation the influence of digital marketing on Power competitive .

Keywords: Competitiveness; Digital Marketing; Policy Government; MSMEs Center; Structural Equation Modeling

1. Introduction

Micro, Small and Medium Enterprises (MSMEs) for the economy in Indonesia which is not only become backbone in move wheel economy will but MSMEs also play a role as creator field Work as well as sustainability economy (Liu et.al, 2020). For support MSMEs actors in develop product local, government Regency Lamongan Keep going accompany MSMEs actors to expand marketing MSMEs products in Lamongan capable increase economy public Lamongan , can proven index economy in Lamongan from -2.43% to to 5.56% and now amount MSMEs actors in Lamongan recorded 252,734 MSMEs (News Portal Lamongan Regency, 2023).

Potential of MSMEs in the Regency Lamongan is very big, it is proven marked with development businesses in the village that are used as MSMEs center. There is seven type business that is made as MSMEs centers in the Regency Lamongan namely songkok center, center convection, center woven bamboo, batik center, boran rice center, center ikat weaving and brick and tile centers (Disperindag Regency Lamongan , 2023). The strictness competition business encourage the perpetrators business in increase Power competition with implementing digital marketing strategies for market its products (Deku et.al, 2024). Digital marketing, a a concept that summarizes various interactive and integrated marketing strategies (Sifwah et.al, 2024). On the other hand other roles government in make policies that can improve and support growth technology new, products, and give solution. However, the government can also hinder performance when introduce policies that can limit autonomy, as well as freedom entrepreneurship especially for business with growth and a very dynamic environment (Njinyah , 2018).

The digital era demands perpetrator business for creative use technology information.media social such as Facebook, Instagram, Twitter, and WhatsApp also play a role important as supporters activity business . Start from activity marketing until the sales process buy all Can done digitally. With development creativity based technology used in a way sustainable, it is hoped can increase sustainability of MSMEs (Rusminah et.al, 2025). Urgency study This done for increase Power competition business through implementation of digital marketing as basic marketing strategy MSMEs products in the Regency Lamongan For entering the national market until international with give outlook more about How policy government can influence effectiveness of digital marketing in increase Power competitiveness of MSMEs. In addition that, research This will use relevant indicators with characteristics MSMEs actors and different methods with study previously so that results research that will be done Later can help in solve problems that occur as well as give the right solution related Power competition businesses run by MSMEs in the Regency Lamongan.

MSMEs that have Power competition tall generally capable adapt self with change market trends, keeping consistency quality products, as well as give mark add appropriate with need consumers . One of the factors that influences Power competition namely utilization digital technology (Rusminah and Purnomo, 2025).

In addition that, support government through policies, training, and facilitation market access also plays a role important in increase Power competitiveness of MSMEs in order to be able to contribute more big to economy national. Study This will done with study more carry on about digital marketing towards Power competition with use variables mediation policy government. Then in study This proposer use method second order confirmatory factor analysis testing. (Sugiyono , 2022) testing *second order construct* through two levels, first analysis done latent construct dimensions to the indicators and secondly analysis done to latent construct to construct dimensions . Variables moderation policy government in study referring to research (Khouroh et.al, 2019) which explains that There is six reflected indicators in policy government namely capital, resources human resources, marketing, supply, infrastructure, and IPR.

2. Literature Review

Competitiveness

Competitiveness in context economy often associated with efficiency production, utilization technology, quality source Power humans, as well as ability adaptation to change environment business. Increasingly tall Power competitive, increasingly big opportunity

something business or country for grow and win competition at the level local both global and national. According to Sasikirana et.al, (2024) digital marketing activity marketing that uses the internet and technology information for expand and improve traditional marketing functions. Social media with all the advantages can help in the communication process marketing. In operate communication marketing, company must have a strategy so that all predetermined plan previously can achieved. Competitiveness in study This referring to research (Deku et.al, 2024) which consists of of the five indicator variables, namely Professional Knowledge , Operations Management Competence , Strategic Vision, Relationship Building and Hands-on Experience

Digital Marketing

Digital marketing provides opportunity for expand brand awareness and create more personal interactions with consumers. Through relevant, intelligent and targeted content, MSMEs can build deeper relationship strong with audience they are different with marketing conventional which is often nature One direction, digital marketing enables MSMEs to interact in a way direct with consumers, responding questions, feedback back, and dig up valuable insights for increase quality the products and services they provide offer. In context this, the use of social media be one of points crucial in digital marketing strategies for MSMEs. The presence of being active on platforms like Facebook, Instagram, Twitter, or LinkedIn provides room for MSMEs to build community, sharing relevant content, as well as developing strong brand awareness (Sifwah et.al, 2024). The variable indicators used in this study This referring to research (Issau and Acquah, 2021) which uses indicator creating YouTube content, creating Facebook content, creating content on other social media sites, e-commerce sites management and updating and webinars, podcasts and life streaming.

Policy Government

Government own role crucial in provide framework regulations and policies that support digital transformation of MSMEs. Need existence recommendation practical policies and strategies that can used by government, sector private sector and stakeholders interest other For support transformation digital economy of MSMEs in Indonesia (Vera et.al, 2024). Policy government in study referring to research (Khouroh et.al, 2019) which explains that There is six reflected indicators in policy government namely capital, resources human resources, marketing, supply, infrastructure, and IPR .

3. Research Methods

Methods used in study This namely method quantitative with do survey use distributed questionnaires to respondents in the study This namely perpetrator business center MSMEs in the district Lamongan. Meanwhile study This apply purposive sampling technique. according to Ghozali and Latan (2015) purposive sampling is sampling technique where the data collection process takes into account factors certain. following is consideration For election samples in research This as following : (1) Respondents is perpetrator businesses located in the area the village that was made as center MSMEs in the district Lamongan , (2) Respondents is perpetrator efforts that have been using digital marketing to market the product . Determination amount samples in research This use Hair's formula. According to Hair (2019) the formula used Because size undeveloped population known sure and suggest that size minimum sample with formula as following : (Amount Indicator + Amount Latent Variable) x 5-10 times

Based on formula the so samples in research This namely (16 + 3) x 10 = 190. then amount sample maximum in research were 190 respondents. spread questionnaire in study This using scale Likert 1-4. Research This use partial least square (pls) method which originates from

the Structural Equation Modeling (SEM) model with second order confirmatory factor analysis approach. Stages analysis use evaluation of measurement models (outer model), evaluation of the structural model (inner model) and testing hypothesis (path analysis) all measured use help application smartpls 3.0 for analyze data in study.

4. Results And Discussion
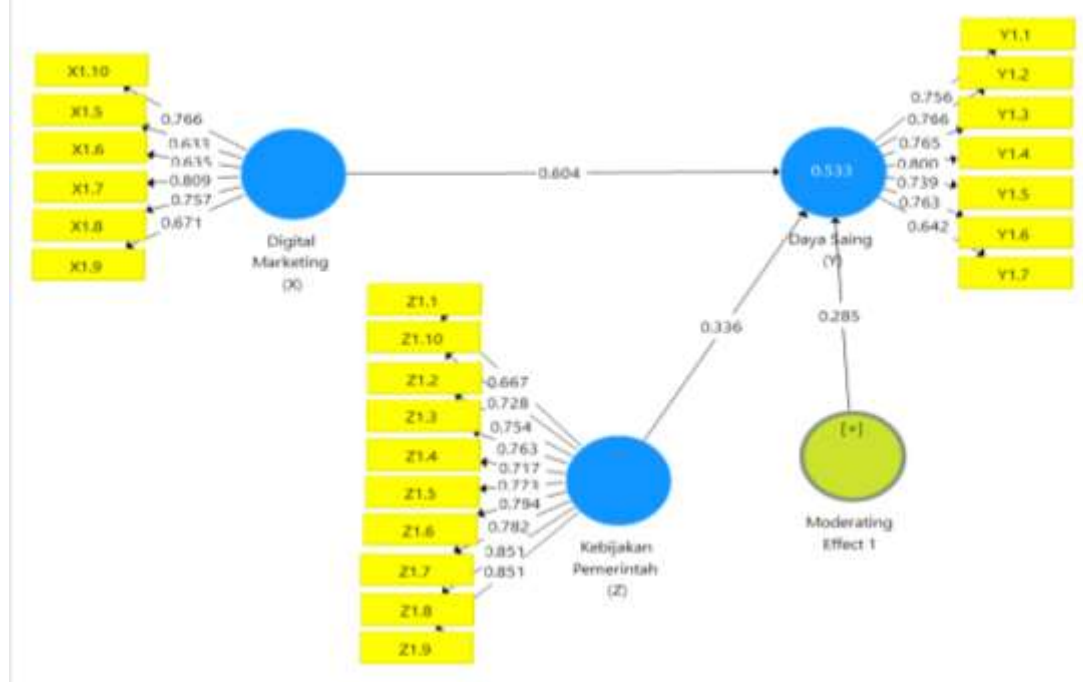
Evaluation of Measurement Model (Outer Model)

Figure 1. Final Output Results of SEM-PLS Analysis

Validity Test Convergence (Outer Loading)
Validity test convergent seen from the loading factor value as following :

Table 1. Outer Loading

No	Variables	Indicator	Loading Factor
1	Digital Marketing (X)	X1.5	0.766
		X1.6	0.633
		X1.7	0.809
		X1.8	0.757
		X1.9	0.671
		X1.10	0.766
2	Policy Government (Z)	Z1.1	0.667
		Z1.2	0.728
		Z1.3	0.754
		Z1.4	0.763
		Z1.5	0.717
		Z1.6	0.773
		Z1.7	0.794

		Z1.8	0.782
		Z1.9	0.851
		Z1.10	0.851
3	Competitiveness (Y)	Y1.1	0.756
		Y1.2	0.766
		Y1.3	0.765
		Y1.4	0.800
		Y1.5	0.739
		Y1.6	0.763
		Y1.7	0.642

Source : Processed Primary Data (2025)

Based on results outer loading analysis, all indicators used in study This own loading factor value is above 0.5, so that can stated fulfil criteria validity convergent. The Digital Marketing construct shows loading value between 0.633–0.809, with a number of indicators (X1.6 = 0.633 and X1.9 = 0.671) which are still is below 0.7, but still can accepted Because its value still above 0.5. Construct Policy Government own relative loading value high, namely range between 0.667–0.851, so can concluded that indicators is valid in measure variable. While that, the construct of Competitiveness has a loading between 0.642–0.800, with majority indicators above 0.7, except Y1.7 (0.642) which remains maintained Because Still within the tolerance limit. This result indicates that all over constructs used in the research model has fulfil condition validity convergent as proposed by Chin (1998) and Hair et al. (2014), where indicators with loading values above 0.5 are declared valid. With Thus , the measurement model in the research This can assessed well and the indicators used capable reflect variables latent in a way adequate.

Validity Test Discriminant

Validity test discriminant This can seen from results from mark AVE root with see Fornell Larcker test value, as following :

Table 2. Fornell Test Lacker Criteria

Discriminant Validity

	Daya Saing (Y)	Digital Marketing (X)	Kebijakan Pemerintah (Z)	Moderating Effect 1
Daya Saing (Y)	0.749			
Digital Marketing (X)	0.592	0.715		
Kebijakan Pemerintah (Z)	0.270	-0.101	0.770	
Moderating Effect 1	0.314	0.082	-0.016	0.553

Source : SEM-PLS Analysis Output (2025)

Based on the output of discriminant validity, it shows that every construct own validity good discriminant Because capable differentiate himself from other constructs in the model. For example, the Competitiveness construct (0.749) is more tall than the correlation with Digital Marketing (0.592), Policy Government (0.270), and Moderating Effect (0.314). Likewise, the Digital Marketing construct (0.715) is more tall than the correlation with Competitiveness (0.592) and Policy Government (-0.101). With Thus , the results This confirm that each construct in

study own validity adequate discriminant in accordance criteria Fornell and Larcker (1981), namely mark root the square of AVE must be more big compared to correlation between construct others. This is means that constructs used in the model can differentiated One each other in a clear , so that instrument study declared valid discriminant.

Reliability Test
Reliability testing in research This can seen in the table below :

Table 3. Reliability Test Results

Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability
Daya Saing (Y)	0.868	0.870	0.899
Digital Marketing (X)	0.809	0.827	0.862
Kebijakan Pemerintah (Z)	0.926	0.932	0.935
Moderating Effect 1	0.972	1.000	0.961

Source : SEM-PLS Analysis Output (2025)

Based on reliability test results construct, Cronbach's Alpha value for all variables are above 0.7, namely Competitiveness (0.868), Digital Marketing (0.809), Policy Government (0.926), and Moderating Effect (0.972). This show that all over construct own excellent internal consistency. Likewise, the Composite Reliability (CR) values of all construct is at far above threshold of 0.7, namely Competitiveness (0.899), Digital Marketing (0.862), Policy Government (0.935), and Moderating Effect (0.961). These results signify that each construct own reliability high composite and its indicators can reliable for measure latent variables because its value more big from 0.7 (Hair et.al, 2014).

Structural Model Evaluation (Inner Model)
Analysis results This using Path Analysis to know influence between the variables can seen in the table as following ;

Table 4. Path Analysis

Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Digital Marketing (X) -> Daya Saing (Y)	0.604	0.594	0.044	13.865	0.000
Kebijakan Pemerintah (Z) -> Daya Saing (Y)	0.336	0.329	0.066	5.072	0.000
Moderating Effect 1 -> Daya Saing (Y)	0.285	0.277	0.105	2.707	0.007

Source : SEM-PLS Analysis Output (2025)
Hypothesis 1 : Digital Marketing (X) on Competitiveness (Y)
Hypothesis First state that digital marketing has an influence to Power competitiveness. Analysis results show mark coefficient track of 0.604, with *t-statistic* 13.865 (>1.96) and *p-value* 0.000 (<0.05). This This means that H1 is accepted, so that can concluded that more optimal

implementation of digital marketing will increase Power competitive. This result in line with study previously by Rusminah and Purnomo (2025) and Issau and Acquah, (2024) who emphasized that utilization of digital marketing strategies can expand market reach and increase Power competition effort. On the results study This Power MSME competitiveness in the Regency Lamongan emphasize on strategy Power competition Because is key for MSMEs in face increasingly market dynamics competitive. So that this strategy to be successful, MSMEs need to own the right strategic vision, namely ability in formulate direction term long effort, understanding need consumers, as well as adapt self with development technology digital. A clear strategic vision will helping MSMEs in create differentiation product, build loyalty customers, and strengthen position compete in the market.

Hypothesis 2: Policy Government (Z) on Competitiveness (Y)

Hypothesis second state that policy government influential to Power competitiveness. Analysis results show mark coefficient track of 0.336, with *t-statistic* 5.072 (>1.96) and *p-value* 0.000 (<0.05). These results prove that H2 is accepted, so that support and regulation government proven play a role in increase Power competitive, which is in line with results research (Deku et.al, 2024) In the research This policy proper government for MSMEs in the Regency Lamongan can increase Power MSME competitiveness. Need existence support capital in operate business MSME actors. Access against capital is foundation main for MSMEs to strengthen capacity production, doing innovation products, as well as increase quality service. Without support adequate capital, MSMEs often face limitations in develop good business from side technology, human resources, and marketing. Therefore that, government program like financing cheap, credit people's business (KUR), subsidy interest, and access funding through institution finance become vital instruments in push sustainability business.

Hypothesis 3: Policy Government Moderating The Relationship Between Digital Marketing and Competitiveness

Hypothesis third state that policy government moderate the influence of digital marketing on Power competitiveness. Analysis results show mark coefficient of 0.285, with *t-statistic* 2.707 (>1.96) and *p-value* 0.007 (<0.05). This means that H3 is accepted, so can it is said that policy government strengthen connection between digital marketing and power parallel competition with results research (Khouroh et.al, 2019). Research results This that when policy government support, then the influence of digital marketing on improvement Power competition will the more strong. With existence policy proper government, digital marketing is not only become tool promotion, but truly become a strengthening strategy position competing MSMEs. Besides That with existence support capital, MSMEs have source Power financial For optimize use of digital marketing, starting from open online store , expanding network distribution through e-commerce, up to utilise advertisement paid on social media. Conditions This in a way direct increase ability competing MSMEs, both through improvement visibility product and market expansion to national and global levels. With thus, it can confirmed that policy government in the field of capital strengthen effectiveness of digital marketing in push Power competitiveness of MSMEs sustainable.

5. Conclusion

Based on results analysis of the above data then the conclusions produced in the research This is : (1) Digital marketing has an influence significant to Power competitive. This is show that the more optimal the use of digital marketing, the more high power the competition it has companies or SMEs. Proven digital marketing strategies capable expand market reach, increase

interaction with consumers, as well as strengthen position compete in the era of digital transformation, (2) Policy government influential significant to Power competitive findings This indicates that support government policies, regulations and programs that favor perpetrators business capable push improvement Power competitiveness. Policy the can in the form of facilitation access capital, provision digital infrastructure, up to conducive regulations for development business, (3) policy government proven moderate connection between digital marketing and Power competitiveness. This means that the influence of digital marketing on improvement Power competition will the more strong if supported by policy the government that right. This is confirm that collaboration between internal company factors (digital marketing strategy) and external factors external (support) government) is combination important in create power sustainable competitiveness.

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