

ABSTRACT

The development of digital technology in the Industry 4.0 era has had a significant impact on the operations of micro, small, and medium enterprises (MSMEs). Increased competition and changes in market demand have forced MSMEs to adopt technology-based strategies in order to survive and grow. This study aims to analyze the influence of digital marketing, technology investment, and customer engagement on the performance of MSMEs in Bandung City, with digital transformation as the mediating variable.

The approach used in this study is quantitative, employing random sampling, involving 130 MSMEs that have adopted digital technology in their business activities. Data was collected through a questionnaire using a five-point Likert scale. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) through the SmartPLS 4 application, which allows testing of direct and indirect relationships between variables.

Research findings indicate that digital marketing, technology investment, and customer engagement have a positive and significant impact on digital transformation. Additionally, these three variables also contribute to the performance of SMEs, both directly and through digital transformation as a mediating variable. Indicators such as the use of paid advertising, the adoption of digital point-of-sale (POS) systems, and customer loyalty programs are aspects that should be considered to enhance business performance.

These findings highlight the importance of implementing integrated digital strategies to improve operational efficiency and expand the SME market. This study is expected to contribute to the development of SME digital transformation theory, serve as a practical reference for businesses and governments, and encourage further qualitative research to understand the dynamics of digital transformation implementation in greater depth.

Keywords: *Digital Transformation, MSME Performance, Digital Marketing, Technology Investment, Customer Engagement.*