

(Research) Article

Employer Branding Meets Digital Capability: An Empirical Study on Employee Engagement and Turnover Intention in SMEs

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Abstract: This study aims to analyze the influence of employer branding and digital capability on turnover intention, with employee engagement serving as a mediating variable, in Small and Medium Enterprises (SMEs) in Central Java Province. The research design uses a quantitative approach with an explanatory research method. The research sample consists of 205 SMEs employees selected using purposive sampling techniques with criteria of a minimum of six months of service and active use of digital technology in their work. Data were collected through a Likert-scale questionnaire and analyzed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS). The results indicate that employer branding has a positive effect on employee engagement and a negative effect on turnover intention. Digital capability has a positive effect on employee engagement, but its direct effect on turnover intention is not significant. Employee engagement was found to mediate the relationship between employer branding and turnover intention, as well as between digital capability and turnover intention. These findings reinforce the relevance of Social Exchange Theory and the Resource-Based View in the context of human resource management in the SME sector, while also providing practical implications that strengthening employer branding and enhancing employees' digital competencies can reduce turnover intention.

Keywords: Digital capability; Employee Engagement; Employer Branding; SMEs; Turnover Intention.

Received: May 15, 2025
Revised: July 17, 2025
Accepted: September 16, 2025
Published: November 18, 2025
Curr. Ver.: November 18, 2025



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1. Introduction

In today's increasingly dynamic business environment, small and medium-sized enterprises (SMEs) face significant challenges in maintaining their competitive edge. One of the key determinants of success is an organization's ability to attract, retain, and develop its human resources (Sudrajat et al., 2023). Amidst the dynamics of a competitive labor market, a company's ability to build and maintain its image as an employer of choice is an important determinant of organizational success (Thalgaspitiya, 2020).

The concept of employer branding is important because the company's image as a workplace can increase employee engagement, thereby reducing employees' intention to leave (turnover intention) (Staniec & Kalińska-Kula, 2021). An effective internal branding strategy can increase employee engagement and reduce resignation intentions, which in turn will increase overall productivity (Singh, 2021). The importance of internal branding is further emphasized to increase employee attachment and identification with the company brand, as well as to manage their awareness and perception of the brand (Clark et al., 2019).

On the other hand, digital capability is also a strategic necessity for companies, especially SMEs operating in a technology-based business environment. Digital capability is not only related to technology adoption, but also involves digital integration in work

processes, innovation, and internal communication. Digital capability is not only related to technology adoption, but also involves digital integration in work processes, innovation, and internal communication. (Sipayung, 2025)

There have been quite a number of previous studies discussing the relationship between employer branding, employee engagement, and turnover intention, most of which focus on large or multinational companies. Research on the same topic in the context of SMEs, especially with the inclusion of the role of digital capability, is still relatively limited. In fact, SMEs have different characteristics, such as limited resources and a more flexible organizational structure, which have the potential to affect the effectiveness of employer branding strategies and digital capabilities in managing employees. This study aims to: 1) Analyze the influence of employer branding on employee engagement in SMEs. 2) Examine the role of digital capability as a factor that strengthens the relationship between employer branding and engagement. 3) Assess the extent to which employee engagement mediates the relationship between employer branding and turnover intention.

This study has several important contributions. First, theoretically, the study enriches the literature on human resource management by integrating the concepts of employer branding and digital capability in the context of SMEs, which are still rarely studied. Second, practically, the findings of this study are expected to assist SME owners and managers in designing internal branding strategies and developing digital capabilities to increase employee engagement while reducing turnover rates. Third, contextually, this research is relevant to post-pandemic conditions where digital transformation has become a key factor for business continuity, including in building a work culture that supports employee engagement. Thus, this research not only addresses academic gaps but also provides strategic solutions for SMEs to face the challenges of human resource management in the digital era.

2. Literature Review

Social Exchange Theory (SET)

The main principle of this theory states that social relationships, including those in the workplace, can be understood as a series of transactions in which individuals rationally evaluate the costs and benefits of their interactions (Cook & Rice, 1995). This social exchange theory asserts that human resource management practices can be viewed as an investment by the organization in its employees, which then creates a sense of obligation for employees to reciprocate through improved performance and commitment (Zografou & Galanaki, 2024).

Studies show that recognition and appreciation from organizations play a crucial role in shaping employees' affective, sustainable, and normative loyalty (Nurdiyansah et al., 2025). Adopting a strong employer branding strategy is essential in building a positive organizational image, so that employees feel valued and motivated to increase their engagement (Wardani & Oktafiansyah, 2020).

This principle emphasizes that the success of a company is highly dependent on effective human resource management (Windayanti & Febrian, 2021). Therefore, this has implications for reducing employee turnover and increasing long-term retention (Singh et al., 2024). Social exchange theory emphasizes that constructive and mutually supportive relationships between individuals in an organization, accompanied by fair compensation, are essential for creating a positive and productive work environment (Çera et al., 2023). Conversely, unfairness in rewards or lack of recognition can erode loyalty and increase turnover intention (Nurdiyansah et al., 2025).

Resource-Based View (RBV)

This concept states that the success of an entity depends on its valuable, scarce, inimitable, and irreplaceable resources. This indicates that internal capabilities, such as organizational capabilities, innovation, and marketing, are the main foundations for facing dynamic market competition. The importance of these capabilities is increasingly felt in the context of micro, small, and medium enterprises, where resource constraints are often a major obstacle to business development and employee performance improvement (Primandaru et al., 2023). Digital capability is seen as a strategic resource for MSMEs that can improve work effectiveness, satisfaction, and employee engagement (Rigan & Parahiyanti, 2022).

RBV explains how Digital Capability can increase Employee Engagement and reduce Turnover Intention. Within the RBV framework, MSME digital capabilities can be categorized as IT-based resources that include physical infrastructure, IT human resources that integrate technical and managerial capabilities, and IT-based intangible resources (Çallı et al., 2022). The utilization of these digital capabilities will encourage employees to be more involved in business processes and key routines, thereby increasing productivity (Gusti et al., 2024).

Digital transformation supported by these capabilities significantly contributes to improving employee performance, as indicated by the positive influence of Human Resource Information Systems and competencies on overall performance (Ubaidillah & Ubaidillah, 2024). This is in line with the view that human resources are an important asset with intellectual competencies, and the quality of human resource capabilities plays a major role in the progress of an organization (Diah et al., 2021).

Job Demands-Resources (JD-R) Model

The principle of employee engagement is formed from the balance between job demands and job resources (Vandiya & Etikariena, 2018). Employer branding and digital capabilities can function as job resources that motivate employees to remain engaged, especially in the context of increasingly common remote work (Lok et al., 2024). The Job Demands-Resources model supports the hypothesis that employee engagement functions as a mediator in the relationship between employer branding/digital capabilities and turnover intention. This model indicates that employees' perceptions of the company's image as an employer (employer branding) and technological support (digital capabilities) significantly influence their level of commitment, which in turn mitigates their intention to leave their job (Singh et al., 2024).

Research shows that employees who have job commitment feel more energetic and have an effective relationship with their work (Vandiya & Etikariena, 2018). Ideally, companies expect the majority of their employees to have high job commitment, but this often poses a significant challenge that requires careful management strategies (Vandiya & Etikariena, 2018). Maintaining employee engagement requires a holistic approach that includes continuous human resource development, creating a supportive work environment, and ensuring alignment between individual and organizational goals (Ricardianto et al., 2019).

Research Conceptual Framework

This study aims to explain the relationship between employer branding, digital capability, employee engagement, and turnover intention in the context of SMEs in Indonesia. In general, turnover intention is considered a crucial issue for SMEs, because limited human resources mean that employee turnover has the potential to disrupt business stability. Therefore, it is important to understand the factors that can reduce employees' intention to leave.

First, employer branding is considered one of the important factors that build a positive image of the organization in the eyes of employees. Organizations that have a good reputation as a workplace are able to attract and retain employees. Based on Social Exchange Theory, when employees feel the benefits and added value of the organization, they tend to show loyalty through employee engagement, which ultimately reduces their intention to leave. Thus, employer branding is hypothesized to influence employee engagement and directly or indirectly reduce turnover intention.

Second, digital capability at both the organizational and individual levels is becoming increasingly relevant in the era of digital transformation. Based on the Resource-Based View (RBV) perspective, digital capability is a strategic asset that can increase work productivity, reduce barriers to task completion, and improve employee work experience. High digital capability makes work easier and more interesting, thereby strengthening employee engagement and reducing the intention to leave.

Furthermore, employee engagement acts as a mediating variable that bridges the influence of employer branding and digital capability on turnover intention. This is in line with the Job Demands-Resources (JD-R) Model, which emphasizes that employee engagement is formed when they obtain adequate organizational resources, both in the form of a positive company image (employer branding) and technological support (digital capability).

Thus, this study proposes a conceptual model that integrates employer branding and digital capability as predictors, employee engagement as a mediator, and turnover intention as the main variable to be explained. This model is expected to provide new insights into how MSMEs can manage branding and digital competence to increase employee engagement while reducing turnover intention.

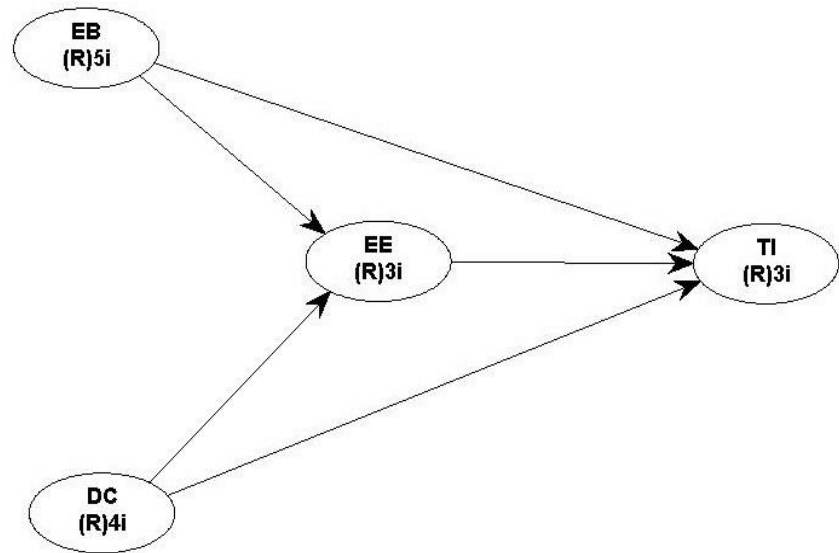


Figure 1. Research Conceptual Framework.

3. Proposed Method

This study uses a quantitative approach with an explanatory research design. This design was chosen because the study aims to explain causal relationships, both direct and indirect, between the variables studied, as well as to test the mediating role. Data analysis was performed using Partial Least Squares (PLS)-based Structural Equation Modeling (SEM), given the complexity of the research model with latent variables measured through selected indicators. The research population consists of all employees working in Micro, Small, and Medium Enterprises (SMEs) in Central Java, particularly in the trade, service, and manufacturing sectors. The sample used in this study consisted of 205 employees SMEs in Central Java. This study involved four main variables: Employer Branding (X1), Digital Capability (X2), Employee Engagement (Z) and Turnover Intention (Y).

Data analysis was conducted using SEM-PLS with the help of software such as WrapPLS. The analysis stages included: 1) Outer Model testing (convergent validity, discriminant validity, and construct reliability). 2) Inner Model testing (R^2 , Q^2 , and f^2 tests to evaluate model quality). 3) Path Significance Test (bootstrapping to test the significance of path coefficients between variables). 4) Mediation Testing using the bootstrapping method to test the role of employee engagement as a mediator.

4. Results and Discussion

Based on the results of Structural Equation Modeling (SEM) analysis using the Partial Least Squares (PLS) approach, the following findings were obtained:

a. Employer Branding → Employee Engagement.

The path from employer branding to employee engagement shows a coefficient of $\beta = 0.71$ ($p < 0.01$). This means that employer branding has a positive and significant effect on employee engagement. The stronger the image of the organization as a workplace, the higher the employee engagement.

b. Digital Capability → Employee Engagement

The path from digital capability to employee engagement has a coefficient of $\beta = 0.25$ ($p < 0.01$). These results indicate that employees' digital capabilities have a significant positive effect on employee engagement. The higher the digital capabilities of employees, the greater their level of engagement with their work.

- c. Employer Branding → Turnover Intention
The path from employer branding to turnover intention produced a coefficient of $\beta = -0.41$ ($p < 0.01$). This means that employer branding has a significant negative effect on turnover intention. A strong corporate image reduces employees' intention to leave the organization.
- d. Employee Engagement → Turnover Intention
The path from employee engagement to turnover intention produced a coefficient of $\beta = -0.18$ ($p < 0.01$). These results indicate that employee engagement has a significant negative effect on turnover intention, although its effect is relatively smaller than that of employer branding.
- e. Digital Capability → Turnover Intention
The path from digital capability to turnover intention produced a coefficient of $\beta = -0.38$ ($p < 0.01$). This indicates that digital capability has a significant negative effect on turnover intention. Employees with good digital capabilities tend to have lower turnover intentions.
- f. R^2 value
The Employee Engagement variable is explained by employer branding and digital capability with an R^2 value of 0.92, which means that 92% of the variation in engagement is influenced by these two variables. The Turnover Intention variable is explained by employer branding, digital capability, and employee engagement with an R^2 value of 0.93, which indicates that the model has very strong predictive power.

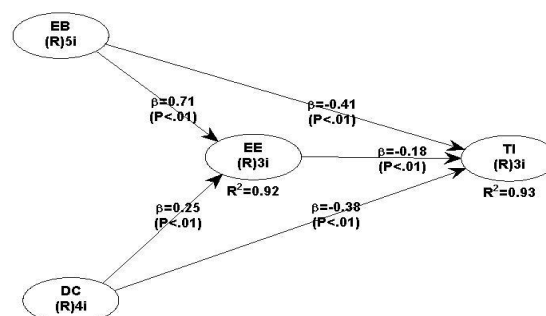


Figure 2. Data Result.

5. Conclusions

Overall, the results of this study confirm that employer branding and digital capability are key factors that significantly influence employee engagement while reducing turnover intention among SMEs employees. Employee engagement has been proven to play an important mediating role, although the direct influence of employer branding and digital capability on turnover intention is relatively more dominant. The high R^2 values for the engagement variable (0.92) and turnover intention variable (0.93) indicate that this research model has very strong predictive power. Thus, this study confirms that strategies to strengthen organizational image and improve employee digital competence are complementary approaches in efforts to retain employees in the SMEs sector.

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