

# EXPLORING THE EFFECT OF ENTREPRENEURIAL COMMITMENT AND DIGITAL INNOVATION ORIENTATION ON BUSINESS PERFORMANCE: THE MEDIATING ROLE OF PRODUCT INNOVATION

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**Abstract.** This study aims to analyze the effect of Entrepreneurial Commitment and Digital Innovation Orientation on Business Performance and the Mediating Role of Product Innovation. The study subjects were SME business actors in the creative industry sector in the Banyumas area. The study's results prove that entrepreneurial Commitment and digital innovation orientation positively affect product innovation. Product innovation has a positive effect on business performance. Furthermore, product innovation mediates the relationship between entrepreneurial Commitment and digital innovation orientation on business in terms of performance.

**Keywords:** entrepreneurial commitment, digital innovation orientation, business performance, product innovation, SME

## A. Introduction

From a macroeconomic perspective, small, micro, and medium enterprises (MSMEs) are often considered important pillars of national economic recovery. Their contribution to driving economic growth and creating jobs is expected to be the first step to mobilizing the production sector in various business fields [1]. Finance Minister Sri Mulyani emphasized that MSMEs significantly contribute to the Indonesian economy. She stated that MSMEs play an important role in driving the country's economic growth, with the contribution to GDP reaching 61% by 2024. This figure is even higher than other countries in the ASEAN region and other G20 members [2]. The existing contributions are spread over various sectors, and the most dominant sector is the creative economy sector. The culinary, fashion, and craft subsectors dominate the three creative economy sub-sectors. This is reinforced by data from the Deputy for Strategic Policy of the Ministry of Tourism/Baparekraf, which has surveyed creative economy sector players. Until the first quarter of 2024, the survey results showed a positive performance, with the added value of the creative economy estimated to reach Rp749.58 trillion, or 55.65 percent of the target of Rp1,347 trillion.

To encourage the development of the creative economy at the national level, steps to develop the creative economy must also start from the regions. The Minister of Tourism and Creative Economy, Sandiaga Uno, designated Banyumas as one of Indonesia's Creative Cities in 2023, selected from 74 districts/cities across the country in the Creative District/City Development (KaTa) program [3]. With Creative Districts / Cities in Indonesia, per the policies stipulated in Presidential Regulation No.2 of 2015, it is hoped that this effort can equalize regional development and accelerate the growth of economic centers by optimizing local potential [4]. However, Banyumas' journey as a Creative City still has a long way to go because Banyumas is not yet included in the Creative Cities Network initiated by UNESCO [5].



Therefore, the development of the creative economy is of great concern to Banyumas Regency. This is reflected in the 2018-2023 Regional Medium-Term Development Plan (RPJMD) of Banyumas Regency. This RPJMD has a critical position and will determine the direction of community development and Banyumas Regency for the next five years, from 2018 to 2023. The development and dynamics of creative economy actors based on individual creativity and innovation can ultimately strengthen economic growth in the Banyumas Regency [4].

The visible role of the government will undoubtedly make MSME players desire entrepreneurship, especially in the creative economy sector in the three largest subsectors, namely culinary, fashion, and crafts. The increase in the number of MSME activists will be directly proportional to the intense competition that awaits. On the other hand, unpreparedness in facing competition, marked by a lack of entrepreneurial Commitment to utilizing digital technology and not taking innovative actions, will affect organizational performance that cannot be improved and lead to a business that will not last long. In line with this business phenomenon, data analyzed by the Ministry of Tourism and Creative Economy (Kemenparekraf) in 2021 showed a decline in the number of workers in two of the three largest subsectors in the creative economy, namely fashion and craft. The fashion sub-sector, which in 2020 had a proportion of workers of 19.83%, decreased to 19.45% in 2021. On the other hand, the number of workers in the craft sub-sector fell from 19.10% in 2020 to 18.12% in 2021 [6].

This existing competition poses challenges for MSME players in maintaining the continuity of their business. Businesses that cannot survive long in a highly competitive situation are often caused by a lack of knowledge about business opportunities and an inability to innovate. Therefore, as a business actor, it is essential to motivate yourself and your team to keep innovating and being creative so the business can continue growing and adapting [7].

Referring to the work of Shane (2003), Alvarez and Barney (2006) criticize the Creation Theory by proposing the Discovery Theory; according to them, entrepreneurial opportunities do not exist independently or separately from business actors before the emergence of ideas or actions [8], [9]. Instead, they are created by entrepreneurs through their actions. This process involves assessing the response to the actions taken and adjusting and changing strategies after the fact to produce new products or services. In other words, entrepreneurial opportunities arise due to the efforts and adaptations made by the entrepreneurs themselves [10]. A manifestation of entrepreneurial Commitment indicates the amount of effort and dedication one puts into creating and developing a new venture [11]. For new entrepreneurs, personality traits such as a deep need for achievement, defined as the desire to create something from scratch, will influence their decision to avoid risky situations such as competition [12].

Fayolle (2007) states that individual Commitment is a key factor in understanding entrepreneurial action and a determinant in the emergence of a firm [13]. In this context, entrepreneurs often increase their dedication and effort, significantly driving entrepreneurial activity and positive entrepreneurial performance. Moreover, they can adapt to the changes during the process [14], [15].

In his work on vigilance and entrepreneurial Commitment, Tang (2008) refers to previous literature on Organizational Commitment (OC) and proposes three main aspects of entrepreneurial Commitment to venture creation. First, i) sustainability: the entrepreneur's desire to continue running the new business despite the uncertainties and unexpected challenges in starting a venture. Second, ii) behavioral: the entrepreneur's willingness to invest significant effort into the new business. Third, iii) affective: the entrepreneur's emotional attachment, identification, and involvement in their new venture [16].

Most research focuses on key variables such as tenure, employee turnover, job performance, or organizational performance influenced by organizational commitment [17]. Although studies on Commitment in the context of entrepreneurship are limited, the role of



Commitment in the entrepreneurial process is widely recognized as one of the important factors that influence performance and growth, for example, as stated by Fisher, Maritz, and Lobo (2016) who agree that individual resilience plays a role in influencing an entrepreneur's performance [18]. Entrepreneur commitment is a key factor in developing MSMEs, as many countries depend on the growth and sustainability of small and medium enterprises to support economic progress. This suggests that the level of Commitment of entrepreneurs determines the extent of success they can achieve in their business.

The creative economy sector is crucial in accelerating economic recovery in the current uncertainty, especially through digital transformation. The impact on the Indonesian economy is significant when innovative technology is combined with individual talent and strong Commitment. Kemenparekraf has committed through the World Conference on Creative Economy (WCCE) 2021 agenda to support the development of the future creative economy based on creativity and innovation. This belief arises from the view that the creative industry has embarked on a new business era [4].

Meanwhile, the Government of Indonesia, in conjunction with the Indonesian Chamber of Commerce and Industry (KADIN), is promoting improving the performance of national MSMEs through a digitalization strategy to strengthen competitiveness, become global players, and be export-oriented [19]. The government and Kadin continue encouraging MSME players in Indonesia to join the digital ecosystem. The Ministry of Cooperatives and SMEs targets to increase the number of MSMEs entering the digital market to reach 24 million units by 2023 and increase to 30 million units by 2024 [20].

Recognition of the role of digital innovation, defined as the combined use of information, computing, communication, and connectivity technologies in the innovation process, including the introduction of new products, improvement of production processes, reform of organizational models, and creation and transformation of business models, should be an important point in the current era [21], [22]. Although digital technology opens up new opportunities for organizations, both technology-focused (such as IT companies) and non-technology-focused (such as banking, manufacturing, and retail), digital innovation cannot be achieved without a serious commitment to technological development [23].

This is in accordance with what Shane and Venkataraman (2000) have expressed, which emphasizes that the key variable in entrepreneurship research is access to opportunities. Opportunities are defined as the discovery or creation of new ways, new goals, or relationships between ways and goals to enable the introduction of new products, services, raw materials, or organizational methods [24]. However, with the advent of digital technologies, opportunities are now influenced by digital artifacts, digital platforms, and digital infrastructure, which enable individuals and firms in dispersed groups to co-create and share value [23].

Gatignon and Xuereb (1997) emphasize that companies that want to produce superior innovations compared to competitors must have a strong technological orientation. Companies that want to produce superior innovations compared to their competitors must have a strong technological orientation [25]. They describe technological orientation as a firm's Commitment to adopting new technology and adaptability to technological change. According to them, technology-oriented firms have the ability and desire to utilize technology in the development of new products substantially and remain relevant to technological innovation. Their study defines digital orientation as "a company's commitment to the application of digital technologies to produce innovative products, services, and solutions." Companies with a digital orientation tend to be more open and quick to adopt digital technologies.

However, as part of technology utilization, companies rarely carry out product innovation unless there are new customer needs related to certain designs or processes. The products produced often have similarities with products from other MSMEs, ultimately increasing the competition level between MSMEs [26]. To maintain revenue in this situation, companies must



continuously seek new opportunities and often innovate [27]. Thus, based on a recent case study by Fredrik Svahn and Lars Mathiassen (2017), they argue that bringing digital products and services to market is an urgent need today [28], [29] and is a major challenge for industry players, especially in terms of organizing and designing the new products involved [30].

Therefore, as outlined, a strong commitment from entrepreneurs is needed to support this transformation. Such commitment includes an orientation towards digital innovation that opens up new opportunities for developing products and services relevant to the needs of the global market. By adopting digital innovation, entrepreneurs can improve product competitiveness and overall business performance through operational efficiency, creativity in product offerings, and broader market access.

#### B. Methods

Using a quantitative approach, this study was conducted on MSME actors in the creative economy sector, especially in the culinary, fashion, and craft sub-sectors located in Banyumas Regency. This questionnaire was distributed via Google Form and will use a purposive sampling technique with the following inclusion criteria: (1) respondents must have an MSME business in the creative economy sector, which includes crafts, fashion, and culinary, and (2) the business must be located in Banyumas Regency.

Of the 103 respondents who responded, the data received will be analyzed statistically. The questionnaire will be presented in Indonesian with simple language to facilitate understanding. Respondents will answer questions using a five-point Likert scale, where a score of 1 means "Strongly disagree" and a score of 5 means "Strongly agree," with open-ended questions also available to provide additional views and perspectives. The measurement of entrepreneurial Commitment will use 3 indicators from Murwatiningsih et al. (2019), 1 indicator from Chang-Muñoz et al. (2022), and 4 indicators from Deshpandé et al. (1993) and Sok et al. (2013) [31], [32], [33]. The digital innovation orientation variable with 3 indicators from Von Briel (2018), product innovation with 2 indicators from Zimmerer and Scarborough (2008), and business performance is measured using 4 indicators from Sariwulan et al. (2020) [34], [35]. Data analysis will be carried out using SmartPLS 4.0 software..

The hypotheses proposed in this study are: (1) Entrepreneurial Commitment has a positive effect on product innovation (2) Digital innovation orientation has a positive effect on product innovation (3) Product innovation has a positive effect on business performance (4) Product innovation can mediate the effect of entrepreneurial Commitment on business performance (5) Product innovation can mediate the effect of digital innovation orientation on business performance

## C. Results

## 1. Validity and reliability test

This validity is important to ensure that the measurement instrument actually measures what is intended without mixing with other variables. The goal is to ensure whether a construct has sufficient discriminant, namely by comparing the loading value on the targeted construct must be higher than the value on other constructs (Ghozali & Latan, 2015: 126). Based on the calculations that have been done, all variables are said to be valid because it can be seen that each indicator in the research variable has the highest cross-loading value compared to the cross-loading value of other variables. This shows that each indicator in this study has a good discriminant validity value. Regarding the reliability test, composite reliability and Cronbach's alpha are used to measure the reliability of a construct. A composite reliability value between 0.6-0.7 is considered to indicate good reliability (Ghozali, 2021: 70), while the expected Cronbach's alpha value is more than 0.7 (Ghozali & Latan, 2015: 130). It can be seen that all constructs have a high level of reliability.



Table 1. Result of validity test

	Business	Digital Innovation	Entrepreneurial	Product Innovation	
	Performance	Orientation	Commitment		
BP1	0.872	0.433	0.332	0.413	
BP2	0.838	0.276	0.319	0.235	
BP3	0.820	0.222	0.309	0.235	
BP4	0.788	0.458	0.474	0.472	
BP5	0.811	0.287	0.420	0.374	
BP6	0.801	0.243	0.319	0.306	
BP7	0.781	0.268	0.310	0.164	
DOI1	0.390	0.775	0.521	0.447	
DOI2	0.301	0.819	0.521	0.488	
DOI3	0.369	0.781	0.519	0.442	
DOI4	0.268	0.831	0.592	0.560	
DOI5	0.355	0.834	0.590	0.518	
DOI6	0.369	0.843	0.697	0.668	
DOI7	0.284	0.789	0.583	0.551	
EC1	0.286	0.348	0.483	0.320	
EC2	0.313	0.415	0.606	0.393	
EC3	0.240	0.371	0.533	0.372	
EC4	0.332	0.599	0.784	0.626	
EC5	0.350	0.651	0.810	0.637	
EC6	0.395	0.597	0.800	0.571	
EC7	0.373	0.548	0.817	0.556	
EC8	0.331	0.523	0.829	0.590	
EC9	0.372	0.598	0.849	0.589	
PI1	0.369	0.624	0.558	0.774	
PI2	0.341	0.400	0.458	0.690	
PI3	0.343	0.523	0.649	0.859	
PI4	0.326	0.558	0.643	0.891	

Table 2. Result of reliability test

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Variables	Cronbach's alpha	Composite	Information
	_	Reliability	
Entrepreneurial	0.890	0.933	Valid
Commitment			
Digital Innovation	0.913	0.931	Valid
Orientation			
Product Innovation	0.818	0.911	Valid
<b>Business Performance</b>	0.920	0.881	Valid

## 2. AVE

The AVE (Average Variance Extracted) value above 0.5 indicates that more than half of the variance explained by the indicator can be attributed to the measured construct (Ghozali, 2021:68). In other words, the construct has quite good validity, so it can be used for further analysis.

Table 3. Average Variance Extracted

Variables	AVE	Description
Entrepreneurial Commitment	0.667	Valid
Digital Innovation Orientation	0.657	Valid
Product Innovation	0.541	Valid
Business Performance	0.652	Valid



# a. R-square

This model is used in research to analyze the influence of independent variables on dependent variables. An R-Square value of 0.67 is considered good, 0.33 is moderate, and 0.19 is considered weak (Ghozali, 2021:75).

Table 4. R-square

	R-square	R-square adjusted
Product Innovation	0.181	0.173
Business Performance	0.561	0.552

Based on the table above, the value of each variable for product innovation and business performance is considered moderate and weak. With the explanation, product innovation is influenced by the causal factors, namely entrepreneurship commitment and digital innovation orientation by 56.1%. Meanwhile, business performance by 1.81% is influenced by product innovation.

## 3. Hypothesis Testing

After completing the evaluation of the outer and inner models, the next step is to conduct a hypothesis test. This process involves testing the assumptions set to ensure whether the relationship between the variables in the model is in accordance with the hypothesis put forward. This hypothesis test is important to test the truth of the proposed relationship and assess the extent to which the model can explain the existing data. Hypothesis testing is done by examining the probability value and t-statistic. A p-value is considered significant if it is less than 0.05 at the 5% alpha level. The t-table value for 5% alpha is 1.96. Therefore, the hypothesis is accepted if the t-statistic value is greater than the t-table value (Ghozali & Latan, 2015:145).

Table 5. Hypothesis test result

	Original	Sample	Standard	T-statistics	P Values	Hypothesis
	Sample	Mean (M)	Deviation			
	(O)		(STEDEV)			
Entrepreneurial	0.513	0.539	0.092	5,543	0.000	Accepted
Commitment ->						
<b>Product Innovation</b>						
Digital Innovation	0.291	0.274	0.107	2,723	0.006	Accepted
Orientation -> Product						
Innovation						
Product Innovation ->	0.426	0.454	0.095	4,490	0.000	Accepted
<b>Business Performance</b>						

- a. In the analysis, entrepreneurial Commitment positively affects product innovation; the t-statistic value is shown by the number 5.543, which is greater than the t-table 1.96. Related to the p-value, the value shown is 0.000 or, in other words, less than 0.05. So, the conclusion is that entrepreneurial Commitment positively affects product innovation, or the first hypothesis is accepted.
- b. In analyzing digital innovation orientation's positive effect on product innovation, the t-statistic and p-value are 2.723 > 1.96 and 0.006 < 0.05, respectively. Therefore, the second hypothesis can be accepted, or digital innovation orientation can positively affect product innovation.
- c. In the analysis of product innovation positively affecting business performance, the t-statistic value is shown to be greater than the t-table, which is 4.490 > 1.96. On the other hand, the p-value is 0.000, which is smaller than 0.05. This means that product innovation has a positive effect on business performance.



# 4. Mediation Testing

Table 6. Mediation test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STEDEV)	T-statistics	P Values	Hypothesis
Entrepreneurial Commitment ->	0.218	0.246	0.070	3.136	0.002	Accepted
Product Innovation - > Business Performance						
Digital Innovation Orientation -> Product Innovation -	0.124	0.125	0.057	2.186	0.029	Accepted
> Business Performance						

- a. In the analysis of the mediating role of product innovation on the influence of entrepreneurial Commitment on business performance, it is seen that the t-statistic value is 3.36, which is greater than the t-table of 1.96. Meanwhile, the p-value is known to be smaller than 0.05, which is 0.002. The conclusion that can be drawn is that product innovation is proven to mediate the relationship between entrepreneurial Commitment and business performance.
- b. In analyzing the mediation role of innovation products on the influence of digital innovation orientation on business performance, the number shown in the t-statistic is 2.186, more significant than the t-table of 1.96. In addition, the p-value has a value smaller than 0.05, which is 0.029. So, from the test results, it can be interpreted that innovation mediates the relationship between digital innovation orientation and business performance.

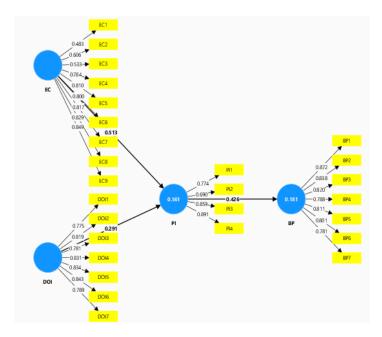


Figure 1. The causal relationship between the variable constructs was tested using Structural Equation Modeling (SEM) through PLS, and the results

c. The causal relationship between the variable constructs was tested using Structural Equation Modeling (SEM) through PLS, and the results were in Figure 1.



## **D.** Discussion

# 1. The influence of entrepreneurial Commitment on product innovation

Based on the analysis that has been carried out, it is shown that there is a relationship between entrepreneurial Commitment and product innovation. This is in line with what Y. Rahayu (2018) states: Commitment can arise from market support, where market demand encourages entrepreneurs to produce goods or services according to market needs. In line with that, Ngarofah (2021) emphasizes that there is a relationship between the quality of human resources and product innovation. The existence of a strong commitment to be able to compete in the market makes entrepreneurs increasingly aggressive in creating innovative products [36], [37].

It can be seen that Creative MSME players in Banyumas Regency have good-quality human resources. This can be seen in their strong Commitment to innovate their products. They believe that to survive in the midst of intense competition, product development that follows market developments is essential. Product innovation is a form of entrepreneurial effort to meet the needs of a growing market, increase added value, and differentiate themselves from competitors. The spirit of maintaining customer trust makes them realize that the products they offer must continue to develop and adapt to the needs and expectations of consumers.

Commitment plays an important role in the innovation process because innovation tends to be unsustainable without strong Commitment. The spirit of maintaining customer trust must be accompanied by consistent determination and dedication to delivering products that continue to evolve. Commitment to innovation means that entrepreneurs must be willing to invest time, resources, and energy to find creative solutions and improve product quality. The innovation process is not instantaneous but a journey that requires perseverance, courage to take risks, and willingness to adapt to market changes.

## 2. The influence of digital innovation orientation on product innovation

Based on the analysis that has been done, digital innovation orientation has been proven to have a positive effect on product innovation. The results of this study support the findings of Widiarta et al. (2020), which show that technological orientation has a positive and significant impact on product innovation. This shows that the more advanced the technological orientation applied, the higher the ability to develop product designs and quality different from competitors so that the product can survive and adapt over time. Nambisan (2017) defines digital innovation as communication and connectivity in the innovation process, including introducing new products and improving production processes, and this view is in line with the research results. Previous researchers, Gatignon & Xuereb (1997), also emphasized that companies that want to create innovations that are superior to their competitors need to have a strong technological orientation [25], [38], [39].

Competing in the Industry 4.0 era means entrepreneurs must be ready to integrate digital technology into various operations and strategies. Recognizing this, Banyumas MSME players in the culinary, fashion, and craft sub-sectors are adapting to digital platforms to develop new products or services. For example, in the culinary sector, they may develop new recipes or attractive packaging, while in the fashion sector, they may create designs that combine traditional elements with modern trends.

In addition, digital technology allows MSME players to conduct market research more effectively so they can understand consumer preferences and develop products accordingly. They can use data analysis to identify trends and patterns of buyer behavior, which are then integrated into the product innovation process.

3. The influence of product innovation on business performance



Based on the results of the analysis, it is proven that product innovation has a positive effect on business performance. The results of this study support Muhammad Taufiq et al. (2020), Naranjo-Valencia et al. (2016), and Wijayanto & Sanaji (2021), which explains that product innovation has a positive impact on the performance of MSMEs and emphasizes that product innovation plays a crucial role in increasing the competitiveness of MSMEs. They argue that companies that focus on product innovation tend to be more competitive in the market by offering new solutions that are attractive to consumers. Therefore, companies that want to maintain or improve their competitive position must continue to innovate in their products. By investing in new product development and improving the quality of existing products, MSMEs can create sustainable competitive advantages and improve their overall performance [7], [41], [42].

With innovation, entrepreneurs can create more relevant and attractive solutions for consumers, expanding market share, increasing customer loyalty, and ultimately driving sustainable business growth. In addition, MSME players can create products and services that are unique and attractive to consumers. This not only allows them to remain competitive in the market but also helps attract new customers and retain old ones.

4. The mediating role of product innovation on the influence of entrepreneurial Commitment on business performance.

Based on the results of the analysis, it is shown that product innovation successfully mediates the relationship between entrepreneurial Commitment and creative business performance. This is in line with the statements of Emami & Nazari (2012) and Yusrita & Fahmi (2023), who stated that company performance is influenced by product innovation and innovation processes, which cannot be separated from the Commitment of all elements in the company, known as organizational Commitment [43], [44]. Product innovation will help increase sales if adopted by the company as a strategy and driven by a high commitment from the business owner. With the dedication and full support of the owner, product innovation can meet market needs and advance overall business performance.

Referring to the three main aspects of entrepreneurial Commitment, MSME players in the culinary, fashion, and craft sub-sectors show sustainability aspects that can be seen from their persistence in ensuring business continuity in the midst of intense competition by innovating products as a differentiating strategy from competitors. Furthermore, the behavioral aspect is reflected in their dedication to maintaining high operational standards and continuing to innovate to maintain customer loyalty and attract new market segments. Meanwhile, the affective aspect motivates MSME players to maintain good relationships with customers, employees, and business partners. Building relationships based on trust and loyalty can more easily create deep engagement between the product or service offered and the consumer.

5. The mediating role of product innovation on the influence of the relationship between digital innovation orientation and business performance

The study's results indicate a mediating role of product innovation in mediating the relationship between technological innovation orientation and business performance. The results of this study support the idea of H. Tang et al. (2023) state that demand is a market need to improve existing products or launch new products, both of which offer innovation potential [45]. Suppose companies can identify such needs in a timely manner. In that case, they can become pioneers in their industry, create barriers for competitors, and gain competitive advantage, ultimately improving their innovative performance.

Innovation in digital entrepreneurship opportunities requires companies to be strong and adaptable. Implementing this innovation strategy can increase the risk of entrepreneurial failure



for startups that cannot keep up with new technological developments and lack resources. Conversely, companies that successfully overcome initial obstacles and build a solid foundation will find that creating new digital entrepreneurship opportunities can have significant positive impacts, including new product development, market expansion, and increased competitiveness. In addition, this study is also in line with research conducted by Damanpour et al. (2009) and Khin & Ho (2020), which states that adopting new technologies enables companies to improve efficiency, product quality, and response to market needs. Innovation also creates opportunities for growth, expansion, and diversification of product and service portfolios [23], [46].

## E. Conclusion

Based on the study results, which show that all hypotheses are accepted, it can be concluded that entrepreneurial commitment and digital innovation orientation play a significant role in improving business performance directly and through product innovation as a mediating variable. Strong entrepreneurial Commitment encourages entrepreneurs to invest time, resources, and energy consistently in developing their businesses. At the same time, digital innovation orientation allows using the latest technology to create innovative and competitive products.

Product innovation has been proven to be an effective mediating variable in strengthening the relationship between entrepreneurial Commitment and digital innovation orientation on business performance. Product innovation can increase business competitiveness by providing added value to customers, ultimately improving business performance. Thus, business actors need to continue to innovate and utilize digital technology.

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