THE IMPACT OF SOCIAL MEDIA ADOPTION ON INNOVATION QUALITY AND BUSINESS PERFORMANCE IN BALI'S HANDCRAFTED JEWELRY SMEs: A DYNAMIC CAPABILITY PERSPECTIVE

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Abstract

This study examines the impact of social media adoption on innovation quality and business performance among small and medium-sized enterprises (SMEs) in Bali's handcrafted jewelry sector. Grounded in Dynamic Capability Theory, the research employs a quantitative approach, collecting data from 236 owner-managers through a structured online survey using convenience sampling. The numerical data collected were subsequently analyzed using AMOS 23 software. The findings indicate a significant positive relationship between social media adoption and innovation quality, suggesting that effective use of digital platforms enhances creativity and product development. Additionally, innovation quality positively influences market entry speed and overall business performance, highlighting its critical role in achieving a competitive advantage. This research contributes to the literature by clarifying how social media drives innovation in creative industries. It also addresses the limitations of convenience sampling, recommending that future studies utilize random sampling methods to improve generalizability across various sectors. The implications of this study are particularly relevant for policymakers and practitioners seeking to leverage social media for fostering innovation and enhancing the performance of SMEs in the creative economy.

Keywords: Dynamic Capability, Social Media Adoption, Innovation Quality, Market Entry Speed, Business Performance.

INTRODUCTION

Social media platforms are integral to modern business operations, offering opportunities for businesses to connect with diverse audiences and enhance brand visibility. Scholars have noted that social media serves as a many-to-many communication tool,

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facilitating interactions not only between businesses and customers but also within organizations (Kaul, 2012; Sedalo et al., 2022). It has evolved beyond its initial purpose, transforming into a platform that fosters internal communication and collaboration within businesses (Alhaimer, 2021; Garrido-Moreno et al., 2020).

Numerous studies have explored the benefits of increased engagement through social media. This engagement fosters improved communication visibility, enhanced knowledge transfer, and access to external ideas and knowledge pools (A. Snell & S. Morris, 2014; Felix et al., 2017; Marchand et al., 2021). Businesses are actively leveraging social media platforms to engage with customers and promote customer-centric innovation (Bhimani et al., 2019; Patroni et al., 2020). However, a significant gap exists in the development and execution of strategies related to social media adoption for innovation (Cheng & Shiu, 2019).

Creative strategies targeting specific subsets of social media users can lead to innovation but may also result in adverse economic consequences if not executed properly (Bian & Forsythe, 2012). Despite potential challenges, social media adoption positively influences business creativity and innovation, contributing to idea generation and enhancing agility in the innovation process (Hanafizadeh et al., 2021; Wawrowski & Otola, 2020).

Effective adoption of social media platforms significantly improves customer engagement and overall business performance (Lim & Rasul, 2022). However, the absence of social media usage could pose difficulties for organizations, emphasizing the importance of digital platforms in modern business operations (Bakri, 2017). Research indicates mixed results regarding the impact of these factors on social media adoption by SMEs. AlSharji et al. (2018) found that technological context does not significantly affect adoption, while organizational and environmental contexts do.

The adoption of social media as a strategic tool plays a crucial role in enhancing innovation quality and processes for organizations (Hanafizadeh et al., 2021). It enables businesses to tap into vast pools of external ideas and knowledge, fostering creativity and innovation in both organizational and product/service domains (Chakraborty, 2018; Corral de Zubielqui & Jones, 2020; Idota et al., 2019).

To address gaps in existing literature, this research aims to understand the varying influences of social media adoption on business performance, utilizing Dynamic Capability Theory as a theoretical framework. This theory emphasizes leveraging social media for various purposes, including understanding factors influencing adoption and aiding the development of effective strategies (Barlatier et al., 2023; Eslami et al., 2022). It also underscores the importance of innovation quality in helping organizations adapt to market dynamics and technological advancements (Hunt & Madhavaram, 2019).

The choice of Bali, Indonesia, for empirical testing of the conceptual model is influenced by several factors, particularly in the context of Small and Medium-Sized Enterprises (SMEs) in a creative industry. Creative industries in Bali experience increased competition and consumer demand, stimulating continuous innovation within businesses (Adam & Alarifi, 2021). Moreover, social media plays a crucial role as a digital marketing tool, especially for businesses in developing countries such as Indonesia (Amoah & Jibril, 2021). With approximately 8.2 million businesses in creative industries, Indonesia's coordinating ministry for economic affairs underscores the importance of effectively adopting social media tools for long-term competitiveness and growth (Kemenkoekon, 2022). Additionally, the growth of SMEs in creative industries contributes significantly to showcasing the nation's artistic heritage and preserving cultural identity.

The adoption of social media by businesses has reshaped operational processes, enabling enhanced communication, innovation, and performance. Firms that harness social media engage customers, access diverse knowledge, and drive innovation. Utilizing theories such as Dynamic Capability Theory clarifies the adoption process and guides strategy formulation to improve business outcomes. This research examines small and medium-sized enterprises of the handmade jewelry industry in Bali for several reasons. Initially, this industry possess cultural importance in safeguarding Balinese heritage (Chapagain et al., 2022). Secondly, it exerts a significant economic influence as an essential contributor to creative industry (Astuty & Suryana, 2018). Third, the competitive environment of this industry sector necessitates ongoing innovation (Yin et al., 2023). Ultimately, social media is crucial in the growth and development of these SMEs (Muna et al., 2022; Muna et al., 2023). The findings of this study provide valuable insights into how social media adoption can act as a catalyst for improving innovation quality, expediting market entry speed, and ultimately enhancing business performance for SMEs in the handcrafted jewelry sector.

Figure 1 The Factors Determining the Selection of Bali in this Research



THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Dynamic Capability Theory (DCT) guides organizations in enhancing competitiveness by strategically managing resources (Eisenhardt, 2000; Teece et al., 1997; Winter, 2003). Recent shifts toward open innovation, driven by advancements in social media, underscore the importance of leveraging digital platforms for innovation (Wu et al., 2021).

DCT emphasizes utilizing social media for digital intelligence gathering and fostering online collaboration, particularly for Small and Medium-Sized Enterprises (SMEs) in the creative industry (Bruce et al., 2023). While social media adoption by creative SMEs enhances innovation quality (Muna et al., 2022), its impact on business performance varies. Some studies highlight social media's positive role as an innovative tool (Wicaksono et al., 2021), while others suggest a negative influence, particularly on new product development (Marion et al., 2014).

This discrepancy in the effects of social media adoption may stem from insufficient differentiation between media sources and platforms. Innovation focuses on novel products,

customer needs, and knowledge leveraging (Ferreiraet al., 2020; Matsuzaki et al., 2021), involving continuous idea generation, market analysis, technology integration, and creativity enhancement (Mazzucchelli et al., 2021).

Understanding these dynamics is crucial for SMEs in creative industries to effectively utilize social media for innovation while navigating complexities and maintaining competitiveness. According to the research conducted by Yang et al. (2021), collaboration with stakeholders, assists organizations in the adoption of new products and in reducing product lifecycles. Innovation quality driven by external factors originates from the knowledge exchange processes in an organization. However, the simple acquisition and integration of new knowledge are inadequate for fostering innovative quality (Wicaksono et al., 2021). The assimilation of new knowledge legitimizes and sustains the innovation process in the long term. Based on these insights, this research proposes the following hypothesis.

H1: Increasing social media adoption enhances innovation quality.

Innovation Quality, Market Entry Speed, and Business Performance

Innovation plays a pivotal role in the business world, driving the generation and implementation of new ideas, technologies, and methodologies to produce goods or services efficiently (Hofer & Baba, 2018). Developing a new product requires resource allocation and risk management, but also offers a competitive advantage difficult for competitors to replicate (Yin et al., 2023). Innovation helps businesses to overcome resource limitations, reduce costs, and enhance quality, providing a price advantage or added value for consumers (Riana, 2020; Sudolska & Łapińska, 2020).

For industries saturated with similar products or services, innovation helps identify market gaps and develop high-quality solutions to fulfill customer needs (Ju et al., 2020). Innovation quality is crucial in establishing a market presence, influencing brand reputation, consumer trust, and loyalty (Chaithanapat et al., 2022). New products should exhibit superior qualities and benefits achieved through innovative features to gain a competitive advantage (Cooper & Sommer, 2016).

Small and medium-sized enterprises (SMEs) drive domestic and international competitiveness by focusing on enhancing innovation quality (Efendi et al., 2020). Research consistently shows a positive correlation between organization innovation and overall performance in creative industries (Rahman, 2021). However, some studies indicate an adverse connection or no significant correlation (Cuevas-Vargas et al., 2022).

Various professional literature emphasizes that innovation is essential not only for surviving but also thriving in competitive markets. In the face of challenges, innovation remains the primary solution for businesses (Ortiz-Villajos & Sotoca, 2018). The research further proposed that the development of innovation quality in SMEs in a creative industry enhances the speed of entry to the market and improves business performance, leading to the following hypotheses:

H2: Innovation quality has a positive and significant influence on market entry speed.

H3: Innovation quality positively influences business performance.

The Mediating Role of Innovation Quality According to Dynamic Capability Theory

Business innovation involves generating, developing, and implementing new ideas or behaviors, encompassing creativity in processes, market demand analysis, and technological integration (Damanpour, 1991). Acknowledged innovators often exhibit superior business performance (YuSheng & Ibrahim, 2020). Innovation quality is fundamental for establishing valuable connections, enhancing overall performance, and facilitating efficient operations (Truong & Nguyen, 2023). It involves leveraging resources strategically, including social media and technological knowledge, to develop a competitive advantage (Aydin, 2021).

Collaborative interactions among individuals generates engagement centered on values and knowledge exchange, facilitating organizational growth and performance (Acciarini et al., 2023; Muna et al., 2023). This dynamic serves as a catalyst for innovation and organizational development. Dynamic Capability Theory emphasizes the importance of innovation and adaptability in responding to dynamic market conditions (Baden-Fuller & Teece, 2020). The exchange of ideas with customers catalyzes innovation quality and the development of new competencies, fostering competitiveness.

There is significant potential for organizations to gain a distinctive edge in the market by establishing innovative-driven social media platforms (Muninger et al., 2022). Innovation quality is defined by the organization's ability to develop highly effective processes leveraging the power of social media technology for interaction and communication. This innovative method serves as a catalyst for stimulating innovation in organizations, leading to accelerated market entry and improved overall business performance along with the following hypotheses:

H4: Innovation quality mediates the impact of social media adoption on business performance.

H5. Market entry speed has a positive influence on business performance.

METHODOLOGY

The details of the research framework are elucidated in this section. Figure 2 depicts the full framework and flow of the article.

Figure 2 The Path Diagram and the Factors Included in This Research.



Sample and Data Collection

Data for the study were collected from owner-managers of 236 Balinese SMEs in the handcrafted jewelry industry, employing convenience sampling. Although convenience sampling can introduce selection bias and limit generalizability, it is appropriate for this research due to the unique challenges of accessing this specific population (Etikan, 2016). The sample size of over 200 valid responses exceeded the minimum requirement for statistical analysis, enhancing the reliability of the findings (Medsker et al., 1994).

Data collection was carried out online through a google form, guaranteeing participant confidentiality and anonymity. Researchers employed a multi-channel recruitment strategy, collaborating with local business organizations, directly contacting established SMEs, and utilizing social media to ensure diverse participation. This method aimed to maximize participant engagement and obtain a representative sample of Bali's handmade jewelry shops.

The study successfully gathered over 200 valid responses, surpassing the minimum sample size requirement, which should be at least equal to the larger of (1) 10 times the largest number of indicators or a minimum of 10. According to Medsker et al. (1994), the sample size (n=236) is sufficient.

Validity and Reliability Measurement

The variables in this research were measured based on previous relevant results. Specifically, the scale of social media adoption was adopted from the research conducted by Foltean et al., (2018) and Alkhateeb and Abdalla (2021). This scale included indicators such as sharing content, creating conversation, creating social relationships, and managing the community. The market entry speed scale was derived from the publication of Powell (2019), and Stock et al. (2018), which measured speed of market entry compared to plans and competitors along with quick market access.

A newly developed scale called innovation quality was introduced in this research. For SMEs in the handcrafted jewelry sector, innovation quality includes the capability to generate a steady flow of free ideas. It also requires quickly analyzing and interpreting market demand, experimenting with creative concepts, and integrating new technology to respond effectively to changes in the business environment and capitalizing on evolving opportunities. This necessitates fostering a culture that accepts and promotes innovation, allowing companies to adapt proactively, stay ahead, and maintain a competitive advantage.

This research incorporated various scales from previous research to develop the measurements. For instance, the scale from Zhang (2022) was adopted to assess the steady flow of free ideas. Part of the scales were also obtained from Matsuzaki et al. (2021) to gauge the ability to quickly analyze and interpret market demand, specifically focusing on items such as "initiated market trend". Additionally, Zhang's (2022) article contributed to crafting a measure for designing unique handcrafted jewelry accessories combined with high-technology touches, referred to as the innovation quality scale.

The establishment of construct validity and reliability was facilitated through a series of carefully crafted inquiries. Assessments were conducted using perceptual scales, incorporating a 10-point Likert scale to rate the responses. Table 1 provided a comprehensive overview of the complete range of metrics available for evaluating the fundamental constructs.

VARIABLE & INDICATOR	REFERENCE	STD. LOADING (Lambda Value)	Critical Ratio ≥1.96	CV- AVE ≥0.50	CRI ≥0.70
Social Media Technology Adoption (SMA)	(Alkhateeb &			0,602	0,896
Sharing Content	Abdalla,	0,759	17,077		
Creating Conversation	2021; Foltean	0,889	19,106		
Creating Social Relationships	et al., 2018)	0,820	19,106		
Managing the Community		0,747	16,684		
Innovation Quality	(Ferreira et			0,557	0,840
Steady flow of Free Ideas Analasis & Interretation of Market Demand	al., 2020; Ju et al., 2020;	0.814	15,788		
		0.067	15.788		
Experimenting on Creative Concepts	al 2021	0.840	18,338		
Integrating New Tech	Mazzucchelli	0,840	18,334		
Creativity in process	et al., 2021;	0,842	18,419		
	Zhang, 2022)				
Market Entry Speed	(Powell,			0,641	0,842
Faster than planned	2019; Stock et	0,739	14,031		
Faster than competitors	al., 2018)	0,874	15,51		
Quickly obtained market access		0,783	15,51		
Business Performance	Adapted from			0,674	0,861
Market share growth	Business Performance (Adapted from Foltean	0.835	16,439		
Sales growth		0,807	16,439		
Profitability growth		0.82	16,217		
	Trif. & Tuleu.	2			
	2018)				

Table 1 Measurement of Validity and Reliability

CV = Convergent Validity

CRI = Construct Reliability Index

Construct Measurement

Structural Equation Modelling (SEM) was adopted using AMOS software version 23 to test the hypotheses. The model was selected for its capability to simultaneously analyze multiple equations, unlike ordinary regression analysis in standard SPSS packages. Additionally, SEM allows for testing meditational influences in a simultaneous process. Data from 236 participants were analyzed using a full model to assess the validity and reliability of the research instrument. Subsequently, the proposed hypotheses were tested as presented and detailed in Table 2.

The results shown in table 2 indicate that all variables exhibited positive factor loadings with a critical ratio of ≥ 2.0 , signifying significant loading values accurately reflecting the latent variables. Adequate regression weights, represented by positive factor loadings with a significant critical ratio of ≥ 2.0 were observed for all variables. These results suggest the satisfactory performance of the indicators associated with all relevant variables (Arbuckle, 2016).

Convergent validity indices were measured by standardized factor loadings, showing adequate measures as all variables exceeded the acceptable cutoff level of 0.50–0.70 (Hair et al., 2010). Average of Variance Extracted (AVE) led to values of 0.602 for social media

adoption, 0.557 for innovation quality, 0.641 for market entry speed, and 0.674 for business performance. All AVE criteria exceeded the cutoff value of 0.50, confirming the validity of the instrument used in this research.

All four latent variables showed good validity, with construct reliability indices (CRI) equal to or greater than 0.70 (Hair et al., 2010). Specifically, social media adoption achieved a CRI of 0.896, innovation quality yielded a value of 0.840, and 0.842 was observed for market entry speed, while business performance yielded a value of 0.861. Considering that the validity and reliability of the data instrument met the required cutoff values, this research proceeded to hypothesis testing.

Hypothesis Testing

SEM was used with AMOS 23 Software to test the proposed model and all associated hypotheses. The outcomes of the two-step SPSS AMOS 23 hypotheses testing procedure are depicted in Figure 1.

Hypothesis	Estimates	Std. Estimate	Std. error	Critical Ratio	Р	Conclusion
H1 : SMA \rightarrow INA	0,500	0,443	0,063	7,018	***	Accepted
H2 : INA \rightarrow MES	0,506	0,461	0,071	6,534	***	Accepted
H3 : INA → BP	0,310	0,362	0,091	3,980	***	Accepted
H4: SMA \rightarrow INA \rightarrow BP	The medi Sobel test	Mediation confirmed				
$H5: MES \rightarrow BP$	0,358	0,458	0,107	4,294	***	Accepted
The goodness of fit Test				Cut-off Value	Result	Conclusion
Chi-square for $DF = 73$ at a significance level of 5%				147,169	93,95	fit
Significance				≥0.05	0,000	fit
The Goodness of Fit Index				≥0.90	0,917	fit
The Adjusted Goodness of Fit Index				≥0.90	0,880	fit
Comparative Fit Index				≥0.90	0,962	fit
Tucker Lewis Index				≥0.90	0,953	fit
RAMSEA				0,05 - 0,08	0,06	

Table 2 Hypothesis Testing Criteria

The first step of the analysis included the assessment of the model's fit, which showed a good fit based on the criteria presented in Figure 1. The model showed a chi-square significance level of 0.000 with satisfactory values for GFI (0.917), CFI (0.962), TLI (0.953), and RMSEA (0.066), which was lower than (0.08), signifying that the model fits well. In the second step, the regression and mediation hypotheses were tested. The results shown in Table 2 indicate that all regression hypotheses had critical ratios above the cut-off value of 2.0, signifying acceptance.

The table further showed the direct and positive significant influence of SMA on INA, INA on MES, INA on BP, and SMA on BP. The test result on all correlations produced was significant at an α of 0.05, signifying that the H1, H2, H3, and H5 hypotheses were accepted.

The Sobel test showed a significant mediating influence (Z value = 3.130) of innovation quality on the correlation between social media adoption and business performance (Preacher & Leonardelli, 2017), signifying the existence of the mediating influence of the tested variable. Therefore, hypothesis H4 was also accepted due to the mediating influence of innovation quality in bridging the gap between social media adoption and business performance.

Common Methods Bias

The questionnaire separated predictor and outcome variables to ensure reliable data and mitigate common method bias (CMB), following the method outlined by Jordan and Troth (2019). This minimized the probability of consistent responses solely due to the question format. After data collection, post-hoc analyses using Harman's single-factor test and the marker variable method were conducted. The single-factor test showed a 33.90% variance which was in the standard of 50.00%, according to Podsakoff et al. (2012). However, the marker variable method signified minimal and statistically insignificant influences on most constructs. The comparisons between models with and without the marker variable showed no significant differences. These comprehensive measures suggested that CMB did not exert a significant influence on the data collected from SMEs in the focal creative industry, enhancing the research's overall validity and reliability.

RESULTS AND DISCUSSION

The findings of this study underscore the critical importance of social media adoption for enhancing innovation quality and market entry speed among SMEs in Bali's handcrafted jewelry sector. The results align with Dynamic Capability Theory, which posits that organizations must adapt and reconfigure their resources to respond effectively to changing market conditions (Teece, 2007). By leveraging social media, SMEs can tap into external knowledge pools, facilitating collaboration and idea generation which is essential for innovation (Corral de Zubielqui & Jones, 2020). Schilke et al. (2017) further emphasized the importance of dynamic capability for SMEs, particularly the ability to sense opportunities. This enrichment of the knowledge base stimulates the development of new ideas and fosters a more innovative environment conducive to creativity (Bhimani et al., 2019). This study reveals that social media not only serves as a marketing tool but also as a platform for fostering internal communication and collaboration, which is vital for creative industries (Alhaimer, 2021).

Moreover, the positive correlation between social media adoption and innovation quality suggests that businesses that actively engage with customers and stakeholders through these platforms are better positioned to identify market needs and trends, leading to the development of high-quality innovations (Hanafizadeh et al., 2021). This finding is particularly relevant in the context of SMEs, which often face resource constraints that limit their ability to conduct extensive market research. By utilizing social media, these businesses can gather real-time feedback and insights, enabling them to refine their products and services more effectively (Seidel et al., 2020). Social media facilitates the seizing of opportunities by enabling collaboration and knowledge sharing with external partners (Saunila, 2020).

High-quality innovations characterized by novelty, utility, and commercial viability were more inclined to be adopted by customers, leading to increased market share, profitability, and overall business success (Baláž et al., 2023). In creative industries, high-quality innovations can be translated into products and services that resonate with target audiences, leading to positive brand recognition and customer loyalty (Alhaimer, 2021). This result also addresses the research gap identified by Pratono (2018), which explored the influences of social media adoption on business performance but did not examine the mediating role of innovation quality. Consequently, the research underscored the importance of innovation as a crucial influence of success in the creative sector and the essential role of social media.

This research showed a positive association between innovation and business performance, similar to YuSheng and Ibrahim's (2020) empirical publication about innovation (market, process, and product innovations) and business performance in the banking sector in Ghana. Additionally, the results validated Riana's (2020) observations of SMEs, which suggested that higher levels of innovation led to innovations influenced by knowledge sharing and absorption capacity which ultimately led to better performance. The empirical evidence further supported the idea that innovation quality enhanced the business performance of SMEs in creative industries. However, it is essential to acknowledge the challenges associated with social media adoption, such as the potential for information overload and the need for strategic management of online interactions (Schilke et al., 2017). SMEs must develop clear strategies to harness the benefits of social media while mitigating these risks. Future research should explore the specific strategies that SMEs can implement to optimize their social media use for innovation and performance, as well as the long-term impacts of these practices on business sustainability and growth.

RESEARCH CONCLUSION AND DIRECTION FOR FUTURE RESEARCH

Conclusion

The results supported the established perspective that social media adoption plays a crucial role in influencing business performance (Garrido-Moreno et al., 2020; Hanafizadeh et al., 2021; Ye et al., 2022). Social media platforms serve as powerful resources for strengthening innovation quality, correlating with previous research on the importance of innovation capability for achieving superior business outcomes (Baláž et al., 2023; Barlatier et al., 2023; Corral de Zubielqui & Jones, 2020; Hussin et al., 2023; Muninger et al., 2022). This relationship suggests that social media adoption serves as a critical initial step toward developing a stronger capability for generating high-quality innovations. Furthermore, this research showed that social media empowers businesses to gain valuable customer insights and enable product and service customization, fostering innovation, as well as enhancing competitiveness.

Direct customer interaction, facilitated through social media, leads to increased brand loyalty and satisfaction. This correlates with the Dynamic Capability Theory proposed by Teece et al. (1997) and Eisenhardt (2000). The theory emphasizes the strategic use of social media platforms to acquire valuable information and facilitate communication, augmenting innovation processes and enabling active customer engagement. The theory emphasizes social media's role in acquiring information, communication, and customer engagement for business innovation and adaptation in a dynamic market. Social media use facilitates communication, collaboration, and customer feedback to influence purchasing decisions.

Managerial Implications

The research highlighted the need of investing in social media literacy training for handmade jewelry SMEs to enhance their online visibility, given that the majority of these enterprises mostly use Facebook and Instagram. This training should concentrate on utilizing social media for innovation by combining innovative thoughts, integrating new technology, encouraging free-flowing ideas, and keeping responsive to market needs. Streamlining content initiatives, including the use of content calendars and scheduling tools, may provide a constant online presence on Facebook and Instagram without overextending resources. Promoting user-generated content may enhance organic interaction on these platforms, bolstering brand reputation and cultivating a feeling of community. Employing the analytical tools provided by these platforms, establishing support networks, and dedicating resources to social media management can assist SMEs in monitoring performance, assimilating best practices, and ultimately enhancing customer engagement and brand loyalty, while simultaneously cultivating a culture of innovation within the business.

Limitations and Future Publications

This study, while insightful, acknowledges limitations and suggests directions for future research. The focus on a single creative SME industry limits generalizability, necessitating replication across diverse sectors. The cross-sectional design hinders causal inference; thus we advocate for future longitudinal studies which can examine long-term effects. Future research should explore the interplay between specific social media functionalities, strategies, and innovation across industries, considering organizational and contextual factors such as size, platform type, and industry characteristics. Finally, more robust sampling methods are needed to enhance the generalizability of findings across diverse contexts.

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