



THE ROLE OF INNOVATION CAPABILITY IN THE RELATIONSHIP BETWEEN SOCIAL CAPITAL, ENTREPRENEURIAL LEADERSHIP AND MSME PERFORMANCE IN SEMARANG'S CULINARY SECTOR

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This study examines the effect of social capital and entrepreneurial leadership on the performance of MSMEs with innovation capability as a mediating variable. The population of this study was culinary sector MSMEs in Semarang City, with a sample of 193 respondents determined by Taro Yamane formula. Data analysis techniques include validity and reliability tests, descriptive analysis, and hypothesis testing using the Structural Equation Modeling (SEM) through SmartPLS version 4.0. The results show that social capital and entrepreneurial leadership have a positive effect on innovation capability and MSME performance. This finding confirms the role of innovation capability as a mediating variable that strengthens the relationship between social capital and entrepreneurial leadership on MSME performance. For further research, it is recommended to include other variables such as market orientation and different leadership styles in order to expand the conceptual model developed.

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INTRODUCTION

The business environment has changed dramatically over the past few decades due to rapid globalization and technological advances (Aslam & Maitlo, 2019). These changes have required micro, small and medium enterprises (MSMEs) to adopt strategies that can help in improving performance and help secure the long-term survival of the business.(Boohene et al., 2020). However, the main problems faced by MSMEs worldwide can be seen from the limited access to business funds (capital) and also problems with human resource (HR) performance. Therefore, in a very challenging and turbulent economic situation, MSMEs must develop strategies to enable them to achieve competitive advantage and add value to their businesses.(Boohene et al., 2020). MSME strategies that have sustainable value are an important need to ensure the continuity of business activities in a long-term context and successful performance (Anwar, 2018). This competitive advantage not only increases the

ability of business growth, but can also encourage business actors to produce innovations to improve better performance (Firdaus, 2023).

Performance is the result achieved from efforts based on capabilities under certain conditions (Sani et al., 2018). Organizational performance refers to the overall assessment of an organization's achievements regarding the effectiveness and efficiency of its business processes (Ghasemaghaei, 2020). This means that, Performance refers to how effective an organization or business is in achieving its stated goals, including how existing resources are managed to achieve optimal and sustainable performance. This performance is usually assessed from various aspects, such as productivity, efficiency, innovation, quality, and stakeholder satisfaction (de Waal & Heijtel, 2017). Performance in the context of business finds urgency because it has a direct impact on the sustainability of a business, so that the existence of a business will be assessed based on its performance achievements (Raharjanto,

2022). Thus, it is very important to explore the factors that can affect business performance. Factors from outside the business in question include external consumers, suppliers, competitors, and business uncertainty. While factors originating from within the business environment consist of structure, stakeholders, human resources consisting of leadership, social capital and innovation and development (Murtini et al., 2024).

Social capital is one of the main factors in determining the intensity and success of entrepreneurship (Setini et al., 2020). Boohene et al. (2020) describe social capital as resources embedded in and accessible through relationships in networks, where social capital is considered as a commercial and reciprocal economic advantage obtained through profitable means and collaborations. Social capital is considered important for organizations to access new resources, skills and learning tools (Purwati et al., 2020). In this study, the performance of MSMEs depends on entrepreneurs' access to finance, markets and information. Access to these three resources by entrepreneurs is facilitated by social capital (Boohene et al., 2020).

Social capital can be the most fundamental solution to the problem of MSME capital, where social capital is aimed at obtaining funds (funding), market access, and the information needed because among MSME capital, social capital is easier to access compared to other forms of capital (Boohene et al., 2020). Social capital has an important role in improving the performance of MSMEs by encouraging collaboration, trust, and networks that are essential for business growth (Kanini et al., 2022). In the context of MSMEs in Indonesia, social capital contributes to MSME performance by providing access to information and resources needed for more informed decision making (Prakasa, 2019). Susiang (2024) added that social capital can help MSMEs in building sustainable businesses or businesses, which is very important in facing the challenges of a rapidly growing market. Strong networks and mutually beneficial collaborations help MSMEs in obtaining the necessary resources, creating innovations, and strengthening their position in the market. Therefore, in improving MSME performance, social capital is one of the main factors in MSME development outside of leadership characteristics factors (Purwati et al., 2020).

The performance of MSMEs is of course not only influenced by social capital factors, but also greatly depends on the characteristics and competencies of entrepreneurs, such as leadership skills, managerial skills, network building skills, technology adaptation, and the level of education of an entrepreneur (Muklis

Lateh & Hussain, 2018). Leadership is an important part of a business, because the ability of a leader to apply his/her competencies will drive the progress and development of the business. There are various leadership models that can be applied in an organization or business, one of which is the entrepreneurial leadership model (Raharjanto, 2022). Entrepreneurial leadership is considered superior in improving the performance of MSMEs compared to other leadership styles. This is because entrepreneurial leaders foster a good culture by encouraging creativity and risk-taking among employees, characteristics that are important in a business environment where MSMEs must continue to innovate in order to survive. Entrepreneurial leaders will inspire employees to generate new ideas and implement creative solutions, thus encouraging businesses to adapt and thrive in a dynamic market (Taleb et al., 2023).

In improving the performance of MSMEs, of course there are other factors outside of social capital and entrepreneurial leadership, innovation capabilities are an important part for MSMEs so that they can produce good innovation and performance so that they can survive and compete in the market (Rumijati & Hakim, 2023). SMEs with better innovation capabilities tend to be able to improve their financial and business performance, especially when adapting to a dynamic environment (Octasyva et al., 2022). Entrepreneurial leadership and innovation capabilities play an important role in helping MSMEs face challenges such as limited resources and business competition. Innovation capabilities enable MSMEs to maximize resources, take advantage of opportunities, create unique value, and respond effectively to external pressures, thereby encouraging increased effectiveness of MSME performance as a whole (Expósito & Sanchis-Llopis, 2019).

Innovation capabilities help organizations maintain excellence and survive in an uncertain business world (Mascareño, Eric, & Barbara, 2020). Well-managed innovation capabilities can be a vital source of organizational prosperity and sustained success in business competition (Iqbal & Fawad, 2020). In the context of MSMEs in developing countries, innovation capability can ensure the long-term survival and sustainability of a business. The results of innovation capability such as adopting new technologies, creating new methods or ways in operational processes by existing human resources, and offering new products can help MSMEs adapt to changes in market tastes and maintain competitiveness. (Adam & Alarifi, 2021).

This research is based on the Resource Advantage Theory (RAT) by Hunt & Morgan

(1997). RAT theory argues that the resources owned by a company such as social capital, innovation capabilities driven by entrepreneurial leadership characteristics will affect the performance of the company or MSMEs as a whole. Good performance by MSMEs can provide benefits and advantages in a highly competitive business environment. In creating this competitive advantage, innovation capabilities are needed so that MSMEs can continue to survive and be consistent with their efforts. To achieve this, MSMEs must be able to see and utilize opportunities proactively to face new threats and opportunities. One way to achieve this is with good networking and innovation capabilities (Purwati et al., 2020).

Previous studies have shown mixed results regarding the influence of social capital, entrepreneurial leadership, and innovation capabilities on MSME performance. Several studies such as (Boohene et al., 2020; Paudel, 2019; Purwati et al., 2020; Setini et al., 2020) found that social capital and entrepreneurial leadership have a positive effect on MSME performance, while other studies such as Dhamayantie & Fauzan (2017); Kanini et al. (2022) shows no significant influence. Similar things are also seen in the influence of innovation capability on MSME performance, where some studies such as Agyapong et al. (2017) shows a positive influence, but Prakasa et al. (2022) found the opposite result.

In addition, the relationship between social capital and innovation capability also shows inconsistent results. Putra et al. (2020); Setini et al. (2020) states that social capital can increase innovation by expanding access to information, while Akay & Kunday (2018) did not find a significant effect. Likewise, the effect of entrepreneurial leadership on innovation capability is supported by Bagheri et al. (2022; Sawaeen & Ali (2020) but rejected by (Al-Sharif et al., 2023). The inconsistency of these results suggests the need for further research to elucidate the contextual differences and mediating variables that may influence the relationship.

HYPOTHESIS DEVELOPMENT

The Influence of Capital on MSME Performance

Social capital is one of the main factors in improving the performance of MSMEs by encouraging collaboration, trust and networks which are essential for the growth of a business (Kanini et al., 2022). In the context of MSMEs in Indonesia, social capital contributes to MSME performance by providing access to information and resources needed for more appropriate decision making (Prakasa, 2019). Social capital owned by MSMEs is a characteristic of social network life, norms, and beliefs that allow

members of the organization or MSME to work together so that they can more effectively achieve the goals of the organization or MSME. As one of the factors that influences the performance of MSMEs, social capital in business usually refers to social meetings with various elites in technology, politics, bureaucracy, and culture (Purwati et al., 2020).

One of the most brilliant solutions in solving the problem of MSME funding is the use of social capital to obtain the funds, markets, and relevant information needed. This is because among the capital owned by MSME, social capital is more easily accessed compared to other forms of capital (Boohene et al., 2020). This is in line with Setini et al. (2020) which states that social capital is a means of obtaining resources that can ultimately improve the quality or performance of MSMEs.

Research on the influence of social capital on performance has been conducted by (Boohene et al., 2020), with findings indicating that there is a significant relationship between social capital and MSME performance in Ghana. This result is in line with research Setini et al. (2020) which confirms the very important role of social capital in improving the performance of MSMEs.

H1: Social Capital Has a Positive Influence on MSME Performance

The Influence of Entrepreneurial Leadership on MSME Performance

Entrepreneurial leadership has an influence on the performance of MSMEs in Indonesia. The study found that entrepreneurial leadership not only drives innovation capabilities but also increases leadership effectiveness, which in turn contributes to better MSME performance (Rumijati & Hakim, 2023). In this context, entrepreneurial leadership plays a role as the main driver that directs MSMEs to adapt and produce innovations that are very important in facing dynamic market challenges. Furthermore, entrepreneurial leadership can also create competitive advantages that are very useful for MSMEs to survive and thrive in an uncertain market (Sunargo, 2022).

Entrepreneurial leadership is considered better in improving the performance of MSMEs compared to other leadership styles. This is because leaders with an entrepreneurial spirit foster a culture of innovation by encouraging creativity and risk-taking among employees, these characteristics are important in a competitive environment where MSMEs must continue to innovate and improve existing performance in order to survive (Taleb et al., 2023). Leadership as an entrepreneurial behavior tends to bring out its potential in recognizing one's values in the entrepreneurial process,

therefore, it is important in various aspects of organizational sustainability, such as improving performance, encouraging innovation capabilities and adapting to environmental changes (Al Mamun et al., 2018).

In the context of post-COVID-19 pandemic recovery, entrepreneurial capacity and leadership characteristics play a major role in the speed of MSME performance recovery. This shows that effective leadership is very important in directing MSMEs to adapt to changing market conditions and take advantage of new opportunities. Thus, entrepreneurial leadership not only produces innovation and influences current performance, but also the resilience and sustainability of MSMEs in the future (Damayanti et al., 2024).

H2: Entrepreneurial leadership has a positive effect on MSME performance

The Influence of Innovation Capabilities on MSME Performance

Innovation capability plays an important role in helping MSMEs face challenges such as limited resources and business competition. Innovation enables these MSMEs to take advantage of opportunities, create unique value, and respond effectively to external pressures, thus driving improvements in their performance (Expósito & Sanchis-Llopis, 2019). This is in line with The Last Supper (2023) which emphasizes the importance of the role of innovation in addition to optimizing existing resources in improving the performance of MSMEs. The importance of innovation is because MSMEs that have good innovation capabilities are more likely to improve their financial and business performance, especially when they adapt to a dynamic environment (Octasyilva et al., 2022).

Innovation is not only in the form of developing new products, but also includes innovation in processes, innovation in problem solving, and also management that can increase the competitiveness and sustainability of MSMEs in an increasingly open market. Research shows that MSMEs that have the ability to innovate and implement their innovations well can create competitive advantages that differentiate them from competitors, and are able to increase responses to market changes (Baiquny & Yasmine, 2024)

H3: Innovation capability has a positive effect on MSME performance.

The Influence of Social Capital on Innovation Capability

Social capital is a resource available in an organization and is obtained through the existence of a network of personal relationships

and business networks that lead to information resources, where high social capital can increase the ability of entrepreneurs to be the first to identify new trends in business and try to develop new products. Furthermore, social capital can play a beneficial role by increasing the company's innovation capabilities (Putra et al., 2020). According to Setini et al. (2020) with existing social capital, entrepreneurs can build networks that will later facilitate themselves with information resources and provide access to broader and more important resources and knowledge. This is important, substantial knowledge or information will facilitate the exchange of ideas, and bring up the right innovation ideas.

Putra et al. (2020) Analyzing the relationship between social capital and innovation capability which states that social capital has an influence on innovative behavior in MSMEs in Indonesia. In line with research Setini et al. (2020) which states that social capital influences innovation capability. This indicates that the higher the social capital a person has, the higher their innovation capability.

H4: Social capital has a positive effect on innovation capability.

The Influence of Entrepreneurial Leadership on Innovation Capability

Entrepreneurial leadership has been shown to play a role in encouraging innovation capabilities, even entrepreneurial characteristics not only create new ideas themselves but also facilitate and encourage their employees or subordinates to show potential in solving complex problems and performing challenging tasks through more innovative ways (Li et al., 2020). This is in line with Abualoush et al. (2022) which asserts that entrepreneurial leadership fosters entrepreneurs' and employees' belief in their potential as entrepreneurs and develops a spirit of creativity, enabling them to achieve greater excellence.

Entrepreneurial leadership is described as leadership with an approach that focuses on generating ideas, recognizing opportunities, and enhancing innovation (Mehmood et al., 2019). This approach is important because in facing existing challenges and opportunities, entrepreneurs need to focus on problem solving and developing ideas which are part of innovation capabilities. This leadership approach not only has an impact on individual entrepreneurs, but will also influence and direct the performance of team members to recognize and utilize existing entrepreneurial opportunities (Nyoman Sudyani et al., 2023).

H5: Entrepreneurial leadership has a positive effect on innovation capability.

The Influence of Social Capital on MSME Performance with Innovation Capability as a Mediating Variable

The hypothesis regarding the influence of social capital on performance with innovation capability as a mediating variable can be developed through the results of previous studies that highlight the relationship between these variables. Social capital is described as networks, relationships, and norms. Which facilitates cooperation or collaboration within a community has been shown to have a significant impact on performance. Research by Khusaini et al. (2022) found that strong social capital has a positive effect on the performance of MSMEs, which shows that entrepreneurs who develop strong networks and extensive connections have a better chance of achieving success. This statement is reinforced by Sutikno et al. (2022) which states that social capital can directly affect the performance of MSMEs and that entrepreneurial competence can mediate the effect of social capital on performance. This implies that social capital not only contributes to performance but also enhances entrepreneurial capabilities, thereby facilitating innovation.

Innovation capability serves as an important mediating variable in this context. Gronum et al. (2012) argue that the networks owned by entrepreneurs will provide SMEs with access to resources and knowledge that are useful for innovation, which in turn drives performance. The ability to innovate often depends on the social networks built by entrepreneurs, as these networks can provide insights and collaborative opportunities that drive innovative solutions. In addition, the results of the study Tasavori et al. (2018) shows that social capital enhances governance structures that encourage innovation capability, thereby improving overall firm performance. This is in line with the idea that social capital can enhance SME innovation capability, leading to better performance outcomes. This n-influence relationship suggests a framework in which social capital positively influences SME performance, with innovation capability as a mediating variable. This relationship is further strengthened by the findings Junaidi et al. (2023) who found that social networks play a role in enhancing partnership programs that lead to improved performance through innovation capabilities.

H6: Social capital has a positive effect on MSME performance with innovation capability as a mediating variable.

The Influence of Entrepreneurial Leadership on MSME Performance with Innovation Capability as a Mediating Variable

Entrepreneurial leadership is synonymous with the ability to inspire and guide teams towards innovative practices that can improve organizational performance. This leadership style plays a role in fostering a positive work climate for innovation which then has an impact on business success, especially in the MSME sector. Research shows that entrepreneurial leadership has an effect on innovation capabilities.

Rumijati & Hakim (2023) States that Entrepreneurial leadership can effectively influence an individual to adopt work behaviors that lead to innovation capabilities, which in turn can improve performance. This is in line with findings from Octasyilva et al. (2022) which confirms that the high innovation capability of an entrepreneur is because they recognize innovation as a key factor to improve performance. Innovation capability not only improves the performance of MSMEs but also serves as a bridge between entrepreneurial leadership and organizational results. As the results of research by Khan et al. (2023) which states that innovation capability is very important for the sustainable success of SMEs, because it directly affects their performance. Furthermore (Ndubisi & Iftikhar, 2012) highlighted that the relationship between entrepreneurial character and performance is significantly mediated by innovation capability, reinforcing the idea that innovation capability is an important part of this relationship.

H7: Entrepreneurial leadership has a positive effect on MSME performance with innovation capability as a mediating variable.

Based on the relationship between variables and the hypotheses developed, the framework of thought can be described in the following image.

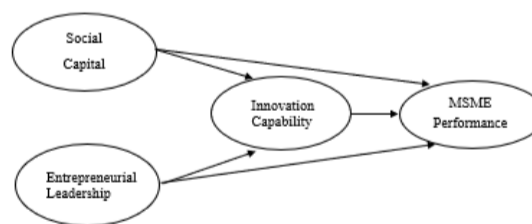


Figure 1. Framework of Thinking

METHOD

Quantitative research approach using descriptive analysis, where data collection uses research instruments. The population and sample used in this study are MSMEs in the culinary sector of Semarang City using the Taro Yamane formula with purposive sampling determination.

The social capital variable is measured using 3 indicators, namely norms, social networks, and trust, with 9 question items.

(Ghazinoory et al., 2014). Entrepreneurial leadership variables are measured using 3 indicators, namely discovery, establishment, and development, with 8 question items (Cardon et al., 2013). The innovation capability variable is measured using 4 indicators, namely product development capability, innovativeness, strategic capability, and technological capability, with 11 question items (Vicente et al., 2015). The performance variables of MSMEs are measured using 4 indicators, namely financial, customer, process, and development learning, with 11 question items (Ying-Yu et al., 2016).

Several tests were carried out in this study, namely validity and reliability tests, descriptive analysis tests, and hypothesis tests which were carried out using Structural Equation Model (SEM) with SmartPLS analysis tool version 4.0

RESEARCH RESULT

Validity and Reliability Test

Based on the results of the validity test for each question item totaling 39, the outer loading value was obtained > 0.70 and the AVE value > 0.50. These results indicate that all question items used in the study were declared feasible (valid) according to the convergent validity test. The results of the discriminant validity test showed that all items obtained indicator values for each construct > from the indicators of each construct. These results indicate that all question items used in the study were declared feasible (valid) according to the discriminant validity test.

The results of the reliability test conducted on the three research variables showed a Cronbach's alpha value > 0.70. The results of this reliability test indicate that all variables used in the study are declared consistent or (reliable).

Descriptive Analysis Test of Respondents' Answers

Based on the analysis results, the total index value of the employee innovative work behavior variable is 74.85%. This shows that MSME actors, especially in the culinary sector, have actively utilized noema, social networks, and trust as an integral part of their social capital.

Based on the analysis results, the total index value of the servant leadership variable is 75.74%. This confirms that entrepreneurial leadership among culinary sector MSME actors in Semarang City has been implemented quite well, especially in the aspects of finding ideas, establishing businesses, and developing businesses.

Based on the analysis results, the total index value of the innovation capability variable is 74.72%. This confirms that the innovation capability of culinary sector MSMEs in Semarang City is good, especially in terms of creativity and strategy, but it is necessary to strengthen the use of technology to strengthen the advantages of MSMEs.

Based on the analysis results, the total index value of the MSME performance variable is 71.64%. This shows that the performance of MSME in the culinary sector in Semarang City is quite good, especially in managing business processes and customer orientation, but further encouragement is needed in the financial aspect and also in terms of strengthening internal learning and growth capacity to support business sustainability.

Hypothesis Testing

Direct Effect Test

Based on the results of data analysis, path coefficients are obtained in Table 1 below.

Table 1. Path Coefficients Results (Direct Effect)

Variables	Original sample	T statistics	P values	Caption
SC → P	0.576	8.002	0.000	Accepted
EL → P	0.423	5.496	0.000	Accepted
IC → P	0.243	3.568	0.000	Accepted
SC → IC	0.440	4.548	0.000	Accepted
EL → IC	0.518	5.601	0.000	Accepted

Based on Table 1, the original sample value and T-Statistic of social capital (SC) on MSME performance (P) are 8.002 > 1.96 and the p-value (0.000) < 0.05. This indicates that hypothesis 1 is accepted. The results of this study are in line with previous research which revealed that social capital has a positive effect on MSME

performance. (Boohene et al., 2020; Setini et al., 2020). With trust, social networks, and norms, it is possible to improve the performance of MSMEs.

Hypothesis 2 with a T-Statistic value of entrepreneurial leadership (EL) on MSME performance (P) of 5.496 > 1.96 with a p-value

(0.000) < 0.05 is accepted. This is in line with the literature (Purwati et al., 2020; Sani et al., 2018), which states that leaders with an entrepreneurial spirit have the ability to encourage creativity, measured risk taking, and effective empowerment of human resources to achieve business growth.

Hypothesis 3 with a T-Statistic value of innovation capability (IC) on MSME performance (P) of 3.568 > 1.96 with a p-value (0.000) < 0.05 is accepted. The results of this study also support previous findings which state that innovation capability has a positive effect on MSME performance (Agyapong et al., 2017; Setini et al., 2020). Innovations developed by MSMEs not only improve product quality, but also open up new market opportunities that ultimately impact business sustainability and growth.

Hypothesis 4 with a T-Statistic value of social capital (SC) on innovation capability (IC)

of 4.548 > 1.96 with a p-value (0.000) < 0.05 is accepted. This finding is in line with the opinion Putra et al. (2020) which states that social capital has a positive influence on the innovation capabilities of MSME actors, because strong networks provide faster access to information, technological knowledge, and markets.

Hypothesis 5 with a T-Statistic value of entrepreneurial leadership (EL) on innovation capability (IC) of 5.601 > 1.96 with a p-value (0.000) < 0.05 is accepted. This finding is in line with research Bagheri et al. (2022; Sawaeen & Ali (2020) which states that entrepreneurial leadership influences innovation capabilities, both in the MSME sector and the technology industry.

Indirect Effect Test

Based on the results of data analysis, path coefficients are obtained in Table 2 below.

Table 2. Indirect Effect Test Results

Variables	Original sample	T statistics	P values	Caption
SC → IC → P	0.107	2.593	0.005	Accepted
EL → IC → P	0.126	2.770	0.003	Accepted

Based on Table 2, the original sample value and T-Statistic of social capital (SC) on MSME performance (P) with innovation capability (IC) as a mediating variable are 2.593 > 1.96 and the p-value (0.005) < 0.05. This indicates that hypothesis 6 is accepted. This finding is in line with previous research which states that innovation capability can mediate social capital on MSME performance (Agyapong et al., 2017).

Hypothesis 7 with a T-Statistic value of entrepreneurial leadership (EL) on MSME performance (P) with innovation capability (IC) as a mediating variable of 2.770 > 1.96 with a p-value (0.003) < 0.05 is accepted. This finding is consistent with the literature that emphasizes the importance of the role of innovation capability in bridging the influence of entrepreneurial leadership on organizational outcomes. As explained by Sawaeen & Ali (2020) innovation capability can effectively mediate the relationship between entrepreneurial leadership style and MSME performance.

CONCLUSION AND RECOMMENDATION

Based on the research results, it can be concluded that social capital, entrepreneurial leadership, and innovation capability have a positive influence on MSME performance. The higher the social capital owned by MSMEs, such

as network of relationships, trust, and social norms, the MSME performance tends to increase. Likewise, the application of entrepreneurial leadership style by MSME leaders, which reflects vision, innovation, and courage to take risks, can significantly encourage increased MSME performance. Innovation capability is also an important factor that encourages the achievement of better performance, where innovative MSMEs tend to be more adaptive and able to create added value in their business.

In addition to direct influence, social capital and entrepreneurial leadership also contribute indirectly to improving MSME performance through innovation capability as a mediator. This means that when MSMEs have a high level of social capital and a strong entrepreneurial leadership style, both will encourage an increase in the innovation capability of MSME actors, which in turn has an impact on improving performance. Thus, innovation capability plays a role in strengthening the relationship between social capital and entrepreneurial leadership on MSME performance.

This study shows that social capital, entrepreneurial leadership, and innovation capability significantly affect MSME performance. But, there are still other factors that have not been studied, such as market

orientation and other leadership styles. Further research is recommended to expand the scope of variables and involve larger samples and different locations to strengthen the generalization of the findings.

In practice, MSMEs need to improve the trust aspect in social capital through open communication and cross-community collaboration. Strengthening leadership is also important, especially in the ability to build teams through business training and mentoring. In terms of innovation, it is necessary to increase the adoption of digital technology through practical training. In addition, the low value of the learning and organizational growth indicator shows the importance of continuous training programs and HR development to improve business professionalism and competitiveness.

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