

Enhancing Bali MSMEs' Competitiveness through Digital Strategies, Product Innovation, and Local Wisdom

Factors Influencing
Bali MSMEs'
Competitiveness

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Submitted:
November 3, 2025

Revised:
January 1, 2026

Accepted:
January 30, 2026

Published Online:
January 31, 2026

ABSTRACT

This research is motivated by the challenges faced by MSMEs in Bali amid the increasingly competitive era of digitalization, as well as the need to preserve local cultural identity as a source of differentiation. The main objective of this study is to analyze the influence of digital marketing strategies, product innovation, and local wisdom values on the competitive advantage of MSMEs in Bali. This research employs an explanatory quantitative approach using Structural Equation Modeling–Partial Least Squares (SEM-PLS), involving MSME actors who actively utilize digital technology in their business activities. The findings reveal that local wisdom has the most significant influence on competitive advantage, followed by product innovation. Meanwhile, the digital marketing strategy shows a positive yet statistically insignificant influence at the 5% significance level. Collectively, these three variables explain 85% of the variance in competitive advantage. This study contributes to the development of a glocalization model, integrating digital technology with local wisdom as a competitive strategy. The results provide important implications for policymakers and MSME practitioners in formulating adaptive, innovative, and culturally rooted business strategies.

Keywords: Bali MSMEs, Competitiveness, Digital Strategy, Local Wisdom, Product Innovation.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy, with over 99% of businesses coming from this sector and contributing significantly to GDP and employment (Septiani et al., 2020). Beyond their economic impact, MSMEs play a role in poverty alleviation and job creation, making their empowerment crucial for inclusive development. In the era of digital transformation, MSMEs face the challenges of adapting to technology and changing consumer behavior. Digitalization is a primary requirement for business sustainability, not merely an option (Mavilinda et al., 2021; Saleh, 2023). In Bali, MSMEs in the tourism, craft, culinary, and service sectors are required to utilize digital technology to expand their markets and compete (Permana, 2023; Putra et al., 2023).

Post-COVID-19 changes in consumer behavior have further accelerated the transition to digital platforms, compelling MSMEs to strengthen product innovation and digital marketing strategy (Gunarso et al., 2021). Although government and institutional initiatives have promoted MSME digital capacity through training and assistance programs, challenges remain, particularly in human resource readiness and unequal digital infrastructure development (Wati et al., 2020; Fuadi et al., 2021; Putri & Lataruva, 2024). A key determinant of MSME competitiveness is the effective utilization of digital

JIMKES

Jurnal Ilmiah Manajemen
Kesatuan
Vol. 14 No. 1, 2026
pp. 905-916
IBI Kesatuan
ISSN 2337 – 7860
E-ISSN 2721 – 169X
DOI: 10.37641/jimkes.v14i1.4515

marketing, which enables wider and more efficient customer reach through online channels such as social media, marketplaces, and search engines (Nizam et al., 2020). Alongside digital capability, product innovation is essential in creating added value and differentiation, allowing MSMEs to respond to dynamic market demands and maintain competitive positioning (Oktavinus et al., 2020; Kencana & Giantari, 2021; Prabawanti & Kang, 2025). Moreover, the integration of local wisdom plays a strategic role in shaping a distinctive business identity, particularly in culturally rich regions such as Bali. Products that embed local values are perceived as more authentic, enhancing consumer appeal, brand image, customer loyalty, and overall MSME competitiveness in increasingly homogeneous markets (Wong & Sijabat, 2022; Bugis et al., 2023).

Previous studies have highlighted the importance of digital marketing strategy and product innovation in strengthening MSME competitiveness in the era of global competition. Hardilawati (2020) asserts that digitalization and innovation are key to MSME sustainability, particularly when facing market disruptions. Malesev and Cherry, (2021) explain that digital marketing can expand market reach and enhance consumer interaction, while research by Kithinji and Misuko (2022) shows that innovation drives competitive advantage through improved product quality and differentiation. Furthermore, Rifai and Meiliana, (2020) found that the integration of innovation and digital marketing significantly enhances MSME performance, consistent with the findings of Haryanto et al. (2022), who emphasize the role of digitalization in operational efficiency and strengthening customer relationships. Similar findings were also reported by Aprianti et al. (2022), who revealed that innovative product development through design and packaging increases product attractiveness and purchase decisions. Thus, previous literature indicates that the combination of digital strategies and product innovation forms a crucial foundation for MSMEs to achieve competitive advantage in an increasingly dynamic and competitive business environment.

The effect of product innovation and digital marketing tactics on competitive advantage has been the subject of numerous studies, but little attention has been paid to the role of local knowledge within this framework, especially when considering Bali as a tourist destination with a distinct cultural identity. This creates a significant space for further research, especially in exploring the synergy between modern innovation and local values in strategies to enhance MSME competitiveness (Mardikaningsih, 2023). The purpose of this study is to comprehensively analyze the influence of digital marketing strategy, product innovation, and local wisdom values on the competitive advantage of MSMEs in Bali. This research aims to identify the extent to which digital marketing strategies implemented by MSMEs contribute to achieving competitive advantage, evaluate the role of product innovation in increasing the attractiveness and competitiveness of MSMEs in an increasingly competitive market, and examine the role of local wisdom as a strategic differentiation element in business development. Through a quantitative approach using the SEM-PLS method, this study is expected to provide an in-depth empirical overview of MSME development strategies based on technology, creativity, and local wisdom, thereby serving as a foundation for formulating policies and business practices that are more innovative, sustainable, and oriented toward the cultural strengths of Bali.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Digital Marketing Strategy on MSME Competitive Advantage

Digital transformation has brought significant changes to the modern marketing landscape, where digital technology plays a central role in expanding market reach, enhancing consumer interaction, and creating sustainable competitive differentiation (Agustian et al., 2023; Hussain et al., 2023). In the context of MSMEs, digital marketing offers strategic opportunities to compete more effectively with larger firms by utilizing social media, e-commerce platforms, Search Engine Optimization (SEO), and value-based content that aligns with consumer needs and preferences. These digital channels enable MSMEs to access wider markets while maintaining relatively low marketing costs.

Malesev and Cherry (2021) argue that digital marketing allows small business owners to improve brand visibility and marketing cost efficiency, which in turn contributes to enhanced competitiveness. This view is supported by Hadiwijaya and Yustini (2024), who find that the effectiveness of digital marketing strategy is positively associated with increased consumer loyalty and expanded market reach among MSMEs. Furthermore, the ability of MSMEs to optimize digital technologies reflects their adaptability to rapid market changes, an aspect strongly emphasized in dynamic capability theory. Firms that are able to sense market opportunities, integrate digital resources, and reconfigure their marketing strategies are more likely to respond effectively to competitive pressures. Therefore, the successful implementation of a digital marketing strategy not only strengthens market presence and customer relationships but also increases the potential for MSMEs to achieve and sustain competitive advantage in an increasingly dynamic and digitalized business environment.

H1: Digital marketing strategy has a positive effect on MSME competitive advantage.

The Effect of Product Innovation on MSME Competitive Advantage

Product innovation is a decisive factor in addressing increasingly dynamic consumer preferences and intensifying business competition (Jusuf, 2022). In a broader economic context, Schumpeter (1983) argues that innovation is the primary driver of economic growth and competitive advantage, as it enables firms to create and introduce new value that differentiates their products in the marketplace. Through continuous innovation, businesses are able not only to improve product performance but also to build unique characteristics that distinguish them from competitors. Product innovation can be implemented in various ways, including the development of new designs, improvements in product quality, modification of materials, and the creation of packaging that is more attractive, functional, and aligned with consumer expectations (Nurhidayati, 2025).

Empirical research by Hardilawati (2020) demonstrates that product innovation represents one of the most important strategies for MSMEs to survive under conditions of high market uncertainty, particularly during the COVID-19 pandemic. In line with these findings, Rifai and Meiliana (2020) report that product innovation significantly strengthens the competitive position and market attractiveness of MSMEs. Moreover, innovation that is supported by effective marketing strategies can accelerate market penetration, stimulate demand growth, and enhance customer loyalty. By continuously adapting products to market needs and competitive pressures, firms are better positioned to maintain relevance and sustainability. Therefore, product innovation can be regarded as a key determinant in achieving and sustaining competitive advantage over the long term.

H2: Product innovation has a positive effect on MSME competitive advantage.

The Effect of Local Wisdom Values on MSME Competitive Advantage

Bali, as a cultural tourism destination, has unique characteristics that are reflected in its strong local wisdom values, such as the philosophy of *Tri Hita Karana*, a culture of harmony, traditional aesthetics, and spirituality. These values function not only as social guidelines but also as strategic resources for MSMEs in creating differentiation and building a strong brand identity. A business approach grounded in local wisdom has been shown to strengthen product authenticity while enhancing emotional appeal among consumers who increasingly value authenticity and cultural sustainability (Bakr et al., 2025; Lubis & Muliono, 2025).

Previous studies support the strategic role of local wisdom in business performance. Hertati et al. (2021) emphasize that local wisdom plays an important role in preserving business identity and fostering long-term consumer trust. These findings are reinforced by Helmi et al. (2024), who demonstrate that integrating cultural values into MSME business practices contributes to higher customer loyalty and stronger social relationships between

business actors and local communities. In addition, Widiati et al. (2023) find that the adoption of local cultural values in marketing strategies improves perceived product quality and differentiation among tourism-related MSMEs in Bali. Similarly, Novilia (2025) reports that the use of local wisdom as a branding element has a positive effect on purchase intention and brand image. From the perspective of the Resource-Based View (RBV), local wisdom can be considered a valuable, rare, and difficult-to-imitate resource, enabling firms to achieve sustainable competitive advantage. Therefore, internalizing local cultural values becomes a key factor in enhancing the competitiveness of Balinese MSMEs in both local and global markets.

H3: Local wisdom values have a positive effect on MSME competitive advantage.

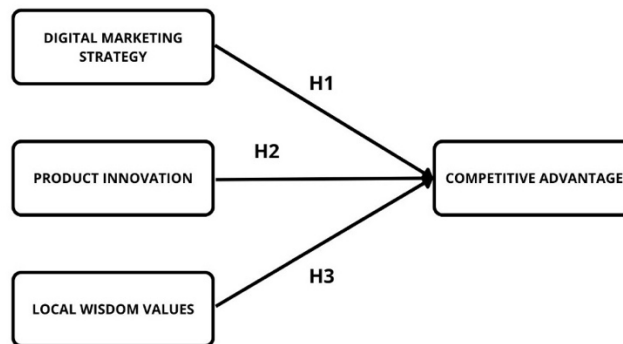


Figure 1. Conceptual Framework

The study's conceptual framework is depicted in Figure 1, which proposes digital marketing strategy (H1), product innovation (H2), and local knowledge values (H3) as independent factors that directly affect competitive advantage. Every hypothesis shows a clear connection between the corresponding factor and the competitive advantage of MSMEs.

RESEARCH METHODS

This study uses an explanatory quantitative technique to explain the causal relationship between the dependent variable, MSME competitive advantage, and the independent variables, product innovation, digital marketing strategy, and local knowledge values. This approach was chosen to provide a systematic, measurable, and data-driven understanding of the research phenomenon. Considering the complexity of the relationships among latent constructs analyzed simultaneously, the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method is deemed appropriate to address the research questions and test the hypotheses comprehensively. SEM-PLS also offers advantages in processing data with non-normal distributions and limited sample sizes, making it relevant for the highly heterogeneous MSME context.

The population in this study consists of all MSMEs in Bali Province that have utilized digital channels for promotion, communication, or transactions. To obtain relevant and targeted data, purposive sampling was used, with the respondent criteria being MSME actors who have been digitally active for at least the past year. The SEM-PLS rule of thumb, which calls for a minimum of 10 times the number of indicators in the construct with the greatest number of indicators, was used to calculate the sample size. The minimum number of respondents needed is 120, as the maximum number of indicators is four. However, gathering more data is highly advised to increase model accuracy.

This study involves three independent variables and one dependent variable. Digital marketing strategy (X_1) is measured through the use of search engine optimization, social media, marketplace platforms, and digital customer relationship management. Product innovation (X_2) reflects MSMEs' ability to develop new products, create unique designs,

ensure product quality, and enhance visual appeal and packaging. Local wisdom values (X_3) refer to the integration of local cultural elements into products or services, including traditional values, local symbols, and cultural philosophies such as *Tri Hita Karana*. The dependent variable, competitive advantage (Y), is defined as MSMEs' ability to sustain market position through pricing strategies, product differentiation, and customer loyalty.

A closed-ended questionnaire with a 1–5 Likert scale to gauge respondents' agreement with each statement was used to gather primary data. The research instrument was developed based on adaptations from previous studies and underwent content validation by experts as well as pilot testing to ensure clarity, consistency, and alignment of the statements with the measured indicators. Data were gathered through a survey method, conducted both online via Google Forms and offline through direct visits to MSME actors. This mixed approach was used to reach respondents from diverse digital adoption backgrounds and geographic locations, while minimizing participation bias. SmartPLS software was used to analyze the data. Convergent validity, discriminant validity, and concept reliability tests were all part of the initial phase of assessing the measurement model (outer model). The influence between latent variables was then examined using path coefficients in the structural model (inner model), and the predictive strength of the model was evaluated using R^2 and Q^2 values. Significance testing was performed using bootstrapping to obtain t-statistics, determining whether the proposed hypotheses were statistically accepted or rejected.

RESULTS

The findings of the data analysis utilizing the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method are shown in this section. The goal of the investigation is to look at the connections between MSMEs' competitive advantage, local knowledge values, product innovation, and digital marketing strategy. The measurement and structural models were assessed before hypothesis testing to confirm the constructs' validity and reliability as well as the model's suitability for explaining the suggested links. The findings in this section serve as the foundation for additional debate and interpretation by offering empirical evidence for the importance and direction of the proposed courses.

Table 1. Outer Model

Latent Variable	Measurement Items	Statement Items	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
X ₁ - Digital Marketing Strategy (DMS)	Social Media Marketing	Q1	0.684	0.840	0.882	0.556
		Q2	0.813			
	Content Marketing	Q3	0.772			
		Q4	0.746			
	SEO / Website	Q5	0.761			
		Q6	0.691			
X ₂ -Product Innovation (PI)	New Product	Q7	0.752	0.883	0.912	0.632
		Q8	0.788			
	Local Adaptation	Q9	0.779			
		Q10	0.819			
	Variation	Q11	0.779			
		Q12	0.849			
X ₃ -Local Wisdom Values (LWV)	Business Ethics	Q13	0.792	0.873	0.908	0.665
		Q14	0.887			
	Tri Hita Karana	Q15	0.822			
		Q16	0.790			
	Spiritual Quality	Q17	0.782			
Y-Competitive Advantage (CA)	Product Differentiation	Q20	0.864	0.903	0.926	0.677
		Q21	0.811			
	Customer Loyalty	Q22	0.861			
		Q23	0.808			
	Operational Efficiency	Q24	0.904			

All indicators in this study were able to explain the latent variables being tested, according to Table 1's outer model testing findings. Based on the outer loading values, most items have values above 0.70, meaning these indicators consistently represent the research constructs. (Hair et al., 2019). For example, in the digital marketing strategy variable (X_1), indicators Q2 (0.813), Q3 (0.772), and Q4 (0.746) show strong contributions in measuring the dimensions of digital strategy, including the use of social media and marketing content. Although there are several indicators slightly below the cut-off, such as Q1 (0.684) and Q6 (0.691), these values are still acceptable in exploratory studies, especially when the Average Variance Extracted (AVE) and composite reliability values still meet the required criteria. These findings indicate that the digital marketing strategy of MSMEs in Bali is well represented through adequate indicators, particularly in the utilization of social media, content, and website/SEO.

In terms of construct reliability, the Cronbach's alpha and composite reliability values for all variables exceed the recommended minimum thresholds, namely $\alpha \geq 0.70$ and $CR \geq 0.80$. For instance, the product innovation variable (x_2) has a Cronbach's alpha of 0.883 and a composite reliability of 0.912, indicating excellent internal consistency. Similarly, the local wisdom value (X_3) and competitive advantage (Y) variables also demonstrate high reliability, suggesting that all constructs in this study are reliable and stable. Therefore, the measurement instrument used is able to consistently measure the constructs as intended (Hair et al., 2019).

Additionally, convergent validity testing through the AVE values shows that all constructs have values above 0.50, indicating that the indicators can adequately explain the variance of their respective constructs. For example, the competitive advantage (Y) variable has an AVE value of 0.677, showing that more than 67% of indicator variance can be explained by the construct. This confirms that the research instrument has a strong capability in representing the concept of competitive advantage among MSMEs, reflected in aspects such as product differentiation, customer loyalty, and operational efficiency.

The results of the outer model evaluation indicate that all latent constructs of digital marketing strategy, product innovation, local wisdom value, and competitive advantage meet convergent validity and internal reliability criteria. This indicates that the measurement model employed in this investigation is suitable to move on to structural model (inner model) analysis in order to examine the correlations between variables within the SEM-PLS framework. Thus, this study has a strong empirical basis to explore how digital strategies, innovation, and local wisdom collectively contribute to shaping the competitive advantage of MSMEs in Bali, particularly within the context of culture- and tourism-driven business competition.

Table 2. Coefficient of Determination Results

Test	Value
R-square	0.850
Adjusted R-Square	0.846

Table 2 shows that the competitive advantage variable's coefficient of determination (R^2) value is 0.850, and its adjusted R^2 value is 0.846. This shows that the three independent variables in the model, digital marketing strategy, product innovation, and local wisdom values, can account for about 85% of the variation in competitive advantage. According to Hair et al., (2019) An R^2 value above 0.75 indicates that the model has a strong (substantial) level of explanatory power. This indicates that the link between the exogenous factors and competitive advantage, the primary topic of this study, can be sufficiently explained by the model.

Table 3. Q^2 Result

Variable	Competitive Advantage
Digital Marketing Strategy	0.033
Product Innovation	0.144
Local Wisdom Values	0.359

Table 3 presents the Q^2 values used to accurately predict observed values using the Stone Geisser's Q^2 measurement. The Q^2 values obtained indicate that the digital marketing strategy (X_1) has a value of 0.033, product innovation (X_2) of 0.144, and local wisdom (X_3) of 0.359. All Q^2 values are above zero, indicating that the model has good predictive relevance (Chin, 1998). In addition, the local wisdom value shows the highest Q^2 value, indicating that this variable has the strongest predictive ability in explaining competitive advantage.

Table 4. Hypothesis Test

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	t-statistics	P-values
Digital Marketing Strategy → Competitive Advantage	0.147	0.153	0.076	1.927	0.054
Product Innovation → Competitive Advantage	0.321	0.318	0.078	4.119	0.000
Local Wisdom Values → Competitive Advantage	0.497	0.495	0.072	6.939	0.000

Table 4 shows that each independent variable has a distinct impact on MSMEs' competitive advantage (Y). First, the t-statistic is 1.927, and the p-value is 0.054 for the digital marketing strategy variable, which had an initial sample value of 0.147. At the 5% significance level, this p-value is marginally above the 0.05 threshold, suggesting that the digital marketing strategy has no discernible impact on competitive advantage. Second, with an initial sample value of 0.321, a t-statistic of 4.119, and a p-value of 0.000, the product innovation variable demonstrates a substantial positive impact on competitive advantage. This outcome shows how important product innovation is to improving MSMEs' competitive position in Bali. Third, with an initial sample value of 0.497, a t-statistic of 6.939, and a p-value of 0.000, the local wisdom values variable has the greatest impact on competitive advantage. This research shows that incorporating traditional business principles, spirituality, and local cultural values like the *Tri Hita Karana* philosophy greatly boosts MSMEs' competitive edge in Bali.

DISCUSSION

The SEM-PLS analysis shows that the digital marketing strategy has a positive but relatively weak effect on MSME competitive advantage, indicating practical relevance, though not yet dominant. Thus, the hypothesis is only partially supported. This aligns with Asheq et al. (2021), who argue that digital marketing enhances competitiveness only when supported by technological readiness and digital capabilities, emphasizing integration into adaptive and personalized approaches rather than mere use of social media or e-commerce. Similarly, Hadiwijaya and Yustini (2024) note that effectiveness depends on owners' digital literacy, their interpretation of market trends, and alignment of content and platform choice with local consumer behavior.

Furthermore, this study underscores the importance of a contextual approach to digital strategy implementation among MSMEs in Bali, where local culture and consumer characteristics remain influential. Digital marketing strategy should therefore be culturally embedded and tailored to local market preferences to enhance its impact (Mukhlison et al., 2022). In addition, content personalization is crucial, as consumers are more responsive to digital messages that align with their values and lifestyles (Chaffey & Ellis-Chadwick, 2019). Consequently, MSMEs in Bali should develop a digital marketing strategy that combines technical competence with cultural relevance to strengthen their competitive advantage.

The structural model analysis shows that product innovation significantly enhances MSME competitive advantage, reinforcing differentiation, customer loyalty, and business sustainability. This supports the hypothesis and aligns with Hardilawati (2020), who identified product innovation as a key driver of MSME competitiveness. Similarly, Rifai

and Meiliana (2020) found that innovations in design, quality, and variety improve competitiveness in small-scale food and handicraft businesses. Moreover, Aprianti et al. (2022) showed that combining innovation with local cultural elements increases perceived uniqueness and customer loyalty. These studies collectively highlight product innovation as a central pillar of sustainable MSME competitive advantage.

In Bali, product innovation is closely tied to local wisdom and cultural heritage, serving as a distinctive regional strength. Innovations that combine local materials and traditions with modern design not only create commercial products but also convey cultural identity and emotional value, making them hard for competitors to imitate and thus a sustainable source of competitive advantage (Prajogo, 2006). Aligned with consumer preferences, such innovation enhances MSMEs' adaptability and responsiveness to market changes, supporting Kohli and Jaworski's (1990) view that strong market orientation involves continuous responsiveness to the external environment. Consequently, MSMEs can proactively identify market needs, develop relevant offerings, and refine products based on feedback, strengthening both short-term competitiveness and long-term sustainability.

The structural model analysis shows that local wisdom has the strongest influence on MSME competitive advantage, highlighting the crucial role of internalizing cultural values in market positioning. In Bali, this includes *Tri Hita Karana*, Hindu ethics, and principles of harmony with nature and society. When embedded in business practices, these values transform MSMEs from purely economic actors into expressions of cultural identity, spirituality, and social responsibility, creating emotional value and distinctiveness. This aligns with Hertati et al. (2021), who emphasize that culturally rooted values support integrity, consumer trust, and long-term sustainability. Similarly, Helmi et al. (2024) found that culture-based practices enhance customer loyalty and strengthen innovation effectiveness, as culturally grounded products are perceived as more authentic by local consumers and tourists.

These findings contribute to theory by showing that local cultural values and product innovation can serve as unique, hard-to-imitate resources that enhance MSME competitive advantage, expanding the application of resource-based and market orientation theories in culturally grounded contexts. Furthermore, spiritual values such as *Tri Hita Karana*, which emphasize harmony between humans and God (*parahyangan*), other humans (*pawongan*), and nature (*palemahan*), have been widely adopted as strategic elements in Balinese MSME practices. Their implementation enhances emotional engagement, strengthens customer relationships, and creates a harmonious business environment. Therefore, prioritizing authentic local wisdom enables MSMEs to build relationship-based competitive advantage that is more sustainable than purely transactional strategies.

CONCLUSION

This study examines the effects of digital marketing strategy, product innovation, and local wisdom values on the competitive advantage of MSMEs in Bali. The findings indicate that product innovation and local wisdom values have a positive and significant influence on competitive advantage. Product innovation enhances product differentiation and attractiveness, thereby strengthening MSMEs' market position. Local wisdom values particularly the integration of cultural identity, traditional ethics, and the *Tri Hita Karana* philosophy, which emerges as the strongest source of competitive advantage, as they create unique value that is difficult for competitors to imitate within Bali's cultural tourism context. In contrast, digital marketing strategy shows a positive but insignificant effect, indicating that its implementation among MSMEs has not yet been fully optimized.

Theoretical implications suggest that MSME competitiveness is not driven solely by technological adoption but is strongly influenced by innovation capability and culture-based differentiation. This study extends the competitiveness and marketing literature by emphasizing the strategic role of local wisdom as a sustainable source of advantage in culturally rich regions. Practical implications highlight the need for MSME development

programs to focus on strengthening product innovation and integrating local cultural values into branding and product design. In addition, digital marketing training should move beyond technical skills to include content quality, cultural storytelling, and strategic platform management.

This study has several limitations. First, it is limited to MSMEs in Bali, which may constrain the generalizability of the findings to other regions. Second, the cross-sectional research design restricts the ability to capture long-term dynamics in competitive advantage. Third, the digital marketing strategy was measured in general terms and did not fully assess platform-specific effectiveness. Future research is encouraged to adopt comparative or longitudinal designs and include additional variables such as digital capability, entrepreneurial orientation, or customer engagement. Exploring mediating or moderating mechanisms may provide deeper insights into how innovation, local wisdom, and digital strategies interact to enhance MSME competitiveness.

FUNDING STATEMENT: This research did not receive any specific grant from funding agencies in the public, commercial, or not - for - profit sectors.

CONFLICTS OF INTEREST: The author declares no conflict of interest.

DECLARATION OF GENERATIVE AI STATEMENT: During the preparation of this work the author(s) used ChatGPT, Grammarly, and Turnitin in order to assist with language refinement, grammar checking, and originality verification. After using this tool/service, the author(s) reviewed and edited the content as needed and take(s) full responsibility for the content of the publication.

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