

Research Article

The Competitiveness of Local MSMEs in Indonesia's Digital Marketplace Ecosystem Based on Porter's Diamond Model

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Abstract: Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy; however, the competitiveness of local products within digital marketplaces remains relatively weak compared to imported goods. The rapid expansion of e-commerce platforms such as Shopee and Tokopedia has created broader market access for MSMEs, while simultaneously intensifying competition in the digital trade environment. This study aims to analyze the challenges and opportunities that influence the competitiveness of local MSME products within Indonesia's digital marketplace ecosystem. This research adopts a qualitative descriptive approach. Primary data were collected through semi-structured interviews with relevant stakeholders, including government representatives, MSME practitioners, and digital marketplace observers. These data were complemented by secondary sources such as policy documents, institutional reports, and academic literature. Data analysis was conducted using an interactive analysis model and interpreted through Porter's Diamond Model framework to examine the determinants of competitiveness. The findings indicate that MSME competitiveness is influenced by several structural factors, including limited digital literacy, constrained production capacity, restricted access to capital, weak branding strategies, and an underdeveloped supporting industry ecosystem. In addition, regulatory gaps and unequal competition with imported products further challenge the position of local MSMEs in digital marketplaces. On the other hand, opportunities arise from increasing consumer awareness of local products, government initiatives such as the "Bangga Buatan Indonesia" campaign, and the utilization of digital marketing strategies. This study concludes that strengthening MSME competitiveness requires improving internal capabilities, enhancing business strategies, and reinforcing the supporting ecosystem through effective policies, infrastructure development, and cross-sector collaboration.

Keywords: Competitiveness; Digital Marketplace; E-Commerce Ecosystem; MSMEs; Porter's Diamond Model.

Received: March 16, 2026

Revised: March 25, 2026

Accepted: April 12, 2026

Online Available: April 15, 2026

Curr. Ver.: April 15, 2026



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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) constitute a vital sector in Indonesia's economy. Their contribution to Gross Domestic Product (GDP) reaches 60.3%, and they absorb approximately 97% of the national workforce (Nurprabowo & Meilani, 2023; Rayhan & Rahmadhinta, 2025). The role of MSMEs is not only limited to job creation but also functions as a driver of domestic economic activity and contributes to income distribution across society. At the regional level, Indonesia also holds a significant position within the MSME ecosystem in the ASEAN region, with approximately 65.4 million units out of a total of 72.4 million MSMEs in the region, contributing around 14.4% to exports (ASEAN, 2022).

Table 1. MSME Contribution in 2021 by Country.

Country	% MSMEs	%Labor	%GDP
Indonesia	99.9	97.0	60.3
Thailand	99.5	85.5	35.3
Malaysia	97.4	48	38.2
Phillipines	99.5	63.2	45.5

Source: (ASEAN, 2022)

The advancement of information and communication technology has driven significant changes in trade activities, particularly through the emergence of digital marketplace platforms. These platforms enable businesses to reach broader markets, improve distribution efficiency, and accelerate transaction processes. For MSMEs, digital marketplaces serve as a strategic tool to expand market access without requiring substantial business infrastructure. The presence of e-commerce platforms such as Shopee and Tokopedia provides opportunities for MSMEs to market their products more widely within the digital trade ecosystem.

However, the utilization of digital marketplaces by MSMEs still faces various challenges. Data indicate that out of a total of 22,844 sellers in marketplaces, approximately 98.2% are MSMEs, yet only around 6.28% produce their own goods (Listiyanto, 2024). The majority of sellers act as resellers or dropshippers of imported products. This condition results in the low contribution of local products in digital marketplaces, accounting for only about 3.8% of the total products traded (Fitriyani, 2023). In addition, consumer perceptions that imported products offer better quality, along with stronger branding strategies, further weaken the position of local products in the digital market (Salam & Amaliah, 2025).

Previous studies have shown that various factors influence MSMEs' ability to utilize digital platforms. Studies (Rahman & Ervina, 2021; Sekhar & Radha, 2019), found that limited access to technology, the quality of human resources, and resource disparities compared to larger firms are major barriers for MSMEs in competing in global markets. Study (Amanda et al., 2022) also highlights that limited access to capital, low digital literacy, and a lack of product innovation affect MSMEs' success in leveraging e-commerce platforms. Furthermore, studies (Heriyati et al., 2024; Ratnaningtyas et al., 2025) emphasize the importance of product quality, branding strategies, and digital marketing capabilities in enhancing MSME competitiveness in marketplaces. Although numerous studies have examined MSME digitalization, most focus on technology adoption or operational constraints in using digital platforms. Research specifically analyzing the competitiveness of local MSME products within digital marketplace ecosystems and the factors influencing it remains limited. Therefore, further research is needed to provide a more comprehensive understanding of the challenges and opportunities faced by local MSMEs in utilizing digital marketplaces for business development.

This study aims to analyze the challenges and opportunities affecting the competitiveness of local MSME products in Indonesia's digital marketplaces using a competitive advantage framework (Porter, 1990). This approach is employed to identify the factors influencing MSME competitiveness within the digital trade ecosystem. The contributions of this study are as follows. First, it provides an analysis of the competitiveness of local MSME products within Indonesia's digital marketplace ecosystem. Second, it identifies key structural challenges and strategic opportunities affecting MSMEs' ability to compete in e-commerce platforms. Third, it offers strategic recommendations that can serve as references for business actors and policymakers in strengthening MSME competitiveness through effective utilization of digital technologies and marketing strategies.

2. Literature Review

Micro, Small, and Medium Enterprises (MSMEs)

Micro, Small, and Medium Enterprises (MSMEs) are productive business entities owned by individuals or business organizations that operate independently and are not subsidiaries or branches of large enterprises. In Indonesia, the definition and classification of MSMEs are regulated under Law No. 20 of 2008 and further updated through Government Regulation No. 7 of 2021, which categorizes businesses based on asset value and annual turnover. According to these regulations, micro enterprises are defined as businesses with net assets of up to IDR 50 million (excluding land and buildings used for business activities) or annual sales of up to IDR 300 million. Small enterprises have net assets ranging from more than IDR 50 million to IDR 500 million or annual turnover exceeding IDR 300 million up to IDR 2.5 billion. Meanwhile, medium enterprises are defined as those with net assets ranging from more than IDR 500 million to IDR 10 billion or annual turnover exceeding IDR 2.5 billion up to IDR 50 billion (Alius et al., 2023; Natasya & Hardiningsih, 2021).

In the context of the digital economy, MSMEs can also be classified based on their business activities within online trading platforms. Study (Listiyanto, 2024) categorizes MSME actors in marketplaces into two main groups: producer MSMEs, which manufacture their own products, and reseller MSMEs, which sell products from other parties. Both types of actors contribute to digital trade activities; however, producer MSMEs generate greater economic value through production and product innovation (Effendi et al., 2023). MSMEs play a strategic role in the national economy, as they significantly contribute to job creation, economic growth, and income distribution. Numerous studies indicate that MSME development can enhance business productivity, increase entrepreneurs' income, and strengthen the domestic economic structure (Aftitah et al., 2024; Herman & Nohong, 2022; Utomo et al., 2022).

Digital Marketplace

Digital marketplaces are online platforms that facilitate transactions of goods and services by connecting sellers and buyers electronically. These platforms function as intermediaries that provide digital infrastructure for trade activities, including transaction systems, payment mechanisms, and product information management. Study (Kalakota & Whinston, 1996) explains that marketplaces can be understood from three main perspectives: as a medium for the exchange of information and goods, as a tool for automating business transactions to improve operational efficiency, and as a service provider that reduces transaction costs while enhancing service quality for both businesses and consumers.

Within the digital economy ecosystem, marketplaces play a strategic role by integrating trade activities more broadly through the use of information technology. Marketplace platforms offer various supporting features such as electronic payment systems, integrated logistics services, and data analytics tools that enable businesses to better understand consumer behavior and improve product visibility (Hasyim & Hasibuan, 2022; Laudon & Traver, 2022). This digital infrastructure allows businesses, particularly MSMEs, to reach wider markets without requiring substantial investment in physical infrastructure.

For MSMEs, the utilization of digital marketplaces has become an important strategy in responding to business competition in the digital economy era. Marketplaces function not only as distribution channels but also as marketing platforms that enable businesses to expand market reach, build brand awareness, and strengthen relationships with consumers through various interactive features available on digital platforms (Firmansyah et al., 2021; Prameswari et al., 2023).

Competitive Advantage

The concept of competitive advantage refers to the ability of a firm or industry sector to achieve a superior position compared to its competitors through the effective utilization of resources, innovation, and business strategies. Porter (Porter, 1990) argues that the competitiveness of a nation or industry is not solely determined by the availability of resources, but also by the capability to develop innovation and continuously enhance its capacities. To explain the dynamics of competitiveness, Porter introduced the Diamond Model framework, which consists of four main determinants: factor conditions, demand conditions, firm strategy, structure and rivalry, and related and supporting industries.

Factor conditions relate to the quality of production factors such as human resources, technology, capital, and infrastructure that support economic activities. Demand conditions

refer to the characteristics and level of domestic market demand that can drive firms to improve product quality and innovation. Furthermore, firm strategy, structure and rivalry describe how business strategies, organizational structures, and the intensity of competition among firms influence the competitiveness of a sector. Meanwhile, related and supporting industries emphasize the importance of supporting sectors such as logistics, raw material suppliers, and financial institutions in strengthening the business ecosystem (Porter, 1990).

The utilization of information technology and digital platforms has become a crucial factor in enhancing competitive advantage, particularly for MSMEs (Setiawati et al., 2024). The adoption of digital technologies enables businesses to improve operational efficiency, expand market access, and develop marketing strategies that are more adaptive to changes in consumer behavior (Kamil et al., 2022; Triwijayati et al., 2023). In addition, the digitalization of business processes and the use of e-commerce provide opportunities for MSMEs to strengthen product innovation, increase brand visibility, and broaden market reach at relatively lower costs compared to conventional marketing approaches (Angraini et al., 2024; Desembrianita et al., 2023). The ability of MSMEs to adopt digital technologies, develop product innovation, and establish collaboration within the digital business ecosystem is a key factor in achieving sustainable competitive advantage (Lu & Shaharudin, 2024; Mbanefo & Grobbelaar, 2024).

3. Method

This study employs a qualitative approach with a descriptive design to analyze the challenges and opportunities affecting the competitiveness of local MSME products within Indonesia's digital marketplace ecosystem. The qualitative approach was selected to enable an in-depth understanding of the competitive dynamics faced by MSMEs in e-commerce platforms, as well as the various factors influencing product competitiveness in the digital market.

The data used in this study consist of both primary and secondary data. Primary data were collected through semi-structured interviews with informants who are closely related to the MSME and digital marketplace ecosystem, including representatives from government institutions responsible for MSME development, MSME practitioners, as well as digital marketplace experts or observers. Meanwhile, secondary data were obtained from government policy documents, reports from economic research institutions, statistical publications, academic journal articles, and other relevant literature sources.

Data collection was conducted through literature review and interviews. The literature review aimed to identify relevant concepts, theories, and previous research findings related to MSMEs, digital marketplaces, and business competitiveness. Semi-structured interviews were used to gain deeper insights into the experiences, challenges, and strategies of MSME actors in utilizing digital marketplaces. Informants were selected using a purposive sampling technique, in which participants were chosen based on their knowledge and relevance to the research topic.

Data analysis was carried out using the interactive analysis model proposed by (Miles et al., 2014), which consists of three main stages: data condensation, data display, and conclusion drawing. To ensure data validity, this study applied triangulation techniques, including source triangulation, method triangulation, and document triangulation. The study was conducted at a national level, as the phenomenon examined relates to the broader dynamics of MSMEs and digital trade in Indonesia.

4. Results and Discussion

The Position of Local MSMEs in the Digital Marketplace

Micro, Small, and Medium Enterprises (MSMEs) represent a crucial sector within Indonesia's economic structure. Their contribution to Gross Domestic Product (GDP) reaches approximately 60.3% and they account for nearly 97% of national employment (Nurprabowo & Meilani, 2023). Beyond their role in job creation and economic distribution, MSMEs have also demonstrated strong resilience during various periods of crisis, including the 1998 economic crisis and the COVID-19 pandemic. Nevertheless, the level of MSME digitalization in Indonesia remains relatively low. Within the e-commerce ecosystem, the majority of MSME actors still operate as resellers of imported products rather than as producers marketing local products directly through digital platforms.

The development of digital marketplaces such as Shopee and Tokopedia presents dual implications for MSMEs. On the one hand, these platforms expand market access and facilitate business digitalization. Marketplaces enable MSMEs to reach consumers more broadly without geographical limitations. On the other hand, they also create a highly competitive environment, where imported products with lower prices and stronger branding tend to dominate the market. Data indicate that although approximately 98.2% of marketplace stores are operated by local MSMEs, only about 6.28% of total sales come from locally produced goods (Listiyanto, 2024). This condition suggests that marketplace trade activities are still largely dominated by imported products or global brands.

The dominance of imported products is closely related to various structural challenges faced by MSMEs. Several studies indicate that government policies aimed at supporting MSMEs have not yet significantly improved market access or product innovation. Bureaucratic complexity, complicated licensing procedures, and limited access to support programs remain key obstacles in the effective implementation of pro-local policies (Chatra et al., 2024; Supriandi, 2023).

At the firm level, MSME producers face multiple constraints that affect their competitiveness in digital marketplaces. Common challenges include limited production technology, restricted access to capital, less competitive packaging quality, and low levels of digital marketing literacy (Ratnaningtyas et al., 2025). In addition, consumer perceptions that imported products offer higher quality, disparities in branding strength, and slow adaptation to digital marketing strategies further hinder MSMEs in competing within marketplace environments (Heriyati et al., 2024; Sari et al., 2025).

Despite these challenges, local MSME products still have significant opportunities to grow within digital marketplaces. Local products possess the potential to differentiate themselves through cultural value, product uniqueness, and local identity that are not easily replicated by mass-produced foreign goods. With appropriate digital marketing strategies, product innovation, and supportive policies that strengthen the MSME ecosystem, local products have the potential to enhance their competitiveness in an increasingly competitive digital market (Wikansari et al., 2024).

Challenges and Opportunities for MSME Competitiveness in the Marketplace

Local MSME products face various structural barriers that affect their competitiveness within digital marketplace platforms. One of the main challenges is limited production capacity as well as managerial capabilities in responding to larger market scales. Based on an interview with the Deputy for MSMEs at the Ministry of MSMEs, the primary challenge for Indonesian MSMEs lies in their ability to enter highly competitive digital markets, particularly within e-commerce ecosystems dominated by imported products.

“The main challenge for Indonesian MSMEs is entering broader markets, particularly e-commerce, where local products struggle to compete with imported goods. Limited production capacity, scalability and management issues, as well as dependence on imported raw materials, are the key obstacles. MSMEs are advised to focus on niche markets through social media, utilize consumer behavior data, engage influencers, and strengthen branding.”

These findings indicate that limitations in production capacity, business management, and dependence on imported raw materials remain critical factors influencing MSMEs' ability to compete in digital marketplaces. This is consistent with previous studies (Rahman & Ervina, 2021; Sekhar & Radha, 2019) which highlight that limited access to technology, low-quality human resources, and resource gaps compared to large enterprises are major challenges for MSMEs in global market competition. The forces of globalization and the expansion of digital trade further increase pressure on MSMEs to meet higher standards of product quality, production efficiency, and competitive marketing strategies.

In addition to internal business factors, regulatory aspects and digital trade supervision also influence the competitiveness of local products. Based on an interview with a member of the Directorate General of National Export Development at the Ministry of Trade, regulations such as Minister of Trade Regulation No. 31 of 2023 have limited certain cross-border trading practices, but have not fully addressed imported products resold through marketplace channels without equivalent tax mechanisms. This creates an uneven competitive environment for local MSME products.

“Minister of Trade Regulation No. 31 of 2023 effectively restricts cross-border imports, but it does not yet address imported products resold through e-commerce without taxation. This creates unfair competition for local products. Limited access to technology and infrastructure in regional areas also remains a major challenge.”

These findings are supported by the study (Amanda et al., 2022), which shows that limited access to capital, low human resource capabilities, and limited use of technology are common obstacles faced by MSMEs. In addition, complex business licensing systems further hinder MSMEs in expanding their operations on digital platforms (Purnawan & Adillah, 2020). From the perspective of business actors, digitalization barriers are also influenced by human resource readiness. Based on interviews with MSME practitioners in West Java, many MSMEs still face difficulties in adopting digital technologies due to limited understanding and low readiness to shift from conventional sales models to digital platforms.

“The main challenge in MSME digitalization stems from low readiness to adopt technology, especially among older and less-educated business actors. Many of them still feel comfortable with offline sales and are reluctant to transition to digital platforms.”

Despite these challenges, local MSME products also have several strategic opportunities to enhance their competitiveness in digital marketplaces. One key opportunity is the growing consumer awareness of products that emphasize sustainability and local identity. Based on an interview with the Executive Director of a national economic policy research institution, MSMEs have the potential to compete through product differentiation, innovation, and stronger branding strategies.

“MSMEs have opportunities to compete by emphasizing added value such as sustainability and ethical production, utilizing digital technologies for marketing, and reaching international markets by meeting global quality standards.”

Furthermore, advances in digital technology provide broader opportunities for MSMEs to reach consumers through various digital marketing channels. The use of social media, collaboration with influencers, and interactive features such as live commerce and affiliate marketing in marketplaces have been proven to increase product visibility and expand market reach (Siagian, 2021).

On the other hand, various government programs and e-commerce platform initiatives also support MSME development in the digital economy. Training programs, promotional campaigns such as “*Bangga Buatan Indonesia*,” and the provision of dedicated sections for MSME products in marketplaces serve as strategic measures to strengthen the position of local products in the digital market.

Analysis of MSMEs Competitiveness Based on Porter’s Diamond Model

The theory of competitive advantage proposed by (Porter, 1990), The Diamond Model provides an analytical framework for understanding the factors that influence the competitiveness of an industry or economic sector. This model explains that competitiveness is determined by four main factors: factor conditions, demand conditions, firm strategy and rivalry, and related and supporting industries. In this study, Porter’s framework is applied to analyze the position and potential competitiveness of local MSMEs within Indonesia’s digital marketplace ecosystem.

Factor Conditions

Factor conditions refer to the quality and availability of production factors that support business activities, such as human resources, capital, technology, and infrastructure. In the context of MSMEs in Indonesia, limitations in these factors remain a major challenge in improving product competitiveness in digital marketplaces.

Based on interviews with MSME practitioners in West Java, barriers to digital technology adoption are still significant, particularly due to limited access to technological facilities and low levels of digital literacy among MSME actors.

“The main barrier to adopting digital technology is limited access to facilities such as smartphones, low levels of education, and a lack of willingness to learn. Many MSMEs still feel comfortable with offline selling and are therefore not motivated to adopt digital technologies.”

These findings indicate that limited digital literacy and access to technology remain fundamental constraints in the digital development of MSMEs. In addition, limited access to business capital and inconsistent product quality also affect MSME competitiveness in marketplaces. An Executive Director of an independent research institution stated that:

“Local MSMEs face limitations in capital and inconsistent product quality, making it difficult to compete with imported products that benefit from higher logistics efficiency and stronger promotional strategies.”

Various digital training programs organized by the government and e-commerce platforms such as Shopee University represent important steps in enhancing MSME human resource capacity. However, the effectiveness of these programs still depends on equal access to technology and the readiness of business actors to adopt digital practices.

Demand Conditions

Demand conditions refer to the characteristics and dynamics of domestic market demand for products. In recent years, demand for local products has shown a relatively positive trend, particularly following national campaigns such as *“Bangga Buatan Indonesia.”*

Study [38] indicates that increasing consumer awareness of local products can strengthen domestic market loyalty and support MSME growth. However, in practice, imported products still dominate digital marketplaces due to consumer perceptions that foreign products offer higher quality and symbolic value (Yu et al., 2022).

Based on interviews with a member of the Directorate General of National Export Development at the Ministry of Trade, promotional campaigns for local products have positively impacted MSME product visibility:

“The ‘Bangga Buatan Indonesia’ campaign has positively increased the visibility of local products, as reflected in the dominance of local products during Harbolnas 2023, particularly in the fashion and sportswear categories.”

Nevertheless, challenges remain in reaching MSMEs in remote areas and improving their digital readiness to fully leverage market opportunities. This indicates that increasing domestic demand must be accompanied by improvements in production capacity and digital readiness among MSMEs.

Firm Strategy and Rivalry

The factor of firm strategy, structure, and rivalry explains how business strategies and the level of competition influence sectoral competitiveness. In digital marketplaces, competition occurs not only among MSMEs but also with imported products and global brands that possess advantages in production scale, cost efficiency, and branding strength.

Based on interviews with the Executive Director of an independent research institution, one of the key factors affecting the low competitiveness of MSME products is weak branding strategies and limited product innovation:

“Local MSMEs are less attractive due to low brand awareness, limited innovation, and higher prices resulting from high production costs.”

These findings suggest that marketing strategies and product innovation are critical factors in improving MSME competitiveness in digital marketplaces. To address this challenge, MSMEs need to adopt more adaptive business strategies, including strengthening digital branding, enhancing product innovation, and utilizing various marketing features available on marketplace platforms. Furthermore, digital training programs provided by e-commerce platforms and government initiatives also play an important role in improving managerial capabilities and business strategies among MSMEs (Amanda et al., 2022).

Related and Supporting Industries

Related and supporting industries refer to the presence of supporting sectors that enhance competitiveness, such as logistics, raw material suppliers, and financial services. Within the MSME ecosystem, the integration of supporting industries is crucial for improving production and distribution efficiency.

However, in practice, the supporting industry ecosystem for MSMEs in Indonesia has not been fully integrated. Many MSMEs still face difficulties in accessing high-quality raw materials at competitive prices, as well as efficient logistics services. Based on interviews with the Deputy for MSMEs at the Ministry of MSMEs, the development of aggregator systems is considered a key strategy to strengthen the MSME ecosystem:

“The development of aggregators is essential to support product quality, research and development activities, and facilitate access to raw materials for MSMEs.”

Collaboration among government institutions, e-commerce platforms, the private sector, and financial institutions is essential in building a more inclusive business ecosystem for MSMEs. This finding is consistent with the study (Rahman & Ervina, 2021), which emphasizes the importance of multi-stakeholder synergy in strengthening MSME competitiveness in the digital economy era.

5. Conclusion

This study aims to analyze the challenges and opportunities affecting the competitiveness of local MSME products within Indonesia’s digital marketplace ecosystem. The findings indicate that although MSMEs contribute significantly to the national economy, the position of local products in digital marketplaces remains relatively weak. This is reflected in the dominance of imported products on e-commerce platforms, despite the fact that most sellers in these marketplaces are local MSME actors. Several structural factors, such as limited production capacity, low digital literacy, restricted access to capital, and weak branding and product innovation strategies, constitute the main barriers to enhancing MSME competitiveness in the digital market.

Based on the analysis using Porter’s Diamond Model, the competitiveness of local MSMEs is influenced by four key factors. In terms of factor conditions, limitations in human resources, technology, and capital remain major challenges. Regarding demand conditions, increasing consumer awareness of local products presents market opportunities, although it is still constrained by the perception that imported products offer higher quality. In terms of firm strategy and rivalry, weak marketing strategies and limited product innovation hinder MSMEs from competing with global products. Meanwhile, in the aspect of related and supporting industries, the supporting ecosystem, including logistics, access to raw materials, and financial services, has not been fully integrated to optimally support MSME development in the digital economy.

The findings suggest that improving MSME competitiveness in digital marketplaces depends not only on internal business capabilities but also on broader ecosystem support. This includes effective government policies, strengthened digital infrastructure, and collaboration among government institutions, e-commerce platforms, the private sector, and financial institutions. Enhancing digital marketing strategies, product innovation, and human resource capacity are essential steps to strengthen the position of local MSMEs in digital market competition.

This study is limited by the scope of informants and the qualitative nature of the research, which may not fully represent MSME conditions quantitatively across all regions of Indonesia. Therefore, future research is recommended to employ quantitative or mixed-method approaches with a broader respondent base to obtain a more comprehensive understanding of the factors influencing MSME competitiveness within the digital trade ecosystem.

Funding: This research received no external funding

Data Availability Statement: The data supporting the findings of this study were obtained from interviews with informants as well as relevant documents and literature. The interview data are not publicly available to maintain the confidentiality and privacy of the research participants.

Acknowledgments: The author would like to express sincere gratitude to the informants from government institutions, MSME practitioners, and industry experts who generously contributed their time and valuable insights during the data collection process. The author declares that artificial intelligence (AI) tools were used in a limited capacity to assist with language editing and grammar improvement in the manuscript. All analysis, data interpretation, and the overall content of this study remain the sole responsibility of the author.

Conflicts of Interest: The authors declare no conflict of interest.

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