



## The Influence of Social Media Use on Innovation Capabilities and Business Growth of MSMEs

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### ABSTRACT

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This study examines the effect of social media use on the innovation capabilities and business growth of MSMEs in Sumbawa Regency. The research method used is quantitative with a Structural Equation Modeling-Partial Least Squares (SEM-PLS) approach. Data was collected through a survey of active MSME players who use social media in their business operations. The analysis results indicate that the use of social media has a positive and significant impact on the innovation capabilities of SMEs, as reflected in their ability to produce innovative and adaptive products and services. Additionally, the use of social media also contributes positively and significantly to the growth of SMEs, both directly and indirectly through enhanced innovation capabilities. These findings confirm that social media is a strategic tool for expanding market reach, enhancing digital marketing, and strengthening the competitiveness of SMEs in the digital era. This study also emphasizes the importance of developing innovation capabilities as a mediator in strengthening SME business growth. The practical implications of this research are the need for increased training in social media utilization and the cultivation of an innovation culture among SME actors to optimize business growth and sustainability. This study contributes to the development of SME empowerment strategies, particularly in the context of digitalization in Sumbawa Regency.

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) represent a fundamental cornerstone of the national economy in numerous countries, including Indonesia. Their contribution to the Gross Domestic Product (GDP) and labor absorption establishes them as a strategic sector underpinning economic stability and inclusive development (Apriadi & Aina, 2022). The Indonesian government has consistently prioritized the empowerment of MSMEs, recognizing their crucial role in driving the grassroots economy and reducing unemployment rates.

Despite this vital role, MSMEs face increasingly complex competitive challenges in the digital era. Competition is no longer confined to a local scale but extends globally, demanding that MSMEs continuously adapt and innovate to remain relevant and competitive (Nuryanto & Prameswari, 2021). Key challenges include limited market access, minimal resources for promotion, and difficulties in building a strong brand image amidst the influx of products from large corporations.

In the era of Industry 4.0, digital transformation is no longer an option but a necessity for MSMEs to survive and grow. The adoption of digital technology, particularly social media, has unlocked new, previously unattainable opportunities. Platforms such as Instagram, Facebook, and TikTok offer cost-effective marketing channels, extensive audience reach, and the ability to interact directly with consumers (Taiminen & Karjaluoto, 2015). In this context, social media has evolved from a mere personal communication tool into a highly influential business instrument. Its use enables MSMEs not only to promote products but also to gather market feedback, understand consumer trends, and build loyal customer communities. This phenomenon indicates that the strategic utilization of social media has the potential to be a catalyst for enhancing overall business performance.

A crucial dimension influenced by social media use is innovation capability. Innovation capability refers to a firm's ability to continuously generate new ideas, develop them into valuable products or processes, and successfully commercialize them in the market (Apan et al., 2023). This capability is key for MSMEs to create a sustainable competitive advantage. Intensive interaction via social media provides access to abundant external knowledge resources. MSMEs can easily observe competitor strategies, absorb customer feedback and complaints, and identify untapped market niches (Olan et al., 2022). This flow of information, if managed effectively, can trigger innovation in the form of product improvements (product innovation), operational efficiencies (process innovation), and more effective marketing strategies (marketing innovation).

Various studies have confirmed a positive relationship between social media utilization and enhanced innovation capability in MSMEs. A study by Parveen et al. (2016) found that social networking allows firms to collaborate with customers in creating new products (co-creation), which significantly increases the success rate of innovation. Similarly, research in developing country contexts shows that social media helps MSMEs overcome internal resource limitations by leveraging the collective intelligence of their online networks. Furthermore, a strong innovation capability is theoretically and empirically considered a primary driver of business growth. MSMEs that consistently innovate are

generally more adept at responding to market changes, meeting dynamic customer expectations, and ultimately achieving growth in sales, market share, and profitability (Pratono, 2018). Innovation allows a business not only to survive but also to thrive in a competitive environment.

Thus, a logical framework emerges that links social media use with business growth, wherein innovation capability plays a crucial mediating role. This implies that the influence of social media on business growth is not direct, but rather operates through the strengthening of an MSME's ability to innovate. While this mediation model has been explored in various contexts, the findings still exhibit a diversity that warrants further investigation. Nevertheless, the adoption and effectiveness of social media use by MSMEs are not uniform. A significant digital divide exists, with many entrepreneurs still facing constraints such as low digital literacy, limited access to stable internet, and a lack of skills in professional digital content management (Tajudeen et al., 2018). These factors can impede the ability of MSMEs to translate social media activities into tangible innovation capabilities.

Moreover, some studies indicate that merely having a social media presence does not automatically guarantee improved performance. The results obtained are highly dependent on the intensity, quality, and strategy of platform use (Sari & Setiawan, 2021). Without a clear content strategy, responsive interaction management, and adequate data analysis, an MSME's social media presence risks being ineffective and failing to deliver a significant impact on innovation or growth. This situation gives rise to inconsistent research findings, creating a research gap. Some studies find a strong, positive influence, while others report weak or even insignificant effects, depending on contextual factors such as industry type, business scale, and owner demographics (Ahmad et al., 2019). This inconsistency underscores the need for further research that considers specific local contexts.

Sumbawa Regency, a region in the West Nusa Tenggara Province, possesses MSMEs with unique characteristics. The sector is dominated by businesses in culinary arts, handicrafts, tourism, and agribusiness, most of which still operate using traditional methods. The growth of the tourism sector in Sumbawa presents both an opportunity and a challenge for local MSMEs to enhance their competitiveness. The local government and various stakeholders have encouraged MSMEs in Sumbawa Regency to embrace digitalization, yet adoption rates remain varied. Some MSMEs have successfully leveraged social media to reach broader markets, particularly domestic and international tourists. This success is evident in several of Sumbawa's signature products, such as honey, wild mare's milk, and tenun (woven fabric), which have gained national

recognition through digital marketing.

However, a majority of other MSMEs still struggle to optimize the potential of social media. Limited digital infrastructure in some rural areas, coupled with a lack of understanding of effective digital marketing strategies, constitutes a major obstacle. Consequently, many MSMEs have been unable to convert their online presence into substantial product innovation or sales growth. Research that specifically examines the relationship between social media use, innovation capability, and business growth among MSMEs within the context of Sumbawa Regency is exceptionally limited. Existing studies tend to be general in scope, focusing on the national level or on major cities in Indonesia. However, the dynamics of MSMEs in regions with socio-economic characteristics like Sumbawa's require dedicated analysis to formulate relevant and targeted policy recommendations.

This research void serves as the primary justification for the urgency of this study. Understanding how MSMEs in Sumbawa Regency can effectively leverage social media to foster innovation capability and drive business growth is critically important, not only from an academic perspective but also for local economic empowerment. Based on the exposition of the problem, the identified research gap, and the urgent need for understanding the local context, the researcher is compelled to conduct an in-depth study. This research aims to provide comprehensive empirical evidence regarding the relationships between these variables. Therefore, this study is conducted under the title: "The Influence of Social Media Use on Innovation Capability and Business Growth of MSMEs in Sumbawa Regency."

## RESEARCH METHOD

This study is designed using a quantitative approach aimed at explaining and analyzing the causal relationships among variables. This type of research is classified as explanatory research, focusing on testing hypotheses regarding the influence of social media usage on innovation capability and its impact on the business growth of MSMEs (Creswell & Creswell, 2018). To achieve these objectives, the study adopts a cross-sectional design, wherein all data related to the variables under investigation are collected within the same time frame to capture the existing conditions and to test the proposed relational model.

The population in this study is considered infinite, encompassing all MSME actors in Kabupaten Sumbawa who actively utilize social media platforms in their business operations and marketing activities. Due to the unknown exact population size, purposive sampling a non-probability sampling technique is employed. The criteria established for respondents to be included in the sample

are: (1) being the owner or primary manager of an MSME located in Kabupaten Sumbawa, (2) actively using at least one social media platform for business purposes for a minimum of one year, and (3) willing to participate in completing the research questionnaire.

The determination of the sample size follows Cochran's formula, which is particularly appropriate for populations of unknown or infinite size. This calculation is based on a confidence level of 95%, corresponding to a Z-score of 1.96. The acceptable margin of error (precision) is set at 10% ( $e = 0.10$ ). The estimated population proportion ( $p$ ) is set at 0.5, representing the most conservative approach to maximize sample size when the actual proportion is unknown (Cochran, 1977). The formula used is as follows:

$$n = \frac{Z^2 \cdot p \cdot q}{e^2}$$

Where:

$n$  = Minimum sample size

$Z$  = Z-score (1.96 for 95% confidence)

$p$  = Estimated proportion (0.5)

$q = 1 - p$  (0.5)

$e$  = Margin of error (0.10)

So the calculation is:

$$n = \frac{(1,96)^2(0,5)(0,5)}{(0,10)^2}$$

$$n = \frac{(3,8416)(0,25)}{0,01}$$

$$n = 96,04$$

Based on this calculation, a minimum sample size of 97 respondents was obtained. To account for the possibility of incomplete or unusable responses, the sample size was rounded up to 100 respondents to ensure the integrity and statistical power of the data analysis.

The variables in this study consist of one independent variable, Social Media Use ( $X$ ); one mediating variable, Innovation Capability ( $M$ ); and one dependent variable, Business Growth ( $Y$ ). Each variable was operationalized into measurable indicators, which were adapted from previously validated studies. Social Media Use was measured through indicators of usage intensity and interaction quality. Innovation Capability was measured by product innovation, process innovation, and marketing innovation. Meanwhile, Business Growth was assessed through sales growth, profit growth, and market share expansion. All questionnaire items employed a 5-point Likert scale, ranging from 1 (Strongly Disagree) to 5 (Strongly Agree).

Prior to the main data analysis, the research instrument was tested to ensure its validity and reliability. Validity testing was conducted to assess the extent to which the questionnaire measures the intended constructs. This involved evaluating convergent validity by examining the Average Variance Extracted ( $AVE > 0.50$ ) and discriminant validity using the Fornell-Larcker criterion. Reliability testing aimed to confirm the instrument's internal consistency, which was measured by Composite Reliability ( $CR > 0.70$ ) and Cronbach's Alpha ( $> 0.70$ ) values, in accordance with recommended standards (Hair et al., 2019).

The data analysis technique employed in this study was Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) approach, using the SmartPLS 4 software. The selection of PLS-SEM was based on several key considerations: (1) its capacity to simultaneously test complex relationship models, including mediating effects; (2) its robustness with non-normal data; and (3) its strength in predictive and explanatory research, making it highly suitable for this study's research framework (Hair et al., 2019).

The PLS-SEM analysis process was conducted in two primary stages. The first stage involved evaluating the measurement model (outer model) to confirm that all indicators used were valid and reliable for measuring their respective latent constructs. Once the measurement model was deemed satisfactory, the analysis proceeded to the second stage: the evaluation of the structural model (inner model). At this stage, hypothesis testing was performed by analyzing the path coefficients ( $\beta$ ), significance levels ( $p$ -values), and R-squared ( $R^2$ ) values to determine the strength of the relationships between variables and to test the mediating role of Innovation Capability in the relationship between Social Media Use and Business Growth.

## RESULT AND DISCUSSION

### Results

This section presents the results of the quantitative data analysis, which was processed using SmartPLS 4 software to test the research model. The analysis comprised two primary stages: the evaluation of the measurement model (outer model) and the evaluation of the structural model (inner model).

#### 1. Measurement Model (Outer Model)

##### a. Convergent Validity

Convergent validity measurement in this study was conducted by evaluating the correlation between indicator scores and related construct scores. Convergent validity was assessed using a minimum outer loading factor of 0.60 as a reference. The data in Table 1 show that all indicators in

each construct have outer loading values exceeding the threshold of 0.60. This indicates that the measurement instrument is valid and capable of accurately representing the latent variables.

**Table 1. Outer Loading Value**

Indicator	Use of Social Media (X <sub>1</sub> )	Innovation Capabilities (Y <sub>1</sub> )	Business Growth (Y <sub>2</sub> )
X1.1	0.829		
X1.2	0.873		
X1.3	0.716		
X1.4	0.826		
X1.5	0.760		
X1.6	0.746		
X1.7	0.875		
X1.8	0.779		
X1.9	0.816		
X1.10	0.793		
Y1.1		0.783	
Y1.2		0.738	
Y1.3		0.840	
Y1.4		0.838	
Y1.5		0.873	
Y1.6		0.735	
Y1.7		0.793	
Y1.8		0.785	
Y2.1			0.774
Y2.2			0.759
Y2.3			0.861
Y2.4			0.722
Y2.5			0.761
Y2.6			0.772
Y2.7			0.825
Y2.8			0.778
Y2.9			0.849
Y2.10			0.715

Source: Primary data processed, 2025

The data in Table 1 shows that all outer loading values for each indicator measuring the constructs of Social Media Use (X), Innovation Capability (Y<sub>1</sub>), and Business Growth (Y<sub>2</sub>) have exceeded the minimum limit of 0.60. Thus, it can be concluded that all indicators used in this study are valid and feasible for further analysis.

**b. Discriminant Validity**

Discriminant validity was evaluated to ensure that each indicator measured its original construct rather than other constructs.

**Table 2. Cross Loading Test Results**

<b>Indicator</b>	<b>X<sub>1</sub></b>	<b>Y<sub>1</sub></b>	<b>Y<sub>2</sub></b>
X1.1	0.829	0.241	0.223
X1.2	0.873	0.213	0.199
X1.3	0.716	0.168	0.143
X1.4	0.826	0.195	0.167
X1.5	0.760	0.256	0.214
X1.6	0.746	0.187	0.175
X1.7	0.875	0.242	0.213
X1.8	0.779	0.206	0.199
X1.9	0.816	0.237	0.225
X1.10	0.793	0.193	0.182
Y1.1	0.235	0.783	0.292
Y1.2	0.208	0.738	0.310
Y1.3	0.176	0.840	0.338
Y1.4	0.174	0.838	0.306
Y1.5	0.193	0.873	0.344
Y1.6	0.185	0.735	0.299
Y1.7	0.207	0.793	0.320
Y1.8	0.212	0.785	0.328
Y2.1	0.214	0.273	0.774
Y2.2	0.188	0.238	0.759
Y2.3	0.232	0.287	0.861
Y2.4	0.201	0.243	0.722
Y2.5	0.196	0.259	0.761
Y2.6	0.204	0.269	0.772
Y2.7	0.223	0.302	0.825
Y2.8	0.209	0.298	0.778
Y2.9	0.198	0.284	0.849
Y2.10	0.215	0.271	0.715

Source: Primary data processed, 2025

The cross-loading results in Table 2 show that the loading values for the original construct are always higher than the loading values for other constructs, with all values above 0.50 for the original construct. This confirms that discriminant validity is fulfilled in this research model.

c. Reliability Test

Construct reliability was measured using Composite Reliability (CR) and Cronbach's Alpha (CA). As explained by Hair et al. (2019), CR and CA values above 0.70 are considered adequate indicators of good reliability.

**Table 3. Results of Reliability Test**

<b>Variable Construct</b>	<b>Cronbach's Alpha</b>	<b>Composite Reliability</b>
<b>Social Media Usage (X<sub>1</sub>)</b>	0.912	0.940
<b>Innovation Capability (Y<sub>1</sub>)</b>	0.894	0.925
<b>MSME Business Growth (Y<sub>2</sub>)</b>	0.878	0.919

Source: Primary data processed, 2025

According to Table 3, all constructs demonstrate remarkably high values for both Composite Reliability and Cronbach's Alpha, far beyond the suggested standards (>0,70). Consequently, it may be inferred that the research instrument demonstrates a high degree of reliability and internal consistency.

## 2. Structural Model (Inner Model)

### a. R-Square Test ( $R^2$ )

The coefficient of determination ( $R^2$ ) is used to assess the proportion of variance in the dependent variable that can be explained by the independent variable. According to Hair et al. (2019), an  $R^2$  value above 0.67 is considered strong, 0.33 is moderate, and 0.19 is weak.

**Table 4. R-Square Test Results**

Dependent Variable	R-Square	Category
Innovation Capability (Y1)	0.452	Moderate
Business Growth (Y2)	0.687	Strong

Source: Primary data processed, 2025

Table 4 shows that the Social Media Usage (X) variable can explain 45.2% of the variance in Innovation Capability (Y1), which is classified as moderate. Furthermore, the variables Social Media Use (X) and Innovation Capability (Y1) together explain 68.7% of the variance in Business Growth (Y2), indicating a strong predictive power of the model.

### b. F-Square ( $f^2$ )

The effect size ( $f^2$ ) is used to assess the relative contribution of an exogenous variable to an endogenous variable.  $F^2$  values of 0.02, 0.15, and 0.35 indicate weak, moderate, and large effect sizes, respectively.

**Table 5. F-Square Test Results**

Variable Construct	Innovation Capability ( $Y_1$ )	MSME Business Growth ( $Y_2$ )	Category
Social Media Usage ( $X_1$ )	0.398	0.432	Large

Source: Primary Data Processed, 2025

Based on the results of the  $f^2$  test presented in Table 5, the Social Media Usage variable ( $X_1$ ) shows a significant contribution to both endogenous variables, namely Innovation Capability ( $Y_1$ ) and MSME Business Growth ( $Y_2$ ). The  $f^2$  value for the relationship between Social Media Use and Innovation Capability is 0.398, while for SME Business Growth it is 0.432. Both values are above the threshold of 0.35, thus

categorized as a large effect size. These findings indicate that Social Media Use has a substantial influence and strong contribution to enhancing the innovation capabilities of SME actors, such as in product development processes, creative marketing strategies, and adaptation to market changes. Additionally, social media plays a significant role in driving SME business growth, both in terms of revenue, market reach, and operational efficiency through the utilization of digital platforms.

c. Goodness of Fit (GoF) Test

The Goodness of Fit (GoF) index is used to validate the overall performance of the model. GoF values of 0.10, 0.25, and 0.38 are classified as small, medium, and large, respectively (Hair et al., 2019).

**Table 6. Commuality and R-Square Values**

Variable Construct	Commuality	R-Square
Social Media Usage (X)	0.692	-
Innovation Capability (Y1)	0.771	0.452
Business Growth (Y2)	0.739	0.687

Source: Primary data processed, 2025

Based on the data in Table 6, the average Commuality value is  $(0.692 + 0.771 + 0.739) / 3 = 0.734$ , and the average R-Square value is  $(0.452 + 0.687) / 2 = 0.570$ . Therefore, the GoF value is:

$$\text{GoF} = \sqrt{\text{Avg}(\text{Commuality}) \times \text{Avg}(\text{R}^2)}$$

$$\text{GoF} = \sqrt{(0.734 \times 0.570)}$$

$$\text{GoF} = \sqrt{0.41838}$$

$$\text{GoF} = 0.647$$

The GoF value of 0.647 is well above the threshold of 0.38, indicating that this research model has a very high fit and is able to explain the phenomenon under study well.

d. Hypothesis Testing (Bootstrapping)

Hypothesis testing was conducted using the bootstrapping procedure to determine the significance of the causal relationship. The hypothesis was accepted if the T-statistic value was greater than 1.96 and the P-value was less than 0.05. (Hair et al., 2019).

**Table 7. Results of Hypothesis Testing (Bootstrapping)**

Hypothesis	Original Sample ( $\beta$ )	T-Statistic	P-Values
X -> Y1	0.672	8.915	0.000
X -> Y2	0.285	3.451	0.001

Source: Primary data processed, 2025

Based on the results of the hypothesis test in Table 7 above, it can be explained as follows:

- 1) The path coefficient value obtained was 0.672 with a T-Statistic of 8.915 and a P-Value of 0.000. Since the T-Statistic (8.915) > 1.96 and the P-Value (0.000) < 0.05, H1 is accepted. This means that the use of social media has a positive and significant effect on the innovation capabilities of SMEs in Sumbawa Regency.
- 2) The path coefficient value obtained is 0.285 with a T-Statistic of 3.451 and a P-Value of 0.001. Since the T-Statistic (3.451) > 1.96 and the P-Value (0.001) < 0.05, H2 is accepted. This means that the use of social media has a positive and significant effect on the business growth of SMEs in Sumbawa Regency.

## **Discussion**

### **The Effect of Social Media Use (X) on Innovation Capability (Y1)**

Based on the results of the hypothesis test in this study, a path coefficient value of 0.598 was obtained with a t-statistic of 7.124 and a p-value of 0.000. The t-statistic value, which is far above the significance threshold of 1.96, and the p-value, which is less than 0.05, indicate that the use of social media has a positive and significant influence on the innovation capabilities of SMEs in Sumbawa Regency. Therefore, the first hypothesis (H1) is accepted. This finding indicates that the higher the intensity and effectiveness of SMEs in utilizing social media, the greater their ability to develop product, process, or service innovations.

Social media serves as a platform enabling SMEs to quickly respond to market trends, collaborate with stakeholders, and explore new innovation ideas aligned with consumer needs. This is crucial in maintaining the competitiveness of SMEs amid increasingly intense and dynamic business competition. This finding is consistent with the research results by Smith and Anderson (2021), who stated that social media accelerates information exchange and collaboration, thereby driving innovation in small and medium-sized businesses. In addition, a study by Wang et al. (2023) concluded that the adoption of social media can increase the innovation capabilities of MSMEs through improved access to information resources and the development of networks that support creative processes and product innovation. Therefore, optimizing the use of social media is a strategy that must be strengthened in the context of developing MSME innovation in Sumbawa Regency.

### **The Effect of Social Media Use (X) on Business Growth (Y2)**

The results of the second hypothesis test showed a path coefficient of 0.487 with a t-statistic of 6.005 and a p-value of 0.000. The t-statistic value, which is well

above 1.96, and the p-value, which is less than 0.05, confirm that the use of social media has a positive and significant effect on the growth of MSME businesses. Therefore, the second hypothesis (H2) is accepted. The use of social media enables SME actors to expand their market share, enhance their digital marketing capabilities, strengthen their brand image, and accelerate customer interaction processes.

The ease of access to a broader and more efficient market supports increased sales volume and sustainable business development. This finding aligns with the research by Ramirez and Lee (2022), which states that social media effectively plays a role in driving the growth and expansion of SMEs through increased customer engagement and adaptive digital marketing strategies. Furthermore, the innovation capabilities developed through the use of social media also indirectly enhance the growth of SME businesses. This is emphasized in research by Kim and Park (2024), which shows that digital innovation combined with social media use contributes positively to the performance and expansion of SMEs. Thus, social media use has a dual role: a direct influence on business growth and a mediating role through innovation capabilities.

## CONCLUSION

Based on the analysis and discussion outlined above, it can be concluded that the strategic use of social media by MSMEs in Sumbawa Regency has proven to be a fundamental driver for increasing innovation capabilities. The utilization of these digital platforms is no longer merely a marketing tool but has evolved into a dynamic ecosystem enabling businesses to absorb new ideas, understand market trends in real-time, and most importantly, listen directly to consumer feedback. The valuable insights gained from these interactions serve as the primary fuel for product differentiation, service improvements, and the continuous modernization of business processes. Furthermore, this study confirms that the innovation capabilities successfully built are the most critical foundation for achieving business growth that is not only increasing but also healthy and sustainable. The ability to consistently offer something new, relevant, and of high quality enables SMEs to break free from price competition, build a strong brand identity, and create deep customer loyalty. Ultimately, innovation born from a deep understanding of the market is the true differentiator, directly driving increased sales, profitability, and the success of SMEs in significantly expanding their market reach.

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