

An Empirical Analysis of Digitalization and Financial Inclusion on MSME Performance

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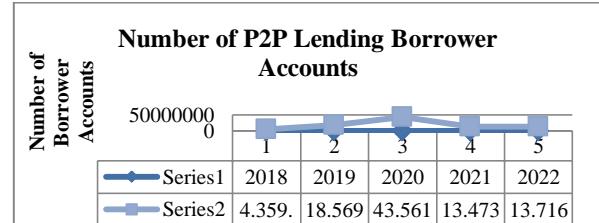
Abstract

This study aims to investigate how the performance of MSMEs is influenced by financial technology and financial inclusion. Financial technology is represented by cashless payment and market aggregators. This study collected data via a purposive sampling survey with 109 MSME entrepreneurs in Ambon City. The study examines the performance of MSMEs as the dependent variable, with cashless payment, market aggregators, and financial inclusion as independent variables. The structural equation model partial least squares (SEM-PLS) was used for analysis. The study demonstrates that the elements of financial technology - cashless payment and market aggregators- significantly contribute to MSMEs' performance. Furthermore, the study provides evidence that financial inclusion does not significantly affect the performance of MSMEs. These results imply that the more optimally MSME entrepreneurs utilize cashless payment and market aggregators, the better their business performance will be. MSMEs should adopt cashless payment systems to facilitate transactions and increase sales. In addition, they should also be accustomed to accessing digital funding information to support business performance.

Keywords: *Cashless Payment, Financial Inclusion, Financial Technology, Market Aggregator.*

INTRODUCTION

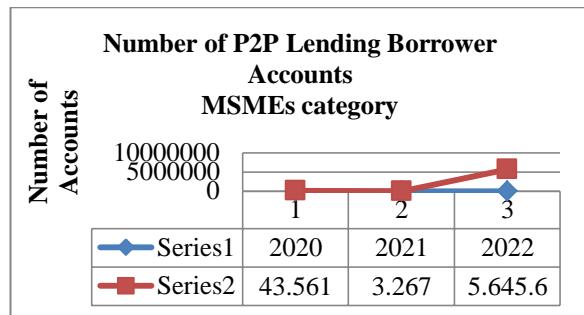
Financial technology allows business actors to make large profits. Business actors find it simpler to innovate to grab customers' attention. The government is also beginning to notice how MSMEs are expanding in the digital age, which has allowed the emergence of several financial service platforms that facilitate MSMEs' ability to transact business and obtain financing. According to a Bank Indonesia (BI) study, the total value of electronic money transactions in March 2023 was IDR 143.71 trillion. Compared to the previous month's total of IDR 126.29 trillion, this sum climbed by 13.79% (PWC & Katadata Insight Center, 2023). Additionally, according to a 2022 Southeast Asian poll, Indonesia comes in third (93%) in terms of digital wallet payments, behind Singapore (97%) and Malaysia (96%) (PWC & Katadata Insight Center, 2022). Related to the availability of credit, there has been an increase in the number of loan recipients from 2018 to 2022. Graphic 1 illustrates this. Fintech businesses are starting to grow quickly. Investors spend a significant amount of money on fintech. The study's findings indicate that investments in fintech positively impact GDP (Fidan & Guz, 2023) and business productivity (Tan & Syahwildan, 2022).



Source: Fintech Lending Statistics Data, OJK

Graphic 1. Number of P2P Lending Borrower Accounts

Graphic one illustrates that within the next five years, there will be a delay in transferring funds through the peer-to-peer lending platform (P2P lending). The borrower's dramatic increase occurred in 2020, when COVID-19 spread in Indonesia, with approximately 43,562,362 borrowers. One of the peer-to-peer lending categories is MSMEs. There has been a significant increase in the borrower category for MSMEs from 2020 to 2022. Graphic 2 attests to it.



Source: Fintech Lending Statistical Data, OJK

Graphic 2. Number of P2P Lending MSMEs Category

The number of MSMEs that receive funding via fintech P2P lending as of 2022 is around 5,645,668 businesses. This number increased from 3,267 MSMEs in 2021. This shows how fintech is increasingly making it easier for business owners to get funds. It has a significant impact on business performance and sales volume (Agboola et al., 2023; Qambrani, 2024), employee cash flow (Yulianto & Rita, 2021), and expansion of financial services offerings (Astari & Candraningrat, 2022) (Limna, Kraiwanit, & Siripipatthanaku, 2022). The experience of using fintech can help the business achieve maximum profit.

A market aggregator is a fintech medium that gathers and aggregates financial data from many information providers and presents it to the borrower based on the best possible price and product features. This media supports the borrower's ability to increase efficiency and effectiveness (Bank Indonesia, 2016). In addition to that, it also empowers the borrower to decide on the financial products that need to be evaluated. Well-made products can contribute to the expansion of business capital as well as economic growth in the long run (Badwan & Awad, 2022), for instance, market aggregators such as Lifepal, Cermati, Cekpremi, DuitPintar, and Cekaja. The borrower can get information on interest amounts, rates, the application process, and costs (insurance, provisions, penalties, and others) through this platform. This financial service gives business owners more access to capital than other financial institutions, like banks.

Aside from financial services for making transfers, fintech offers digital payment services. With the help of this service, customers can make cashless payments using an electronic wallet (e-wallet). E-wallets, also known as digital or mobile wallets (m-wallets), are a type of smartphone technology that functions similarly to traditional wallets. Transactions

can be completed quickly and discreetly by presenting credit and debit cards (Meera & Kumar, 2023; Upe, 2023). Since 2014, Indonesia has been implementing a cashless payment system, with Bank Indonesia introducing Gerakan Nasional Non-Tunai (GNNT) (Bank Indonesia, 2019). This is done to provide a transparent, efficient, and safe payment system.

In 2021, the Financial Services Authority also reported a 300 percent increase in the use of mobile banking (Ariesta, 2021). According to Bank Indonesia, as of February 2023, there were 24,9 million QRIS users in Indonesia, with nominal QRIS transaction values of 12,28 billion and transaction volume of approximately 121,8 million. Implementing cashless payment methods has several advantages for the general public, especially business owners. This system reduces money heist acts, improves health, and streamlines the transaction process.

Cashless payments monitor the amount of money that customers spend, which helps ensure their safety and that of business owners due to the absence of money heists. Good digital literacy users could use cashless payment methods (Mutusari & Lukiaistuti, 2020). Businesses that adopt this system will be able to reach higher sales and profits since it will enable customers to make more frequent purchases, eventually leading to higher sales for the company. According to Safitri, Rahadjeng, and Chalimatuz (2022) Cashless payment impacts MSMEs' financial performance. Li, Lu, and Yin (2023) found a strong positive effect of fintech development on firms' innovative activities. This effect operates through fintech's role in reducing information asymmetry: it increases the availability of funding support from stakeholders for firm R&D investment. Further, the funding support is from investors, banks, and other stakeholders. In addition, this effect is more significant for more prominent and opaque firms. These findings connect fintech with firm innovation and illuminate the unique roles and mechanisms of fintech development in promoting innovation inputs and outcomes.

The Micro, Small, and Medium-Sized Enterprises (MSMEs) show the work results achieved through various work activities at the end of the business term (Ramaseshan, Yip, & Pae, 2006). A company's working capital can be determined by looking at the level of sales, capital, assets, market share, and profits. In the current digital era, business work is heavily influenced by the ability of business owners to utilize

digital platforms (Sanistasya, Raharjo, & Iqbal, 2019; Hilmawati & Kusumaningtias, 2021), including cashless payment and market aggregator platforms (Lestari, Purnamasari, & Setiawan, 2020).

This study aims to evaluate the impact of financial technology on business performance caused by market aggregator and cashless payment variables. Market aggregator assesses the quality of business owners' access to capital, whereas cashless payment assesses consumers' payment quality. This study also identifies which fintech category is more likely to boost business productivity. The identification process for these two goals is carried out by utilizing multiple linear regression analysis, that is, by estimating the regression coefficient in the model. This clarifies which fintech services should be most concerned about, particularly in the Eastern Indonesian archipelago, where literacy is still relatively low.

Maluku is ranked 18th in the East Ventures Digital Competitiveness Report for 2023. Out of 38 provinces, this ranking has risen from 27th in 2022 to 24th. This indicates that over the past three years, users in Maluku, particularly business actors, have started to use the resources already in place to implement digital economic systems into their enterprises. For this reason, the researcher is motivated to investigate whether fintech impacts MSMEs' performance in Ambon City. The capital of Maluku Province, Ambon City, is selected as the locus of the study because it serves as an example for the districts and sub-districts dispersed throughout the province. Besides that, many Ambon City businesses are beginning to become digital by integrating fintech into their operations. According to a Ministry of Communication and Information survey of 20 Indonesian cities, Ambon City ranked third in digital usage (Siwalima News, 2021).

The public's ability to access different financial institutions and use financial products and services to enhance their welfare is known as financial inclusion (Otoritas Jasa Keuangan, 2016). P2P lending is one option. The emergence of P2P lending fintech as an alternative to cashless financial services has given business actors a unique drive to operate their enterprises. Without complicated requirements, business actors have easy access to new business capital. Business actors reported improved performance (Maysaroh & Diansyah, 2022) following the acquisition of a P2P lending loan. This improvement

was accompanied by higher sales, profits, and business capital (Musdalifa, Haanurat, & Nasrullah, 2021). P2P, a government-funded method of financial inclusion, can significantly improve performance (Sanistasya et al., 2019).

The Resource-Based View (RBV) theory is applied in this study to explain the variation in the variables. Resource-based theory describes the assets that a company needs to gain a competitive advantage. Barney, Wright, & Ketchen (2001). Resources include tangible and intangible assets, organizational qualities (reputation and innovation), technology and information, capabilities, and resource management techniques. MSMEs require pertinent resources, including technology, to support their business performance. (Barney, 2021). Businesses can obtain a notable boost in sales by utilizing digital payment systems, also known as mobile payment systems. (Carera, Gunawan, & Fauzi, 2022). Sales that are consistently rising can elevate company performance to new heights. For instance, it rises to the small level from the micro level and to the medium business level.

Cashless Payment and MSME's Performance

Digital payment systems, often known as cashless payments, are helpful tools for businesses looking to attract customers. Society in the modern day is highly mobile. As a result, the government has started to establish non-cash transaction policies. Business actors inevitably must use this system to satisfy the consumer community's demands. This is a chance for companies to increase their productivity. Cashless payment systems facilitate faster transaction processes, allowing more effective and efficient use of the time and energy spent serving clients. The cashless payment system encourages cash control or protection against theft. Both business actors and cash are shielded from potentially contagious viruses and stored more safely. Cashless payments have been found to improve the performance of MSMEs in several prior studies (Octavina & Rita, 2021; Subekti & Pahlevi, 2022; Kustina & Aji, 2023; Leatemia, Sitanala, Batkunde, & Gainau, 2023). Based on the description above, the following hypothesis is formulated as follows:

H_1 : Cashless payment has a positive impact on MSME's Performance

Market Aggregator and MSME's Performance

Capital decisions are one of the key choices that enhance MSME performance. MSMEs require financing assistance to maintain production and profit-

making. A market aggregator is one of the financial platforms. This portal gives business players various information about the digital capital services offered. When MSMEs request capital loans from traditional financial institutions, such as banks, they typically face several challenges. As a result, it is believed that the presence of a market aggregator can give business actors plenty of room to access capital services and select the capital services that best fit their needs. The market aggregator serves as a database with data on the number of loans available to business actors, the cost of interest and other associated fees, and information about other financial goods. Through the use of market aggregators (Liliana, Hidayat, Atiyatna, Kahpi, & Saleh, 2021), it is demonstrated that most business actors make informed decisions when selecting financial technology services to support the businesses they establish to reduce errors and losses associated with service usage and financial technology. According to Leatemala, Sitanala, Batkunde, & Gainau (2023), market aggregators have a significant impact on MSMEs' success. Based on the description above, a hypothesis is formulated:

H_2 : Market aggregator has a positive impact on MSME's Performance

Financial Inclusion and MSMEs' Performance

According to the World Bank (2022), financial inclusion is the availability of cost-effective financial services and products for individuals and enterprises. These services and products include transactions, payments, savings, credit, and insurance, and they must be provided in an environmentally friendly and sustainable manner. Access to financial services is another aspect of financial inclusion. The provision of this access has the potential to enhance the performance of business actors. According to (Ng'ora, Mwakalobo, & Lwesya, 2022), the managerial skills of business actors, particularly their capacity for handling finances, product marketing, interacting with the public, and entrepreneurship, have a substantial impact on the performance of MSMEs (Emon & Khan, 2023; Hanan et al., 2021). Nevertheless, these qualities alone

cannot support MSMEs' success in this digital age. To make wise financial decisions, including borrowing money, getting insurance, and using digital transaction services, business actors must also be able to access various financial products and services. According to Soetiono & Setiawan (2018) and Maharani and Wayan (2022), financial inclusion significantly affects MSMEs' performance. Based on this description, the following hypothesis is formulated:

H_3 : Financial Inclusion has a positive impact on MSME's Performance

A model of the research is presented as follows:

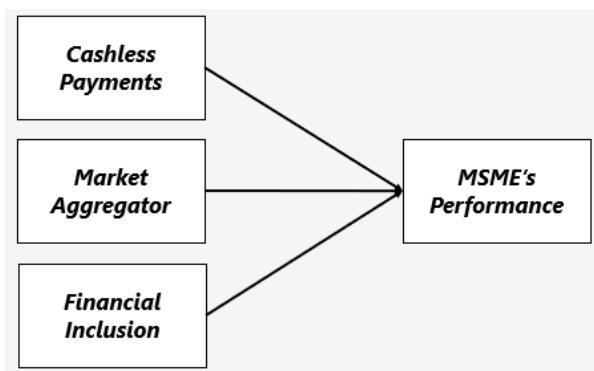


Figure 1. Research Model

METHODS

This research uses a quantitative approach with survey methods as a data collection technique. The research population is all MSMEs in Ambon City. The unit of analysis in this research is MSMEs. The sampling technique used is purposive sampling with the following criteria: a) the business has been established for more than 6 months; b) the business has utilized fintech services. The samples collected are 109 MSMEs. The owners and managers of MSME businesses are given a questionnaire to complete using Google Forms, which is used to gather data. The application Smart PLS 4.0 is used to process data. The Measurement Model Fit (Convergent Validity and Reliability Test) will be tested first, followed by the Structural Model Fit (Hypothesis Test).

Table 1. Operational Definition and Variable Measurement

Definition	Indicator	Measurement
Cashless Payment is one type of Fintech that supports the smooth running of the payment system by utilizing electronic payment instruments (Bank Indonesia, 2019).	1. Increase Effectiveness 2. Make work easier (efficient) 3. It is easy for the government to operate using technology 4. Produce good service	Likert Scale 1: STS 2: TS 3: N 4: S 5: SS
Market Aggregator is a media that gathers and collects financial data from various data providers to present to users to obtain a lot of market information, compare and select the best prices and features of financial products, and increase effectiveness and efficiency for users (Otoritas Jasa Keuangan, 2016)	1. Obtain a lot of market information 2. Able to compare and choose prices and product features 3. Increase effectiveness and efficiency for users	Likert Scale 1: STS 2: TS 3: N 4: S 5: SS
Financial Inclusion is providing access to various financial institutions, products, and services based on community needs and capabilities. This aims to improve community welfare. (Otoritas Jasa Keuangan, 2016).	1. Ease of gaining access to financial institutions 2. Users are free to choose and use the available financial services 3. Access to quality financial institutions 4. Access to financial institutions provides prosperity to users	Likert Scale 1: STS 2: TS 3: N 4: S 5: SS
MSMEs Performance is a description of work results that have been achieved through a particular series of activities at the end of the business period (Ramaseshan et al., 2006)	1. Increase in new customers 2. Increased sales 3. Increased workforce 4. Increased profits 5. Increased production quantities 6. Increased business capital	Likert Scale 1: STS 2: TS 3: N 4: S 5: SS

This research involves 109 business actors in Ambon City. A total of 88 business actors (81 percent) are engaged in the trading business sector. The characteristics of business actors are shown in Table 1, in which the majority are in the 25 to 40-year age group

(46 percent), are male (51%), have a bachelor's degree (48 percent), and the year they opened the business is 2010 to 2020 (57 percent).

Table 2. Respondent Demographics

Respondent Characteristic		Total	Percentage
Business Unit	Services	18	17%
	Manufacture	88	81%
	Production	3	3%
Age	< 25 years old	13	12%
	25 – 40 years old	46	42%
	40 - 50 years old	38	35%
	>50 years old	12	11%
Gender	Male	56	51%
	Female	53	49%
Education	Elementary – High School	36	33%
	Diploma	6	6%
	Bachelor	52	48%
	Master	14	13%
	Doctoral	1	1%

Year of Start the Business	< 2010	14	13%
	2010 – 2020	62	57%
	>2020	33	30%
	Total Respondent	109	100%

Table 2 demonstrates that most businesses under investigation are trading business entities and business actors from millennials and Generation Z. With a

bachelor's degree, most company owners and managers are men. Companies founded between 2010 and 2020 also comprised most enterprises under study.

Descriptive Analysis

Table 3. Descriptive Statistics

Variable	Descriptive Statistics				
	N	Min	Max	Mean	Std. Deviation
Cashless Payment	109	5	25	20,688	2,923
Market Aggregator	109	6	30	21,284	5,850
Financial Inclusion	109	13	65	52,073	12,905
MSMEs Performance	109	6	30	19,954	6,582
Valid	109				

Source: Process Data (2023)

With a maximum value of 25 and a minimum value of 5, the cashless payment variable (X_1) has an average value of 20.688 and a standard deviation of 2.923. With a minimum value of 6 and a maximum value of 30, the Market Aggregator X_2 variable has an average value of 21.284 and a standard deviation of 5.850. The financial inclusion variable (X_3) has an average value of 52.073 with a standard deviation of 12.905, a minimum value of 13, and a maximum value of 65. The MSME performance variable (Y) has a standard deviation of 6.582, an average value of 19.954, and a maximum value of 30.

Outer Model (Measurement Model Fit)

Convergent Validity

The convergent validity test aims to determine whether there is a strong correlation between a construct's measures, or manifest variables, and other constructs (Latan & Ghazali, 2012). The loading factor and average variance extracted (AVE) data show the reflective indicators' convergent validity test. According to Hair et al. (2010), the average variance extracted (AVE) is more significant than 0.4, and the loading factor value is greater than 0.5.

Variable	Indicator	Loading Factor	AVE	Description
Cashless Payment	CP1	0.930		Valid
	CP2	0.915		Valid
	CP3	0.927	0.827	Valid
	CP4	0.882		Valid
	CP5	0.891		Valid
Market Aggregator	MA1	0.935		Valid
	MA2	0.932		Valid
	MA3	0.939	0.851	Valid
	MA4	0.902		Valid
	MA5	0.905		Valid
	MA6	0.935		Valid
Financial Inclusion	IK1	0.884		Valid
	IK2	0.872		Valid
	IK3	0.827	0.711	Valid
	IK4	0.820		Valid
	IK5	0.837		Valid
	IK6	0.846		Valid

	IK7	0.838	Valid
	IK8	0.817	Valid
	IK9	0.698	Valid
	IK10	0.891	Valid
	IK11	0.922	Valid
	IK12	0.844	Valid
	IK13	0.846	Valid
MSME's Performance	KU1	0.910	Valid
	KU2	0.921	Valid
	KU3	0.890	Valid
	KU4	0.919	Valid
	KU5	0.770	Valid
	KU6	0.840	Valid

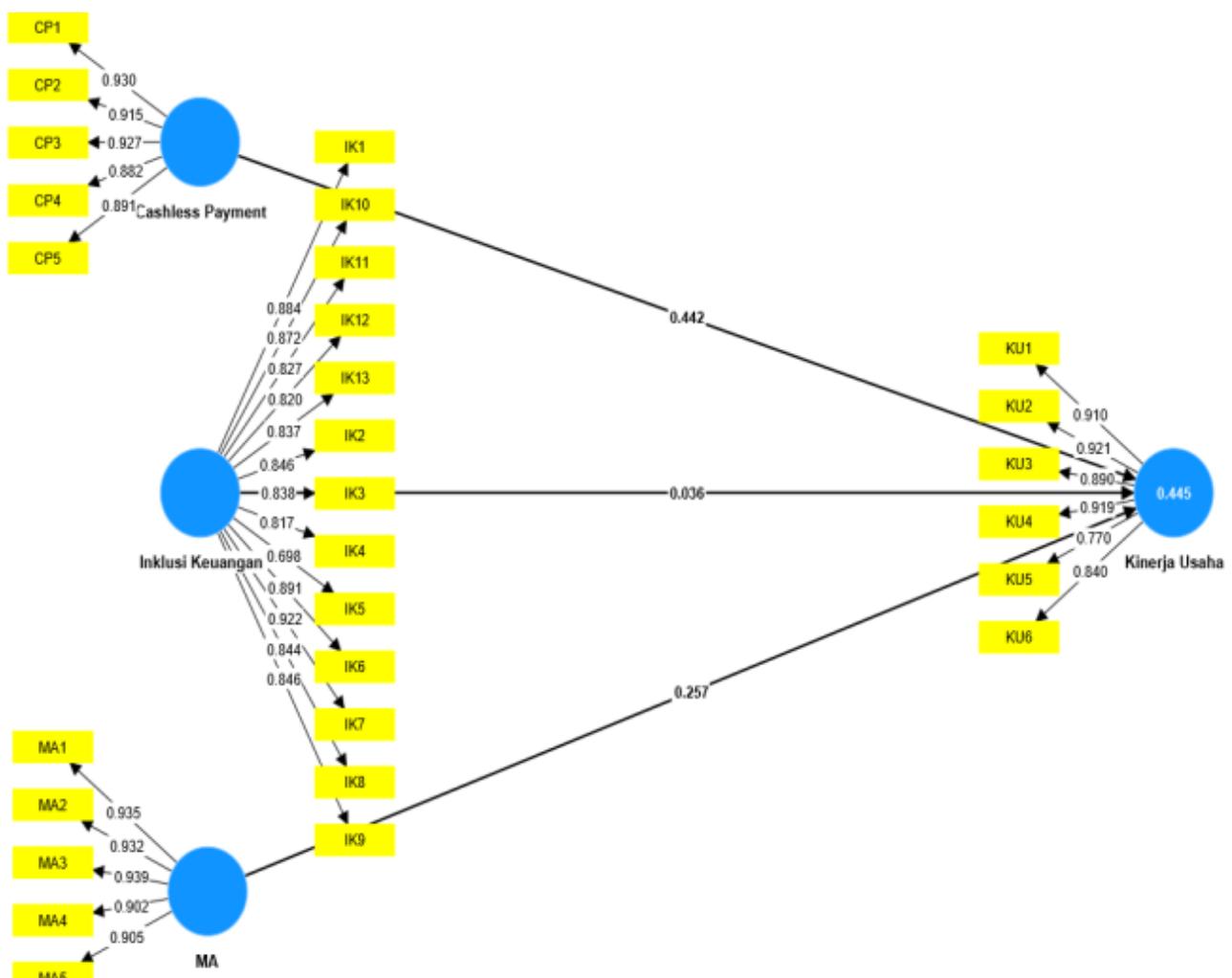


Figure 2. Path Analysis Results

Reliability Test

Reliability testing aims to demonstrate the instrument's precision, accuracy, and consistency in measuring the construct. Construct reliability can be measured using reflected indicators by examining the

composite reliability and Cronbach's alpha values. According to Hair et al. (2010), Cronbach's alpha must be more than 0.60, and the composite reliability value must be more than 0.7.

Variable	Indicators	Composite Reliability $\geq 0,60$	Cronbach Alpha	Conclusion
Cashless Payment	CP1, CP2, CP3, CP4, CP5	.960	0.947	Reliable
Market Aggregator	MA1, MA2, MA3, MA4, MA5, MA6	.966	0.956	Reliable
Financial Inclusion	IK1, IK2, IK3, IK4, IK5, IK6, IK7, IK8, IK9, IK10, IK11, IK12, IK13	0.970	0.966	Reliable
MSME's Performance	KU1, KU2, KU3, KU4, KU5, KU6	.952	0.939	Reliable

Sumber: SmartPLS 4.0, 2025.

Inner Model (Structural Model Fit)

The R-squared for each endogenous latent variable should be evaluated first when evaluating the structural model using PLS, since this indicates the structural model's predictive ability. According to Latan and Ghazali (2012), R-Square values of 0.75,

0.50, and 0.25 signify the model's strength, moderate strength, and weak strength, respectively, indicating the significant amount of construct variance it can explain. The model falls into the moderate category because its R-Square value is 0.429 (Latan dan Ghazali, 2012).

Table 6. Structural Model Fit Test Results

Hypothesis	Path	Original Sample (O)	T-statistic $\geq 1,96$	p-value	Accepted
H_1	$CP \rightarrow MP$	0.442	2,691	0,007	Yes
H_2	$MA \rightarrow MP$	0.257	2,118	0,034	Yes
H_3	$FI \rightarrow MP$	0.036	0.212	0,832	No

RESULTS AND DISCUSSION

The Effect of Cashless Payment on MSMEs' Performance

Table 6 shows the t-statistic value of 2.691, which is more than the t-table value of 1.960, indicating that the original sample estimate value of the cashless payment variable on business performance is 0.442 with a significance of less than 5%. It reflects that the cashless payment variable positively affects the business performance variable, as indicated by a positive original sample estimate value. It is clear from the test findings that hypothesis 1 is accepted. This demonstrates that a one-time increase in the cashless payment variable will result in a 44.2% increase in the business performance variable.

Business performance increases with the use of cashless payment options. Increases in sales, capital, labor, new clients, and net profits indicate this improvement in business performance. People's lifestyles have been impacted by the digital era, which

has led to demands for increased effectiveness and efficiency, including in transactions. Businesses that do not adopt cashless payment methods risk losing customers since they cannot satisfy customer needs related to transaction effectiveness and time efficiency.

Kahrovic & Avdovic (2023) did research in Serbia and found a similar result that digital technologies significantly impact business performance. Some significant technologies have a latent, indirect impact on performance and show how they occur. The analysis is performed after standardizing the ordinal scale values of variables, making the results more accurate. Business actors may be able to lower expenses related to managing cash in the marketplace and speed up transactions by implementing a cashless payment system. (Rahman, Ismail, Bahri, & Rahman, 2022). The findings of Rita (2021) and Lestari & Purnamasari concur with these results.

The Effect of Market Aggregators on MSMEs' Performance

The original sample estimate value of 0.257 is supported by t-statistics of $2.118 > 1.96$, indicating that the market aggregator impacts business performance. These findings support hypothesis 2. The business performance variable will rise by 25.7%, with a one-time increase in the market aggregator variable. The more market aggregators are used to obtain information on financial services and goods, the more business performance increases. The market aggregator is a subset of fintech, primarily serving the lending sector, such as P2P lending. Through the platform or website, business actors acting as potential borrowers can obtain various information on interest amounts, rates, application processes, and other costs related to the desired loan. Selecting an appropriate financial instrument can enable business actors to secure the necessary funding, manage loans profitably, and make regular interest payments. The outcomes of (Ardiansyah, 2019) and (Iriana, Murniningsih, and Annisa, 2021) are not similar to this one.

The Effect of Financial Inclusion on MSMEs' Performance

Based on the original sample estimate value of 0.036 and a t-statistic value of $0.212 < 1.96$, it is evident that financial inclusion does not affect business performance. Thus, there is no response to hypothesis 3. The reason for this lack of influence is assumed to be that Ambon City's MSMEs still have trouble obtaining various financial services and products from official financial institutions such as banks, insurance, credit, investment, and other financial organizations. In Ambon City, MSMEs typically lend capital at exorbitant interest rates to unofficial entities. This indicates that MSMEs' performance cannot be explained by financial inclusion. This result is consistent with that of the study conducted by Hilmawati & Kusumaningtias (2021).

CONCLUSION

Based on the data analysis results, Cashless payment positively affects business performance. Businesses that use this payment method will experience increased sales, assets, capital, labor, and net profit. The market aggregator has a positive effect on business performance. Market aggregators offer a variety of information about the costs and benefits that business actors can receive; therefore, by using their

services to access capital via fintech, business actors can make proper capital decisions. Business actors will perform better as a result of this decision. Financial inclusion does not affect business performance. This lack of influence is assumed to be because Ambon City's MSMEs still have trouble obtaining financial services and products from official financial institutions such as banks, insurance, credit, investment, and other financial institutions.

In order to promote changes in their business performance, MSMEs in Ambon City should take note of the research's findings and be knowledgeable about how to use market aggregators and cashless payment systems. Business actors should also be aware that most of the MSME actors in Ambon City operate on a microbusiness scale. By utilizing market aggregators and cashless payments to their fullest potential over time, business actors can eventually advance to a higher business unit, for instance, small and medium-sized enterprises. Additional applicable ramifications include the following: The Financial Services Authority and Bank Indonesia must work with the Ambon City Government, represented by Ambon Cooperatives and MSMEs Service, to organize regular programs for business actors to receive support and socialization about adopting digital payment systems. Profits for businesses may rise as a result of this. This approach is anticipated to help small enterprises eventually advance to the medium level. In addition, there should be communication and support regarding using market aggregators. This platform is still unfamiliar to the business community despite offering plenty of space for business speople to access financing. These two initiatives aim to promote greater financial inclusion among business actors.

This research theoretically introduces three new patterns in digital financial services: market aggregators, cashless payment systems, and financial inclusion. MSMEs can enhance business performance by utilizing these two patterns as guidance. This study supports earlier results that show that fintech significantly affects business performance. It has been demonstrated that fintech from the payment side, embodied by the cashless payment method, affects business performance. The results concur with Octavina & Rita (2021), Subekti & Pahlevi (2022), Kustina & Aji (2023), and Leatemia, Sitanala, Batkunde, Gainau (2023). Market aggregators have an impact on business performance as well. All

information regarding the market aggregator is consistent with the results by (Yunita Leatemia et al., 2023); however, it differs from the research conducted by Ardiansyah (2019; Iriana et al., 2021) earlier. Financial performance is unaffected by financial inclusion. These results support those of Hilmawati & Kusumaningtias (2021).

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