

# Integrated Paradigm of Lean Supply Chain of SMEs by Utilizing Customer Relationship Management Capabilities and Family Distribution Networks

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# Integrated Paradigm of Lean Supply Chain of SMEs by Utilizing Customer Relationship Management Capabilities and Family Distribution Networks

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**Abstract**—This study aims to provide an explanation of the differences in the results of research regarding the relationship between the capabilities of management of customer relationships with marketing performance, through family distribution networks as a part of supply chain management with the object on food and beverage SMEs Banten Province, Indonesia. The testing of this empirical research model uses Structural Equation Modeling (SEM) using several software, namely AMOS 18.0, SPSS 20 and Excel 2013. The unit of analysis in this study was carried out with a census for SME managers with 191 sample sizes. The results reveal that customer relationship management capabilities and value creation in business are significantly related to family distribution networks. In addition, business network accessibility also plays a positive role in improving family distribution networks, and in marketing performance. Family distribution networks, as an originality offered in this study, significantly influence marketing performance. The results of this study underscore the importance of using family distribution networks to improve the effectiveness of supply chain management, physical product distribution and to improve SME marketing performance. The novelty of this study lies in first analyzing empirically the influence of the family distribution network in improving the ability of customer relationship management in SMEs in Indonesia on marketing performance.

**Keywords**—family distribution network, marketing performance, SMEs

## 1. Introduction

The focus on consumers is a tool for measuring marketing performance by evaluating the quality of business performance based on satisfaction with the needs and desires of consumers that have been fulfilled [1]. Marketing performance can be measured in various ways, including financial and non-financial performance measurement tools [2]. Performance is a complex and multilevel

phenomenon consisting of different views of a company, division, or project success. The measure of marketing performance can be obtained through the activity of the marketing function. Customer relationship management is a cross-functional organizational process that focuses on building, maintaining, and improving long-term relationships with attractive customers [3]. Customer relationship management is a business strategy to increase profitability by focusing on customer needs and creating attentive relationships with customers [4]. This involves a personal and interactive approach to the supply chain management and the entire life cycle of the customer. The customer relationship management system is a system based on the company's customers and how companies can provide the best services and products for these customers with the goal being to get customer loyalty and long term.

Customer relationship management capabilities are embedded in organization process activities, and reflect the company's skills and accumulated knowledge to identify attractive customers and prospects, starting from maintaining relationships with attractive customers, and enhancing these relationships into customer-level benefits [5]. Customer relationship management capabilities are reflected in key customer relationship management activities, such as customer management interactions (eg customer identification, customer acquisition and customer retention), customer upgrade relationships (eg cross-selling and up-selling), and win-back customer relationships (relationships with lost but profitable re-establishing customers, and supply chain management [6]. Some studies revealed that companies are stagnant because they fail to disseminate their customer relationship management resources to build superior

capabilities in managing customer relations and achieving competitive advantage and less capable in acquiring lean and agile supply chain management [26, 27]. Therefore, it is very necessary for companies to learn how to develop and strengthen customer relationship management capabilities. Several previous studies have highlighted the importance of using internal resources to improve supply chain management in SMEs, and improve marketing performance [8, 9, 10]. However, few know about what customer relationship management capabilities really are, and how to measure and the ability of customer relationship management to improve marketing performance. The purpose of this study is to conduct empirical testing of the theoretical model developed through testing the direct influence of customer relationship management capabilities and business network accessibility and value co-creation on marketing performance. This study also explores the indirect influence of family distribution networks as a form of channeling and supply chain management in relationship between customer relationship management capabilities and business network accessibility and value co-creation on marketing performance.

## 2. Literature Review and Hypothesis

### 2.2 Customer Relationship Management Capabilities and Marketing Performance

Customer relationship management capabilities reflect company skills and accumulated knowledge to identify attractive customers and prospects, initiate and maintain and improve these relationships into profitable levels [5]. Thus, CRM capabilities are reflected in the main activities of CRM [6, 11], such as customer management interactions (eg customer identification, customer acquisition and customer retention), customer upgrade relationships (eg cross-selling and up-selling), and win-back customer relations (relationships that are lost but profitable to re-establish customers) [6, 12].

Customer interaction management capabilities refer to the skills that companies use to identify, acquire and retain profitable customers. The ability to improve customer relations refers to skills that use companies to sell more expensive items and selling

additional products or services to existing customers based on scientific customer data analysis. The ability to return customers a company skill used to rebuild relationships with lost or inactive but profitable customers since the loss of customers will have a huge negative impact on the company's performance in the long run [13]. Customer relationship management capabilities are very strong leading to increased marketing performance [7].

*H1: The higher the customer relationship management capabilities, the higher the marketing performance*

### 2.3 Customer Relationship Management Capabilities and Family Distribution Network

In social networking, customer relationship management is where you will see ROI in a business model that is contrary to elsewhere [14]. It is all about connecting and engaging in new ways with customers [15]. Customers who use social networks want meaningful engagement with companies and businesses wanting ways to engage and measure them on social networks. In the context of supply chain management, the use of converted materials and distribution of goods flowing to end consumers can determine the quality of customer and supplier relationships outside of dyadic issues [16].

Social networks can also provide an excellent opportunity for grassroots online marketing initiatives. Because social network analysis, such as in a supply chain context, tend to be informal, they have the potential to attract customers at the personal level in a difficult way through traditional channels [17]. Marketing through social networking sites, but does not replace traditional marketing. Instead, it must be treated as an additional channel with unique characteristics that complement other marketing efforts, an approach that can ultimately increase the effectiveness of all channels. Relationship can aim to build effective networks with long-term and mutually beneficial stakeholders [18]. There is no difference in establishing cooperation regardless of ethnicity, language and religion. In essence the bond of brotherhood makes human beings love and love each other so that good cooperation will be established. This concept will be very relevant

when used in marketing that emphasizes the intertwining of mutually beneficial relationships between companies and consumers, companies with channel members, fellow channel members themselves and certainly channels with end consumers who will continue to establish good relationships in the long run.

*H2: The higher the customer relationship management capabilities, The higher the family distribution network.*

## 2.4 Business network accessibility and family distribution networks

Network theory explains that with business networks it is easy for owners to access resources that they do not have in a cost-effective way such as by utilizing lean supply chain management that affects business success. Networks can provide value to members by allowing them access to social resources embedded in the network [19], where networks can provide the means to obtain external resources needed for the company [20].

Business network accessibility is defined as a medium for business owners to access resources that they do not have in a cost-effective way that affects business success [21]. Individuals who have a business network consisting of exits and friends tend to have access to more information than those who do not have a network [22]. Business owners need to develop relationships with the external environment to increase business growth [23]. Access through the network means that organizations are able to access external sources of competency on time at low cost. Networks can include suppliers, intermediaries in marketing, customers, and competitors.

*H3: The higher the business network accessibility, The higher the family distribution network*

## 2.5 Value co-creation and family distribution network

Value co-creation refers to the process of interaction between companies and customers [24, 25]. This is a value co-creation activity carried out by actors and recipients in an integrated network along with important source facilities for mutual benefit [26]. Contrary to traditional marketing practices, value co-creation primarily considers customers as active players and parts of the

company during the interaction process to jointly produce together and value co-creation [27].

A theoretical model examined the mechanism of value creation along with customers found that key customers result from value co-creation activities at customerization and improve service capabilities [28]. Another framework debated value co-creation in the customer environment by investigating the characteristics of customer interactions and perceived customer benefits of value co-creation. Customer participation in product support activities is enhanced with the confidence of customers getting benefits in attracting value co-creation activities [29].

*H4: The higher the level of value co-creation, the higher the family distribution network*

## 2.6 Family distribution network and marketing performance

In an effort to overcome market instability and become more responsive to customer needs, several companies have adopted various forms of product distribution channels. While some companies have adopted several channels product distribution approaches, others have remained in the distribution of single channel products [30]. The number of distribution channels has been listed as an agility of organizational tactics for increasing market share [31]. It is showed that the latest trend in product distribution is for companies to increasingly adapt to multi-channel distribution [32]. For each company with products to sell, how to make the intended product available to customers can be as important a strategic issue as product development itself [33].

The distribution of multi-channel products refers to situations where traditional intermediaries (all sellers, resellers, distributors, retailers etc.), producers intentionally employ other distribution strategies to have more market control. It shows that the process of removing the only dependence on intermediaries has been presented by producers with opportunities including but not limited to direct control of distribution and prices, more flexibility in experimenting with new product attributes, closer contact with customers and protection from the crisis at hand by intermediaries [34]. The family concept will be very relevant when used in marketing that emphasizes the

establishment of mutually beneficial relationships between companies and consumers, companies with channel members, fellow channel members themselves and certainly channels with end consumers who will continue to establish good relationships in the long run and can improve performance.

**H5: The higher the family distribution network, the higher the marketing performance**

## 2.7 Business Network Accessibility and Marketing Performance

The RBV approach considers that the economic value and competitive advantage of an economic organization lies in the ownership and effective use of economic resources that are able to add value, rarely owned, difficult to imitate, and not replaced by non-substitutable resources [35, 36].

Therefore, competitive strategies must be put in place to seek, obtain, develop and maintain strategic resources. The two strategic resources in question are human capital and organizational capital. There are four approaches to the development and utilization of competencies in terms of reinforcement in utilization, synergetic fit, access through network utilization and adaptability [37]. Reinforcement is applied when the organization has and is accustomed to applying the required competencies. Synergetic fit is applied when competencies are available in various units within the organization and require synergy between units to meet the demands of developing new competencies, whereas access through networks and adaptability are dynamic approaches.

**H6: The higher the business network accessibility, the higher the marketing performance**

## 2.8 Value co-creation and Marketing Performance

The process of value creation involves suppliers and customers to create value propositions, where customers determine the value when goods or services are consumed [38]. Relevant superior value propositions to target customers must produce opportunities from value creation and generate benefits or values. Successfully managing value creation and exchange, the company can achieve maximum revenue and profit. Furthermore, basically the process of value creation can be

understood through social structures and social systems expressed through norms, values, and ethical standards guided by whether interactions or relationships between individuals or groups can be accepted or not, which has implications for the process of exchange and mutual value creation [39]. In contemporary terminology, there are two different approaches to strategy, that are value capture-strategy to ensure that the maximum value of portions is captured or provided by companies in the form of profits, not members of the value chain or competitors [40].

Meanwhile, value creation as a strategy refers to the value of benefits in a product or other offer made by a customer. They hypothesize that the emphasis on the strategy of capturing value has a negative influence on company performance, while the emphasis on value creation strategies has a positive effect on company performance. There is a positive and significant effect of the emphasis on the value of the creation strategy on company performance. Value creation positively influenced the marketing performance [34, 41]. The creation of value in business relations between companies as an interaction process, which is reflected in the four characteristics of the process of creating shared values, balance initiatives, interactive values, and social constructs that produce improved performance [42].

**H7: The higher the level of value co-creation, the higher the marketing performance**

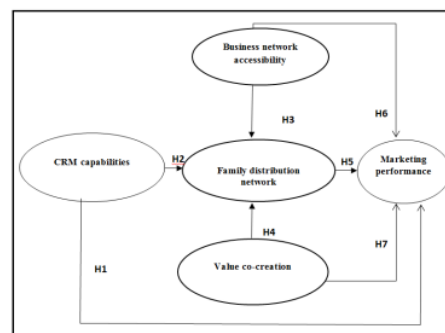


Figure 1. Empirical Research Model

## 3.2 Research Design

The design of this study is included in the category of causality, namely research that aims to test

hypotheses about the causality of one variable with other variables. The steps in the causality research model is to identify the relationship between the research variables to determine the model based on facts to help understand and predict the relationship between variables, establish a causal approach, and measure the variation in the data on suspected causes and consequences.

### 3.3 Data collection

This data was obtained through interviews with food and beverage industry SMEs in Serang City and Serang District based on a list of questions to a number of respondents, namely 191 respondents as SME managers or owners selected for the study. The data source for this study was obtained directly from the respondent, namely the owner, manager or owner and manager of the SMEs by filling out a list of questions in the questionnaire provided. In this study the primary data taken was all food and beverage industry entrepreneurs in the districts and cities of Serang, Banten province, Indonesia.

### 3.4 Sampling

The characteristics of SMEs that are the object of research are based on the definition and criteria of SMEs from the Central Bureau of Statistics (BPS) which provide the definition of SMEs based on the quantity of labor, namely small businesses that have a workforce of 5 to 19 people, medium businesses that have employees 20-99 people while business micro enterprises run by poor/near poor people are owned by families of local resources and simple technology and easy business fields for exit and entry.

The population in this study is the small and medium micro enterprises in the food sector and at least registered in the program built by the Cooperative and UMKM office in Banten province in Serang and Serang. The Food and Beverage Industry of Agricultural Products in the provinces of Banten in Serang City and Serang Regency amounted to 191 units, with 108 samples located in Serang City and 83 in Serang District [43]. The sampling approach used is generally used in research, namely probability sampling and nonprobability sampling. The nonprobability sampling technique used in this study was purposive sampling. In purposive sampling there are certain criteria that must be met by respondents

to become a research sample. While the procedure for sampling is done purposively in this research using accidental sampling techniques. The respondent retrieval technique used by census is how the respondents are taken to all the population. This means that if the population is 191 SMEs, then all populations of 191 SMEs will be made as respondents.

### 3.5 Variable Measurement

Customer relationship management capabilities is defined as a cross-functional organizational process that focuses on building, maintaining, and increasing long-term relationships with attractive customers [3, 9]. To measure the variable customer relationship management capabilities using 7 indicators, including customer interaction management capabilities; ability to renew customer relations; the ability to provide information; ability to provide more benefits to the customer network; the ability to build a network of customers with product information; ability to help support sales activities; the ability to provide evaluation for the success of distribution networks.

Business network accessibility is defined as a medium for business owners to access resources that they do not have in a cost-effective way that affects business success [16]. To measure the business network accessibility variable was by using 4 indicator variables, namely ease of accessing business networks, efforts to strengthen access to business networks, credibility on business networks, and the ability to access business networks.

Family distribution networks as the ability of one channel member to control the decision variables of other members' marketing strategies in the channel operate at the level of profit or profit by putting forward the bonds of brotherhood, help and cooperation. To measure the family distribution networks was by using 8 indicators, which have sales force in a network, have the power to exchange information such as an informal family, have proximity like a family with a sales network, have mutual trust like family with a network, having the power to help each other economically with sales networks such as families, products are always quickly accepted by the market, products are fast selling in the market, and products are quickly recognized by the market.

49 Value co-creation is a collaboration in the field of production or collaboration can occur in various forms as product design, joint production, innovation or only producing services, both with customers or with other value network partners [22]. This variable is measured by the emotional bond of the distribution channel with the company, the attitude of the distribution channel to build a business with the company, and the attachment that motivates the distribution channel to establish a relationship with the company. Marketing performance is the result that has been achieved from what has been done by the owner or manager in marketing their products. To measure marketing performance are sales volume, sales growth, market share, and profits, with indicators that include sales targets, sales growth rates, number of buyers, and sales growth of product variants. All indicators are measured using 10 Likert scales from 1 (strongly disagree) to 10 (strongly agree).

### 3.6 Data analysis technique

8 This study aims to prove and analyze the effect of exogenous variables on endogenous variables. The influence is very complex, where there are independent variables and dependent variables. These variables are latent variables formed by several indicators (observed variables). Therefore, to analyze the data in this study used Structural Equation Modeling (SEM) analysis techniques using the AMOS program. SEM testing allows researchers to test the validity and reliability of research instruments, confirming the accuracy of the model, while testing the effect of a variable on other variables

## 4. Results

### 4.2 Characteristics of Respondents

Table 1 shows that the majority of respondents in this study were male with 144 respondents (75.17%), and most respondents were between age 40-49 years old as many as 68 people (38.75%). Moreover, respondents positioning as owners and managers are dominating (169 respondents or 88.52%), with mostly graduated from high school (134 people or 70.33%). The majority of respondents have 3-5 years experience (79 people or 41.15%) and were originated from non-employer family (99 respondents or 51.67%), and dominated by the first generation as many as 101 respondents or 53.11%. Most of these entrepreneurs have a

workforce of 5-9 as many as 118 SMEs (61.73%). In terms of area of operation, 108 SMEs (56.5%) operate in Serang City, while the remaining is in Serang Regency. Furthermore, 164 SMEs have a marketing area in the Banten Region, while the remaining market their products outside this area.

39 **Table 1.** Characteristics of Respondents

Characteristics	Amount	Percentage
<i>Gender:</i>		
Male	144	75.17
Female	47	24.83
<i>Age:</i>		
29 years old	17	9.09
30 - 39 years old	44	22.97
40 - 49 years old	74	38.75
> 50 years old	56	29.18
<i>Position:</i>		
Manager	22	11.48
Owner and manager	169	88.52
<i>Education:</i>		
Elementary school	13	6.70
Junior high school	25	12.92
High school	134	70.33
Diploma	8	4.31
Bachelor	11	5.74
<i>Experience:</i>		
3-5 years	79	41.15
6-10 years	58	30.14
11-15 years	37	19.62
> 16 years	17	9.09
<i>Family's background:</i>		
Entrepreneur	92	48.33
Not an entrepreneur	99	51.67
<i>Management Generation</i>		
First	101	53.11
Second and so on	90	46.89

### 4.3 Validity and Reliability Testing

37 Validity testing in this study includes testing content validity and construct validity. In content validity provides an overview of the suitability of the measuring instruments used with what will be measured, while the board validity gives an idea of the ability of a measuring instrument to explain a concept or how far the indicator size can reflect its theoretical construct. The results of the calculations performed show good results, because the minimum requirements that must be met so that the questionnaire is said to be valid is greater than 0.239. Thus, it can be concluded that the questionnaire used is valid. Moreover, Table 2

provides information that all exogenous constructs are at a value above the cut-off value of 0.70, thus it can be concluded that the indicators of exogenous constructs for the family distribution network variable and marketing performance in this study have met the required variance extracted criteria.

**Table 2.** Validity and Reliability Testing

Variable	Std Loading	Std Loading <sup>2</sup>	Measurement error	Construct Reliability
Family Distribution Network	2.90	1.68	1.91	0.81
Marketing Performance	2.17	1.18	2.82	0.80
CRM Capabilities	3.42	2.46	2.54	0.82
Business Network Accessibility	2.49	1.55	2.45	0.71
Value co-creation	2.99	2.30	1.49	0.85

#### 4.4 Goodness of-fit Test Model

Model testing on SEM aims to analyze the suitability of the model. The test of the feasibility of the full SEM model was carried out in the same way as confirmatory factor analysis (CFA) testing of the feasibility of the exogenous and endogenous variable measurement models whose results are presented in table 3. The goodness of fit test results show that the model is the same as empirical data which means that this model is fit because it is within the range of expected values. This result is also supported by other feasibility measures for models that generally meet the criteria in the fit category. Thus the suitability of the model predicted by the observational values on the variables has met the requirements.

**Table 3.** Goodness of-fit Test Results

Goodness of-fit Index	Cut off Value	Results	confirmation
$\chi^2$ -Chi-Square (df=200)	23.164	217.327	Fit
Probability	$\geq 0.05$	0.191	Fit
CMIN/DF	$\leq 2.00$	1.087	Fit
RMSEA	$\leq 0.08$	0.021	Fit
TLI	$\geq 0.95$	0.981	Fit
CFI	$\geq 0.95$	0.983	Fit
NFI	$\geq 0.95$	0.830	Moderate

#### 4.5 Hypothesis testing

The results of statistical tests on the first hypothesis show an estimated parameter value of 0.031 which

shows a positive relationship, then the value of C.R. of 0.339 which shows a non-significant effect, and the probability value (p) of 0.734 which shows that it is not significant at the alpha significance level of 5% or 10%. Based on these results, it can be concluded that the first hypothesis which states that the higher the capability of customer relationship management, the higher the marketing performance is rejected. The results of statistical tests on the second hypothesis show an estimated parameter value of 0.212 which shows a positive relationship, then the value of C.R. amounting to 2.525 which shows a significant effect, and the probability value (p) is 0.012 which indicates an alpha significance level of 5%. This means that the hypothesis stating that the higher the capability of customer relationship management, the higher the family distribution network is accepted. The results of statistical tests on the third hypothesis show an estimated parameter value of 0.162 which shows a positive relationship, then the value of C.R. amounting to 2.738 which shows a significant effect, and the probability value (p) is 0.006 which indicates an alpha significance level of 5%.

**Table 6.** Hypothesis Testing

Hypothesis	Estimate	S.E.	C.R.	p
Family Distribution Networks $\leftarrow$ Business Network Accessibility	.176	.073	2.408	.016
Family Distribution Networks $\leftarrow$ Value co-creation	.104	.048	2.143	.032
Family Distribution Networks $\leftarrow$ CRM capabilities	.217	.084	2.576	.010
Marketing performance $\leftarrow$ CRM capabilities	.060	.082	.724	.469
Marketing performance $\leftarrow$ Business Network Accessibility	.130	.076	1.721	.085
Marketing performance $\leftarrow$ Family Distribution Networks	.269	.131	2.054	.040
Marketing performance $\leftarrow$ Value co-creation	.013	.051	.257	.797

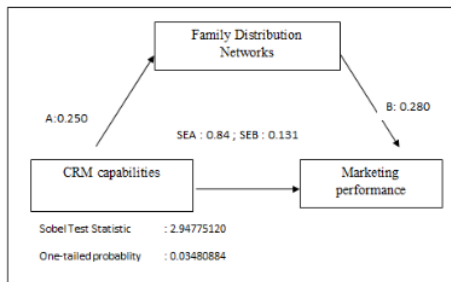
The results of statistical testing on the fourth hypothesis shows the estimated parameter value of 0.100 which shows a positive relationship, then the value of C.R. amounting to 2,059 which shows a significant effect, and the probability value (p) is 0.039 which shows a significance at the alpha significance level of 5%. The results of statistical tests on the fifth hypothesis show an estimated parameter value of 0.229 which shows a positive relationship, and the value of C.R. amounting to 1.683 shows a significant effect, and the probability value (p) is 0.092 which indicates an alpha significance level of 10%. The results of statistical



tests on the sixth hypothesis show an estimated parameter value of 0.134 which shows a positive relationship, then the value of C.R. amounting to 1,951 which shows a significant effect, and the probability value (p) is 0.051 which shows a significant good at alpha of 10%. Based on these results, it is concluded that the sixth hypothesis which states that the higher the business network accessibility, the higher the marketing performance is proven and can be accepted at the alpha significance level of 10%. The results of statistical tests on the seventh hypothesis show an estimated parameter value of 0.005 which shows a positive relationship, then the value of C.R. amounting to 0.850 which shows an insignificant influence, and the probability value (p) is 0.932 which shows no significance both at alpha 5% and 10%. Based on these results, it can be concluded that the seventh hypothesis which states that the higher the level of value co-creation, the higher the performance of marketing is not proven and unacceptable.

**4.6 Testing the Role of Mediating and Intervening Variables**

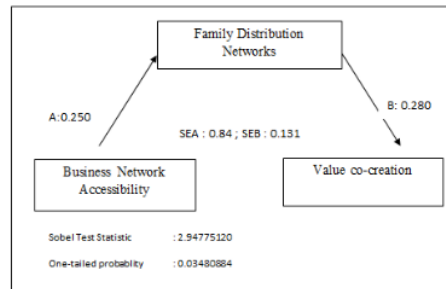
Testing of the mediating role of the variable of family network distribution network between customer relationship management capabilities and performance carried out using Sobel Test. This test can be used to assess the significance of the direct influence or influence of mediation in a structural equation [44]. Online calculation results at <http://www.danielsoper.com>. obtained results as shown in figure 2.



**Figure 2.** Mediation Testing of CRM Capabilities, family distribution networks and Marketing Performance

Sobel test calculation to test the moeration variable in Figure 2 can explain the role of family distribution networks. The role plays a significant

role as a mediator of the gap between customer relationship management capabilities and marketing performance, which proved the double test value is 2.947 and a significant value is 0.05, 0.034. The test results of significant mediation variables provide a signal of the importance of the variable family distribution network as the mediator of customer relationship management capabilities and marketing performance [45].



**Figure 3.** Mediation Test of Business Network Accessibility, Family distribution network and value co-creation

Sobel test calculation to test the moderation variable in figure 3 above can explain the role of the family distribution networks. The role plays a significant role as a mediator of the gap between business network accessibility and value co-creation, which is shown to mean a test value of 2.947 and a significant value of 0.05. The test results of significant mediation variables signaled the importance of the variable family distribution network as a mediator between business network accessibility and value co-creation [46, 47].

**5. Conclusion**

findings demonstrated that the capability of customer relationship management, had a significant and positive effect on the family distribution network. accessibility of the business network had a significant and positive effect on family distribution networks and on the marketing performance. Moreover, family distribution network is likely to significantly affect the marketing performance. Lastly, the findings suggest that the value creation in the business had a significant effect on the family distribution network. In terms of mediating effect, the capability of customer relationship management has an indirect effect through mediating variables

on family distribution networks on marketing performance. The results of this study underscore the importance of using family distribution networks to improve the effectiveness of supply chain management, physical product distribution and to improve SME marketing performance. These findings reinforce the novelty offered by this study which empirically analyzes the influence of family distribution networks in enhancing the ability of customer relationship management in SMEs in Indonesia on marketing performance.

The limitation of this study lies in the coverage of the sample used in this study using only 191 samples which were only taken from the cities of Serang and Serang Regency, Banten Province, this could certainly be able to limit generalizations to the results of the study. In the context of the model significance test, this study failed to prove the influence of value co-creation on marketing performance even though in previous studies, there were several researchers who proved that value co-creation had an effect on marketing performance. Although the number of samples of 191 respondents is considered to have met the minimum number of samples in testing models using SEM, future research should add this amount to increase the generalization of the results of the study. In addition, future research should be able to expand the scope of research. Moreover, future research should conduct comparative research on different SME actors so that the results and perceptions that arise from these differences in management can be. Third, future research can include other variables, so that research on this topic can be better developed.

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