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CUSTOMER ENGAGEMENT AS A MECHANISM LINKING SOCIAL MEDIA USE TO MSME PERFORMANCE

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Abstract

This research investigates the mediating role of customer engagement in the relationship between social media use and MSME performance in Denpasar. An explanatory quantitative design was adopted, involving 390 MSME owners or managers who actively use social media for business-related activities. Data were collected through a structured questionnaire and analysed using Structural Equation Modelling–Partial Least Squares (SEM-PLS) with SmartPLS 3.2.9. The findings indicate that social media use significantly influences customer engagement ($\beta = 0.624$; $p < 0.001$) and MSME performance ($\beta = 0.390$; $p < 0.001$, while customer engagement also has a significant positive effect on MSME performance ($\beta = 0.473$; $p < 0.001$). Customer engagement significantly mediates the relationship between social media use and MSME performance ($\beta = 0.296$; $p < 0.001$). The model explains 39.0% of the variance in customer engagement ($R^2 = 0.390$) and 60.7% of the variance in MSME performance ($R^2 = 0.607$). Theoretically, these findings enrich digital marketing literature by demonstrating that customer engagement functions as an important mechanism through which social media use contributes to MSME performance, extending the understanding of social media beyond its promotional role. Practically, the findings suggest that MSMEs should develop social media strategies that foster two-way interaction, customer feedback, reviews, and recommendations to strengthen engagement and improve business performance.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) constitute an important component of Indonesia's economic structure, including at the local level in Denpasar. Their contribution extends beyond commercial activities, as MSMEs provide employment opportunities, support household welfare, and stimulate local economic activity. In Denpasar, these enterprises operate across diverse fields, including culinary businesses, handicrafts, fashion, and digital services (Adji Mulia Zaen et al., 2024; Kaswinata et al., 2023). Strengthening their competitiveness and long-term viability is therefore important for sustaining regional economic development.

Advances in digital technology provide opportunities for MSMEs to enhance their competitiveness through operational efficiency, market reach expansion, and the

development of marketing activities. The expansion of digital technologies has altered the ways in which SMEs conduct marketing and communicate with their target markets. Digital channels allow businesses to overcome some of the geographical and cost limitations associated with conventional marketing. Among these channels, social media has become particularly relevant because platforms such as Instagram, Facebook, TikTok, and WhatsApp combine promotional functions with direct customer interaction. Consequently, SMEs can use these platforms not only to distribute information about their products but also to establish ongoing communication with existing and potential customers (Amin et al., 2025; Kreiterling, 2023; Sharabati et al., 2024). Social media marketing should therefore be understood not merely as the dissemination of promotional content but as a strategic set of activities involving interaction, communication, and relationship development with market participants (Li et al., 2021).

Social media has changed customer–business interactions by enabling communication to occur in a more immediate and participatory manner. Features such as comments, reviews, content sharing, live streaming, and short-form video provide opportunities for customers to react to products and business activities. These interactions may provide SMEs with information about customer preferences while simultaneously increasing brand exposure and strengthening relationships with their audiences (Putri & Hidayat, 2023; Ratnasari & Fachrian, 2025). Customers can therefore contribute to business activities through feedback, recommendations, reviews, and suggestions for product improvement rather than functioning solely as passive recipients of marketing messages. This view is consistent with the consumer-dominant logic perspective, which recognises consumers as active participants in value creation and in shaping business decisions (Anker et al., 2022; Basri & Siam, 2019).

Recent studies on Instagram marketing suggest that the effectiveness of social media activities depends substantially on the nature of the content and the degree of interaction generated among users. Marketing activities involving visual content, Reels, influencers, promotions, testimonials, and other forms of digital communication have been associated with consumer responses and purchase intentions (Udayana, 2024). Related evidence from research on Instagram Stories indicates that interactivity, informational value, emotional appeal, experiential content, and influencer credibility may shape consumers' responses to marketing activities (Udayana et al., 2025). Taken together, these findings indicate that social media effectiveness should not be assessed solely from the amount of promotional content disseminated, but also from the extent to which such content stimulates customer interaction.

Customer engagement provides an important link between social media interaction and business decision-making. Responses generated through comments, reviews, recommendations, and other forms of customer participation can reveal information about market expectations and product preferences. For SMEs, such information can be used to refine products, improve marketing approaches, and strengthen relationships with customers. Previous studies have similarly associated customer engagement with business performance and identified social media as an important channel for facilitating interaction between businesses and their customers (Bai et al., 2020; Charoensukmongkol & Sasatanun, 2017; Mamun et al., 2018). Social media can therefore function not only as a promotional medium but also as an environment in which customer engagement develops through continuous interaction. Customer engagement reflects customers' active participation in interactive

relationships with firms and can contribute to the co-creation of experiences and value (Brodie et al., 2011). Social media provides an environment in which consumers can actively interact with brands through various forms of participation, making consumer engagement particularly relevant in digital marketing contexts (Hollebeek et al., 2014).

Nevertheless, the utilisation of social media by SMEs is not always optimal. Some SME operators in Denpasar City still rely on traditional marketing methods, meaning that their market reach and ability to build digital interactions with consumers remain limited (Sugianta et al., 2022). Data from the Denpasar City SME and Cooperatives Department shows that the number of SMEs changed from 31,218 units in 2018 to 32,226 units in 2020, then fell to 29,549 units in 2021 and rose slightly to 29,749 units in 2022. This situation highlights the challenges faced by SMEs in maintaining and developing their business activities, including adapting to changes in the digital business environment.

Previous research has shown that the use of social media is associated with improved MSME performance through expanded market reach, marketing activities, and interaction with consumers (Shandy et al., 2023; Subagja et al., 2022; Syaifullah et al., 2021). Previous evidence from Indonesian SMEs has demonstrated a positive relationship between social media usage and firm performance (Noviaristanti et al., 2023). However, evidence concerning the mechanism through which social media use is translated into performance remains limited, particularly through customer engagement as a mediating process. Other studies have also shown that consumer engagement is positively associated with business performance, as consumers can provide information, feedback, and participate in the value creation process (Bai et al., 2020; Mamun et al., 2018). Furthermore, (Garg et al., 2020) demonstrated that customer engagement can act as a mediator in the relationship between social media practices and business performance. These findings indicate that the relationship between social media, consumer engagement and business performance has received attention in previous research.

However, the existing empirical evidence does not fully explain how social media use is converted into MSME performance through customer participation. Previous studies have largely examined the direct contribution of social media to business outcomes or the relationship between customer engagement and performance. These approaches provide evidence that social media and customer engagement are individually relevant to business outcomes, but they offer more limited explanation of the process connecting digital interaction with measurable business performance. Although Garg et al. (2020) provides evidence of the mediating role of customer engagement, further examination is needed in the context of MSMEs, where social media is used not only as a marketing instrument but also as a channel for continuous interaction with customers.

This gap is particularly relevant in the context of MSMEs in Denpasar. The use of social media does not necessarily mean that MSMEs have established meaningful and continuous relationships with their customers. A social media account or promotional activity may increase exposure, but exposure alone does not guarantee that customers will actively participate or that such participation will generate business value. Therefore, understanding the mechanism through which social media use contributes to MSME performance requires attention to the behavioural process that occurs between digital interaction and business outcomes.

To address this gap, this study adopts Service-Dominant Logic (S-D Logic) as the

main theoretical foundation. S-D Logic views value creation as a process involving interaction, resource integration, and the participation of multiple actors rather than as a process in which firms independently create and deliver value to passive customers (Vargo & Lusch, 2008). From this perspective, customers can contribute knowledge, information, experiences, feedback, and other resources to the value-creation process. Social media is therefore relevant because it provides an interactive environment in which MSMEs and customers can exchange information and participate in ongoing interactions.

The use of S-D Logic provides a theoretical explanation for positioning customer engagement as the mechanism linking social media use to MSME performance. Social media creates opportunities for interaction, but the existence of an interaction platform alone does not automatically produce business value. Business value may emerge when customers actively participate in interactions and contribute resources that can be integrated into MSME activities. Customer engagement therefore represents an important behavioural mechanism through which digital interaction can be transformed into customer-generated resources and, subsequently, into business value.

This process can be understood as a behavioural conversion mechanism. Social media use first creates opportunities for customers to interact with MSMEs. Customers may then respond through comments, reviews, recommendations, content sharing, feedback, and other forms of participation. These engagement behaviours generate information and customer-derived resources that MSMEs can use to understand customer needs, improve products and services, refine marketing activities, and strengthen customer relationships. In this sense, customer engagement represents the process that connects the availability of digital interaction with the potential generation of business outcomes.

Accordingly, the novelty of this study lies in integrating Social Media Use, Customer Engagement, and MSME Performance into a single explanatory model in which customer engagement is positioned as the mechanism linking social media use with business performance. Rather than treating social media solely as a promotional instrument or customer engagement merely as an outcome of social media activities, this study conceptualises customer engagement as the process through which digital interaction can contribute to value creation and MSME performance. The study therefore extends previous empirical approaches by explicitly connecting digital interaction, customer participation, and MSME performance within an S-D Logic perspective.

Drawing on the identified gap, this study examines the mechanism underlying the relationship between social media use and MSME performance by considering customer engagement as a mediator. Specifically, the study evaluates four relationships: the effect of social media use on customer engagement, the direct effect of social media use on MSME performance, the effect of customer engagement on MSME performance, and the indirect effect of social media use on MSME performance through customer engagement.

RESEARCH METHODS

A quantitative explanatory design was used to empirically assess the relationships specified in the research model. The model comprises social media use as the exogenous construct, customer engagement as the mediating construct, and MSME performance as the endogenous construct. The research model comprises

social media usage as the exogenous variable, consumer engagement as the mediating variable, and MSME performance as the endogenous variable. The research data were collected through a survey using a structured questionnaire administered to MSME operators in Denpasar who met the study criteria.

The study population consisted of MSMEs operating in Denpasar City, with the population recorded at 29.749 business units. Respondents were selected through purposive non-probability sampling based on predefined eligibility criteria. The criteria were: (1) owners or managers of MSMEs operating in Denpasar City; (2) businesses that had been operating for at least one year; (3) respondents who were actively involved in managing their businesses; and (4) businesses that used social media daily, such as Instagram, Facebook, and/or TikTok, for business-related activities, particularly product promotion and interaction with consumers. Data collection was conducted over a two-month period by contacting potential respondents directly and visiting their business premises, as well as distributing questionnaires online. Based on these criteria, 390 eligible respondents were included in the study.

Primary data were collected using a structured questionnaire with a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree. The questionnaire was distributed both online through Google Forms and directly to MSME operators during visits to their business premises. The same questionnaire, measurement scale, and eligibility criteria were applied to both online and offline respondents to maintain consistency. To minimise response bias, respondents were informed of the academic purpose of the study and the confidentiality of their responses, while completed questionnaires were screened to ensure eligibility and completeness. Potential non-response bias was assessed by comparing early and late respondents across Social Media Use, Consumer Engagement, and MSME Performance.

The questionnaire measured three main constructs. Social Media Use was measured using 14 indicators adapted from Michaelidou et al. (2011), Consumer Engagement was measured using 12 indicators adapted from Garg et al. (2020), and MSME Performance was measured using 12 indicators adapted from Garrido-Moreno et al. (2020). Although the Social Media Use scale from Michaelidou et al. (2011) was originally developed in a B2B context, its underlying dimensions concern the use of social media for business-related communication, marketing, and relationship-building activities. These activities are also relevant to B2C retail MSMEs, which use social media to promote products, communicate with individual consumers, obtain consumer responses, and maintain consumer relationships. Therefore, the scale was contextually adapted rather than conceptually altered, with the wording adjusted to reflect MSME interactions with individual consumers while retaining the original conceptual meaning of the construct. The adapted instrument was subsequently assessed for reliability and validity using the data collected in this study.

The data were analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM) with SmartPLS 3.2.9. The measurement model was assessed using indicator loadings, Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), and the Fornell–Larcker criterion. The structural model was evaluated using path coefficients, coefficient of determination (R^2), effect sizes, and bootstrapping. The mediating effect of Consumer Engagement was assessed through the indirect effect of Social Media Use on MSME Performance.

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RESULTS AND DISCUSSION

This study examined the role of customer engagement in linking social media use to MSME performance using data from 390 MSME respondents in Denpasar City. The respondents consisted of MSME owners or managers who met the predetermined study criteria. In terms of age, 200 (51%) respondents were aged 20–30 years, 119 (31%) were aged 31–40 years, 55 (14%) were aged 41–50 years, and 16 (4%) were aged over 50 years. Regarding gender, 243 respondents (62%) were female, and 147 respondents (38%) were male.

In terms of business types, 166 businesses (42.6%) were in the food and drink sector, 68 businesses (17.4%) were in fashion, 17 businesses (4.4%) were in agriculture, 4 businesses (1%) were in electronics, 9 businesses (2.3%) were in furniture, 82 businesses (21%) were in services, and 44 businesses (11.3%) were in other sectors.

In terms of business categories, 151 businesses (39%) were categorised as small businesses, 232 businesses (59%) were categorised as micro-businesses, and 7 businesses (2%) were categorised as medium-sized businesses. Regarding the social media platforms used for marketing, 120 respondents used Facebook, 340 respondents used Instagram, 172 respondents used TikTok, 19 respondents used YouTube, and 218 respondents used WhatsApp.

Table 1. Results of Construct Validity and Reliability Testing

Variable	Item / Indicator	Loading Factor	AVE	Composite Reliability (CR)	Cronbach's alpha
Social Media Use (X)	SM.1	0.816	0.672	0.966	0.962
	SM.2	0.823			
	SM.3	0.830			
	SM.4	0.791			
	SM.5	0.811			
	SM.6	0.840			
	SM.7	0.832			
	SM.8	0.818			
	SM.9	0.837			
	SM.10	0.814			
	SM.11	0.823			
	SM.12	0.814			
	SM.13	0.816			
	SM.14	0.807			
Customer Engagement (Y1)	CE.1	0.808	0.657	0.958	0.952
	CE.2	0.805			
	CE.3	0.808			
	CE.4	0.796			
	CE.5	0.776			
	CE.6	0.834			
	CE.7	0.790			
	CE.8	0.825			
	CE.9	0.824			
	CE.10	0.804			
	CE.11	0.838			
	CE.12	0.813			
MSME Performance	BP.1	0.795	0.705	0.966	0.962
	BP.2	0.844			

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Variable	Item / Indicator	Loading Factor	AVE	Composite Reliability (CR)	Cronbach's alpha
(Y2)	BP.3	0.845			
	BP.4	0.841			
	BP.5	0.852			
	BP.6	0.839			
	BP.7	0.842			
	BP.8	0.829			
	BP.9	0.851			
	BP.10	0.848			
	BP.11	0.853			
	BP.12	0.832			

(Source: Primary Data, 2025)

The measurement model demonstrates satisfactory convergent validity and internal consistency across all three constructs. The AVE values obtained for Social Media Use (0.672), Customer Engagement (0.657), and MSME Performance (0.705) exceed the recommended minimum of 0.50. In addition, Composite Reliability and Cronbach's Alpha values exceed 0.70 for all constructs, indicating adequate internal consistency and reliability of the measurement instrument.

Table 2. Results of Construct Discriminant Validity Testing

Construct	Social Media Use	Customer Engagement	MSME Performance
Social Media Use	**0.820**		
Customer Engagement	0.624	**0.810**	
MSME Performance	0.685	0.717	**0.839**

(Source: Primary Data, 2025)

Table 2 shows that discriminant validity was established for Social Media Use, Consumer Engagement, and MSME Performance. The square roots of the AVE values for Social Media Use (0.820), Consumer Engagement (0.810), and MSME Performance (0.839) are greater than the corresponding inter-construct correlations. These results indicate that each construct is empirically distinct from the other constructs in the research model.

The first step in testing the structural model is to examine the role of customer engagement as a mediating variable in the relationship between social media use and MSME performance. The structural model testing was conducted using the SmartPLS 3.2.9 application, and the output results are shown in Figure 1.

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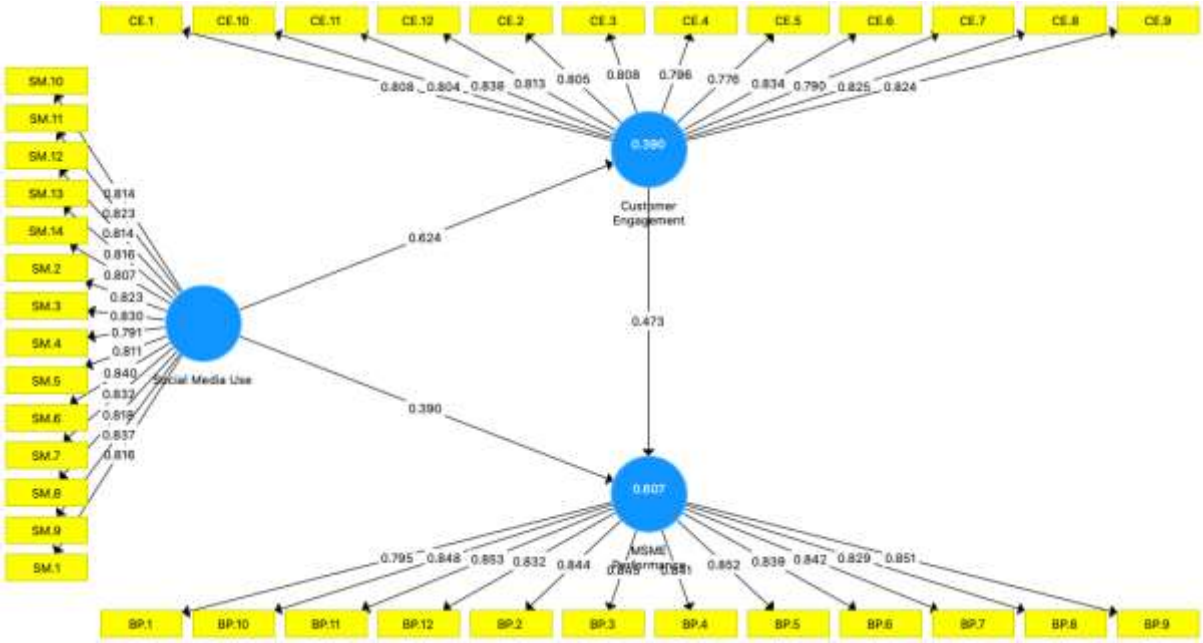


Figure 1. SmartPLS 3.2.9 Output of Structural Model Testing Stage I
(Source: Primary Data, 2025)

The structural model was assessed using the coefficient of determination (R^2), predictive relevance (Q^2), and path coefficients. R^2 indicates the proportion of variance in an endogenous construct explained by its predictors, while Q^2 assesses the predictive relevance of the model. The results of the R^2 assessment are presented in Table 3.

Table 3. Adjusted R-Squared Values

Construct	R-square	R-square adjusted
Customer Engagement	0.390	0.388
MSME Performance	0.607	0.605

(Source: Primary Data, 2025)

The model explains 39.0% of the variance in Consumer Engagement (R^2 = 0.390), while the remaining 61.0% is explained by factors outside the research model. For MSME Performance, the R^2 value of 0.607 indicates that Social Media Use and Consumer Engagement jointly explain 60.7% of the variance, with the remaining 39.3% attributable to other factors not examined in this study.

Table 4. Coefficient Values, T-Statistics, and P-Values

Relationship	Coefficients	T-Statistics	P-Value
Social Media Use → Customer Engagement	0.624	20.174	0.000
Social Media Use → MSME Performance	0.390	9.389	0.000
Customer Engagement → MSME Performance	0.473	12.011	0.000
Social Media Use → Customer Engagement → MSME Performance	0.296	10.480	0.000

(Source: Primary Data, 2025)

The influence of social media use on customer engagement exhibits a regression coefficient of 0.624 and a p-value of 0.000, signifying statistical significance at the 5% level. The impact of social media use on MSME performance exhibits a regression coefficient of 0.390 and a p-value of 0.000, signifying statistical significance at the 5%

level. The impact of customer engagement on MSME Performance a regression coefficient of 0.473 and a p-value of 0.000, indicating its importance at the 5% level. The impact of customer engagement as a mediating variable in the correlation between social media use and MSME performance has a regression coefficient of 0.296 and a p-value of 0.000, signifying its significance at the 5% level.

Hypothesis testing was used to address the research topics presented. This study tests four possibilities. The instrument employed to evaluate the hypotheses is Structural Equation Modelling (SEM) utilizing SmartPLS version 3.2.9. This is an overview of the testing for each hypothesis as shown in Table 5.

Table 5. Summary of Research Hypothesis Testing Results

Hypothesis	Results	Conclusion
H1: Social media use has a positive and significant effect on customer engagement.	T-Statistics = 20.174 > 1.971 P-Value = 0.000 < 0.050	Supported
H2: Social media has a positive and significant effect on MSME performance.	T-Statistics = 9.389 > 1.971 P-Value = 0.000 < 0.050	Supported
H3: Customer engagement has a positive and significant effect on MSME performance.	T-Statistics = 12.011 > 1.971 P-Value = 0.000 < 0.050	Supported
H4: Customer engagement mediates the relationship between social media use and MSME performance.	T-Statistics = 10.480> 1.971 P-Value = 0.000 < 0.050	Supported

(Source: Primary Data, 2025)

The impact of social media use on customer engagement yields a T-statistic of 20.174, which exceeds 1.971, and a p-value of 0.000, which is below 0.05. This indicates that the effect is statistically significant at the 5% significance level. Social media provides a platform for SMEs to communicate directly with consumers. Content, comments, likes, reviews and other forms of interaction enable consumers not only to receive information but also to respond to business activities. From the perspective of Service-Dominant Logic, consumers are actors who contribute to the value creation process through interaction and the exchange of resources. This study is consistent with research by Nguyen et al. (2020) and Shang et al. (2022), which found that social media marketing positively and significantly influences consumer engagement. MSMEs benefit from user-generated content on social media, which influences other customers through positive reviews and mobilises actions towards the brand or product (Guha et al., 2018). Social media enhances MSMEs' visibility and reach, enabling them to compete more effectively in the market. Increased interaction and communication with customers contribute to business growth and sustainability (Amoah et al., 2021; Sinha & Fukey, 2022). Social media not only broadens market reach but also encourages consumers to actively participate through interactions, reviews and emotional engagement, ultimately enhancing their purchase intentions. Proper management and engaging content are crucial in shaping a positive, active consumer role on social media (Natanael & Firdausy, 2025).

The effect of social media use on MSME performance has a T-statistic value of 9.389, which is greater than 1.971, with a p-value of 0.000, which is less than 0.05. This

indicates that the effect is significant at the 5% significance level. The significant relationship between social media use and MSME performance indicates that digital interaction can generate business benefits beyond simple information dissemination. For MSMEs, social media provides opportunities to communicate product information rapidly, access customers outside conventional market boundaries, and obtain market responses directly from users. These functions may improve firms' ability to identify customer needs and adjust their business activities accordingly. From the Service-Dominant Logic perspective, the finding can be interpreted as evidence that business value emerges partly through the integration of firm and customer resources during digital interactions. Thus, the contribution of social media to MSME performance may arise not only from promotional exposure but also from the information and relational benefits generated through customer interaction. This study aligns with research by Shandy et al. (2023); Subagja et al. (2022) and Syaifullah et al. (2021), which states that the use of social media influences business performance. MSMEs that actively interact with customers on social media can increase sales and overall business performance (Ekanem & Erukusin, 2021). Social media marketing, such as customer support and promotional content, significantly boosts customer engagement through 'likes', 'shares' and 'comments'. This engagement, in turn, enhances sales performance, particularly when MSMEs verify their identity on social platforms, thereby building trust (Ha et al., 2016). These findings are also supported by the R^2 value for MSME performance of 0.607, indicating that the utilisation of social media and consumer engagement together account for 60.7% of the variation in MSME performance. Meanwhile, the remaining 39.3% of the variation stems from other factors not included in the research model.

The impact of consumer engagement on business success yields a T-statistic of 12.011, exceeding 1.971, accompanied by a p-value of 0.000, which is below 0.05. This indicates that the effect is statistically significant at the 5% significance level. This result suggests that consumer engagement has a positive influence on MSME performance. These results demonstrate that consumer involvement plays a significant role in supporting the performance of MSME. The significant effect of customer engagement on MSME performance suggests that customer participation can become a useful resource for business development. Through reviews, recommendations, comments, and feedback, customers provide information that may help MSMEs recognise changes in market expectations and evaluate the effectiveness of their products or services. Such information can subsequently be incorporated into product development and marketing decisions. Therefore, customer engagement should be understood not merely as an indicator of customer activity but also as a source of knowledge that can support business improvement. This interpretation is consistent with the value co-creation perspective, in which value emerges through interactions among multiple actors rather than being produced exclusively by the firm. This finding is also consistent with Matosas-López, (2024), who demonstrated that customer engagement on social media can be associated with SME business outcomes, although its contribution may depend on how social media activities are managed. This study is in line with research by Bai et al. (2020); Mamun et al. (2018) and Nurmilah & Djakasaputra (2024), which states that consumer engagement has a positive and significant effect on business performance. Studies show that the use of digital tools that interact directly with consumers can improve the operational and financial outcomes of MSMEs. Consumer engagement in the new product development process helps MSMEs to gather ideas and information, as well as to promote and advertise their products. The benefits of this

engagement include increased company profits, expanded markets and reduced costs (Papageorgiou et al., 2017).

The impact of consumer engagement as a mediator between social media use and MSME performance yields a T-statistic of 10.480, exceeding 1.971, with a p-value of 0.000, which is below 0.05. This indicates that the effect is statistically significant at the 5% significance threshold. This finding suggests that customer engagement mediates the correlation between social media use and MSME performance. These findings suggest that customer engagement is one of the mechanisms that explains how social media use can translate into improved MSME performance. Social media provides a space for MSMEs to build communication and interaction, whilst consumer engagement enables these interactions to generate responses, information and contributions that MSMEs can utilise in their business activities. From the perspective of Service-Dominant Logic, these results indicate that value creation occurs through the process of interaction between MSMEs and consumers. Social media acts as a platform that facilitates these interactions, whilst consumer engagement serves as the mechanism linking digital interactions to business outcomes. In other words, the mere existence of social media does not fully explain how improved performance occurs; its benefits become more meaningful when consumers are actively engaged in the process of interaction and value creation. These findings reinforce previous research on the relationship between social media, consumer engagement and business performance, whilst providing empirical evidence in the context of MSME in Denpasar. The main contribution of this study lies in its explanation of the mechanism through which consumer engagement links the use of social media to MSME performance. Consequently, MSME digital strategies must not merely focus on increasing their presence and reach on social media, but must also be directed towards creating interactions that encourage consumers to provide responses, feedback, reviews and recommendations. This study aligns with research by Garg et al. (2020), which states that consumer engagement mediates the effect of social media usage on business performance. Consumer participation via social media can significantly improve business performance by influencing product sales, consumer attitudes and decision-making processes (Gülsoy, 2018). This two-way communication fosters deeper relationships between consumers and brands, leading to increased loyalty and customer satisfaction (Tsiotsou, 2020).

The results of interviews with several MSME stakeholders indicate that they have utilised various social media features to enhance interaction with consumers. One strategy commonly used is the live feature on TikTok and Instagram, which allows business owners to communicate directly with customers, answer questions, and showcase products in real time. The live feature facilitates direct interaction between sellers and customers, which can increase customer engagement and strengthen the relationship between them (Jiang et al., 2024a; Razafinandrasana & Tamara, 2024). Studies have shown that clear communication, product visualisation and a pleasant shopping experience during live sessions can increase customers' purchase intentions (Kartawinata et al., 2024). Additionally, MSME operators also implement giveaway strategies as a way to attract consumer attention, increase engagement and expand market reach. This practice not only helps improve customer loyalty but also strengthens brand image in the face of an increasingly competitive digital marketplace. Giveaways on social media platforms can encourage high levels of consumer engagement. Posts that include calls to like, share or tag friends in exchange for a

giveaway tend to receive more interactions, such as comments and likes, compared to non-promotional posts (Kostygina et al., 2025).

The qualitative findings provide further insight into how social media use can generate consumer engagement. Interviews with several MSME stakeholders indicated that TikTok Live and Instagram Live were commonly used to communicate directly with consumers, answer questions, and showcase products in real time. This practice illustrates that consumer engagement is not limited to passive exposure to promotional content but can involve active participation through questions, responses, and real-time interaction.

This finding strengthens the interpretation of the mediation effect. Live streaming creates an interactive environment in which consumers can immediately respond to product demonstrations and business communication. These responses can provide MSMEs with consumer information and feedback that may be incorporated into subsequent marketing and business decisions. From the Service-Dominant Logic perspective, such interaction reflects resource integration and value co-creation because both the MSME and consumers contribute resources to the interaction process. Thus, live streaming represents a practical example of how Social Media Use can activate Consumer Engagement and subsequently contribute to business outcomes.

The finding is also consistent with previous research showing that interactivity, product visualisation, and the shopping experience during live sessions can influence consumer responses and purchase intentions (Jiang et al., 2024b; Kartawinata et al., 2024).

CONCLUSION

This study demonstrates that social media use contributes significantly to MSME performance in Denpasar, both directly and indirectly through customer engagement. Social media use has a significant positive effect on customer engagement ($\beta = 0.624$) and MSME performance ($\beta = 0.390$), while customer engagement also positively affects MSME performance ($\beta = 0.473$). The significant indirect effect ($\beta = 0.296$) further confirms the mediating role of customer engagement. The model explains 60.7% of the variance in MSME performance, indicating that social media use and customer engagement provide substantial explanatory power, although other factors remain relevant.

The findings indicate that the business value of social media should not be viewed solely in terms of promotional reach. Its contribution becomes more meaningful when social media is used to facilitate customer participation, feedback, reviews, recommendations, and ongoing communication. Customer engagement therefore represents an important mechanism connecting digital interaction with business outcomes. This finding supports the Service-Dominant Logic and Value Co-Creation perspectives by demonstrating that value can emerge through interactions and resource exchange between MSMEs and consumers.

From a managerial perspective, MSME owners and managers should implement three strategic actions. First, they should prioritise two-way communication rather than relying solely on promotional content by actively responding to comments, questions, reviews, and direct messages. Second, they should use interactive social media features, including live streaming, to demonstrate products, answer consumer questions, and encourage real-time participation. Third, consumer feedback and recommendations should be systematically used as input for product improvement, marketing decisions,

and customer relationship development. These actions can help MSMEs transform social media activity into meaningful customer engagement and, ultimately, improved business performance. The qualitative findings regarding the use of TikTok and Instagram Live further illustrate the practical relevance of interactive digital features in facilitating direct consumer participation.

This study has several methodological limitations. First, the cross-sectional design captures the relationships among social media use, customer engagement, and MSME performance at a single point in time and therefore cannot fully capture how these relationships develop or change over the long term. Second, the use of purposive non-probability sampling limits the generalisability of the findings beyond MSMEs that meet the characteristics of the respondents in this study. Future research should therefore consider broader sampling approaches and include MSMEs from different geographical and business contexts.

Future studies are also encouraged to employ longitudinal designs to examine how social media use and customer engagement evolve over time and whether their effects on MSME performance are sustained. In addition, experimental or quasi-experimental approaches could be used to examine whether specific social media strategies, such as live streaming, interactive content, or customer feedback mechanisms, directly increase customer engagement and business performance. Future research could also incorporate additional variables to explain the remaining variance in MSME performance and provide a more comprehensive understanding of digital business outcomes.

Statement on the Use of Artificial Intelligence.

AI was used in the preparation of this manuscript. The authors used artificial intelligence tools solely to assist with language improvement, grammar checking, and editing for clarity and readability. The authors remain fully responsible for the accuracy, originality, integrity, and academic content of the manuscript. All AI-assisted content was reviewed and verified by the authors before submission.

Conflicts of interest

The authors declare no conflict of interest

Author contributions

Putu Suweca Nata Udayana served as the principal investigator and was responsible for formulating the research idea and topic, identifying the research problems and their underlying phenomena, as well as processing and analyzing the research data. Dewa Ayu Giovany Angga Indrya contributed to the design of the methodological and theoretical framework, data collection, and data processing. Luh Kadek Budi Martini reviewed the final manuscript to ensure contextual relevance and theoretical consistency. I Gusti Ayu Ngurah Pradnyadevi Utami contributed by updating and refining the references.

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