

THE MODEL FOR IMPROVING BUSINESS PERFORMANCE USING MICROFINANCIAL INSTITUTIONS AND ENTREPRENEURSHIP COMPETENCIES

Erna Herlinawati¹, Riyandi Nur Sumawidjaja², Yoyo Sudaryo³
Rama Chandra Jaya⁴ and Gurawan Dayona Ismail⁵

Management, Universitas Indonesia Membangun, Jl. Soekarno Hatta No.448, Bandung 40266

E-mail: erna.herlinawati@inaba.ac.id; riyandi.nursumawidjaja@inaba.ac.id;

yoyo.sudaryo@inaba.ac.id; rama.chandra@inaba.ac.id; gurawan.dayona@inaba.ac.id

ABSTRACT. This paper will assess & present empirical evidence on the issue in order to better understand how Microfinance Institutions (MFIs) mediate entrepreneurial talents. The role of MFIs is evaluated based on their functions as a source of finance, facilitators for financial management, managerial management, and marketing management. Sales growth, profit growth, asset growth, employee growth, and market share growth are all ways to gauge a company's performance. While entrepreneurial ability is assessed using technical, marketing, financial, and interpersonal abilities. The research approach is explanatory, with data collected through questionnaires and interviews. A sample of 150 SMEs sampled the population of 34,816 SMEs in West Java's Greater Bandung region, Indonesia, using a proportionate random sampling approach. Structural Equation Modeling and a 5-point Likert scale were used to analyze the data collected (SEM). According to the findings, microfinance institutions can help businesses succeed by a small but significant amount. Business performance is positively and significantly impacted by entrepreneurial talents. The MFIs's significance in influencing entrepreneurial skills expands in relation to corporate performance.

Key words: Business Performance; Microfinance Institutions; Entrepreneurial Competencies

MODEL PENINGKATAN KINERJA BISNIS MELALUI PERAN LEMBAGA KEUANGAN MIKRO DAN KOMPETENSI KEWIRAUSAHAAN

ABSTRAK. Tujuan dari penelitian ini untuk melakukan analisis serta memberikan bukti berkaitan dengan peran Lembaga Keuangan Mikro (LKM) dalam meningkatkan kinerja usaha dengan memediasi kompetensi kewirausahaan. Peran LKM diukur menurut fungsinya sebagai sarana penyedia dana, fasilitator pengelolaan keuangan, fasilitator manajemen pengelolaan, dan fasilitator manajemen pemasaran. Kinerja bisnis diukur dengan pertumbuhan penjualan, pertumbuhan laba, pertumbuhan aset, pertumbuhan karyawan, dan pertumbuhan pangsa pasar. Sedangkan kompetensi kewirausahaan diukur dengan kompetensi finansial, kompetensi teknis, kompetensi relasional dan kompetensi pemasaran. Metode penelitian menggunakan metode explanatory. Angket dan wawancara menjadi teknik yang digunakan dalam pengumpulan data. Populasi adalah UKM di wilayah Bandung Raya Jawa Barat Indonesia sebanyak 34.816 dengan teknik proporsional random sampling diperoleh sampel sebanyak 150 UKM. Penelitian ini menganalisis data dengan skala likert 5-1 serta menggunakan teknik Structural Equation Modeling (SEM). Hasil temuan menunjukkan bahwa Lembaga Keuangan Mikro berperan dalam meningkatkan kinerja bisnis namun tidak signifikan. Selanjutnya, Kompetensi kewirausahaan memiliki pengaruh positif serta signifikan terhadap kinerja dari bisnis. Peran Lembaga Keuangan Mikro (LKM) menjadi lebih besar dalam kinerja bisnis dengan memediasi kompetensi kewirausahaan.

Kata kunci: Kinerja Bisnis; Lembaga Keuangan Mikro; Kompetensi Kewirausahaan

INTRODUCTION

Microfinance Institutions (MFIs) exist to facilitate financial services to the underprivileged and SMEs who have not yet benefited from established banking institutions (Wanambisi & Bwisa, 2013). Informal financial institutions are viewed as more successful by SMEs since they are more flexible in terms of lending criteria and loan amounts that are not as stringent as banking standards, as well as credit distribution flexibility. In response to the needs of SMEs, informal financial institutions have been established, which often require funding based on the size and nature of their operations (Herlinawati et al., 2017).

Providing financial facilities to empower SMEs with the expectation of boosting capital

can enhance SMEs' abilities to conduct their operations. Because of contemporary globalization and intense competition, SMEs must be capable of meeting global issues such as boosting product and service innovation, improving human resources and technology (Chandra Jaya & Kosadi, 2022), and extending marketing regions. This is necessary to increase the selling value of SMEs themselves, particularly to compete with the rising influx of foreign goods into Indonesia's industrial and manufacturing hubs, given that SMEs are an economic sector capable of absorbing the majority of the country's workforce (Sudaryanto & Wijayanti, 2013) and plays a key role in developing countries, generating large income and creating job prospects (Harding et al., 2022).

Finance for SMEs has unique characteristics, including a high cash outlay, simple procedures, and rapid access to financial institutions and assistance programs. This is considered to be the role of microfinance institutions, which go beyond just disbursing funds to also act as a catalyst for SMEs' empowerment in areas like marketing, human resource management, and financial management. Small and medium-sized businesses (SMEs) who have received financing haven't shown a lot of expansion or increase in their performance (Herlinawati et al., 2019).

The study looks into how banks and MFIs affect the performance of SMEs that have obtained financing from microfinance institutions (Taiwo, 2010). According to studies (Habibullah, 2009) MFI loans can improve an operator's business performance by increasing sales, asset purchase, and technological advancement. According to study done in Indonesia, small business units managed by women in Sumedang, Indonesia, benefit from microfinance institutions' support, which helps reduce poverty (Layyinaturrobaniyah, 2019). A research that examines the impact of MFIs on the growth of SMEs in Mumbai claims that (Sayed & Trivedi, 2016). The findings show that 85 of 110 SMEs improved their physical assets, profitability, and sales volume as a result of having access to microfinance. The number of loans in Kitale, Kenya, is strongly and favorably related to how well SMEs do. To provide quicker access to MFI loans, MFIs must set up lending groups and reduce training requirements. For SMEs to develop into medium-sized firms, MFI financing to SMEs must be increased (Wanambisi & Bwisa, 2013). According to studies on how MFIs help SMEs in Kiambu County, MFIs only channel money and are not crucial in the provision of business skills training (Gathogo & Ragui, 2014) As a result, SMEs continue to do poorly. Therefore, prior research has shown that financial constraints are not the main reason for SMEs' poor performance. (Zimmerer & Scarborough, 2010), that the use of traditional technology, a lack of funding, managerial issues and poor decision-making, low human capital, a small business scale, a lack of experience and limited financial access, as well as a lack of creativity and innovation, are the main causes of small businesses' poor performance and their inability to compete in both local and global markets. Even if the foundation of entrepreneurship is the ability to produce something new and distinctive via creative thought and imaginative activity, these defects may have an impact on the failure to execute entrepreneurship (Suryana, 2014).

Entrepreneurial skills are essential for competing (Ng & Kee, 2013), to overcome the challenges of

the corporate environment by being proactive. Small business owners are frequently supervisors, managers, and entrepreneurs who guide both their companies and their employees (Zimmerer & Scarborough, 1996). The ability of entrepreneurs to discover and combine resources to launch a business is referred to as their entrepreneurial abilities, highlighting the significance of this notion for improving performance (Hayton & Kelley, 2005).

Previous studies have discovered a relationship between performance and entrepreneurial skills. (Dhamayantie & Fauzan, 2017; Sánchez, 2012; Sarwoko, 2013; Shehnaz et al., 2014). In contrast to earlier research, (Lopa & Bose, 2014) which found that entrepreneurial abilities had no significant affect on performance.

In this study, the aspects of entrepreneurial abilities were measured (Kuriloff et al., 1993), This are the four essential skills that entrepreneurs need to succeed in business: technical competence, marketing competence, financial competence, and human relations competence. Additional prior research (Suryana, 2014) refers to study results that indicate the focus of microfinance organizations is more on channeling funds than it is on enhancing managerial, marketing, production, and financial management capabilities, such that after receiving funding, only financial performance improved (Herlinawati et al., 2019).

Other studies point to a strong correlation between small business success and microfinance organizations. To balance the relationship between the function of microfinance and the success of small businesses, entrepreneurial skills are important (Rosli & Sidek, 2013). Academics are interested in examining how microfinance institutions might increase business success by mediating entrepreneurial skills in light of these findings.

The following are some definitions of performance: (1) Achieving results or a certain level of success (Keban, 2004), (2) A performance is a record that is the outcome of a given job function or activity over a predetermined timeframe (Bernardin & Russel, 1998). The idea of business performance arose and was applied in practice and research (Johnson & Kaplan, 1987).

Business performance is described as: (1) the level of accomplishment or success of a firm over a certain time period; and (2) the results or level of success or overall success rate of the company over a given time period for a given business process. (3) Measuring how closely firm activities are aligned with goals or objectives (Jauch & Glueck, n.d.; Johnson & Kaplan, 1987; Lin & Kuo, 2007).

Performance is deemed to be better when sales volume, company assets, and business profitability increase (Lee & Tsang, 2001). Sales growth, gross profit, return on capital and assets, and net profit, according to prior research, are indicators of performance measurement in small and medium-sized firms (Covin & Slevin, 1989; Rama Chandra Jaya & Sunu Puguh Hayu Triono, 2019). Additional academics utilise both financial and non-financial performance criteria, including as market share, asset growth, employee growth, and increase in sales and profits (Baker & Sinkula, 1999; Croteau & Bergeron, 2001; Jauch & Glueck, n.d.; Kirca et al., 2005; Shader, 2001; Suci, 2006). How precise these indicators are in describing the performance of small and medium-sized firms is crucial for measuring company success. Empowerment can be achieved in several stages, including: (1) the process of preparing the community, whether groups or individuals, to be empowered; (2) formulating the problem in the group and finding a solution, such as economic problems, how to increase income, which requires cooperative effort and financing; and (3) implementing the solution.

The giving of small loans (micro loans) to the underprivileged in order to support entrepreneurship is referred to as microcredit (Rosli & Sidek, 2013). A program called microcredit offers small amounts of credit to the impoverished in order for them to fund profitable endeavors that generate income, enabling them to take care of themselves and their families (Microcredit Summit, 1997). Microfinance Institutions provide microcredit.

The Law of the Republic of Indonesia No. 1 of 2013 defines microfinance institutions (MFIs) as organizations specifically created to offer corporate development services and social empowerment through loans or financing for micro-enterprises to community members, savings control, and non-profit business growth consulting services. (Undang-Undang Republik Indonesia Nomor 1 Tahun 2013 Tentang Lembaga Keuangan Mikro, 2013).

Entrepreneurial competences are described as: (1) Fundamental and specific knowledge, justifications, characteristics, self-perceptions, obligations, and skills required for the establishment, maintenance, and/or growth of a firm (Bird, 1995) (2) She said that competencies may be seen as observable behaviors. As a result, it may be learned and altered by interventions like entrepreneurship selection and training (Man et al., 2002).

In order for entrepreneurship to succeed, four major talents must be balanced: (1) technical competence, which includes design expertise

appropriate to the type of business selected; (2) marketing competence, which includes locating markets and customers and ensuring this same company's preservation; and (3) financial competence, which contains finance, purchasing, sales, book - keeping, and profit and loss calculations. (4) Humanist competence, or the ability to forge relationships with others and establish commercial partnerships, in addition to awareness of healthy interpersonal interactions (Suryana, 2014).

The role of microfinance institutions (MFIs) in empowering people is twofold: (a) as an initiator, whose responsibility it is to get a member's business going; and (b) as a facilitator, whose responsibility it is to clearly state the problem and the solution for the group, whether it be a farmer group, a small business group, or whatever. The growth of SMEs has been hampered by problems with financial management, management, and marketing management, all of which are linked to problems in community groups. MFIs have a third role as a result, which is (c) as a companion who does monitoring or monitoring, oversees the implementation process, provides assessments, and encourages members. Small businesses must get full MFI involvement until they are prosperous and self-sufficient. (RC Jaya et al., 2020), then they have to look for another group. As a result, MFIs must implement the empowerment model (Herlinawati et al., 2017; Rofiah, 2011).

The MFIs research on performance improvement looked at banks and microfinance organizations that may have an impact on the performance of SMEs in Nigeria who have used MFIs' lending programs. (Taiwo, 2010). Previous research has shown that MFI loans can improve Bangladeshi enterprises' commercial success (Habibullah, 2009). Additionally, the quantity of loans has a significant and positive impact on SMEs' success (Wanambisi & Bwisa, 2013). This is in line with a previous research that showed that the majority of SMEs performed better when they had access to microfinance (Sayed & Trivedi, 2016). Unlike another study (Gathogo & Ragui, 2014), which revealed that MFIs had minimal impact on boosting the economics of SMEs, the latter study found that MFIs have a little impact on encouraging a more productive workforce. This is because MFIs are more focused on disbursing funds than on offering training to improve business performance.

Consider entrepreneurial skills to be a greater level of characteristics that include character qualities, abilities, and skills (Man et al., 2002). An entrepreneur's general capacity to carry out a job function successfully is referred to as their entrepreneurial capabilities. A group of essential traits known as competence produce

exceptional performance and quantifiable results (Wu, 2009).

Previous studies have shown a strong correlation between performance and entrepreneurial traits (Barazandeh et al., 2015; Dhamayantie & Fauzan, 2017; Hormiga et al., 2010; Karami, 2004; Man & Lau, 2008; Robert Baum et al., 2001; Rosli & Sidek, 2013; Sarwoko, 2013; Tanoira & Valencia, 2014). In contrast, another study found that entrepreneurial skills had no significant relationship on performance (Lopa & Bose, 2014).

Other studies point to a strong correlation between small business success and microfinance organizations. To balance the relationship between the function of microfinance as well as the success of small businesses, entrepreneurial skills are important (Rosli & Sidek, 2013).

Through the use of entrepreneurial competency mediation, this study methodology was developed to look at the function of Microfinance Institutions (MFIs) in empowering SMEs. Four indicators—a source of funding, a facilitator of financial and managerial management, a facilitator of managerial and marketing management, and a source of money—are used to assess the responsibilities of MFIs. Sales growth, profit growth, asset expansion, staff growth, and market share growth are five indicators of business performance that indicate empowerment. Technical, marketing, financial, and interpersonal skills are the four areas that make up the assessment of entrepreneurial competences. The recommended model is shown on figure 1.

Based on Figure 1, the following theories have been developed:

H1: Microfinance Institutions Influence Business Performance Entrepreneurship

H2: Competence has an impact on business performance. Entrepreneurship

H3: Competence acts as a bridge between Microfinance Institutions and Business Performance..

METHOD

A quantitative explanatory survey is used to test the proposed study hypotheses. The results of a survey given to 150 SMEs in West Java, Indonesia’s Greater Bandung area were put through a descriptive analysis in order to determine how respondents saw the role of microenterprises, entrepreneurial skills, and business performance. To examine data, test hypotheses, and ascertain if entrepreneurial abilities mediate the relationship between Microfinance Institutes and Business Performance, AMOS 26 structural equation modeling (SEM) is utilized.

Data were gathered for this study using interviews, open-ended questionnaires, and closed-ended questionnaires. To get primary data, a small business owner or management must complete a questionnaire. Closed survey to gauge respondents’ opinions on the functions and commercial performance of MFIs. While the survey was available to look at the problems facing SMEs and MFIs.

Two sections made up the questionnaire: (1) questions on general issues and (2) questions focused on particular subjects. (2) The respondents were questioned on their opinions about the function of MFIs, entrepreneurial skills, and business performance in a total of 44 ways. There were 21 questions regarding the function of microfinance organizations, eight about entrepreneurship, and five about company performance. The measuring

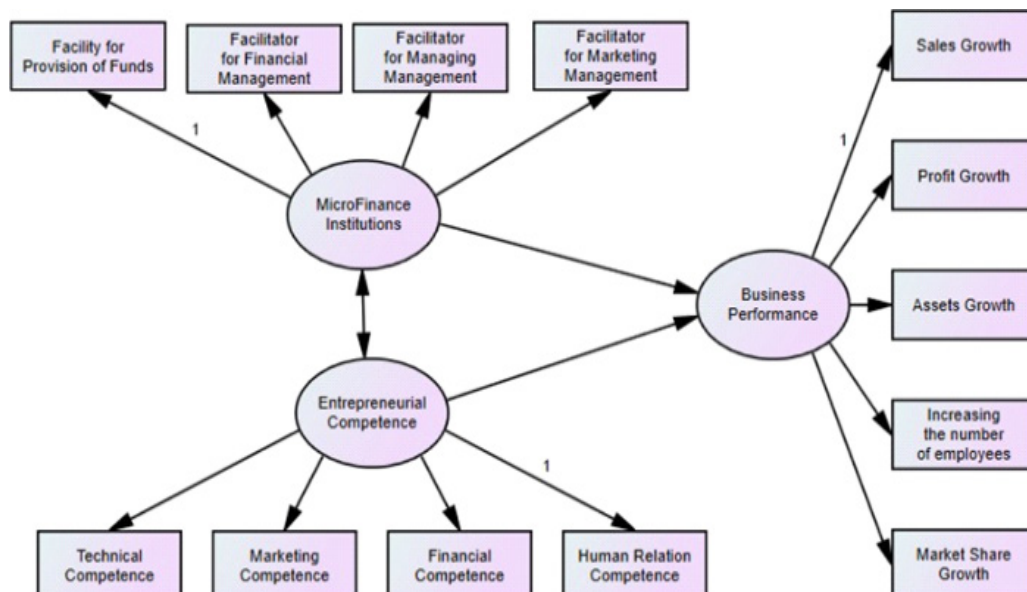


Figure 1. Proposed Model

The Model for Improving Business Performance using Microfinancial Institutions and Entrepreneurship Competencies (Erna Herlinawati, Riyandi Nur Sumawidjaja, Yoyo Sudaryo, Rama Chandra Jaya and Gurawan Dayona Ismail)

tool was a Likert scale from 1 to 5. Numbers 1 and 5 are both highly negative and very low, whereas numbers 4 and 3 are tall, deficient, and low. Numbers 2 and 1 are also both very negative and very low. The following is how questionnaire testing is done: (1) A value of r from 0.728 and 0.963 with a sign under 0.05, comprising a valid category, demonstrates content validity and allows all items to be approved. (2) A Cronbach's alpha reliability score of at least 0.70 and a reliable category, allowing all test items to be utilized in future studies.

RESULTS AND DISCUSSION

This study's respondent characteristics revealed that among the 150 selections of SMEs, males (77.7%) predominated. 46% of respondents were older than the age of 40, which is the majority. 48% of respondents had their high school diplomas. According to respondents, clothing is the most significant business sector (45%).

In this investigation, descriptive method was carried out by determining the %frequency score's tendency level. A bad categorization is probable if

Table 1. Constructs of the questionnaire and variables

Variable	Symbol	Indicator	Question
The MFIS's Role			
Funding Provision Facility (X1)	X.1-1	1. The amount of capital required	1
	X.1-2	2. Sources of Business Funding	2
	X.1-3	3. Assurance	3
	X.1-4	4. Loan Interest	4
	X.1-5	5. Financial Access	5
	X.1-6	6. Disbursement of Loans	6
	X.1-7	7. Installment Plans	7
Financial Management Facilitator (X2)	X.2-1	1. Bookkeeping Education	8
	X.2-2	2. Training in Financial Report Preparation	9
	X.2-3	3. Tax Training	10
	X.2-4	4. Assistance with Financial Management	11
Managing Management Facilitator (X3)	X.3-1	1. Business Plan Development Training	12
	X.3-2	2. Information Technology Education	13
	X.3-3	3. Assistance with business license management	14
	X.3-4	4. Employee Development Training	15
Marketing Management Facilitator (X4)	X.4-1	1. Find a New Customer	16
	X.4-2	2. Look for a Business Location	17
	X.4-3	3. Trademark Granting Training	18
	X.4-4	4. Seek out business associates	19
	X.4-5	5. Attendance at the Exhibition	20
	X.4-6	6. Instruction in online marketing	21
Competencies in Entrepreneurship			
Technical Expertise (X5)	X.5-1	1. New procedures in the manufacturing process	22
	X.5-2	2. Market-driven production design	23
	X.5-3	3. High-value goods	24
Competence in Marketing (X6)	X.6-1	1. An ability to find new markets	25
	X.6-2	2. The ability to identify potential customers	26
	X.6-3	3. The ability to produce goods in response to consumer wants and needs	27
Financial Knowledge (X7)	X.7-1	1. The capacity to more efficiently handle purchases	28
	X.7-2	2. Sales ability	29
	X.7-3	3. Bookkeeping skills	30
	X.7-4	4. Financial statement preparation skills	31
	X.7-5	5. The capacity to get capital	32
	X.7-6	6. Financial management abilities	33
	X.7-7	7. Financial control precision	34
Competence in Human Relationships (X8)	X.8-1	1. The capacity to broaden collaborations	35
	X.8-2	2. The capacity to build communication	36
	X.8-3	3. The ability to keep customers loyal	37
	X.8-4	4. The capacity to lead others	38
	X.8-5	5. The capacity to obtain outside assistance	39
Performance of Business (Y)	Y.1	1. Increased Sales	40
	Y.2	2. Profit Increase	41
	Y.3	3. Asset appreciation	42
	Y.4	4. Increasing the Employee Base	43
	Y.5	5. Increase in Market Share	44

the occurrence score within 1.2 and 3 is larger than 50%. The categorization is likely to be high if the frequency values for categories 4 and 5 are more than 50%. The purpose of microfinance institutions, entrepreneurship skills, and business success are discussed in Tables 2, 3, and 4.

Table 2. Response of SMEs to MFIS

No	Component	% Probability of scores					Achievements Standards
		1	2	3	4	5	
1	Facility for Provision of Funds	41,00			59,00		Usually quite high
2	Facilitator of Financial Management	58,00			42,00		Usually quite low
3	Facilitator of Managing Management	55,00			45,00		Usually quite low
4	Management Facilitator for Marketing	56,00			44,00		Usually quite low
	The MFIS's Role	52.50			47,50		Usually quite low

Table above depicts the involvement of Microfinance Institutions (MFIs), which is often limited. Only one of the four categories was rated positively by respondents, and that was the function of MFIs as a source of funding. Respondents' capital needs for company formation are met by their own cash, whereas 60% of MFI borrowers utilize loans to expand their enterprises. The justification for choosing cash is that it is more pragmatic, risk-free, and does not require interest payments. Although MFIs were picked for their easy application processes and low loan rates, 58% of MFIs still require security. The majority of participants (37%) expressed strong resistance to exorbitant interest rates, which are a consideration for SMEs when applying for loans. According to 59% of respondents, the relevance of MFIs as a funding source is also linked to their accessibility to knowledge, loan disbursement, and implement effective.

Issues with conventional SMEs' financial management in general, include the blurred lines between private funding and venture capital. Insufficient education and poor human resource management are to blame for this. 58% of respondents stated that MFIs have not supported accounting training, annual financial preparation, taxation training, or assistance with financial management.

As a management facilitator, the MFIs' duty is to evaluate the extent to which they offer resources for staff skill development, business planning, company development, online training, and business license management. While 45% of respondents answered

they had, the majority of participants (55%) insisted they had never taken management training. This happens because SMEs generally are against training because having fewer staff makes it impossible for them to participate in training programs. The majority of participants (56%) claimed to have never trained extensively, while the remaining 44% claimed to have, even before asked about the role of MFIs as implementing marketing coordinators, including helping in the acquiring of new customers, locating business strategic locations, continuing to develop trademark rights, locating business associates, participating in expositions, and delivering online marketing training. Given that marketing is essential to maintaining a firm, it appears that MFIs haven't yet helped all SMEs.

Table 3. SMEs' Responses to Entrepreneurial Skills

No	Aspect	% Probability of scores					Achievements Standards
		1	2	3	4	5	
1	Technical Expertise	55,68			44,32		Usually quite low
2	Competence in Marketing	59,15			40,85		Usually quite low
3	Financial Knowledge	65,33			34,67		Usually quite low
4	Competence in Human Relationships	61,44			38,56		Usually quite low
	Competencies in Entrepreneurship	60,40			39,60		Tend to be low

Table above summarizes all aspects of entrepreneurial ability at a low inclination level, with a proportion of 60.40%. This shows that most SMEs are not yet being managed effectively. Small and medium-sized enterprises often fail due to a lack of necessary skills. According to the percentage score for each dimension, technical competence—which is demonstrated by advanced technological excellence metrics in the production process, brilliance of production process in accordance with market consumption, and the capacity to create new products that sell well sales—is the dimension that best meets SMEs' needs in terms of innovation capability. Of the respondents, 44.32% demonstrated high technical ability, compared to 55.68% who demonstrated low technical ability.

According to indicators of the capability to oversee purchases more effectively, sell products, create financial books and analyses, access capital, manage finances, and exercise control, financial expertise is the aspect that probably contributed the least to entrepreneurship development, with 34.67% of all had adequate financial professional competence and 65.33% having the lowest finance competency.

Business performance, which reflects a company's ability to operate efficiently and

effectively, is one measure of how well SMEs have benefited from empowerment.

Table 4. SMEs' Reactions to Business Performance

No	Dimension	% Frequency of scores					Achievements Criteria
		1	2	3	4	5	
1	Sales Increase	37,35			62,65		Usually quite high
2	Profit Increase	48,20			51,80		Usually quite high
3	Asset Development	42,90			57,10		Usually quite high
4	Increasing the number of workers	73,41			26,59		Usually quite low
5	Increase in Market Share	73,70			26,30		Usually quite low
	Performance of Business	55,11			44,89		Tend to be low

Table 4 demonstrates that, with a rate of 55,11%, SMEs continue to perform poorly overall even after receiving finance from MFIs. With 62.65% of participants who reported stronger profit growth, the percent score of each aspect may help to explain why sales growth is the one that best suits SMEs' demands in terms of business performance. Only 26.59% and 26.30% of participants answered increases in the number of individuals and market dominance, respectively, despite the fact that these two factors have the least impact on business performance. SMEs, MFIs, and regulators should be concerned about market share growth metrics with the lowest achievements that's because a low market share may have an impact on other low indicators.

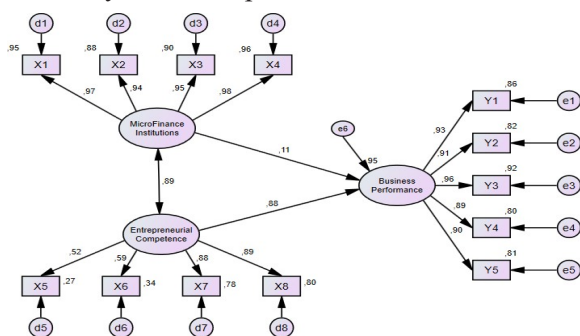


Figure 2. SEM Measurement Results

The results of the functional prototypes evaluating MFI participation and firm success are shown in Figure 2, together with the amount of the factor loading for all indicators bigger than 0.4. This implies that both endogenous and exogenous structures may be created using the indicators. To conclude that the relationship between MFIs and firm performance has significant construct validity and reliability, the construct reliability (CR) value has to be larger than 0.7 and the variance extraction (VE) value must be greater than 0.5.

The Good Fit test results While not all Goodness of Fit metrics were employed, previous research shows that the model is fit overall. because it satisfies the following criteria: (1) At least one absolute standard size should be used (such as GFI or AGFI); if the GFI value is higher than the cut-off number of 0.90, the model is said to be data-fit; (2) Use at most one absolute poor measure (such as Chi-Square, RMSR, SRMR, or RMSEA); RMSEA results at a cutoff value of 0.08 indicate that the model is data-fit; (3) Use at most one comparative metric (such as NFI, NNFI, CFI, TLI, or RNI). If NFI, CFI, or TLI values are more than 0.90, the model is said to be data-fitting.

The assumptions of the structural model are evaluated using outliers and multicollinearity. There aren't any outliers in the data according to a test for multivariate outliers, which shows that the Standard deviation ($d2 = 41,44$) is bigger than X_2 (161,081). Indicating that there are no multi-collinearity or singularity issues with the analyzed data, multicollinearity analysis indicates that now the Predictor of sample covariance matrices value (0,030) is greater than zero as well as the Calculated result is 316,166 less than 1000. Based on the results of the assumption assessment test, it is known that multivariate data does not include any outliers, and the sample data sets empirically continue to match the fundamental statistical assumptions, namely that multicollinearity is not an issue. As a result, the sample original data can still be utilized for additional study.

Regression Model Weight lifting (SRW) of $0.113 > 0$ indicate that the contribution of MFIs is positively determined, however with a moderate contribution, according to the results of the assessment of the role of MFIs in empowerment SMEs in Table 5. The alternative theory is accepted and the H_0 is rejected when the level of significance of CR is greater than 0.05.

As a result, since MFIs have a less impact on company success, hypothesis 1 is rejected. According to study (Gathogo & Ragui, 2014), MFIs play a relatively little part in supporting the economy of SMEs. An SRW of $0.875 > 0$ was found when the impact of entrepreneurial skills was evaluated on firm performance, showing that these abilities have an impact on both high levels and low levels of financial performance. The alternative theory is accepted and the H_0 is rejected if the significance level of the CR is more above 0.05, which suggests that entrepreneurial traits have an influence on company performance and supports hypothesis 2. According to previous research, there is a significant correlation between performance and entrepreneurial skills (Barazandeh

et al., 2015; Dhamayantie & Fauzan, 2017; Hormiga et al., 2010; Man & Lau, 2008; Rosli & Sidek, 2013; Sarwoko, 2013; Tanoira & Valencia, 2014).

The findings of the test of entrepreneurial competences showed that they can mitigate the link between the function of MFIs and company success. A strong and encouraging correlation of 0.888>0 was found, showing that entrepreneurial orientation can do this. The hypothesis 2 is adopted when the significance level of CR is 0.05, rejecting the null hypothesis. This finding supports hypothesis 3, which states that entrepreneurial skills reduce the relationship between the importance of MFIs and firm performance. Another study found that the performance of small businesses and the function of microfinance are partially moderated by entrepreneurial abilities (Rosli & Sidek, 2013).

Table 6’s SRW values show that MFIs are present and involved to a lesser extent—1.28%—in empowering SMEs as measured by improved company performance. This is due to the MFIS’s ability to direct funds in a more focused manner. Business performance is influenced by entrepreneurial traits to the extent of 76.60%. Similar to this, entrepreneurial skills can reduce by 78.9% the relationship between MFI arithmetic operations and success in business.

Table 6. Partial Impact

		SRW	R ²
Performance of Business	<--- The MFIS’s Role	0,113	0,0128
Performance of Business	<--- Competencies in Entrepreneurship	0,875	0,766
MicroFinance Institutions	<--> Competencies in Entrepreneurship	0,888	0,789

CONCLUSION

This study aims to investigate and provide empirical support for the role of Microfinance Institutions (MFIs) in enhancing business performance via the mediation of entrepreneurial skills. According to the findings, MFIs significantly yet modestly contribute to increased company success. Business performance is significantly and favorably impacted by entrepreneurial talents. MFIs have a bigger

impact on company performance through facilitating entrepreneurial potential. Poor entrepreneurial competencies and a restricted role for MFIs in maximizing SMEs entrepreneurs’ capability, expertise, and knowledge in operating and developing their businesses are the conclusions of this research, which leads to a low SMEs survival rate. This study demonstrates that SMEs must continually be entrepreneurship focused while also enhancing entrepreneurial qualities in order to boost firm success. The originality of this study lies in the topic of investigation, entrepreneurial qualities mediating the relationship between the role of micro - finance institutions and business performance, that has not been fully researched.

REFERENCES

Baker, W. E., & Sinkula, J. M. (1999). Journal of the Academy of Marketing Science The Synergistic Effect of Market Orientation and Learning Orientation on Organizational Performance. *Journal of the Academy of Marketing Science*, 27(4).

Barazandeh, M., Parvizian, K., Alizadeh, M., & Khosravi, S. (2015). Investigating the effect of entrepreneurial competencies on business performance among early stage entrepreneurs Global Entrepreneurship Monitor (GEM 2010 survey data). *Journal of Global Entrepreneurship Research*, 5(1). <https://doi.org/10.1186/s40497-015-0037-4>

Bernardin, J. H., & Russel, J. A. (1998). *Human Resource Management*. Mc Graw-Hill.

Bird, B. (1995). Toward a theory of entrepreneurial competency advances in entrepreneurship firm emergence and growth. *Advances in Entrepreneurship, Firm Emergence, and Growth*, 2, 51–72.

Chandra Jaya, R., & Kosadi, F. (2022). Optimization Of Online Selling Through Website-Based E-Commerce Applications And Mobile Applications For MSMES. *Inaba of Community Services Journal (Inacos-J)*, 1(1), 1–12. <https://doi.org/10.56956/inacos.v1i1.31>

Table 5. Results of the Structural Model Parameters’ Estimation

			Estimate				
			RW	SRW	e	C.R	P
Performance of Business	<---	< The MFIS’s Role	0,082	0.113	0,076	1,077	0.281
Performance of Business	<---	< Competencies in Entrepreneurship	0,848	0,875	0,114	7,453	***
		Cov	2,197	0,888	0,294	0,473	***
		Corr					

- Covin, J. G., & Slevin, D. P. (1989). Strategic management of small firms in hostile and benign environments. *Strategic Management Journal*, 10(1). <https://doi.org/10.1002/smj.4250100107>
- Croteau, A. M., & Bergeron, F. (2001). An information technology trilogy: business strategy, technological deployment and organizational performance. *The Journal of Strategic Information Systems*, 10(2), 77–99.
- Dhamayantie, E., & Fauzan, R. (2017). Penguatan Karakteristik Dan Kompetensi Kewirausahaan Untuk Meningkatkan Kinerja UMKM. *Matrik: Jurnal Manajemen, Strategi Bisnis Dan Kewirausahaan*. <https://doi.org/10.24843/matrik:jmbk.2017.v11.i01.p07>
- Gathogo, G., & Ragui, M. (2014). Effects of Capital and Technology on the Performance of SMEs in the Manufacturing Sector in Kenya - Case of selected firms in Thika Municipality. *European Journal of Business Management*, 6(7).
- Habibullah, B. (2009). *Financing for micro enterprises, small, medium sized and cottage industries*.
- Harding, D., Friyanto, D., & Lukman, K. M. (2022). The Well-Being Of Micro Small And Medium Enterprises' Practitioner In Covid-19 Pandemic. *Sosiohumaniora*, 24(1), 88. <https://doi.org/10.24198/sosiohumaniora.v24i1.36802>
- Hayton, J. C., & Kelley. (2005). Promoting corporate entrepreneurship through human resource management practices: a review of empirical research. *Human Resource Management*, 15(3), 21–41.
- Herlinawati, E., Ahman, E., & Machmud, A. (2019). The Effect of Entrepreneurial Orientation on SMEs Business Performance in Indonesia. *Journal of Entrepreneurship Education*.
- Herlinawati, E., Sumawidjaja, R. N., & Machmud, A. (2017). The role of sharia microfinance in SMEs business development. *International Conference on Economic Education and Entrepreneurship*.
- Hormiga, E., Batista-Canino, R. M., & SanchezMedina, A. (2010). The Role of Intellectual Capital in the Success of New Ventures. *International Entrepreneurship and Management Journal*.
- Jaya, R.C., & Sunu Puguh Hayu Triono. (2019). Analisis Pengaruh Social Media Engagement Dan After Sales Service Terhadap Online Store Image UKM Serta Dampaknya Terhadap Brand Cohesion. *Jurnal Indonesia Membangun*, 18(03), 31–45.
- Jaya, R.C., A Yudanegara, & SPH Triono. (2020). The effect of human-centric brands and online store image on social media engagement in Bandung city small and medium enterprises. In *Advances in Business, Management and Entrepreneurship* (1st Edition, pp. 370–374). CRC Press.
- Jauch, L. R., & Glueck, W. F. (n.d.). *Manajemen strategis dan kebijakan perusahaan* (3rd ed.). Erlangga.
- Johnson, H. T., & Kaplan, R. S. (1987). Relevance lost: the rise and fall of management accounting. *Harvard Business School Press*.
- Karami, A. (2004). How Human Resource Capabilities Affect the Organisations' Performance? The Case of Electronic Industry in the UK. *The Fifth European Conference on Organizational Knowledge, Learning and Capabilities, Centre of Strategic Management & Leadership*.
- Keban, Y. T. (2004). *Indikator kinerja pemerintah daerah, pendekatan manajemen dan kebijakan*. FISIP USM.
- Kirca, A. H., Jayachandran, S., & Bearden, W. O. (2005). Market orientation: A meta-analytic review and assessment of its antecedents and impact on performance. *Journal of Marketing*, 69(2). <https://doi.org/10.1509/jmkg.69.2.24.60761>
- Kuriloff, A. H., John M. Hemphill, J., & Douglas Cloud. (1993). *Starting and Managing the Small Business* (3rd ed.). McGraw-Hill, Inc.
- Layyinaturrobaniyah, L. (2019). Lembaga Keuangan Mikro Dan Pemberdayaan Perempuan Sebagai Upaya Pengentasan Kemiskinan Di Kabupaten Sumedang. *Sosiohumaniora*, 21(2). <https://doi.org/10.24198/sosiohumaniora.v21i2.19516>
- Lee, D. Y., & Tsang, E. W. K. (2001). The effects of entrepreneurial personality, background and network activities on venture growth. *Journal of Management Studies*, 38(4). <https://doi.org/10.1111/1467-6486.00250>
- Lin, C. Y., & Kuo, T. H. (2007). The mediate effect of learning and knowledge on organizational performance. *Industrial Management*

- and Data Systems*, 107(7). <https://doi.org/10.1108/02635570710816748>
- Lopa, N. Z., & Bose, T. K. (2014). Relationship between entrepreneurial competencies of SME owners/managers and firm performance: A study on manufacturing SMEs in Khulna city. *Journal of Entrepreneurship and Management*, 3(3).
- Man, T. W. Y., & Lau, T. (2008). Entrepreneurial Competencies and the Performance of Small and Medium Enterprises: an Investigation Through a Framework of Competitiveness. *Journal of Small Business and Entrepreneurship*, 21(3), 257–276.
- Man, T. W. Y., Lau, T., & Chan, K. F. (2002). The competitiveness of small and medium enterprises: A conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing*, 17(2). [https://doi.org/10.1016/S0883-9026\(00\)00058-6](https://doi.org/10.1016/S0883-9026(00)00058-6)
- Microcredit Summit. (1997). *The Microcredit Summit Report*. Microcredit Summit.
- Ng, H. S., & Kee, D. M. H. (2013). Effect of entrepreneurial competencies on firm performance under the influence of organizational culture. *Life Science Journal*, 10(4).
- Undang-undang Republik Indonesia Nomor 1 Tahun 2013 tentang Lembaga Keuangan Mikro. , Pub. L. No. 1 (2013).
- Robert Baum, J., Locke, E. A., & Smith, K. G. (2001). A multidimensional model of venture growth. *Academy of Management Journal*, 44(2). <https://doi.org/10.5465/3069456>
- Rofiah, K. (2011). Peran Lembaga Keuangan Mikro Dalam Pemberdayaan Ekonomi Masyarakat Di Kabupaten Ponorogo. *Kodifikasia*, 5(1). <https://doi.org/10.21154/kodifikasia.v5i1.223>
- Rosli, & Sidek. (2013). The impact of innovation on the performance of small and medium manufacturing enterprises: evidence from Malaysia. *Journal of Innovation Management in Small & Medium Enterprise*, 16.
- Sánchez, J. (2012). The influence of entrepreneurial competencies on small firm performance. *Revista Latinoamericana de Psicología*, 44(2).
- Sarwoko, E. (2013). Entrepreneurial characteristics and competency as determinants of business performance in SMEs. IOSR. *Journal of Business and Management*, 7(3), 31–38.
- Sayed, G., & Trivedi, P. (2016). Study of Satisfaction Level of MSMEs due to Microfinance using Discriminant Analysis - An Empirical Study. *BVTMSR's Journal of Management Research*, 8.
- Shader, K. (2001). Factors influencing satisfaction and anticipated turnover for nurses in an academic medical center. *The Journal of Nursing Administration*, 31(4), 210–216.
- Shehnaz, S. I., Agarwal, A. K., & Khan, N. (2014). A systematic review of self-medication practices among adolescents. In *Journal of Adolescent Health* (Vol. 55, Issue 4). <https://doi.org/10.1016/j.jadohealth.2014.07.001>
- Suci, R. P. (2006). *Peningkatan kinerja melalui orientasi kewirausahaan, kemampuan manajemen, dan strategi bisnis (Studi pada Industri Kecil Menengah Bordir di Jawa Timur)*.
- Sudaryanto, R., & Wijayanti, R. R. (2013). *Strategi pemberdayaan UMKM menghadapi pasar bebas Asean*. Pusat Kebijakan Ekonomi Makro. Badan Kebijakan Fiskal. Kementerian Keuangan.
- Suryana. (2014). *Kewirausahaan: kiat dan proses menuju sukses* (4th ed.). Salemba Empat.
- Taiwo, J. (2010). The Role of Microfinance in Financing Small Businesses. *Journal of Internet Bank Commerce*.
- Tanoira, F. G. B., & Valencia, R. A. S. (2014). Knowledge management, entrepreneurial competencies and organizational development in micro and small enterprises in rural regions in the state of Yucatan, Mexico. *European Scientific Journal*, 10(1).
- Wanambisi, A. N., & Bwisa, Prof. H. M. (2013). Effects of Microfinance Lending on Business Performance: A Survey of Micro and Small Enterprises in Kitale Municipality, Kenya. *International Journal of Academic Research in Business and Social Sciences*, 3(7). <https://doi.org/10.6007/ijarbss/v3-i7/9>
- Wu, D. (2009). Measuring performance in small and medium enterprises in the information & communication technology industries. *Journal: School of Management College of Business RMIT University*.
- Zimmerer, T. W., & Scarborough, N. M. (1996). *Entrepreneurship and the new venture formation*. Prentice-Hall Internasional, Inc.
- Zimmerer, T. W., & Scarborough, N. M. (2010). *Essentials of Entrepreneurship and Small Business Management* (5th ed.). Prentice-Hall Internasional, Inc.