Government Policy as a Determining Factor in Improving MSMEs Performance (Case study of MSMEs in Semarang City)

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Abstract: This research aims to analyze the role of human resource competencies, entrepreneurial characteristics, innovation, and government policies in improving business performance in MSMEs, especially in the culinary sector of the city of Semarang. This research is a type of quantitative research method using data collection techniques in the form of questionnaires. The population in this study was 3,291 MSMEs. In determining the sample using the purposive sampling method. Of the total 3,291 MSMEs, only 110 Culinary MSMEs were used as respondents in this research. The data collection technique is carried out by distributing questionnaires whose validity and reliability have been tested. The questionnaires are distributed online via google form. The data analysis method used consists of descriptive analysis, outer model evaluation, and inner model evaluation. The data analysis tool in this research uses smartpls 3.0 software. The results of this research show that innovation has a positive effect on business performance. Government policies have a positive effect on business performance. Human resource competency has a negative effect on business performance. Entrepreneurial characteristics have a negative effect on business performance.

Keywords: human resource competence, entrepreneurship characteristics, innovation, government policy, business performance

1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are an inseparable part of the economic progress of a region, including economic development in the city of Semarang which is strongly supported by the existence of MSMEs. Micro, small and medium enterprises (MSMEs) are important in the economy of a country or region (Fitriati et al., 2020). According to (Fitriati et al., 2020) MSMEs are a tool for creating jobs, encouraging the economy to advance and creating the private sector so that the development of MSMEs has an important role in economic development. The role of MSMEs in Indonesia in supporting the Indonesian economy is quite large. MSMEs have the potential to grow and develop their capabilities to become strong, independent, sustainable businesses, with balanced progress to be able to build jobs. (Saepudin & Widodasih, 2023). According to (Nurulita, 2021) To assess the overall performance of MSMEs, research needs to be carried out that discusses the factors that can improve the performance of MSMEs. This is because improving the performance of MSMEs in general is still experiencing various problems and is not yet fully in line with what is expected. The problems usually faced by MSMEs are capital, management, marketing and
difficulties in producing quality products which affect the sustainability of the business they run. In research (Dewantoro et al., 2023) it is stated that MSMEs have a big role in supporting the economy. It is also called the main driver whose main function is to provide employment opportunities for many people in the formal and informal sectors. Performance assessment is an important factor in MSMEs. According to (Muslim et al., 2021), performance measurement is also needed in determining the reward system, both employee salaries and rewards that are in accordance with the work results provided. There is a need for research that discusses what factors can influence MSME business performance. Because for MSMEs to progress, they need to be driven by internal and external factors. Competence can be called an internal factor that influences the success of MSMEs, this is because people are the main capital so that MSMEs become more qualified and professional. (Siregar et al., 2008)

The second factor is entrepreneurial characteristics. In research (Saepudin & Widodasih, 2023) it is stated that entrepreneurial characteristics are one of the factors that influence business success. Because to face increasingly competitive competition, of course, an entrepreneur is required to work more creatively, effectively and efficiently in capturing business opportunities and reading market needs. The third factor is innovation, facing increasingly rapid market competition, companies must be able to create products and services following consumer needs (Fitriati et al., 2020). The fourth factor is government policy, according to (Dewantoro et al., 2023) Empowerment of MSMEs carried out by the government, through loan capital, clear regulations and entrepreneurship education, can be relied upon as steps in improving the quality and welfare of society as well as business income. With support from the government, it is hoped that it can create more jobs and also make the Indonesian economy stronger or more stable.
From this graph shows that the number of MSMEs in Semarang City, especially the culinary sector, is decreasing every year. In 2020 there were 5,750 MSMEs in Semarang City, in 2021 there were 7,392 MSMEs, in 2022 there were 3,031 MSMEs. The decline in the number of MSMEs could indicate poor performance of MSMEs, and this data is recorded by the Semarang City Cooperatives and Micro Enterprises Service (Dinkopum). The reason the researcher took the research title “Government Policy As A Determining Factor In Improving MSME’S Performance” in Semarang City is because they look at the MSME phenomenon that occurs in Semarang City. MSMEs and even the existence of several MSMEs experiencing bankruptcy shows that the growth of MSMEs in the city of Semarang is not good, especially in the culinary sector. Apart from that, it is also to find out and analyze whether the variables Human Resource Competency, Entrepreneurship Characteristics, Innovation and Government Policy can influence whether or not the performance of MSMEs in the City of Semarang.

2. LITERATURE REVIEW

Hypothesis Development

1. Relationship between Human Resource Competency and Business Performance.

According to (Dewantoro et al., 2023) HR competency is the main value that will help MSMEs to operate successfully and achieve good performance. To be able to improve performance, competent human resources are needed. HR competency is no less important in improving the performance of MSMEs, because HR competency is the main value that will help MSMEs to operate successfully and achieve good performance. Results of research conducted by (Nurulita, 2021), (Halim & Pratikto, 2019 ) as well as research...
(Muslim et al., 2021) & Research (Willian et al., 2021) Proving that Human Resource Competency has a positive and significant effect on MSME Performance. Based on the explanation above, the hypothesis formulation that can be proposed in this research is:

H1: Human Resource Competency has a positive effect on business performance.

2. Relationship between Entrepreneurial Characteristics and Business Performance

According to (Rolesya et al., 2023) Entrepreneurship Characteristics are the actions carried out by an entrepreneur in running his business, which are based on entrepreneurial behavior. Someone who has entrepreneurial characteristics can be able to have a more positive mindset, so that they can develop sensitivity to the market and think more creatively. The results of research conducted by (Willian et al., 2021) (Rolesya et al., 2023) and (Renaldoa et al., 2021) prove that entrepreneurial characteristics have a positive and significant effect on MSME performance. Based on the explanation above, the hypothesis formulation that can be proposed in this research is:

H2: Entrepreneurial characteristics has a positive effect on business performance.

3. Relationship between Innovation and Business Performance

According to (Fitriati et al., 2020) Innovation is a company's tendency to involve and support novelty, new ideas, creative processes and experiments that lead to new products or new technological processes. So, innovation is an idea, an idea that is realized and accepted by a person or group to improve products, processes, marketing and management. The results of research conducted by (Miar, 2024) and (Fitriati et al., 2020) prove that innovation has a positive and significant effect on MSME performance. Based on the explanation above, the hypothesis formulation that can be proposed in this research is:

H3: Innovation has a positive effect on business performance.

4. Relationship between Government Policy and Business Performance

According to (Miar, 2024) government policy is the government's effort to help empower MSMEs for the welfare of society. The more MSMEs innovate and intervene with the government in their efforts to develop MSMEs, the greater the opportunity for improving MSME performance. The results of research conducted by (Miar, 2024) (Silvia et al., 2023) and (Yadewani et al., 2023) prove that government policy has a positive and significant effect on MSME performance. Based on the explanation above, a hypothesis formulation can be proposed in the research this is:

H4: Government policy has a positive effect on business performance.
3. RESEARCH METHODOLOGY

This research is quantitative research with basic data taken from primary data. The population used is all actors or owners of micro, small and medium enterprises (MSMEs), especially in the culinary sector in the city of Semarang. Secondary data was obtained from a series of data collection processes via Google Form from respondents via questionnaires. The questionnaire in this study was designed on a scale of 1-7, with ratings from 1 = Strongly Disagree (STS) to 7 = Strongly Agree (SS) with various instruments that have been determined for each indicator of the variables used. The sampling technique is Non-Probability Sampling, namely Purposive Sampling with criteria for MSMEs in the culinary food and beverage sector. The research sample consisted of 110 MSME actors and owners in the Semarang City culinary sector. The data that has been collected in this research is then processed using data analysis with the help of SmartPLS3.0 software with tests carried out namely validity tests, reliability tests and hypothesis tests.

The measurement instrument for the Human Resource Competency variable uses research (Arifin et al., 2019) with 10 items and indicators consisting of beliefs & values, skills, experience, motivation and intellectual abilities. The Entrepreneurship Characteristics variable uses research (Rolesya et al., 2023) with 10 items and indicators consisting of business perseverance, ability to innovate, responsiveness to business opportunities, courage to take risks, and business independence. The Innovation variable uses research (Fitriati et al., 2020) with 8 items and indicators consisting of product innovation, process innovation, marketing
innovation and management innovation. Government policy variables use research (Miar, 2024) with 7 items and indicators consisting of tax tolerance, relaxation of loan interest, business development, acceleration of licensing, and expansion of access. Business performance variables use research (Miar, 2024) with 5 items and indicators consisting of profit, marketing area, human resources and capital.

4. RESULTS AND DISCUSSION

Respondent Characteristics

This data reflects the characteristics of a group of respondents involved in this research. The majority of respondents were women, namely 91 people or around 83% of the total respondents. Meanwhile, there were 19 men or around 17%. The age range of respondents ranged from 23 to 38 years. Age 29 years was the largest age with answers from 16 respondents (15%). And the fewest were aged 32 & 37 years, namely 2 respondents (4%). All respondents are owners or managers of MSMEs, especially in the culinary sector in Semarang City, with a proportion of 100% in 2024. The majority of MSME respondents are MSMEs that have been established for 2 years, namely 39 MSMEs or around 35%.

a. Convergent Validity Test

Convergence testing involves two key factors that need to be considered. One of these factors is the outer loading value. Outer loadings indicate the extent to which each indicator or question used in the measurement instrument can measure the construct variable being tested. The following are the results of outer loading in this research.
Source: Processed data

From Figure 3 above, it can be explained that from the results of the questionnaire to 110 respondents there were several indicators that were invalid (below the set standard values), including indicators of human resource competency from 5 indicators, namely 3 invalid indicators, quality and values, skills, experience with 5 invalid items HUM1, HUM2, HUM3, HUM4, HUM7, entrepreneurial characteristics of the 5 indicators there are 2 invalid indicators, namely perseverance in trying and daring to take risks with 6 invalid items ENT1, ENT2, ENT5, ENT6, ENT8, ENT9, innovation of the 4 indicators has 2 invalid indicators, namely process innovation and management innovation with 4 invalid items INO2, INO5, INO7, INO8. The decision taken by the researcher regarding several indicators that did not reach the standard value was to delete the indicators directly and recalculate the questionnaire data without involving the indicators that had been previously deleted.
Figure 4. Loading Factor Outer Model

Figure 4 above explains that the results displayed are after removing indicators that do not reach the specified standards. The results above state that each indicator involved in the research has met the established validity standards.

Source: Processed data

Table 2. Convergent Validity Loading Factor

<table>
<thead>
<tr>
<th>Human Resource Competency (X1)</th>
<th>Characteristics of Entrepreneurship (X2)</th>
<th>Innovation (X3)</th>
<th>Government Policy (X4)</th>
<th>Business Performance (Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(X1.5)</td>
<td></td>
<td>0.838</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X1.6)</td>
<td></td>
<td>0.760</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X1.8)</td>
<td></td>
<td>0.817</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X1.9)</td>
<td></td>
<td>0.856</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X1.10)</td>
<td></td>
<td>0.814</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X2.3)</td>
<td>0.824</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X2.4)</td>
<td>0.824</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X2.7)</td>
<td>0.793</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X2.10)</td>
<td>0.824</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X3.1)</td>
<td></td>
<td>0.831</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X3.3)</td>
<td></td>
<td>0.865</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X3.4)</td>
<td></td>
<td>0.848</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X3.6)</td>
<td></td>
<td>0.773</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(X4.1)</td>
<td></td>
<td></td>
<td>0.749</td>
<td></td>
</tr>
</tbody>
</table>
From the results of the outer loading data above, it shows that all the variables in this research can be said to be valid. This is because the loading factor value of each indicator is greater than 0.7.

b. Validity Test

Table 3. Average Variance Extraced (AVE)

<table>
<thead>
<tr>
<th>Variable</th>
<th>Average Variance Extraced (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Competency</td>
<td>0.669</td>
</tr>
<tr>
<td>Characteristics of Entrepreneurship</td>
<td>0.667</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.689</td>
</tr>
<tr>
<td>Government policy</td>
<td>0.617</td>
</tr>
<tr>
<td>Business Performance</td>
<td>0.731</td>
</tr>
</tbody>
</table>

Source: Processed data

Based on the average variance extract (AVE) test, all variables are declared valid because they have a value greater than 0.5. A high AVE value can increase the strength of the research model, because it indicates that the variables used have a strong contribution in describing the construct being measured.

c. Reliability Test

The reliability test in this research uses composite reliability. Composite reliability is used to measure the brightness of an indicator. Through this value, we can measure the true reliability of a construct being developed. The expected standard for composite reliability values is a minimum of 0.7 according to the guidelines provided.
Table 4. Composite Reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resources Competency</td>
<td>0.910</td>
</tr>
<tr>
<td>Characteristics of Entrepreneurship</td>
<td>0.889</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.898</td>
</tr>
<tr>
<td>Government policy</td>
<td>0.919</td>
</tr>
<tr>
<td>Business Performance</td>
<td>0.931</td>
</tr>
</tbody>
</table>

Source: Processed data

It can be seen that all latent variables/constructs have a composite reliability value of more than 0.7. It can be identified that all variables in this study have good reliability. So that these variables effectively reflect the concept or theory underlying the construct.

d. Analysis Variance R Square

This test is to find out how much influence the independent variable has on the dependent variable.

Table 5. R-Square dan R-Square Adjusted

<table>
<thead>
<tr>
<th>R-Square</th>
<th>R-Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance</td>
<td>0.529</td>
</tr>
</tbody>
</table>

Source: Processed data

In the data above, it is explained that all exogenous constructs (X1, X2, X3, X4) simultaneously influence the independent variable (Y) by 0.529 or 52.9%. For the Adjudged R-Square value, namely 0.511 or 51.1%, which is below 0.67 and above 0.33, it can be concluded that the model value is moderate.

e. Hypothesis Testing

This test uses the bootstrapping method with the rejection or acceptance of the hypothesis is seen from the (P-Value):

If the P-Value value is <0.05, then it is significant

If the P-value is >0.05 then it is not significant

Table 6. Significant T-statistic and P-value test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Original Sample</th>
<th>T-statistic</th>
<th>P-Value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Resource Competency (X1) ( \rightarrow ) business performance (Y)</td>
<td>0.014</td>
<td>0.188</td>
<td>0.425</td>
<td>Rejected</td>
</tr>
<tr>
<td>Characteristics of Entrepreneurship (X2) ( \rightarrow ) business performance (Y)</td>
<td>0.012</td>
<td>0.112</td>
<td>0.455</td>
<td>Rejected</td>
</tr>
<tr>
<td>Innovation (X3) ( \rightarrow ) business performance (Y)</td>
<td>0.243</td>
<td>2.163</td>
<td>0.015</td>
<td>Accepted</td>
</tr>
<tr>
<td>Government policy (X4) ( \rightarrow ) business performance (Y)</td>
<td>0.539</td>
<td>6.175</td>
<td>0.000</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Processed data
The influence of innovation (X3) on business performance (Y) T-statistic of 2.163 with a P-value of 0.015. Because the T-statistic exceeds the value of 1.96 and the P-Value is less than 0.05, the hypothesis stating that innovation has a significant impact on business performance is accepted. Meanwhile, the impact of Government Policy (X4) on Business Performance (Y) T-statistic of 6.175 and a P-Value of 0.0000. Because the T-statistic 1.96 and the P-Value is less than 0.05, the hypothesis stating that government policy has a significant impact on business performance is accepted. The influence of Human Resource Competency (X1) on Business Performance (Y) produces a T-statistic of 0.188 with a P-Value of 0.425. Because the T-statistic is less than 1.96 and the P-Value is greater than 0.05, the hypothesis which states that human resource competence influences business performance cannot be accepted. The influence of entrepreneurial characteristics (X2) on business performance (Y) produces a T-statistic of 0.112 with a P-Value of 0.455. Because the T-statistic is less than 1.96 and the P-Value is more than 0.05, the hypothesis states that entrepreneurial characteristics have a significant effect on unacceptable business performance. Apart from that, there is an indicator with the highest value in the innovation variable, namely product innovation. And the highest value in the government policy variable, namely easing loan interest.

Implementing product innovation and studying easing loan interest is a must in advancing MSMEs, because these two things are a strong foundation for improving MSME performance and influence business success. By implementing innovation and studying the relaxation of interest rates on MSME loans, it can be expected to create MSMEs that have good performance. Innovation allows MSMEs to know what their customers and consumers need more. Apart from that, the government's relaxation of loan interest is very useful for MSMEs when they need more capital to guarantee their business. Therefore, studying these aspects is an important step in improving the performance of MSMEs.

1. **The Influence of Human Resource Competency on Business Performance MSME’s.**

   Human Resource Competency has no effect on the performance of Semarang City MSMEs. This is indicated by the path coefficient value of 0.425 with a significant t-statistic value of 0.188 < 1.96. The research results show that Human Resource Competency has a not significant effect on the performance of Semarang City MSMEs. These contradictory research results may be caused by the characteristics of MSME owners, not all of whom have production skills and abilities. There are also those who use the product or menu storage services provided. There are also those who have
sufficient capital so they can obtain goods to market through their business. The results of this research are not in line with research conducted by Research (Muslim et al., 2021) which shows that there is significant influence of HR competency on MSME performance. However, the results of this study are in line with research (Claudia et al., 2021) which shows that human resource competence has a not significant effect.

2. The Influence of Entrepreneurial Characteristics on Business Performance MSME’s.

Entrepreneurship characteristics do not influence the performance of Semarang City MSMEs. This is indicated by the path coefficient value of 0.455 with a significant t-statistic value of 0.112 < 1.96. The research results show that Entrepreneurial Characteristics has a not significant effect on the performance of Semarang City MSMEs. The factor that causes entrepreneurial characteristics to have no effect on MSME business performance is that MSME owners or managers do not or do not understand entrepreneurial characteristics, so that MSME owners or managers do not apply entrepreneurial characteristics in running their business. Respondents also revealed that without understanding the characteristics of entrepreneurship, they could still run their business. The results of this research are not in line with the results of research conducted (Renaldoa et al., 2021) which states that entrepreneurial characteristics have a positive effect on the performance of MSMEs. However, the results of this research have the same results as research conducted by (Bangun & Batubara, 2021) which shows that entrepreneurial characteristics has a not significant effect.

3. The Influence of Innovation on Business Performance MSME’s.

Innovation influences the performance of Semarang City MSMEs. This is indicated by the path coefficient value of 0.015 with a significant t-statistic value of 2.163 > 1.96. The research results show that innovation has a positive and significant effect on the performance of Semarang City MSMEs. The results of this research are in line with the results of research conducted by (Kurnia et al., 2020) that there is a significant influence of innovation on MSME performance, and are also supported by the results of research conducted by (Miar, 2024) that innovation has a significant effect on improving performance. MSMEs both partially and simultaneously.


Government Policies influence the performance of Semarang City MSMEs. This is
indicated by the path coefficient value of 0.000 with a significant t-statistic value of $6.175 > 1.96$. The results of the research show that government policy has a significant effect on the performance of MSMEs in the city of Semarang. The results of this research support the results of previous research conducted by (Miar, 2024) & (Silvia et al., 2023) by showing that government policy has a significant effect on the performance of MSMEs. This is also in line with research (Yadewani et al., 2023) which states that government policies has a significant impact on the performance of MSMEs.

5. CONCLUSION

In this research it was found that innovation is one of the factors that can influence business performance, that innovation can improve business performance in meeting the targets and goals of MSMEs, MSME players are required to be able to keep up with developments according to the needs of consumers or customers, in order to meet or even exceed the targets set. MSME players are also required to be creative and flexible in following the needs of customers and consumers. Followed by government policy which has an important role in the government taking every policy that can support or advance MSMEs, this can improve business performance. Meanwhile, human resource competence and entrepreneurial characteristics do not have a significant influence on business performance. With good business performance, it shows the work results or picture of MSMEs in operating and carrying out their activities successfully.

This research obtained the results that the first result in this research shows that innovation has an impact on business performance, the more there is an increase in innovation, the more it will improve business performance; the second result in this research is that government policy has an impact that can increase business; The third result in this research is human resource competency which does not affect business performance; The fourth result in this research is the characteristics of entrepreneurship that do not affect business performance. Thus, innovation and government policy have a significant role in creating good business performance and success in business. Entrepreneurial characteristics and human resource competency do not have a significant role in influencing business performance.

6. SUGGESTION
Based on the conclusions stated previously, to improve the performance of MSMEs in Semarang City, the following suggestions can be given, namely:

In the future, it is hoped that many MSMEs in Semarang City will be able to innovate because the innovation variable has a significant influence in improving performance, especially in product innovation in order to create products or add variations to new products so that they can follow the desires of consumers and customers. For the government to continue to pay attention to making policies that can continue to support Semarang City MSMEs because government policies have a positive and significant influence on the performance of Semarang City MSMEs, it is hoped that they will continue to promote local MSME products or provide facilities and infrastructure that can support MSME activities, as well as convenience MSME marketing access. For future researchers, they can expand the object of the MSME field not only to the culinary field, but can cover many areas of MSME, and can also use other different cities as research objects and samples, and in the future it is hoped that in future research they can add other independent variables that can influence performance.

7. ACKNOWLEDGMENT

We would like to express our deepest gratitude to all parties who were involved and contributed to this research. Thank you to fellow researchers for their contributions and dedication. Special thanks also to the MSME parties who have been involved in providing insights related to filling out the questionnaire. We would also like to thank the institutions that support this research for their invaluable contributions, as well as sincere thanks to my family and comrades in arms who have provided extraordinary support. Finally, we would like to thank us for our struggle and hard work in this research process so that we can complete this research. We hope that this research can improve business performance in operating businesses and can be used as a reference or point of reference for future research. Thank you for being a party involved in this research.

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