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The Moderating Role of Government Policy Support for Microenterprises

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Abstract: The purpose of this study is to analyze the moderating role of government support policies on business performance in microenterprises in the city of Bekasi, with entrepreneurial orientation as the independent variable. This study employs a quantitative method. The sample was selected using non-probability sampling and purposive sampling techniques, with the unit of analysis being the owners/managers of microenterprises. The total number of valid respondents was 100. Data collection was conducted using a cross-sectional design and analyzed using SmartPLS version 4. The research findings indicate that entrepreneurial orientation influences business performance. These findings indicate that, in practice, government policy support has not yet functioned as an institution that strengthens the entrepreneurial behavior of microbusiness owners. The policies that have been implemented have not yet fully provided the institutional legitimacy needed to serve as adequate facilitators, regulators, and catalysts for translating an entrepreneurial orientation into tangible improvements in business performance. This study still has several limitations, including a small sample size. Future researchers are encouraged to conduct follow-up studies using qualitative or mixed-methods approaches to complement this study, which employed quantitative methods.

Keyword: Business Performance, Entrepreneurial Orientation, Government Support Policy.

INTRODUCTION

The city of Bekasi is the fastest-growing region in West Java, Indonesia (Setiaji, 2024). According to data from the West Java Central Statistics Agency/ BPS Jawa Barat, (2025), the city of Bekasi has 15,156 businesses classified as micro and small enterprises that employ 40,538 workers and contribute 2.35% to the Regional Gross Domestic Product. Currently, MSMEs in Indonesia number approximately 65 million and are able to absorb 97% of the total workforce, or about 117 million people. Thus, it can be said that MSMEs play a strategic role in boosting the national economy, as they not only contribute to Gross Domestic Product but also expand employment opportunities (CNBC, 2024). Based on the

above discussion, a comparison of the contribution of MSMEs to GDP between Bekasi and Indonesia as a whole can be summarized as follows:

Table 1. Comparison of MSME Contributions Between Bekasi City and the National Level in 2025

Bekasi City		Indonesia	
Employment	Contribution to Regional GDP	Employment	Contribution to GDP
1-3	2.35%	1-3	61%

Source: Research data, 2026

Based on Table 1, it is evident that each MSME operator in Bekasi is only able to employ 1 to 3 workers, indicating that MSMEs in the city of Bekasi are dominated by microenterprises. When viewed in relation to the labor force, this situation parallels the national MSME landscape, however their contribution to the Regional Gross Domestic Product is significantly lower at only about 2.35%, far below the national average of 61%. This situation indicates the potential for stunted growth where these businesses are strong in labor absorption but weak in economic value making them vulnerable to competition and crises. Consequently, to address this, the government and business operators are collaborating to elevate the “class” of these microenterprises (Suryanto, 2022).

According to Nurdin & Haryanti (2020), microenterprises face a major obstacle: a lack of adequate resources to support their operations and other activities, causing them to rely on government policy support to address this weakness. Governments, particularly in developing countries play a vital role in providing business support to help microenterprises build the competencies and capabilities needed to achieve better performance, thus, government policy support serves as one of the external resources that can enhance business performance (Pulka et al., 2021).

The government plays a crucial role in fostering the success of MSMEs in improving business performance (Hutahayan, 2019). Several studies have also shown consistent results; for example, the study by Arifin & Komaryatin, (2020) on owners of woodcarving SMEs in Jepara, Central Java, indicates that government policy support has a positive and significant impact, as evidenced by improved marketing performance, as does the study by Enedrik (2017), which shows that government policy support has a positive effect on SME owners in Batu, East Java.

In addition, government policy support can influence business performance both directly and indirectly, and has a moderating effect that can strengthen the impact of entrepreneurial orientation on business performance (Prasannath et al., 2024). Based on this empirical evidence, it is hoped that policymakers will formulate policies tailored to specific business sectors with the aim of improving business performance.

Business performance, from a strategic management perspective, is a concept that encompasses the overall effectiveness of an organization and reflects how a company operates and the results it achieves (Venkatraman & Ramanujam, 1986). Porter (1998), emphasizes business performance as the foundation of competitive advantage for survival and for contributing to the national economy amid intense competition. In the context of microenterprises, business performance refers to the extent to which a business achieves its financial and non-financial goals. Furthermore, business performance is viewed as a company’s ability to meet sales and profitability targets, as well as the company’s non-financial perspective relative to its competitors (Pulka et al., 2021).

In microeconomics, entrepreneurship is one of the factors of production. According to Shaozhong & Sihan (2025), an entrepreneur is an individual who takes risks associated with combining resources to create goods and services. A business will succeed in entering a new market if it is managed by someone with an entrepreneurial spirit. According to Miller, (1983), companies with an entrepreneurial spirit are those that engage in product innovation,

undertake somewhat risky ventures, and are proactive in innovating. This theory is also supported by Lumpkin & Dess (1996), who define entrepreneurial orientation as the processes, practices, and decision-making activities that characterize new entrants with a tendency to act autonomously, a willingness to innovate, a propensity to take risks, a tendency to be aggressive toward competitors, and a relatively proactive stance toward market opportunities. A business that adopts an entrepreneurial orientation has the ability to adapt its operations in a dynamic competitive environment, to change and shape the environment, and is committed to allocating resources to exploit uncertain opportunities (Faisal et al., 2018).

Several studies indicate that, in general, entrepreneurial orientation has a direct effect on business performance, as demonstrated by the study by Karimi et al. (2021) on owners and top managers of agricultural SMEs in Iran, a study by Omisakin (2024), on SMEs in New Zealand, and a study by Daradkeh & Mansoor (2023), on startups in the United Arab Emirates.

Research on the moderating effect of government support on business performance remains limited. Some previous studies have grouped micro, small, and medium-sized enterprises (MSMEs) into a single category but have not specifically focused on microenterprises and have relied solely on theories of resource utilization and internal corporate capabilities. A study Kyal et al. (2022), shows that entrepreneurial orientation influences business performance; furthermore, government policy support can also moderate the effect of entrepreneurial orientation on the business performance of MSMEs in India. Different findings were reported in a study by Mustafa et al. (2019) of SME owners and top managers in Pakistan, where entrepreneurial orientation was found to influence business performance, but government policy support was not able to strengthen the effect of entrepreneurial orientation on business performance. The inconsistencies in previous research findings stem from the diverse characteristics of MSME actors, which are difficult to standardize and remain heterogeneous. This study aims to fill the gap in previous research by focusing on the moderating role of government policy support regarding the influence of entrepreneurial orientation on the business performance of a more homogeneous group of microenterprises, using the perspective of institutional theory.

The use of institutional theory as the primary theoretical framework for understanding how rules, norms, and social standards influence the entrepreneurial orientation adopted by firms, which in turn impacts business performance. As noted by Scott & Scott (2004), the emphasis is on the role of institutions through regulatory, normative, and cognitive mechanisms in shaping entrepreneurial behavior in the context of microenterprises in Bekasi. This view is further reinforced by the observation that institutional theory has become a key focus for academics and policymakers in understanding the foundational framework that supports entrepreneurship, where institutions can create incentive structures that ultimately determine a country's entrepreneurial capacity (Zhai & Su, 2019). The emergence of this theory has established it as one of the three main perspectives in strategic management the other two being the industry-based and resource-based perspectives Peng *et al.* (2009).

Based on the results of the studies mentioned above, the hypotheses proposed in this study are: 1) H₁: Entrepreneurial orientation has an effect on the business performance of Microenterprises; 2) H₂: Government policy support plays a moderating role in the effect of entrepreneurial orientation on business performance.

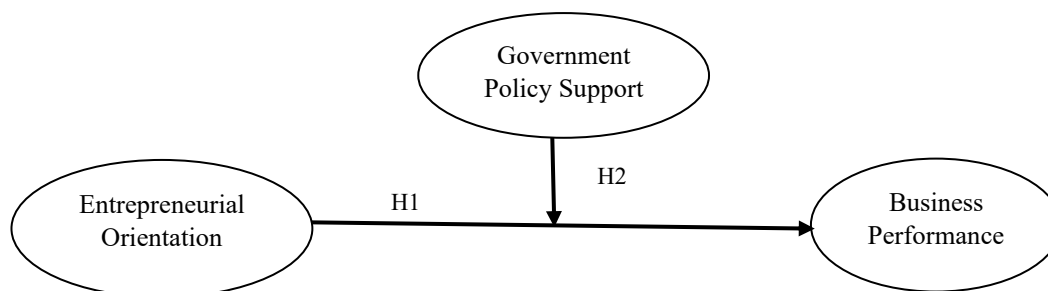


Figure 1. Conceptual Framework

METHOD

This study employs a quantitative approach with hypothesis testing based on causality. This method was chosen because it helps researchers make objective and scientific decisions regarding proposed hypotheses or theories, and ensures that the conclusions drawn are supported by empirical data, so the use of this method is expected to rely on accurate measurements and statistical analysis of data collected through instruments such as questionnaires, surveys or relevant tests (Sakaran & Bougie, 2016).

The design used is cross-sectional, in which data collection is conducted at a single point in time on a sample, allowing researchers to obtain a quantitative picture of the subjects' situation, attitudes, or behavior without conducting repeated observations or long-term follow-ups; thus, this study can provide a description of the conditions or characteristics of the population at a single point in time, as well as an understanding of the relationships among variables at that same time (Cresswell JW, 2018).

The population in this study consists of microbusiness owners and managers in the city of Bekasi, West Java. According to data from the Cooperative and SME Agency for the year 2025, there were 7,787 microbusinesses registered in the microbusiness development program (Dinas Koperasi, 2025).

The sample size for this study was calculated based on a power analysis to ensure adequate statistical power. The sample size was calculated using G*Power software. This sample size calculation procedure follows the guidelines developed by Memon *et al.* (2020). In calculating the sample size for this study, an effect size of 0.15 (medium effect), an α value of 0.05, and a power of 80 were used; these values are recommended settings for social and business research. Since this study involved three predictors, the calculation resulted in a minimum required sample size of 77 respondents. This study utilized 100 respondents, thereby meeting the specified minimum requirement and ensuring adequate statistical power. The sampling method used was nonprobability sampling with a purposive sampling technique, which was conducted based on the researcher's judgment to achieve specific research objectives. This technique targeted respondents or stakeholders who are credible in their respective fields.

RESULT AND DISCUSSION

Testing the validity of variables by evaluating the measurement model through validity testing analysis. An instrument is considered valid if it has a high level of validity and low measurement error. An indicator is considered valid if it has a Loading Factor value > 0.7 (Hair et al., 2019). Table 2 shows that there are 34 indicators with a loading factor value > 0.70 , so that 20 statements describing entrepreneurial orientation, government support policy, and business performance are considered valid. This indicates that these indicators are the forming variables used.

Table 2. Result of Validity Test

Variable	Indicators	Outer loadings	Decision
Entrepreneurial Orientation (Noor et al.,2024)	We regularly launch new products	0.828	Valid
	The products we offer are evolving	0.702	Valid
	We are often the first to market new products or services	0.787	Valid
	We are ready to expand our business into new markets	0.745	Valid
	We are ready to develop new products	0.769	Valid
	We are ready to develop renewable technologies	0.792	Valid
	We are ready to adopt ethical business practices	0.709	Valid
	We are ready to adopt high-quality products	0.779	Valid
	We are willing to take on business risks	0.703	Valid
	The products we offer are business-oriented	0.744	Valid
	We are quite cautious when making risky investments	0.751	Valid
Government Policy Support (Hutahayan, 2019)	Our microbusiness receives management training	0.704	Valid
	We are given easier access to capital	0.841	Valid
	We are given easier access to opportunities for collaboration	0.873	Valid
	Our business is able to cover its operating costs	0.835	Valid
Business Performance (Buli 2017)	Our business is able to cover other expenses	0.885	Valid
	Our business is able to generate a profit	0.849	Valid
	Our business has seen an increase in operating cash flow every year	0.863	Valid
	Our business has seen an increase in sales every year	0.891	Valid
	Our business has seen growth in the number of employees	0.783	Valid

Source: Primary data processing, (2026)

Reliability testing is used to ensure that the processed data has high consistency and is reliable, meaning that each result in the processing will yield almost the same result. In this study, reliability testing was measured using Cronbach's alpha and composite reliability values. Cronbach's alpha is a reliability coefficient that shows how well items in a set correlate positively with each other. An indicator can be considered reliable if the Cronbach's alpha value is ≥ 0.60 , meaning that the indicator is suitable for use because the indicators are consistent with each other in measuring variables (Sakaran & Bougie, 2016).

To complement the use of Cronbach's alpha, which does not weight individual indicators in the calculation, composite reliability is used. Composite reliability values are acceptable in exploratory research if the CR value is between 0.60 and 0.70, while values above 0.70 have satisfactory reliability (Hair et al, 2019).

Table 3. Result of Reliability Test

Variable	Cronbach's Alpha	Composite Reliability	Decision
Entrepreneurial Orientation	0.945	0.953	Reliable
Government Support Policy	0.738	0.849	Reliable

Source: Primary data processing, (2026)

Based on Table 3, it shows that the research model is considered reliable because the Composite Reliability and Cronbach's Alpha values of all variables are above 0.70. Therefore, it can be concluded that all variables have reliable reliability because they meet Cronbach's Alpha and Composite Reliability test criteria. These results confirm that the observed indicators are highly representative of their respective latent variables.

Convergent validity testing measures the extent to which the indicators of a construct are positively correlated and adequately explain the variance of that construct. The metric used is Average Variance Extracted (AVE). An acceptable AVE value is 0.50 or higher, indicating that the construct explains at least 50 percent of the variance in its indicators, thereby meeting the criteria for convergent validity (Hair et al, 2019).

Table 4. Construct Reliability and Convergent Validity Tests

Variable	Average Variance Extracted	Decision
Entrepreneurial Orientation	0,572	Supported
Government Policy Support	0,655	Supported
Business Performance	0,726	supported

Source: Primary data processing, (2026)

Discriminant validity testing is used to assess the accuracy of a measurement instrument in performing its measurement function. Discriminant validity testing uses the HTMT ratio criterion. The HTMT correlation ratio is used to evaluate discriminant validity, and the recommended HTMT value should be less than 0.90 to indicate acceptable discriminant validity (Hair et al, 2019).

Table 5. Heterotrait-Monotrait (HTMT) Ratio

Construct	Rasio	Decision
Entrepreneurial orientation toward Government Support Policy	0.839	Valid
Business Performance toward Government Policy Support	0.852	Valid
Business Performance toward Entrepreneurial Orientation	0.827	Valid

Source: Primary data processing, (2026)

Based on Table 6, the HTMT ratios between all variables are below 0.90, with the highest value 0.852 namely, the relationship between the Business Performance variable and Governmnet Policy Support. The lowest value of 0.827, which is the relationship between the Business Performance variable and Entrepreneurial Orientation. This indicates that these constructs are empirically distinct, and it is important to avoid construct overlap.

To determine whether there is an influence between variables, the p-value can be used, where if the p-value is ≥ 0.05 , the hypothesis is not supported, and if the p-value is < 0.05 , the hypothesis is supported. The detailed results of the hypothesis test are presented in the table below:

Table 6. Hypothesis Test Results

Hypothesis	Description	Original Sample	P-value	Decision
H ₁	The Influence of Entrepreneurial Orientation on Business Performance	0.537	0.000	Supported
H ₂	The moderating role of Government Policy Support on the influence of Entrepreneurial Orientation on Business Performance	0.031	0.756	Not Supported

Source: Primary data processing, (2026)

The results of testing this hypothesis testing 1 have a p-value of 0.000 with a confidence level of 0.05, so $(0.000 < 0.05)$ and a coefficient/ original value of 0.537. Based on these figures, it can be concluded that hypothesis (H₁) is supported, whereby entrepreneurial orientation has a significant positive effect on business performance

The results of hypothesis testing 2 have a p-value of 0.756 with a confidence level p-value of 0.05, so $(0.756 > 0.05)$, and a coefficient/original value of 0.031. Based on these figures, it can be concluded that hypothesis (H₂) is not supported, as there is sufficient statistical evidence to conclude that government support policy does not have a significant moderating role in the influence of entrepreneurial orientation on business performance.

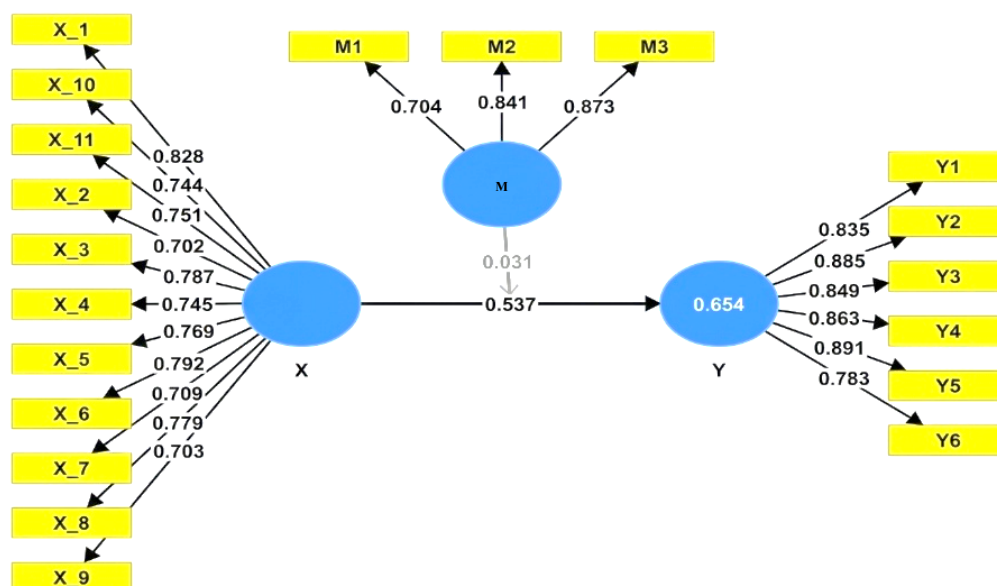


Figure 2. Research Model

The Effect of Entrepreneurial Orientation on Business Performance

The results of this study indicate that the effect of entrepreneurial orientation on business performance is positive and significant, with the respondents in this study described as possessing a sufficient entrepreneurial spirit, including the ability to identify opportunities, the courage to innovate, the capacity to manage risk, and the ability to create added value through their own ventures or businesses. These findings support the research by Karimi *et al.* (2021), which surveyed 240 owners/leaders of agricultural SMEs in Tehran and revealed that entrepreneurial orientation significantly influences business performance, with organizations adopting an entrepreneurial orientation rapidly implementing strategies for modernization, innovation, proactivity, and the creation of new businesses within existing organizations. Consistent results were also found in the study by Jayanagara & Chen (2023) of 392 SMEs in Jakarta, where entrepreneurial orientation had a positive and significant effect on business performance. The implication is that to improve business performance, an enhancement of strategic entrepreneurial orientation is necessary, including the courage to take risks while remaining innovative even if it requires higher costs. Additionally, organizations should always strive to respond to competitors' actions and create unique products or services not yet available in the market.

The highest score was recorded for the indicator "We regularly launch new products". This situation reflects the fact that business operators are able to respond to market dynamics through continuous product innovation, thereby supporting the strengthening of microbusiness competitiveness. This situation reflects the fact that business owners are able to respond to market dynamics through continuous product innovation, thereby helping to strengthen the competitiveness of microenterprises.

Entrepreneurial orientation, which encompasses the dimensions of innovation, risk-taking, and autonomy, can be viewed as part of the strategic actions of actors in institutional theory that initiate institutional change, thereby demonstrating the existence of a relationship between entrepreneurship theory and institutional theory in the context of entrepreneurship. One source notes that entrepreneurship is not only viewed from individual and economic aspects but is also related to the functions, culture, and social values of organizations or institutions that influence entrepreneurial activities. This is reflected in Scott & Scott (2004) institutional theory, which emphasizes that norms, rules, and social structures can serve as a framework for understanding how entrepreneurship develops and operates within specific

social and economic environments; in other words, institutional theory helps explain how the institutional context influences entrepreneurial behavior and success.

The findings of this study, from the perspective of Peng (2002) institutional theory, provide a framework for understanding how external conditions can trigger or constrain entrepreneurial orientation practices in microenterprises. Entrepreneurial orientation can be an expression of institutional entrepreneurship, which plays a role in shaping and transforming institutions within an organization and its social environment; in other words, institutional entrepreneurship is a mechanism for transforming existing institutions or establishing new ones, which are closely linked to an entrepreneurial orientation as an organizational mindset and behavior for addressing challenges and opportunities

The Moderating Role of Government Policy Support on the Effect of Entrepreneurial Orientation on Business Performance

The results of the study indicate that the moderating role of government support policies is unable to impact the relationship between entrepreneurial orientation and business performance among microenterprises in the city of Bekasi. Government support policies, which are expected to create an entrepreneurial ecosystem through facilitators, regulators, and catalysts, have proven to be insufficiently effective in fostering entrepreneurial orientation among the owners of these microenterprises. This situation indicates that even though business operators possess strong entrepreneurial traits such as a willingness to take risks, innovation, and proactivity these qualities do not automatically lead to improved performance if government policy support is ineffective, fails to target the right audience, or does not provide benefits that business operators can directly feel.

The results of this study are inconsistent with the study by Kyal et al. (2022) of 184 microenterprises in India, which showed a positive relationship between entrepreneurial orientation and the growth performance of microenterprises, where government policy played a significant role as a full moderator, however, the results of this study are consistent with the study by Mustafa et al (2019), on 392 SME owners and top managers in Pakistan, which found a significant positive relationship between entrepreneurial orientation and business performance, though government support failed to moderate the effect of entrepreneurial orientation on business performance. The study sample represented four distinct business sectors: food and beverages, textiles and leather goods, wood and wood products, firearms and ammunition, and manufactured goods; in other words, the sample no longer falls within the micro-sector category but is classified as medium and large-scale.

The highest score was for the statement “We are given easier access to opportunities for collaboration. This suggests that both government policies and the business environment have provided adequate opportunities for microenterprises to expand their partnership networks. However, these findings also indicate that government policy support has not yet been fully effective in strengthening the impact of entrepreneurial orientation on the business performance of microenterprises. Within the framework entrepreneurial orientation of Lumpkin & Dess (1996), this condition reflects support for the proactivity dimension—that is, the ability of entrepreneurs to respond to and capitalize on market opportunities at an early stage. However, the results of this study indicate that access to collaboration opportunities does not automatically translate into improved business performance. This underscores that entrepreneurial orientation does not function in isolation but requires synergy among proactivity, innovativeness, risk-taking, autonomy, and competitive aggressiveness to generate better business performance. Thus, government policy support in the context of this study has not been strong enough to reinforce the influence of entrepreneurial orientation on the business performance of microenterprises.

Government policy support should strengthen the influence of entrepreneurial orientation on the performance of microenterprises; however, the research findings indicate that this moderating effect is not significant. Effective government policies are expected to create coercive or normative pressure on organizations to adopt innovative and proactive entrepreneurial practices, in line with Scott & Scott (2004) institutional theory, which states that organizational behavior and performance are determined not only by the internal capabilities of business actors but also by the pressures, support, and legitimacy stemming from the institutional environment—including the government, regulations, and public policies. These findings indicate that, in practice, government support has not yet functioned as an institution that truly strengthens the entrepreneurial behavior of microbusiness owners. In other words, existing policies have not fully provided adequate institutional legitimacy, facilitation, or incentives to translate entrepreneurial orientation into tangible improvements in business performance.

In this context, regulations should function as institutions that provide certainty, protection, and incentives for micro-entrepreneurs to translate their entrepreneurial orientation into improved business performance, in line with the institutional theory perspective of Peng et al. (2009), according to which business behavior and performance are determined not only by entrepreneurs' internal resources but also by the surrounding institutional structure, including government regulations. The results of this study indicate that if regulations are too complex, multi-layered, or difficult to access, this institutional function can actually turn into an obstacle. Microentrepreneurs tend to have limited resources, time, and administrative capacity, so the complexity of regulations can cause them to focus more on fulfilling administrative obligations than on innovation and business development. This situation highlights the need for institutional support from the government.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study presents new findings that contribute to the development of strategic management theory and practice, based on the Institutional Theory proposed, that is: (i) an integrated model that combines entrepreneurial orientation and government support policy as moderators that can strengthen or weaken business performance; (ii) government support policy can weaken the influence of entrepreneurial orientation on the business performance of microenterprises if such policies are not aligned with the actual needs of entrepreneurs, thereby limiting their freedom to innovate and take risks. Specifically, if government support is too prescriptive, imposes standardization, or restricts creativity and flexibility, their ability to express an entrepreneurial mindset through proactivity, innovation, and risk-taking may be hindered, thereby failing to have an impact on the performance of microenterprises.

Recommendation

The findings of this study indicate that formal policies have not yet been fully institutionalized in business activities. From an institutional theory perspective, this suggests that while the regulatory dimension is indeed in place through various government policies and programs, it has not been accompanied by a corresponding strengthening of the normative and cultural-cognitive dimensions necessary to consistently shape entrepreneurial behavior. As a result, the entrepreneurial orientation of micro-business owners has not received sufficient institutional support to translate into improved business performance. Government policies in the context of this study are more facilitative in nature and have not yet been effective as institutional mechanisms that strengthen the link between entrepreneurial orientation and business performance. Policy makers need to optimize three

institutional pillars. First, the regulatory pillar, by ensuring that policies and regulations are easily accessible, consistent, and provide legal certainty. Second, the normative pillar, through training and mentoring that encourage innovative, proactive, and risk-taking behavior. Third, the cultural-cognitive pillar, by fostering the perception that entrepreneurship is a valued trait. Thus, government policies are not merely administrative in nature but are capable of shaping an environment that encourages an entrepreneurial orientation to translate into improved business performance.

Limitation

This study still has several limitations that need to be addressed in future research. Among these limitations is the fact that the research subjects were microenterprises in the city of Bekasi, specifically those under the guidance of the city government. Consequently, the findings cannot be used to provide a comprehensive picture of the business performance of other enterprises with different characteristics. Further research is recommended using qualitative or mixed-methods approaches to complement the current study, which employed a quantitative method.

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