



Unlocking the Potential of Small Businesses: A Key Factor in Driving Business Success

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Abstract

Micro and small enterprises (MSMEs) are a category of small and medium-sized enterprises (SMEs) that have contributed to Indonesia's economic development. In this study, we aim to explore the impact of MSMEs in the food and beverage sector in Malang City, Indonesia. The sample consists of 93 MSMEs from the Food and Beverage sector in Malang city. The data was analyzed using Structural Equation Model (SEM). The results showed that venture capital, government support, and entrepreneurial mindset have a significant influence on business success. It is important for MSMEs to have proper capital management strategies, including careful financial planning, effective cost control, and regular monitoring of financial performance to ensure that capital is used optimally. In addition, government programs such as financing, skills training, market access, mentorship, and other technical assistance can provide a boost to MSME business growth. On the other hand, the ability to take risks wisely in implementing new ideas is also crucial in driving MSME business success.

Keywords: Business capital, business success, entrepreneurial mindset, food and beverage of SMEs, government support

1. INTRODUCTION

Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Ministry of KUKM) in 2021, the number of MSME players in Indonesia reached 64.2 million with a contribution to gross domestic product (GDP) of 61.07 percent or IDR 8,573.89 trillion, while MSMEs were able to absorb 97 percent of the total workforce and were able to

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raise up to 60.4 percent of total investment in Indonesia (Junaidi, 2023). In addition, MSMEs also play a role in being able to contribute foreign exchange to the country, as for some of these foreign exchange sources, including the export of goods and services to other countries and the presence of foreign tourists shopping in the country (Putri & Nailufar, 2022). So that the government sees MSMEs as a sector that can be maximized in order to support the Indonesian economy. Whether MSMEs are engaged in F&B, natural resources, or in the startup sector.

MSMEs are also a favorite for people to open businesses in tourist cities and education cities, including in Malang. Malang City is known as a city of education which is one of the destination cities for students and students from various regions, this is a great potential for MSME players to develop their businesses in Malang city, especially in the food and beverage sector. Quoted from BPS that nationally MSMEs engaged in the food sector amounted to 36% or 4.21 million business units. (Databoks, 2022). Although they have a greater chance of success, from the data in Table 1, there was a decrease in the number of MSMEs in 2022. This explains that not all MSMEs have survived. The following is data on the number of MSMEs engaged in the food sector in Malang city in 2020 and 2022.

Table 1. Number of Food and Beverage MSMEs in Malang City

| N. | District | Year 2020 | Year 2022 |
|--------------------|---------------|-------------|-------------|
| 1 | Kedungkandang | 157 | 97 |
| 2 | Sukun | 189 | 134 |
| 3 | Klojen | 902 | 686 |
| 4 | Blimbing | 199 | 160 |
| 5 | Lowokwaru | 568 | 397 |
| Malang City | | 2015 | 1474 |

Source: BPS, 2023

Business capital is a financial resource used to start, develop, and run a business (Silviana et al., 2022). Business capital can come from various sources, such as own capital (equity), loans from banks or investors, or income from business sales. Business capital is used to finance operational activities, investments, inventory purchases, promotions, and all other business needs (Wibawa et al., 2021). Sufficient and well- managed business capital can have a positive impact on the success of MSMEs. With adequate business capital, MSMEs can be more flexible in facing business challenges, such as market fluctuations, competition,





and changes in the economic environment (Nadziroh et al., 2023). This is supported by the results of research conducted by Vavensy & Handoyo (2023); Tambunan & Damanik (2023); and Hee et al. (2020) which states that business capital affects business success.

Government support is an effort made by the government to provide assistance, incentives, regulations, and infrastructure that support the growth and development of MSMEs (Prasetyo, 2020). Government support has an important role in increasing the success of MSMEs. Through the policies, programs, and facilities provided, the government can provide easier access to financing, markets, training, and infrastructure for MSMEs (Li et al., 2020). Effective government support can help MSMEs to grow, improve competitiveness, and expand markets. Improved access to finance, markets, managerial skills, reduced costs and regulations, and infrastructure development are some of the benefits that MSMEs can gain from government support. This is in accordance with the results of research by Sorasit & Charpavang (2022); Katherine et al. (2022); and Nor et al. (2023) who found that government support affects business success.

Entrepreneurial mindset refers to the way of thinking and mental attitude possessed by an entrepreneur (Yodchai et al., 2022). An entrepreneurial mindset includes various aspects, such as the ability to identify opportunities, take measured risks, have innovation and creativity, have an unyielding spirit, and the ability to adapt to change and learn from failure. With an adaptive and innovative entrepreneurial mindset, an entrepreneur can be better prepared to face market changes, compete with competitors, and develop effective business strategies (Zemlyak et al., 2022). In addition, an inclusive entrepreneurial mindset can also help entrepreneurs in expanding business networks, establishing partnerships, and accessing the resources needed to grow the business. This is in line with the results of research conducted by Manafe et al. (2023); Margaça et al. (2022); and Ersarı & Naktiyok (2022) explained that entrepreneurial mindset affects business success.

Based on the description of the problems above, this study aims to analyze the factors that shape business success through factors such as business capital, government support, and entrepreneurial mindset. This research is important to contribute to regulators as a basis for making MSME development policies.

2. LITERATURE REVIEW

2.1 Business Capital

Sufficient business capital allows MSMEs to develop their businesses better. With sufficient capital, MSMEs can expand production, improve product or service quality, and





expand market reach (Fatih & Fachrizah, 2021). Business capital can be used to adopt new technologies and innovations in the production and marketing processes. Business capital can be used to improve the quality of products or services offered by MSMEs. By improving quality, MSMEs can gain customer trust and build a good reputation. In addition, venture capital can also be used to increase production capacity to meet greater market demand. By having sufficient capital reserves, MSMEs can face challenges and risks that may occur, such as market fluctuations, policy changes, or emergencies (Maran, 2022). The adequacy of business capital helps business actors continue to develop their business so as to achieve success.

2.2 Government Support

Government support has a significant impact on the success of MSMEs. Through policies and programs that support MSMEs, the government can create a conducive environment for the growth and development of MSMEs (Gamo & Gollagari, 2020). Support in terms of access to finance, training, infrastructure, and markets can help MSMEs to improve competitiveness, expand market reach, and optimize their business potential. Government support also plays a role in reducing barriers faced by MSMEs, such as complicated bureaucracy, burdensome regulations, and limited access to markets (Ramadhona et al., 2023). Continued government support also plays a role in increasing MSMEs' resilience to market and economic changes. Through training, guidance and mentoring programs, the government can help MSMEs to improve their managerial, financial and marketing capacities. This not only leads to increased productivity and efficiency of MSMEs, but also to their increased competitiveness and adaptability in the face of ever-changing challenges (Alkahtani et al., 2020).

2.3 Entrepreneurial Mindset

An entrepreneurial mindset has a major impact on the success of MSMEs. An inclusive and proactive entrepreneurial mindset encourages entrepreneurs to see business opportunities amidst challenges and obstacles. With a creative and innovative mindset, entrepreneurs can identify unmet market needs and create unique and value-added solutions (Yodchai et al., 2022). This allows MSMEs to thrive and compete in an increasingly complex market. An entrepreneurial mindset that has the ability to take measured risks also plays an important role in the success of MSMEs (Wardana et al., 2020). Entrepreneurs who dare to take the necessary risks in developing a business tend to have the potential to achieve



greater results. Entrepreneurs who do not give up easily in the face of obstacles and failures tend to have the ability to bounce back, learn from experience, and keep going. With an adaptive mindset and the courage to try new things, entrepreneurs can explore business opportunities that may not have been thought of before (Purnomo et al., 2021).

Based on these ideas, a research model was developed and depicted in the following figure:

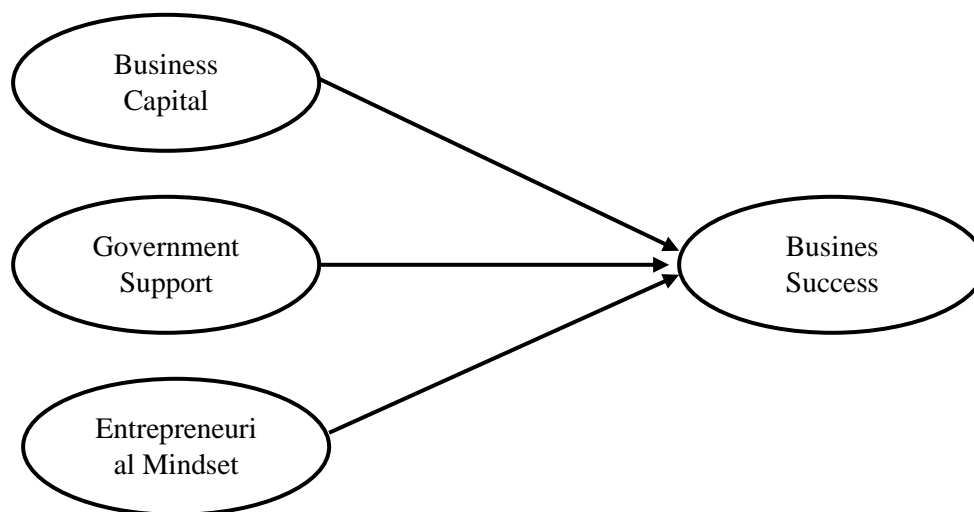


Figure 1. Conceptual Framework

3. RESEARCH METHOD

The type of research used in this research is explanatory research with a quantitative approach. The population in this study were all MSMEs in the Food and Beverage sector in Malang City, totaling 1474 businesses based on data from the Central Statistics Agency in 2023. Based on the sample calculation using the Slovin formula, the sample consisted of 93 respondents. The use of purposive sampling technique because not all samples have criteria that are in accordance with the phenomenon under study, 1) MSME owners who live in Malang (residents) Malang, 2) Aged 20 years and over, 3) Has had the last MSME for at least 3 years. All measurement scales were adapted from existing scale combinations from the literature, and have been empirically tested in terms of item reliability and validity. A 5-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree was used to measure responses to venture capital, government support, entrepreneurial mindset and business



success. Measurements for business capital were adapted from Alifiana et al. (2021) and Ermawati et al. (2023). Measurement of government support variables is adapted from Ahmad & Xavier (2012) and Kurniawan et al. (2023). Measurement of entrepreneurial mindset is based on Bernardus et al. (2023) and Bernardus et al. (2022). While business success is measured based on Radzi et al. (2017) and Correia et al. (2023).

4. RESULT

Based on the data analyzed in table 2, there were 93 respondents involved in this study. In terms of gender, there were 40 male respondents and 53 female respondents. In terms of the latest education, the majority of respondents have an undergraduate educational background as many as 51 respondents and followed by respondents with high school levels as many as 35 respondents. In terms of domicile, respondents were spread across several sub-districts in Malang city, with 46 respondents from Lowokwaru, 15 respondents from Klojen, 12 respondents from Sukun and Kedungkandang, and 8 respondents from Blimbing. Finally, in terms of length of business, 77 respondents have been in business for 3-9 years, 8 respondents have been in business between 10-16 years, 5 respondents have been in business between 317-23 years, and 3 respondents have been in business for more than 24 years. This data provides a complete picture of the characteristics of the respondents involved in this study based on gender, education, domicile, and length of business.

Table 2. Description of Research Respondents

| Description | Character | Total | Percentage |
|------------------|--------------------|-------|------------|
| Gender | Male | 40 | 43% |
| | Female | 53 | 57% |
| Education | Elementary school | 2 | 2% |
| | Junior High School | 4 | 4% |
| | High School | 35 | 38% |
| | Bachelor | 51 | 55% |
| | Master | 1 | 1% |
| Domicile | Lowokwaru | 46 | 49% |
| | Sukun | 12 | 13% |
| | Klojen | 15 | 16% |





| | | | |
|---------------------------|-----------------|----|------------|
| | Kedungkandang | 12 | 13% |
| | Blimbing | 8 | 9% |
| Length of Business | 3-9 years | 77 | 83% |
| | 10-16 years | 8 | 9% |
| | 17-23 years old | 5 | 5% |
| | 24-31 years old | 3 | 3% |

Evaluation of the Measurement Model

In the convergent validity test, the factor loading criterion above 0.7 is used to evaluate how well the indicators used in the measurement model represent the measured construct. Factor loading above 0.7 indicates a strong level of relationship between the indicator and the measured construct. After conducting the analysis, it was found that all indicators in the measurement model met the criteria for factor loading above 0.7. This indicates that all indicators significantly contribute to measuring the intended construct. Thus, the convergent validity test shows that the measurement model used in this study has a good level of validity based on the factor loading criteria above 0.7.

Table 3: Convergent Validity Test

| Variable | Item | Factor Loading |
|---------------------------|---|-----------------------|
| Business Capital | I created a capital inflow and outflow structure to determine profitability. | 0,823 |
| | I utilize capital for business advancement | 0,870 |
| | I believe the business that I run after the capital increase will grow. | 0,775 |
| Government Support | Government policies consistently support MSMEs | 0,826 |
| | Government bureaucracy, regulations, and licensing requirements are not too difficult for MSMEs | 0,822 |
| | There are quite a number of government programs provided for MSMEs | 0,884 |
| | The programs provided by the government are assistance that MSMEs need | 0,854 |
| | Government programs aimed at supporting MSMEs have been effective | 0,829 |





| | | |
|--------------------------------|--|--------------|
| Entrepreneurial Mindset | I am able to be creative when asked to work with limited resources | 0,747 |
| | I am able to identify ways to recombine resources to produce new products. | 0,880 |
| | I am capable of unusual thinking (e.g., creative thinking) | 0,844 |
| | I take risks to use new ideas in completing my work. | 0,815 |
| | I can identify opportunities for new products/services | 0,828 |
| Business Success | I consider my business successful | 0,841 |
| | I am satisfied with the income from the business I am running now | 0,793 |
| | I am happy with the way I do business now | 0,851 |
| | The business I run continues to grow in the future | 0,770 |
| | The share of the market is increasing from year to year | 0,788 |

In the reliability test, there are several criteria used, namely Composite Reliability (CR), Cronbach's Alpha, and Average Variance Extracted (AVE). The commonly used criteria are CR and Cronbach's Alpha values above 0.7 and AVE values above 0.5 to indicate a good level of reliability. After analysis, it was found that the Composite Reliability (CR) and Cronbach's Alpha values in the measurement model were above 0.7, indicating an adequate level of reliability. In addition, the Average Variance Extracted (AVE) value in the measurement model is also greater than 0.5, indicating that the measured constructs are able to explain more than half of the variance of the indicators used. Thus, based on the results of the reliability test, it can be concluded that the indicators used in the measurement model can be relied upon to measure the intended construct well (Hair et al., 2017).

Table 4. Reliability Test Result

| Variables | Composite Reliability | AVE | Cronbach's Alpha |
|--------------------------------|------------------------------|------------|-------------------------|
| Business Capital | 0,863 | 0,679 | 0,762 |
| Government Support | 0,925 | 0,711 | 0,898 |
| Entrepreneurial Mindset | 0,913 | 0,679 | 0,881 |





| | | | |
|-------------------------|-------|-------|-------|
| Business Success | 0,905 | 0,655 | 0,868 |
|-------------------------|-------|-------|-------|

The Fornell and Larcker discriminant validity test is carried out by comparing the square root of the Average Variance Extracted (AVE) with the correlation between constructs on the off diagonal of the correlation matrix. After the analysis was conducted, it was found that the square root value of the AVE for each construct was greater than the correlation between constructs on the off diagonal of the correlation matrix. These results indicate that the discriminant validity in the measurement model can be confirmed, as the measured constructs explain more of the variation of the indicators used than the relationship between the constructs. Thus, based on the results of the Fornell and Larcker discriminant validity test, it can be concluded that the constructs measured in the measurement model discriminate each other well, according to the criterion that the square root of the AVE must be greater than the correlation between constructs on the off diagonal of the correlation matrix (Fornell & Larcker, 1981). This confirms the validity of the constructs in the measurement model and the reliability of the results of the analysis conducted.

Table 5. Validity Test Result

| | Business Capital | Business Success | Entrepreneurial Mindset | Government Support |
|--------------------------------|-------------------------|-------------------------|--------------------------------|---------------------------|
| Business Capital | 0,824 | | | |
| Business Success | 0,713 | 0,809 | | |
| Entrepreneurial Mindset | 0,638 | 0,622 | 0,824 | |
| Government Support | 0,543 | 0,604 | 0,468 | 0,843 |

Based on the test results, the table below indicates that the t-statistic values of the business capital, government support, and entrepreneurial mindset variables are greater than the t-table of 1.96 so that they are declared to have a significant effect on business success. In addition, the positive path coefficient value indicates that increasing MSME business success can be caused by increasing business capital, government support, and entrepreneurial mindset. The test results for the direct effect can be shown in the following path diagram:



Table 6. Hypothesis Test Results

| | Original Sample | Standard Deviation | T Statistics | P Values |
|---|-----------------|--------------------|--------------|----------|
| Business Capital -> Business Success | 0,422 | 0,093 | 4,565 | 0,000 |
| Government Support -> Business Success | 0,268 | 0,063 | 4,266 | 0,000 |
| Entrepreneurial Mindset -> Business Success | 0,227 | 0,105 | 2,165 | 0,031 |

5. DISCUSSION

Effective capital utilization is one of the important keys to business progress and achieving sustainable business success (Ali & Faisal, 2020). Capital used wisely and strategically can provide a significant boost to the company's growth. With sufficient capital, companies can invest in developing new products or services, expanding into new markets, improving infrastructure, and increasing production capacity (Bramah et al., 2021). Additional capital can provide the financial flexibility needed to accelerate growth, improve competitiveness, and create added value for stakeholders (Musah et al., 2018). However, it is important for companies to have appropriate capital management strategies, including careful financial planning, effective cost control, and regular monitoring of financial performance to ensure that capital is used optimally and has a positive impact on business growth and success. The results of this study support the research findings of Vavensy & Handoyo (2023); Tambunan & Damanik (2023); and Hee et al. (2020).

Government bureaucracy, regulations, and licensing requirements that are easy to understand and fulfill can be an important factor in driving MSME business success. With an efficient and MSME-friendly licensing process, MSMEs can more easily start new businesses, expand operations, and comply with applicable standards and regulations (Purnawan & Adillah, 2020). Government programs such as financing, skills training, market access, mentorship, and other technical assistance can provide the necessary stimulus for MSMEs to grow and compete more effectively. Affordable and accessible financing programs can help MSMEs to overcome capital constraints that are often a major obstacle to business development (Farras et al., 2021). Skills training and business mentoring can help MSMEs improve their managerial and technical capacity, enabling them to manage their businesses more efficiently and face complex business challenges (Maesaroh et al., 2023). In addition,



policies that support MSMEs in terms of licensing, legal protection, and tax incentives can also provide a boost to MSME business growth. With these programs, MSMEs have a greater opportunity to develop, create jobs, and make a significant contribution to the local and national economy. The results of this study support research conducted by Sorasit & Charpavang (2022); Katherine et al. (2022); and Nor et al. (2023).

Unconventional thinking, such as creativity, risk-taking in implementing new ideas, and the ability to identify new product opportunities, can be key drivers of MSME business success. By daring to think outside the box, MSMEs can generate innovative ideas that differentiate their products or services from competitors and meet evolving market needs (Sari et al., 2023). Creativity in the development of new products or services can also help MSMEs to remain relevant and competitive amid increasingly fierce competition. The ability to identify new product opportunities and respond quickly to market changes is also critical in driving MSME business success. By following market trends, listening to customer feedback, and continuously updating and developing product or service portfolios, MSMEs can stay relevant and meet changing market needs (Fatimah & Tyas, 2022). In addition, the ability to take risks wisely in implementing new ideas is key to sustainable business growth. Risk-taking MSMEs have the potential to create new opportunities, expand markets, and achieve significant competitive advantages. The results of this study are in line with research conducted by Manafe et al. (2023); Margaça et al. (2022); and Ersarı & Naktiyok (2022).

6. CONCLUSION

Adequate business capital, effective government support, and a proactive entrepreneurial mindset have a significant influence on the success of MSME businesses. Sufficient business capital can support business expansion, investment in product or service development, and overcome financial challenges that may arise in day-to-day operations. Government support through programs such as financing, training, market access and tax incentives can provide the necessary stimulus for MSME business growth and sustainability. In addition, an entrepreneurial mindset that is creative, risk-taking and able to identify new opportunities also plays an important role in business success. Therefore, it is important for MSMEs to pay attention to these factors and integrate them in their business development strategies to achieve the desired success. The theoretical implications of the results of this study indicate that venture capital, government support, and entrepreneurial mindset are crucial factors in building the concept of a successful MSME model so that it can grow. The practical implication of these findings is that MSMEs need to take seriously the importance





of having sufficient capital, utilizing available government support, and developing a proactive entrepreneurial mindset. In addition, the factors in this study can be considered by relevant regulators to develop policies that encourage the sustainability of MSME businesses.

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