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The Government's Role in Improving MSME Business Performance in Denpasar City

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Abstract: This study aims to analyze the role of the government in improving the business performance of MSMEs in Denpasar City. Using a quantitative approach and data collection method through questionnaires, this study involved 100 MSME respondents from a population of 32,626. The results of data analysis using Structural Equation Modeling (SEM) show that the role of the government, measured through regulations, access to financing, and training programs, has a positive and significant influence on the business performance of MSMEs. These findings emphasize the importance of government intervention in creating an environment conducive to the growth of MSMEs. In addition, this study identifies the challenges faced by MSMEs in accessing government support, as well as providing recommendations for policymakers to improve the effectiveness of existing programs. Thus, this research contributes to the development of public policies that are more responsive to the needs of MSME actors in Denpasar City.

Keyword: Business Performance, Denpasar City, Government Role, MSMEs.

INTRODUCTION

MSMEs (Micro, Small, and Medium Enterprises) play an important role in economic growth, especially in developing countries. MSMEs contribute significantly to job creation, innovation, and improvement of socio-economic welfare (Cruz et al., 2023; Khurana et al., 2021). In addition, MSMEs are the backbone of the economy by contributing to GDP and domestic trade (M. Singh et al., 2021). The role of MSMEs as the main driver of the local economy is also important in overcoming the problem of income inequality and providing opportunities for marginalized groups (Bongomin et al., 2020; Prakash et al., 2021). In the global context, increasing the productivity of MSMEs is considered the key to achieving sustainable development (Azizah & Rachmawati, 2023; Fathima, 2020). Therefore, the role of MSMEs in the socio-economic structure is recognized in various countries and must be supported with the right policies (Nursini, 2020).

In Denpasar City, MSMEs are the dominant economic sector and the driving force of the regional economy. Based on data from the Denpasar City Cooperatives and MSMEs Office,

there are more than 32,000 MSMEs spread across various business sectors, ranging from handicrafts, culinary, to tourism (Suasih & Budhi, 2023; Wardana et al., 2022). The role of MSMEs in Denpasar City is not only in terms of improving the local economy but also maintaining the preservation of local culture and traditions through creative efforts (Shara, 2021). Denpasar as the economic center of Bali Province has unique MSME characteristics because it intersects with a strong tourism industry (Idpo et al., 2023). However, MSMEs in Denpasar face complex challenges, such as limited access to markets and increasingly fierce competition due to globalization. Government support is needed to encourage the competitiveness and sustainability of MSMEs in the midst of global market competition (Bisht & Singh, 2020; Kilay et al., 2022).

The performance of MSME businesses in Denpasar City is a key factor in supporting the local economy. Good performance reflects the ability of MSMEs to manage resources, take advantage of market opportunities, and survive in volatile market conditions (Absah, 2023; Hadi, 2023). This performance is shown by an increase in income, productivity, and competitiveness in both local and international markets (Prakash et al., 2021; M. Singh et al., 2021). Research shows that the optimal performance of MSMEs is directly related to innovation, managerial ability, and external support, including the role of the government (Fathima, 2020; Susilowati et al., 2020). With better performance, MSMEs in Denpasar can contribute more to regional economic development and improve the quality of life of local communities (Absah, 2023).

The role of the government is very important in improving the business performance of MSMEs, especially through policies that support access to capital, training, and capacity building (Choi et al., 2021; S. Singh et al., 2022; Utama et al., 2023). The government can be a catalyst in creating a conducive business environment, including ease of regulation, access to markets, and infrastructure support (Olorunshola & Odeyemi, 2022; Onyeje et al., 2020). Several studies have shown that effective government policies significantly affect the improvement of MSME performance (Sindhvani et al., 2022). With an optimal role, the government can help MSMEs overcome various structural barriers and strengthen their competitiveness in the global market (Cruz et al., 2023). Therefore, the government must play an active role in creating an ecosystem that supports the sustainable growth of MSMEs (Fomum, 2023; Hadi, 2023).

However, although the role of the government is recognized as important, many MSMEs in Denpasar City have difficulty accessing available financial and policy support. Administrative barriers and lack of information are often barriers for business actors to take advantage of various government programs (Chen et al., 2021; Ogbu & Osazuwa, 2023). In addition, complex procedures and inefficient bureaucracy also limit MSMEs' access to funding facilities (Rajamani et al., 2022). This indicates the need for policy reform to be more inclusive and easily accessible to all business actors in the MSME sector (Dewi et al., 2023).

The business performance of MSMEs in Denpasar is also still hampered due to the lack of effective mentoring and training from the government (Putra et al., 2019). Many of the programs provided do not fully answer the specific needs of MSME actors, especially in terms of skill improvement and innovation (Rumijati, 2023; Timothy, 2023). Without proper assistance, MSMEs tend to have difficulty in increasing business capacity and competing in a dynamic market (Wahyuda et al., 2023). More structured and needs-based assistance can be a solution to overcome the low business performance of MSMEs (Simarmata, 2023).

In addition, complex and poorly coordinated government regulations are often an obstacle to the growth of MSMEs in Denpasar City. Some policies that should support MSMEs are burdensome for them because of requirements that are not in accordance with the condition of small businesses (Purwoko et al., 2023). Inconsistencies in the implementation of regulations also worsen the situation, so MSME actors have to struggle harder to fulfill the administrative

obligations set (Atichasari & Marfu, 2023; Riwanto et al., 2023). This shows the need for more efficient regulatory reforms and better support the growth of MSMEs (Olayemi et al., 2022).

Government programs designed to improve the performance of MSMEs are often not in accordance with the specific needs of local business actors (Augtiah et al., 2023). Some programs are too generic and do not consider the unique characteristics of MSMEs in Denpasar, such as their linkage with the tourism sector and local culture. Programs that are designed without considering region-specific conditions tend not to have a significant impact on business performance (Wulansari et al., 2021). Therefore, more targeted and relevant programs are needed to the real needs of business actors (Arsyad et al., 2022; Marwanto et al., 2023).

With these various problems, there is a significant research gap in the study of the role of the government in the performance of MSMEs, especially in the city of Denpasar. More in-depth research is needed to identify specific factors that hinder the optimization of the government's role in supporting MSMEs ((Artawan et al., 2023; Gusti et al., 2022; Idawati, 2021). Several studies have discussed the role of the government in general, but studies that focus on Denpasar with its local context are still limited (Mirta et al., 2022).

Novelty in this study lies in its specific focus on MSMEs in Denpasar City and the influence of the government's role in a very local context. This study provides a new view on the relationship between government policies and MSME performance in cultural and tourism-based economic settings, which has rarely been discussed in previous studies.

Therefore, this research is important to answer the challenges faced by MSMEs in Denpasar City and ensure that the role of the government can be optimized. This research aims to measure the extent to which the government's role affects the performance of MSMEs, as well as provide policy recommendations that can support the development of MSMEs in Denpasar. Several studies have shown that the role of the government has a significant effect on the business performance of MSMEs, both in national and local contexts (Feranita et al., 2020; Ismail, 2022; Prapanca et al., 2023; Zhang & Ayele, 2022). With a more specific approach, this research is expected to contribute to the development of more effective government policies.

The purpose of this study is to analyze the role of the government in improving the business performance of MSMEs in Denpasar City. By understanding this role, this research is expected to provide relevant policy recommendations that can be implemented effectively. The contribution of this research is to provide a more comprehensive insight into how government policies can be optimized to support MSMEs, as well as provide an empirical foundation for policymakers to improve the support system for the MSME sector in Denpasar City.

METHOD

This study uses a quantitative method that aims to test the relationship between variables that have been determined through the collection and analysis of numerical data. Quantitative research was chosen because it was able to provide an objective picture of the relationship between the role of the government and the business performance of MSMEs in Denpasar City. This method focuses on statistical measurement and analysis of data generated through research instruments, such as questionnaires, which are standardized and measurable (Sugiyono, 2021). This approach allows researchers to draw conclusions that can be generalized to a broader population through quantitative data analysis (Hair et al., 2019). In addition, quantitative research helps in identifying patterns, measuring the strength of relationships between variables, as well as providing empirical evidence to support the hypothesis proposed.

The location of this research was carried out in the city of Denpasar, which is the economic center of Bali Province and has a number of MSMEs of 32,626 business units. The number of MSME populations covers various business sectors that are important for the

regional economy, ranging from the trade sector to the creative industry. To determine a representative number of samples, the Slovin formula with a margin of error of 10% is used. Based on these calculations, a sample of 100 MSMEs was obtained which was randomly selected to ensure the diversity of respondents in accordance with the characteristics of the population (Sugiyono, 2021). Data collection was carried out using a closed questionnaire, which is designed to measure the perception of MSME actors towards the role of the government and their business performance. The questionnaire was distributed directly to the respondents, and the collected data was analyzed using statistical techniques.

The collected data was then processed using the Structural Equation Modeling (SEM) method based on Partial Least Squares (PLS). SEM PLS was chosen because of its ability to analyze complex structural models with many latent variables and indicators. The analysis process begins with testing the outer model to evaluate the validity and reliability of the research instrument. Validity was tested through convergent validity and discriminant validity, while reliability was measured using the Composite Reliability value (Hair et al., 2019). Once validity and reliability are confirmed, the test continues with the inner model, which aims to test the causal relationship between the latent variables in the study. The results of this analysis will provide an overview of the strength and direction of the influence of the government's role on the business performance of MSMEs in Denpasar City.

RESULTS AND DISCUSSION

Construct Validity Test

Outer Loading

Table 1 presents the results of the convergent validity test based on outer loading, which demonstrates that all indicators have an outer loading on the target construct over 0.7.

Table 1: Outer Loading

	X	Y
X1	0,908	
X2	0,917	
X3	0,915	
Y1		0,904
Y2		0,896
Y3		0,927

Fornell-Larcker Criterion

Table 2 displays the evaluation of the Fornell-Larcker Criterion or the root value of the AVE employed in the discrimination validity test. This idea is sound if the diagonally written number, or the root of the AVE, is greater than the correlation between the constructions.

Table 2: Fornell-Larcker Criterion

	X	Y
X	0,913	
Y	0,886	0,909

Cross Loadings

A structure is considered to have significant discriminatory validity if its correlation with the indicator is higher than its correlation with other constructions. Table 3 displays the greatest cross-loading value for each indicator in relation to its latent variable. This demonstrates that

every indicator satisfies the cross-loading test requirements, indicating the discrimination's validity. Put differently, all signs are legitimate.

Table 3: Cross Loadings

	X	Y
X1	0,908	0,855
X2	0,917	0,795
X3	0,915	0,773
Y1	0,814	0,904
Y2	0,807	0,896
Y3	0,794	0,927

Construct Reliability Test

Table 4's Cronbach Alpha value demonstrates that every variable has a value greater than 0.70. These results imply that the research model satisfies Cronbach Alpha standards, lending credibility to the study. Based on the composite reliability value, every variable in the research model has a composite reliability value more than 0.70. These findings verify the composite reliability produced by the study model and the dependability of all constructs.

Table 4: Construct Reliability and Validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
X	0,901	0,938	0,834
Y	0,895	0,935	0,826

Hyphotesis Test

The direct effect of one construction on another construction linked to the research variable can be assessed using the Path Coefficient and P-value values, as indicated in Table 5. The significance of the association between X and Y is indicated by the P-value of 0.000.

Table 5: Path Coefficients

	Original Sample	T Statistics	P-Values
X -> Y	0,886	33,625	0,000

The results show that the indicators used in this study are valid and reliable, based on the outer model test that confirms the validity and reliability of the instrument. In addition, the results of the analysis of the inner model using SEM PLS prove that the role of the government has a positive and significant influence on the business performance of MSMEs in Denpasar City. These findings show that the greater the role of the government in providing policy support, facilities, and training programs, the better the business performance of MSMEs. This can be explained logically, because the government has a strategic role in creating a conducive business environment, both through regulations that facilitate market access and capacity building programs that can increase the competitiveness of MSMEs. This research is in line with several previous studies that also found that government intervention contributed significantly to the growth and performance of MSMEs (Anuj et al., 2023; Gamo & Gollagari, 2020; Mohapatra et al., 2020; Putranto & Ariani, 2020; Supardi, 2020). Government support not only improves access to resources, but also reduces structural barriers that MSMEs often face, such as access to financing and technology, thus having a direct impact on improving business performance.

The success of the government's role in overcoming the challenges faced by MSMEs, especially related to programs that are often not in accordance with local needs, can be seen from several policy initiatives that are more responsive to the characteristics of businesses in Denpasar City. One example is the implementation of a sector-based training program in the Sanur area, where MSME actors in the tourism and creative economy sectors receive special training in digital marketing and e-commerce management. This program has proven successful in helping MSMEs adjust to the needs of an increasingly digitalized market, so that they can significantly improve business performance (Fathima, 2020). The adjustment of government programs to local needs is the key to encouraging the competitiveness of MSMEs in Denpasar.

In addition, the government has also designed policies that support access to financing for MSMEs in the West Denpasar area, which is mostly engaged in the handicraft and manufacturing sectors. Through the People's Business Credit (KUR) scheme accompanied by business assistance, MSME actors in this region are able to increase production capacity and penetrate a wider market, both domestically and abroad (Supardi, 2020). This shows that the role of the government is not only as a provider of funds, but also as a facilitator that directs business actors to take advantage of business opportunities more effectively.

Another tangible example can be seen in the South Denpasar area, where the business incubator program for MSMEs in the food and beverage sector has succeeded in increasing product innovation and access to the local market. Government support in the form of providing better market infrastructure and promoting local businesses makes MSMEs in this region able to compete and grow faster. This success proves that government interventions tailored to the local context can have a significant impact on the performance of MSMEs, especially in improving business sustainability and strengthening competitiveness.

Complex and uncoordinated government regulations often hinder the growth of MSME businesses in various regions, including in the city of Denpasar. However, the government has succeeded in addressing this problem through regulatory simplification initiatives and inter-agency coordination. One of the concrete steps is the implementation of Online Single Submission (OSS), which makes it easier to license businesses online. The implementation of OSS in the North Denpasar area, for example, has helped speed up the process of obtaining permits for MSME actors in the trade and service sectors, which previously took months. With faster and more transparent licensing, MSMEs in this region are able to start and develop their businesses faster, thereby significantly improving business performance.

In addition, the Denpasar local government has also taken steps to simplify tax procedures for MSMEs through the introduction of lower and more accessible final tax rates. A clear example of the positive impact of this policy can be seen in West Denpasar, where MSME actors in the handicraft sector who previously had difficulty meeting tax administration requirements can now run their businesses without excessive regulatory burdens. This simplification allows MSMEs to focus on business development, without being hindered by complex regulations, thereby encouraging increased productivity and competitiveness.

Better coordination between government agencies is also a key factor in facilitating the growth of MSMEs. In South Denpasar, collaborative efforts between the local government and local banking institutions through the People's Business Credit (KUR) program have succeeded in providing easier access to financing for MSME actors in the culinary and tourism sectors. This program not only reduces regulatory barriers, but also opens up business opportunities for MSMEs to grow more rapidly with the right support. This success shows that simplifying regulations and better coordination can create a more conducive business ecosystem, thus having a significant impact on the performance of MSMEs in Denpasar City.

The business performance of MSMEs in Denpasar City, which was previously low due to the lack of effective assistance and training from the government, is now starting to show

significant improvement thanks to the strategic intervention of the local government. One of the real examples can be seen in East Denpasar, where the government through the Cooperatives and MSMEs Office collaborates with local training institutions to provide intensive mentoring programs for business actors in the handicraft and tourism sectors. The program not only focuses on improving technical skills, but also covers aspects of business management, digital marketing, and access to market networks. As a result, MSMEs in the region were able to improve their performance substantially, as evidenced by their increased sales and ability to expand the market.

In West Denpasar, the government's efforts to provide more targeted training have also proven effective. MSME actors in the food and beverage sector who participated in training in financial management and product innovation experienced an increase in productivity. The training is designed based on the specific needs of business actors in the region, ensuring that the material provided is relevant and can be applied directly in business practices. This support in the form of continuous training helps MSMEs to be more adaptive in facing market changes and increase competitiveness in the local industry.

In addition, the government's success in improving the performance of MSMEs in South Denpasar can be seen through the business incubator program. The government provides facilities and mentors to guide MSME actors in the technology and creative economy sectors. Through this incubator, MSMEs in the region not only get technical training, but also access to important resources such as capital and business networks. As a result, MSMEs that are members of this program are able to grow faster compared to those who do not participate in the program, showing that effective assistance from the government has a significant impact on their business performance.

One of the main problems faced by MSMEs in Denpasar City is the difficulty in accessing financial support and policies from the government. However, this problem has begun to be overcome with more inclusive policies, such as the People's Business Credit (KUR) program initiated by local governments. This program provides access to low-interest financing for MSMEs in various sectors, especially in the West Denpasar area which has many small businesses in the manufacturing and handicraft sectors. Thanks to easy access to financing, MSMEs in this region are able to expand their business scale and increase productivity. This directly impacts the improvement of their business performance, as seen from the increase in turnover and the number of workers recruited.

In addition, local governments are also improving the distribution mechanism of financial assistance through digitization of the registration and verification process. A clear example of this success can be seen in the North Denpasar area, where MSME actors in the trade sector can now access information about government policies and assistance through a more transparent and accessible digital platform. This step not only cuts through complicated bureaucracy, but also facilitates MSME actors in obtaining timely assistance. This reduction in administrative barriers contributes to improving the performance of MSMEs, especially in terms of capital and business development (Hadi, 2023; Khusaini et al., 2022; Maesaroh, 2021).

The government's success in providing access to policies that support the growth of MSMEs can also be seen from collaboration with local banking institutions in South Denpasar. In this region, the government and banks provide community-based financing facilities that are more accessible to business actors in the creative economy sector. This targeted financial support allows MSMEs in the sector to develop product innovations and expand their market reach. As a result, MSMEs in South Denpasar experienced a significant improvement in business performance, especially in terms of profitability and market growth.

This research makes a significant contribution to the understanding of the role of the government in improving the business performance of MSMEs in the city of Denpasar. The findings show that government interventions, both in the form of regulatory simplification,

provision of financial access, and training and mentoring, have a significant positive impact on the performance of MSMEs. These results reinforce the argument that appropriate and coordinated government policies can be a key factor in encouraging the growth and competitiveness of MSMEs at the local level. The implications of this study are also important for policymakers, as they point to the need for a more integrated and local needs-based approach to optimize the role of the government in the development of MSMEs.

However, this study has some limitations. First, the scope of the research is limited to MSMEs in Denpasar City, so the results may not fully apply to MSMEs in other areas with different economic and social characteristics. Second, the quantitative method used in this study only provides an overview of the relationship between variables, but does not reveal more in-depth qualitative dynamics, such as internal factors of MSMEs that can affect the success of government policies. Further research involving qualitative methods or broader case studies can provide more comprehensive insights into the role of governments in various regional contexts.

This research has several limitations that need to be considered. First, the scope of the research that is only limited to MSMEs in Denpasar City may not reflect the situation of MSMEs in other areas with different economic and regulatory conditions. Second, this study uses a quantitative approach that focuses on variable relationships, but does not explore in depth qualitative aspects such as the direct experience of MSME actors in accessing government programs. Therefore, further research is expected to involve a qualitative approach or expand the research area to obtain a more comprehensive picture.

CONCLUSION

This study concludes that the role of the government has a positive and significant influence on improving the business performance of MSMEs in Denpasar City. Government support through regulatory simplification, financial access, and training and mentoring programs has been proven to help MSME actors increase their productivity and competitiveness. The results of this study show that government policies that are directed and in accordance with local needs can play a crucial role in encouraging MSME business growth and have a positive impact on the regional economy.

Based on the results of this study, it is recommended that the government continue to strengthen collaboration with financial institutions, education, and the business community to expand access to financing and training that is more relevant for MSME actors. The government also needs to conduct periodic evaluations of programs that have been running, ensuring that the policies implemented remain in accordance with the development of local business needs. In addition, the role of the government in educating MSMEs about digital literacy and online marketing is also important in the current era of globalization to expand the reach of the MSME market.

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