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Evaluation of MSME Performance in Pontianak: An Institutional Perspective

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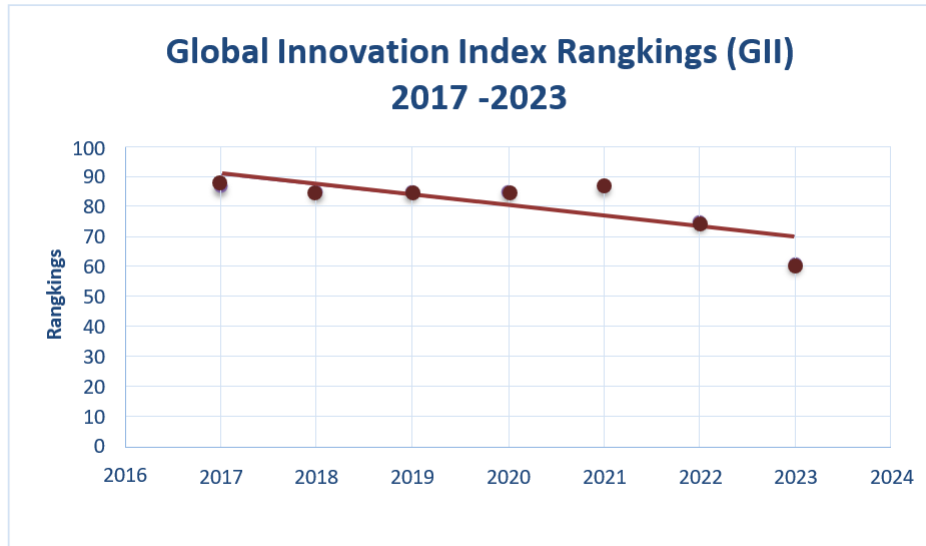
Abstract: Micro, Small, and Medium Enterprises (MSMEs) constitute a crucial pillar of the Indonesian economy. While the city of Pontianak possesses substantial potential for MSME development, several challenges persist, notably within the institutional framework. This study aims to evaluate the performance of MSMEs in Pontianak, specifically from an institutional perspective. Employing a big data approach, this research analyzes MSME performance across various dimensions, including productivity, efficiency, innovation, and competitiveness. Prior research indicates that MSME performance in Pontianak is not yet optimal, which is attributed to factors such as the low quality of human resources, limited access to financing, and regulatory impediments. This study adopts a quantitative methodology utilizing a survey-based approach. The population for this study comprises 1,840 MSME operators in Pontianak. A sample of 185 respondents was selected for data collection. Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software. Path analysis was primarily employed to examine the comparative strength of direct and indirect relationships between variables. The results demonstrate that external factors significantly impact innovation ($p < 0.001$). Internal factors also exhibit a significant effect on innovation ($p < 0.05$). External factors have a significant negative impact on performance ($p < 0.001$), whereas the effect of internal factors on performance is not statistically significant ($p > 0.05$). Furthermore, innovation mediates the effect of external factors on performance ($p < 0.001$), and also mediates the effect of internal factors on performance ($p < 0.05$). Innovation itself also significantly impacts performance ($p < 0.001$).

Keyword: MSME Performance; Institutional Analysis; MSME Development Strategy

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs), as organizational entities, are required to demonstrate strong performance. Performance has become a global concern, necessitating the implementation of measurement tools to ascertain the degree of success in MSME performance. This is crucial, as robust MSME performance has been shown to contribute significantly to, and act as a key driver of, national economic growth. The World Intellectual Property Organization (WIPO) publishes the Global Innovation Index (GII) annually, which

assesses the level of innovation across numerous countries worldwide, including those in the ASEAN region. The GII aims to evaluate the performance of an economy's innovation ecosystem. This index serves as a valuable benchmark, enabling policymakers, business leaders, and other stakeholders to evaluate innovation progress over time. According to the 2023 GII data, Indonesia ranks 61st (with a score of 30.3) out of the 152 countries included in the 2023 GII report



Source: data processed by researchers, 2024

Figure 1. Result of structural equation model

Globally, data indicates a decline in innovation levels. However, historical data from Indonesia demonstrates a positive trend, with the nation rising 14 positions compared to 2022, when it was ranked 75th with an index score of 27.9. This improvement suggests that Indonesia is capable of consistently enhancing its economic innovation to compete effectively with other nations, particularly within the ASEAN region. However, sustaining this progress necessitates support from various internal and external stakeholders. Government institutions and their relevant agencies, along with regional stakeholders at both the provincial and local levels, are expected to create a robust support system to foster regional innovation across diverse sectors. This is crucial given the pivotal role MSMEs play in the Indonesian economy. Firstly, MSMEs exhibit resilience against economic crises (Maulana & Setiawan, 2024; Mursalin et al., 2022).

This was evident during the 1997-1998 crisis when MSMEs were instrumental in mitigating the severe economic downturn. This resilience is demonstrated by the continuous growth in the number of MSMEs year-on-year. Secondly, MSMEs constitute the largest sector in terms of labor absorption, accounting for 96% in 2012 and increasing to 97% in 2023. This highlights the strategic importance of MSMEs in managing unemployment and poverty rates. In urban areas, increased population density, mobility, and shifting lifestyles present opportunities for individuals to capitalize on these conditions by establishing new business ventures through small and medium-sized enterprises (Berisha & Pula, 2015; Mursalin et al., 2022)

Research conducted by Budiman & Herkulana (2021) reveals that MSMEs in Pontianak absorb 36.33% of the total workforce. The workforce employed by MSMEs largely consists of individuals with limited education or skills. Additionally, MSMEs contribute to enhancing workforce skills through intensive training and guidance processes. Recent findings from Suhedi & Alfariasi (2023) indicate that the performance of MSMEs in Pontianak remains suboptimal. This is attributed to several factors, including the low quality of human resources, limited access to financing, regulatory barriers, and inadequate utilization of creative

information technology rooted in local wisdom. MSMEs are not without challenges. Some prominent issues include: (1) Business Type Instability: Entrepreneurs tend to follow trends, frequently changing their business type, often diverging from their previous ventures. (2) Limited IT Proficiency: Insufficient or suboptimal understanding and utilization of information technology. (3) Conventional Sales Systems: Reliance on traditional sales methods. (4) Lack of Skilled Human Resources: Scarcity of qualified personnel. (5) Need for Guidance and Training: Requirement for continued support and development. (6) Capital Constraints: Insufficient financial resources. (7) Traditional Management Practices: Use of outdated management techniques. (8) Inadequate Infrastructure: Insufficient infrastructure support. (9) Limited Raw Material Access: Constraints in obtaining necessary raw materials. (10) Lack of Legal Compliance: Inadequate understanding of business registration and legal procedures (Amri, 2015; Sartono et al., 2024). Given the crucial role of MSMEs in both regional and national economies, coupled with the numerous challenges they face, this research is deemed essential to identify solutions for improving MSME performance.

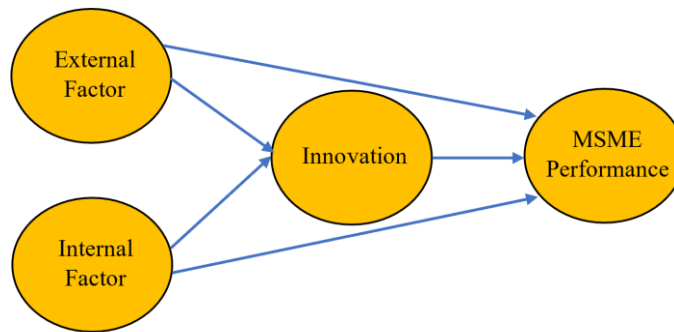
METHOD

This study employs a quantitative research design, utilizing a survey methodology to address the research problem and to anticipate actions related to the observed phenomenon. Consequently, the determination of the unit of analysis is essential. The unit of analysis, as defined by Bougie & Sekaran (2020) refers to "the level of aggregation of the data collected during the data analysis stage." In this study, the unit of analysis is the aggregate data of MSME operators in Pontianak. This data will be used to investigate the influence of internal and external factors on the institutional performance of MSMEs, mediated by their capacity for innovation within their businesses in Pontianak. The research utilizes both primary and secondary data sources.

Primary data was obtained directly from sources through interviews and questionnaire administration, while secondary data was gathered from documents and publications of relevant government agencies and other supporting data sources. The subjects of this research are the institutional structures of MSMEs located in Pontianak. The population, as defined by Bougie & Sekaran, (2020), "refers to the entire group of people, events, or things of interest that the researcher wishes to investigate." The population under investigation in this study consists of MSME operators within the institutional context in Pontianak.

Specifically, there are 1,840 MSME operators in Pontianak. The sample size for this research was determined based on the number of indicators within the research variables. According to Hair et al., (2019), the minimum sample size should be at least five times the number of research variables or indicators. Therefore, the calculated minimum sample size for this study is 185 (37 indicators x 5). The initial target sample was set at 225 (5 x 45 indicators). Following data collection, applying the defined criteria, a total of 185 samples were obtained, resulting in a response rate of: $RR = (185 : 225) \times 100\% = 82,22\%$

The response rate of this study is categorized as "Very High", because it is above 80% and the sample is sufficient to be used in a structural model with a minimum adequacy of 100, (Hair Jr. et al., 2021)



Source: data processed by researchers, 2024

Figure 2. Result of structural equation model

This study employs path analysis, a statistical technique, for data analysis. Path analysis is primarily utilized to examine the strength of direct and indirect relationships among variables. A series of parameters are estimated to solve one or more structural equations between two or more causal models. To address the research questions and test the pre-formulated hypotheses, a structural model is employed. Specifically, this research utilizes variance-based Partial Least Squares Structural Equation Modeling (PLS-SEM) as the analytical tool (Hair Jr. et al., 2021) When a construct is not directly measured through indicators or items, but rather through dimensions, a second-order structural model is appropriate. In this study, for example, innovation is reflected in two dimensions: innovation speed and innovation quality. Similarly, the endogenous construct, performance, is measured through the dimensions of operational performance and financial performance. These dimensions are measured using items or indicators that are appropriate for their respective dimensions. In contrast, the exogenous constructs influencing innovation and performance—external and internal factors—are measured directly through reflective items, without utilizing second-order dimensions. Therefore, these two factors are categorized as first-order constructs. Consequently, the structural model in this study is a combination of both first-order and second-order constructs.

Variance-based Partial Least Squares Structural Equation Modeling (PLS-SEM) involves a two-stage model assessment:

- a. The assessment of the outer model, using the PLS Algorithm, encompasses the following:
 - 1. Convergent Validity Assessment: This involves evaluating loading factors and the Average Variance Extracted (AVE)
 - 2. Discriminant Validity Assessment: This assessment is conducted using cross-loadings or the Heterotrait-Monotrait ratio (HTMT).
 - 3. Reliability Assessment: This assessment uses composite reliability and Cronbach’s alpha to measure the reliability of constructs.
- b. The evaluation of the inner model is performed using:
 - 1. PLS Algorithm: This is employed to determine R-square values, f-square values, and the Goodness-of-Fit (GoF) index.
 - 2. Bootstrapping: This technique is used to obtain path coefficients and to assess the statistical significance of direct and indirect relationships (mediation effects), thereby supporting decisions regarding acceptance or rejection of the research hypotheses.
 - 3. Blindfolding: This procedure is utilized to evaluate predictive relevance, determining how well the observed values are replicated by the model and assessing the structural model's predictive fit.

RESULTS AND DISCUSSION

Outer Model

Convergent Validity Test

Convergent validity is evaluated by examining the loading factor values for each instrument on the indicators of the internal factor, external factor, innovation, and performance variables. Convergent validity is considered acceptable when the loading factor of each indicator is greater than 0.70. Based on the initial analysis, four indicators (EF.1, EF.2, EF.12, and IF.1) had loading factor values less than 0.70. Consequently, these four indicators were eliminated from the outer model, and the testing process was repeated. Subsequent re-testing of the loading factors was performed to check for any remaining loading factor values below 0.70. This process is terminated when all factor loadings exceed 0.70. In the second iteration of testing, no further indicators were eliminated, as all indicator variables had loading factor values greater than 0.70. Thus, convergent validity was achieved, with a final total of 41 indicators. The results are presented in the following table:

Table 1. Outer Loading Factor Value

Indicator	Laten Variabel				AVE
	External Factors	Internal Factors	Innovation	Performance	
EF.3	0.786				0.676
EF.4	0.784				
EF.5	0.794				
EF.6	0.724				
EF.7	0.811				
EF.8	0.829				
EF.9	0.884				
EF.10	0.900				
EF.11	0.874				
IF.2		0.773			
IF.3		0.706			
IF.4		0.824			
IF.5		0.902			
IF.6		0.781			
IF.7		0.787			
IF.8		0.803			
IF.9		0.718			
INO1.1			0.849		
INO1.2			0.860		
INO1.3			0.859		0.701
INO1.4			0.844		
INO1.5			0.808		
INO2.1			0.730		
INO2.2			0.791		
INO2.3			0.885		
INO2.4			0.849		
INO2.5			0.884		
PF1.1				0.868	
PF1.2				0.870	0.748
PF1.3				0.849	

PF1.4	0.841
PF1.5	0.859
PF1.6	0.813
PF2.1	0.909
PF2.2	0.804
PF2.3	0.782
PF2.4	0.873
PF2.5	0.912
PF2.6	0.872
PF2.7	0.903
PF2.8	0.926
PF2.9	0.878

Source: Data Processed, Smart-PLS 3.0, 2024

Additionally, convergent validity can be assessed by examining the Average Variance Extracted (AVE) values for each variable. An AVE value greater than 0.50 indicates that convergent validity is achieved, whereas an AVE value less than 0.50 suggests that convergent validity is not met. As demonstrated in the preceding table, each variable exhibits an AVE value greater than 0.50, thus confirming that convergent validity has been achieved.

Discriminant Validity Test

The purpose of discriminant validity testing is to ensure that constructs are validly distinct by comparing loading factors with cross-loadings. Discriminant validity is confirmed for an indicator when its loading factor on its designated construct is greater than its cross-loadings on other constructs. Conversely, discriminant validity is not met if the cross-loading is greater than the loading factor. The comparison of loading factors and cross-loadings is presented in the following table:

Table 2. Loading Factor and Cross Loading Value

Indicator	External Factors	Internal Factors	Innovation	Performance
EF.3	0,786	0,538	0,673	0,373
EF.4	0,784	0,559	0,681	0,438
EF.5	0,794	0,506	0,630	0,342
EF.6	0,724	0,424	0,508	0,353
EF.7	0,811	0,353	0,655	0,368
EF.8	0,829	0,376	0,743	0,474
EF.9	0,884	0,382	0,758	0,475
EF.10	0,900	0,383	0,767	0,455
EF.11	0,874	0,519	0,849	0,623
IF.2	0,496	0,773	0,422	0,307
IF.3	0,451	0,706	0,396	0,259
IF.4	0,494	0,824	0,446	0,351
IF.5	0,445	0,902	0,509	0,428
IF.6	0,325	0,781	0,372	0,323
IF.7	0,344	0,787	0,397	0,371
IF.8	0,349	0,803	0,300	0,279
IF.9	0,479	0,718	0,478	0,479
INO1.1	0,839	0,648	0,849	0,354
INO1.2	0,589	0,365	0,860	0,788
INO1.3	0,582	0,319	0,859	0,771

INO1.4	0,568	0,307	0,844	0,738
INO1.5	0,557	0,413	0,808	0,668
INO2.1	0,723	0,492	0,730	0,398
INO2.2	0,777	0,532	0,791	0,518
INO2.3	0,880	0,514	0,885	0,534
INO2.4	0,818	0,488	0,849	0,492
INO2.5	0,851	0,438	0,884	0,518
PF1.1	0,428	0,379	0,631	0,868
PF 1.2	0,436	0,389	0,633	0,870
PF 1.3	0,399	0,375	0,576	0,849
PF 1.4	0,400	0,394	0,583	0,841
PF 1.5	0,440	0,379	0,598	0,859
PF1.6	0,398	0,332	0,547	0,813
PF2.1	0,439	0,433	0,686	0,909
PF2.2	0,447	0,391	0,630	0,804
PF2.3	0,446	0,364	0,628	0,782
PF2.4	0,539	0,323	0,757	0,873
PF2.5	0,560	0,409	0,811	0,912
PF2.6	0,498	0,434	0,739	0,872
PF2.7	0,472	0,505	0,708	0,903
PF2.8	0,552	0,385	0,806	0,926
PF2.9	0,504	0,417	0,779	0,878

Source: Data Processed, Smart-PLS 3.0. 2024

Based on the results of the discriminant validity testing, it can be observed that each latent variable demonstrates that all indicators have loading factor values greater than their corresponding cross-loadings. This indicates that discriminant validity has been achieved for each indicator. Having established that the research constructs are valid in terms of discriminant validity, a further assessment was conducted using the Heterotrait-Monotrait ratio (HTMT). The results of this analysis are presented in the following table:

Table 3. Discriminant Validity Heterotrait-Monotrait Method (HTMT) Test

HTMT	External Factors	Internal Factors	Innovation Performance	
External Factors	1			
Internal Factors	0.584	1		
Innovation	0.898	0.569	1	
Performance	0.550	0.470	0.806	1

Source: Data Processed, Smart-PLS 3.0, 2024

Discriminant validity theoretically demonstrates that one construct is distinct from others and is statistically (empirically) verified. When the Heterotrait-Monotrait (HTMT) ratio between two constructs is below 0.90 ($HTMT < 0.90$), it indicates that the two constructs are indeed distinct and statistically different, based on empirical evidence. Conversely, if the HTMT ratio is above 0.90, discriminant validity is not achieved.

The results of the HTMT analysis, presented in Table 4.3, show that all HTMT values are below 0.90 ($HTMT < 0.90$), thus statistically demonstrating that the research constructs are distinct and that discriminant validity is satisfied. Furthermore, the validity of the constructs is also assessed by examining the Average Variance Extracted (AVE) values. A construct is considered valid if its AVE value is greater than 0.50 ($AVE > 0.50$), and conversely, is

considered invalid if its AVE value is less than 0.50 ($AVE < 0.50$). The AVE values are presented in the table below:

Table 4. Average Variance Extracted (AVE) Value

	Average Variance Extracted (AVE)
External Factors	0,676
Internal Factors	0,622
Innovation	0,701
Performance	0,748

Source: Data Processed, Smart-PLS 3.0, 2024

Based on the table above, because all constructs have CA or CR > 0.70, the research construct is considered reliable.

Reliability Test

This test aims to test the consistency of answers to questions or questionnaire statements if the questions or statements are used twice to measure the same symptoms.

Table 5. Reliability Test

	Cronbach's Alpha	Composite Reliability
EF	0,940	0,949
IF	0,913	0,929
INO	0,952	0,959
PF	0,976	0,978

Source: Data Processed, Smart-PLS 3.0, 2024

Based on the preceding table, it is evident that each variable exhibits a composite reliability value greater than 0.70, thus confirming that all constructs are reliable. The construct reliability of the outer model is well-established, with the lowest composite reliability value being 0.929 (Internal Factors) and the highest being 0.978 (Performance). Similarly, the Cronbach's alpha values for each variable are greater than 0.7, indicating excellent internal consistency reliability of the outer model, with the lowest Cronbach's alpha being 0.913 (Internal Factors) and the highest being 0.976 (Performance).

Evaluation of The Inner Model

Having established the validity and reliability of the research constructs through the measurement model assessment (outer model), the next step is to evaluate the structural model. The structural model evaluation is conducted to examine the relationships among the constructs (Model Fit), the assumptions of the PLS inner model (multicollinearity testing/VIF), and to evaluate the inner model (structural model) by predicting the relationships among latent variables, assessing R-square values, path coefficients, f-square values, and determining the model criteria or Goodness-of-Fit (GoF) of the research model. In this study, the structural model analysis utilizes bootstrapping and blindfolding techniques within SmartPLS 3.0, with a significance level of 0.05.

Model FIT

To determine whether a research model exhibits a good fit, it is sufficient to evaluate the loading factors of each indicator and confirm that the model has passed both validity and reliability assessments. Model fit can also be assessed using the Standardized Root Mean

Square Residual (SRMR) value. If the SRMR is greater than 0.10 ($SRMR > 0.10$), the model fit is not satisfactory. Conversely, if the SRMR is less than or equal to 0.10 ($SRMR \leq 0.10$), then the model fit is considered acceptable.

Table 6. Model Fit Test

	Saturated Model	Estimated Model
SRMR	0.123	0.137
Chi-Square	infinite	infinite

Source: Data Processed, Smart-PLS 3.0. 2024

Based on the preceding table, the SRMR value indicates a weak model fit, as the SRMR value for this study is above 0.10 ($0.123 > 0.10$). Similarly, the Chi-Square value is infinite. However, this is not uncommon when a model uses both first-order and second-order constructs Hair et al., (2019). To further validate the Model Fit (through robustness testing), the predictive relevance (Q^2) value is used for both the first-order and second-order models.

Multicollinearity test/VIF

A key assumption or requirement of the partial least squares (PLS) inner model analysis is that multicollinearity should not be an issue. Multicollinearity is considered absent when the Variance Inflation Factor (VIF) value is less than 5 ($VIF < 5$). Conversely, multicollinearity among the constructs is present if the VIF value is greater than 5 ($VIF > 5$).

Table 7. Multicollinierity Test

	Results	Explanation
External Factors (EF)	1.418	There is no multicollinearity
Internal Factors (IF)	1.418	There is no multicollinearity
Innovation (INO)	3.879	There is no multicollinearity

Source: Data Processed, Smart-PLS 3.0. 2024

Based on the preceding table, it can be observed that each variable has a Variance Inflation Factor (VIF) value less than 10, indicating that multicollinearity is not an issue in this analysis.

Coefficient of Determination (R^2)

The determination coefficient test aims to identify how much proportion or influence the exogenous latent variable has in explaining the endogenous latent variable. In addition, the determination coefficient value can also see how accurate the model is in predicting a variable. The following results of the determination coefficient value can be seen in the table below:

Table 8. Coefficient Determination Test (R^2)

	R-square	Explanation
Innovation	0.742	Moderate
Performance	0.688	Moderate

Source: Data Processed, Smart-PLS 3.0. 2024

From the preceding table, the structural model for the influence of External and Internal Factors on Innovation has an R^2 value of 0.742. This indicates that these variables collectively explain 74.2% of the variance in Innovation, which is categorized as "moderate." Furthermore, the influence of External Factors, Internal Factors, and Innovation on MSME Performance has an R^2 value of 0.688, indicating that these variables collectively explain 68.8% of the variance in MSME Performance, which is also categorized as "moderate."

Predictive Relevance (Q²) and Effect Size (F²) Analysis

The predictive relevance value (Q²) is employed to evaluate the quality of the observed data and to assess the structural relevance of the model. A predictive relevance value (Stone-Geisser's Q²) greater than 0 indicates that the observed data are of good quality and the model exhibits adequate structural relevance. Conversely, a Q² value less than 0 suggests that the observed data are not of good quality and the model lacks sufficient structural relevance. The f² value, on the other hand, depicts the effect of the exogenous latent variables on the endogenous latent variables within the structural model, with the following criteria:

1. F² value of 0.02 indicates a weak effect.
2. F² value of 0.15 indicates a moderate effect.
3. F² value of 0.35 indicates a strong effect.

The results for predictive relevance (Q²) and F² values are presented in the table below:

Table 9. Predictive Relevance (Q²) and f Square (f²)

	Q ²	f ²	Category
External Factors → Innovation		1.759	Strong Effect
External Factors → Performance		0.235	Moderat
Internal Factors → Innovation		0.029	Weak Effect
Internal Factors → Kinerja		0.027	Weak Effect
Innovation → Performance		1.153	Strong Effect
Innovation	0.525		Good
Performance	0.517		Good

Source: Data Processed, Smart-PLS 3.0. 2024

Based on the preceding table, the f² value for External Factors on Innovation is 1.759, which is categorized as a strong effect. The f² value for External Factors on Performance is 0.235, categorized as a moderate effect. The f² value for Internal Factors on Innovation is 0.029, categorized as a small effect. The f² value for Internal Factors on Performance is 0.027, which is also categorized as a small effect. Lastly, the f² value for Innovation on Performance is 1.153, categorized as a strong effect. This demonstrates that the influence of Internal Factors on both Innovation and Performance has a smaller effect size compared to the influence of External Factors on Innovation and Performance.

Goodness of Fit PLS (GoF PLS)

Goodness of Fit (GoF) is a measurement of the suitability of a model, the overall suitability of the model, both the outer model and the inner model, whether or not the observed value matches the expected value in the model. To find the GoF value, use the formula:

$$GoF = \sqrt{Average AVE \times Average R Square}$$

The greater the GoF value, the more appropriate the model depiction is. The GoF value category is divided into 3 (three), namely:

1. 0.00 – 0.24: Small effect
2. 0.25 – 0.37: Medium effect
3. 0.38 – 1.00: High effect

The results of the Goodness of Fit (GoF) index are presented in the table below:

Table 10. Goodness of Fit (GoF) Test

Variable	AVE	Average AVE	R ²	Average R ²	Goodness ofFit(GoF)	Category
External Factors	0.676					
Internal Factors	0.622	0.687		0.715	0.701	Tinggi

Innovation	0.701	0.742
Kinerja	0.748	0.688

Source: Data Processed, Smart-PLS 3.0. 2024

Based on the data, the Goodness-of-Fit (GoF) value of 0.701 falls into the high category. This indicates that the overall model fit for both the outer and inner models, comparing the observed values with the expected (predicted) values within the model, is considered high.

Hypothesis Testing

Path coefficients are used to determine the magnitude of the partial effects and to indicate the direction of the relationships between variables, whether positive or negative. Path coefficients are used to define the path equations of the research model. In testing the hypotheses of this study, the correlations between constructs are measured by examining the path coefficients and their levels of significance, which are then compared with the previously stated research hypotheses. The significance level used in this research is 5%, or 0.05. The path coefficient values for this study are presented in the following table:

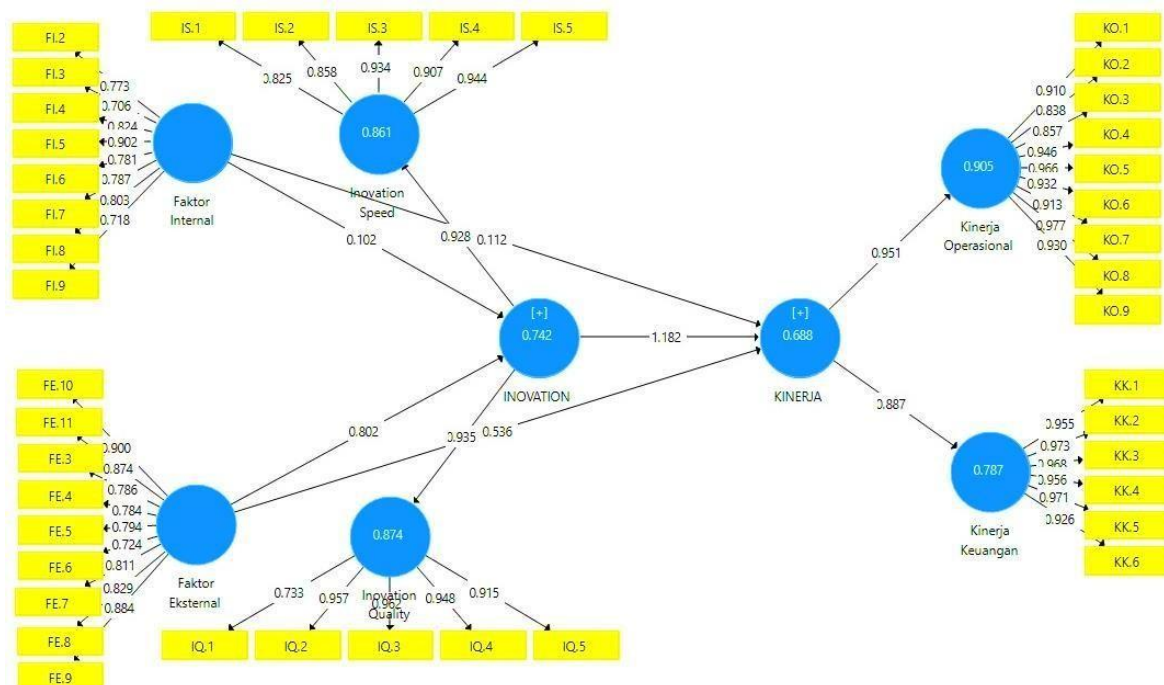
Table 11. Coefficients Path Test

<i>Hypotheses</i>	<i>Path</i>	<i>Coefficients Path</i>	<i>p-value</i>	<i>Explanation</i>
H ₁	External Factors → Innovation	0.802	0.000	Accepted
H ₂	External Factors → Performance	-0.536	0.000	Non Accepted
H ₃	External Factors → Innovation → Performance	0.948	0.000	Accepted
H ₄	Internal Factors → Innovation	0.102	0.019	Accepted
H ₅	Internal Factors → Performance	0.112	0.219	Non Accepted
H ₆	Internal Factors → Innovation → Performance	0.121	0.021	Accepted
H ₇	Innovation → Performance	1.182	0.000	Accepted

Source: Data Processed, Smart-PLS 3.0. 2024

From the preceding table, the path coefficient for External Factors on Innovation is 0.802 with a p-value of 0.000 ($p < 0.001$), indicating that External Factors have a significant positive influence on Innovation. Therefore, H1 is supported. The positive path coefficient demonstrates that a greater role for External Factors leads to increased Innovation. Conversely, a reduced role of External Factors corresponds with a decrease in Innovation. In testing direct effects, the path coefficient for External Factors on Performance is -0.536, with a p-value of 0.000 ($p < 0.001$). This indicates that External Factors have a significant but *negative* impact on MSME performance in Pontianak. Although the p-value is significant, H2 is not supported. This is because the path coefficient has a negative value, which is not consistent with the hypothesis that external factors positively influence performance. Thus, this hypothesis is rejected. The negative coefficient implies that a greater role for External Factors is associated with decreased performance of MSMEs in Pontianak. Further, the indirect effect of External Factors on MSME performance, mediated by Innovation, has a path coefficient of 0.948 with a p-value of 0.000 ($p < 0.001$), indicating that External Factors have a significant indirect effect on MSME performance. In other words, Innovation mediates the relationship between External Factors and MSME performance, thus supporting H3.

Furthermore, the path coefficient for Internal Factors on Innovation is 0.102 with a p-value of 0.019 ($p < 0.05$), signifying that Internal Factors have a significant positive effect on Innovation. Thus, H4 is supported. However, a different result was obtained for the relationship between Internal Factors and MSME Performance, which has a path coefficient of 0.112 with a p-value of 0.219 ($p > 0.05$), indicating that Internal Factors do not have a significant effect on MSME performance. Consequently, H5 is not supported. The indirect effect of Internal Factors on MSME performance, mediated by Innovation, has a path coefficient of 0.121 with a p-value of 0.021 ($p < 0.05$), indicating that Internal Factors have a significant indirect effect on MSME performance. In other words, Innovation mediates the relationship between Internal Factors and MSME performance, and therefore H6 is supported. Additionally, the path coefficient for Innovation on MSME performance is 1.182 with a p-value of 0.000 ($p < 0.001$), indicating that Innovation has a significant positive effect on MSME performance. Therefore, H7 is supported. This indicates that an increase in Innovation leads to an increase in MSME Performance.



Source: data processed by researchers, 2024
Figure 2. Result of structural equation model

Influence of External Factors on Performance and Innovation of MSMEs in Pontianak

External factors in this study have a significant influence on innovation among MSMEs in Pontianak. MSME operators believe that external factors provide a strong impetus for them to implement changes through innovation, which subsequently impacts MSME performance. While the external factors exhibit a high level of interpretation, they have an inverse relationship with performance. This research found that external institutional factors (stakeholders), including their access to capital and resources, while having high expectations for the support they provide, do not align with positive performance. This result contradicts the initial research hypothesis. However, this finding is supported by the perspectives of Pearce and (Pearce & Richard B, 2011), as well as Fibriyani & Mufidah (2018), who argue that external factors, while strategically representing opportunities, also pose a threat to businesses.

Similarly, the research by Azzah (2021) found that government regulations and policies

on capital provision indirectly burden the performance of embroidery MSMEs in Pasuruan City, East Java Province. Consistent with these findings, this study demonstrates that the significant negative impact of external factors is on the financial and operational performance of MSMEs in Pontianak. For example, technical assistance programs often provide repetitive material or lack specificity in their content, thus diminishing the positive impact of intensive external support on MSME performance.

Influence of Internal Factors on Performance and Innovation of MSMEs in Pontianak

Internal factors in this study have a significant influence on the innovation of MSMEs in Pontianak. MSME operators believe that positive internal factors—such as access to capital, entrepreneurial ability, marketing, business planning, financial knowledge, and technology utilization—will encourage them to make changes through innovation, which will ultimately impact MSME performance. However, in this case, internal factors do not have a significant effect on MSME performance. This research finding contradicts studies by (Fibriyani & Mufidah (2018); Hati & Irawati (2017) which found that internal factors significantly influence MSME performance. However, this study is supported by findings from Mokodompit et al., (2019; Purwidiyanti et al., (2015) which showed that internal factors do not completely influence the performance of small and medium-sized industries (SMIs).

Role of Innovation as a Mediator in the Influence of External Factors on MSME Performance in Pontianak

Innovation in this study mediates the influence of external factors on MSME performance in Pontianak. Through innovation, MSMEs can create products and services that are unique and different from their competitors. This can enhance the appeal and value-added of products and services in the eyes of consumers, allowing them to obtain a larger market share and improve the performance of MSMEs in Pontianak. Furthermore, through external intermediaries such as research institutions, universities, companies, or other partnerships, MSMEs can access the resources, knowledge, and technology needed to develop and implement new innovations. These findings align with research conducted by (Fibriyani & Mufidah, 2018), which reported similar results.

Role of Innovation as a Mediator in the Influence of Internal Factors on MSME Performance in Pontianak

Innovation in this study mediates the influence of internal factors on the performance of MSMEs in Pontianak. Through innovation, MSMEs can develop new products and services, which helps to reduce business risks, expand market share, and create additional revenue streams that can increase overall MSME performance. Furthermore, through innovation, MSMEs can improve their competitiveness, strengthen their market position, and achieve long-term growth and success. These results are consistent with previous research by Mokodompit et al., (2019; Purwidiyanti et al., (2015) which reported similar findings.

Influence of Innovation on MSME Performance in Pontianak

Innovation in this study has a significant positive influence on the performance of MSMEs in Pontianak. Innovation by MSME operators can help MSMEs expand their market share. Moreover, it can increase the competitiveness of MSMEs in Pontianak, enabling them to survive and grow in increasingly competitive markets. In addition to product-related innovations, the use of digital platforms and e-commerce helps MSMEs in Pontianak reach a wider market. These findings are consistent with studies by (Sandra & Purwanto, 2015), which showed that innovation significantly influences the performance of MSMEs in Pontianak.

CONCLUSION

1. External Factors play a significant role in the innovation and performance of MSMEs in Pontianak. This is evidenced by the study's findings, which show that the p-value for the influence of External Factors on MSME Innovation is 0.000 ($p < 0.001$), indicating a significant impact. While External Factors exhibit a high level of interpretation, they have an inverse relationship with MSME performance, as indicated by a negative path coefficient. This research found that external institutional factors (stakeholders), and their access to capital and resources, have high expectations for the motivation they provide to MSMEs to enhance their performance.
2. Internal Factors play a significant role in the innovation of MSMEs in Pontianak but do not have a significant impact on their performance. The research results show a p-value of 0.019 ($p < 0.05$) for the influence of Internal Factors on Innovation. However, the p-value for the influence of Internal Factors on MSME Performance is 0.219 ($p > 0.05$), which indicates that Internal Factors do not significantly influence the performance of MSMEs in Pontianak.
3. The indirect influence of both External and Internal Factors on MSME Performance shows a p-value of 0.000 ($p < 0.001$) and 0.021 ($p < 0.05$) respectively. This indicates that both External and Internal Factors have a significant indirect influence on MSME performance. In other words, Innovation mediates the influence of both External and Internal Factors on MSME performance in Pontianak.
4. The influence of Innovation on MSME performance exhibits a p-value of 0.000 ($p < 0.001$), signifying that Innovation has a significant positive impact on the performance of MSMEs in Pontianak.

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