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Empowerment of Small and Micro Enterprises (SMEs) in Indonesia

The Impact Venture Capital Assistance, Entrepreneurial Orientation, and Digital Transformation on the Performance of SMEs

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ABSTRACT

This study investigates the impact of venture capital assistance from LazisMu, entrepreneurial orientation, and digital transformation on the performance of Micro Small Enterprises (SMEs) in Karanganyar Regency. A quantitative approach was used by collecting data from 122 SME respondents who received assistance from LazisMu and have adopted digitalization in the marketing of their products. The data was analyzed using the Smart PLS method to test the relationship between variables. The results showed that business capital assistance from LazisMu has a significant effect on SME performance. However, entrepreneurial orientation has no significant effect. In contrast, digital transformation has a significant impact by improving the operational efficiency and business strategy of SMEs, helping them compete more effectively in a competitive market. This research provides important insights for LazisMu policies and similar institutions to support SMEs more effectively with follow-up research and qualitative approaches to understand more deeply the influence factors.

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Introduction

Small and Micro Enterprises (SMEs) play an important role in economic progress and increasing employment [1]. SMEs develop through the economic sector to produce various goods and services to fulfill the needs of society [2]. The sector is considered to have an important role in improving productivity, increasing competition, and reducing poverty which contributes to increased economic development [3]. Data from the Coordinating Ministry for Economic Affairs reports that by 2022 the sector will contribute 60.5% to GDP and be able to absorb 96.9% of the total national workforce [4]. Although SMEs have a significant role, there are still many SME players who experience problems with lack of capital, especially after Covid 19 during 2020 to 2022. Data shows that around 48% of SMEs face problems with raw materials, 77% experience a decrease in income, 88% experience a decrease in product demand, and even 97% experience a decrease in asset value [4]. In a situation like this, business capital assistance is very important, one of which is for SMEs in Karanganyar Regency.

Financial support from various parties, including the government, financial institutions, and non-profit organizations can help SMEs overcome financial constraints and support them to resume their business that was halted due to COVID-19. Business capital is essential to grow a business, expand production, and improve the quality of products or services offered [5]. This condition encourages the need for business capital assistance from various parties, including non-profit organizations such as *Lembaga Amil Zakat, Infaq, and Shadaqah Muhammadiyah* (LazisMu) Karanganyar Regency. One of the objectives of LazisMu Karanganyar Regency is to improve the economic capacity of the people by empowering productive businesses through fund management. Capital assistance programs for SMEs that are downtrodden, can help them overcome financial constraints. SMEs can expand their production facilities, purchase necessary equipment, and increase production capacity. Previous findings show that *Badan Amil Zakat* (Baznaz) as the venture capital can improve the performance of SMEs [6].

Furthermore, SMEs need to explore aspects of entrepreneurship. Entrepreneurial orientation is a key concept in entrepreneurship research [7]. Entrepreneurial orientation is characterized as a person's tendency to behave in a proactive, innovative manner in a risky business environment [8]. SMEs with a strong entrepreneurial orientation are more likely to survive and thrive in a competitive market through the creation of new, different, or unique products or services. Therefore, it can drive SME performance [9].

Another problem that often occurs in SMEs is the low use of digital technology. Data from the Ministry of Communication and Informatics reports that the number of SMEs that have gone digital is 9 million SMEs or 14% of the total SMEs [10]. Many SMEs do not have sufficient knowledge or skills to adopt and utilize digital technology effectively. Digital transformation can transform the supply chain into a digital supply chain management to provide the best

service for customers [11]. In this case, technology has paved the way for businesses to not only increase productivity but also improve interactions with stakeholders, including reaching a wider market to increase revenue [12]. Therefore, digital technologies such as social media, digital marketplaces, and electronic digital payments have enabled small businesses to rapidly scale their businesses and support internationalization in a cost-effective manner [13].

Some of the previous findings regarding the effect of venture capital on the performance of SMEs can significantly prove that venture capital can improve performance [14],[15]. Meanwhile, research examining the effect of entrepreneurial orientation on SME performance has been significantly proven [16],[17]. In addition, digital transformation also directly affects the performance of SMEs [12],[18].

Referring to the above problems, the specific purpose of this research is to contribute insights to LazisMu Karanganyar Regency in particular and LazisMu in regencies/cities throughout Indonesia in improving the performance of SMEs. This research is expected to contribute as a description and recommendation for LazisMu in Indonesia, especially in Karanganyar Regency in the distribution of productive zakat to people who are entitled to receive and deserve business capital assistance in improving the performance of SMEs. This research framework model is as follows.

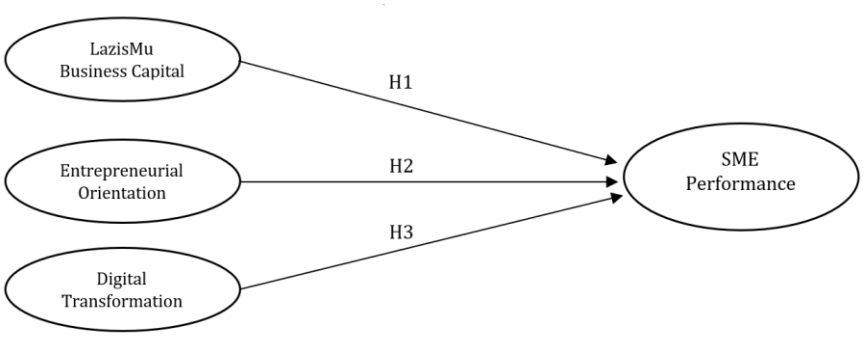

Fig. 1. Research Framework Model

Material and Methods

This study analyses the impact of LazisMu's venture capital assistance, entrepreneurial orientation, and digital transformation on the performance of SMEs in Karanganyar Regency with a causality approach. Causality research is research that tests two or more relationships between variables [19]. Quantitative research is research with statistical methods that test the effect between two or more variables [20]. The data was then obtained through interviews and questionnaires and then processed statistically through the Smart PLS program.

This research was conducted on SMEs in Karanganyar Regency. The sample in this study used a purposive sampling method based on certain criteria [21]. The sample criteria in this study are SMEs in Karanganyar Regency who received productive business capital

assistance from LazisMu and have adopted digitalization, especially in product marketing. The number of research samples that met the criteria was 122 SMEs.

The data in this study used secondary data and primary data. Secondary data is through other intermediaries, while primary data is data obtained directly by data collectors [21]. In this study, researchers took secondary data obtained through the LazisMu Karanganyar Regency database to obtain data on LazisMU business capital assistance recipients in SMEs from 2020 to 2022. Primary data was obtained through interviews and the distribution of questionnaires to recipients of business capital assistance directly to see respondents' perceptions of LazisMu business capital assistance, entrepreneurial orientation, digital transformation, and SME performance. This test was tested through Smart PLS with three stages of testing: outer model test, inner model, and hypothesis testing with the criteria of P-Value ≤ 0.05 then the research hypothesis is accepted [22]. The measurement of research variables can be seen in Table 1.

Table 1. Measurement of Research Variables

No.	Variable	Indicators
1	LazisMu business capital	1. Capital structure 2. LazisMU capital utilisation 3. Barriers to accessing LazisMU capital 4. The state of the business after the utilization of LazisMU capital
2	Entrepreneurship Orientation	1. Orientation 2. Dare to take risks 3. Pro-active
3	Digital Transformation	1. Digital management 2. Operation management 3. Digital decision making
4	SME Performance	1. High return on investment 2. Revenue growth 3. Sales growth 4. Market share growth

Results

A. Respondent Characteristics

This research is aimed at SMEs that receive capital assistance from LazisMu Karanganyar Regency. The number of samples in this study was 122 respondents who met the research criteria. Table 2 shows that the majority of respondents are female, as many as 66 people (54.1%). The largest age group is between 18 to 30 years, which includes 71 people (58.2%). In terms of education, most respondents have a Senior High School background, totaling 65 people (53.3%). The length of business run by the respondents ranged from 1 to 3 years as many as 75 people (61.5%).

B. Outer Model Test Results

Outer model test to evaluate the feasibility of the instrument with three testing methods, namely: convergent validity, composite reliability, and discriminant validity.

Table 2. Characteristics of respondents

Characteristics	Category	Frequency	%
Gender	Male	56	45.9
	Female	66	54.1
Age	18-30 years	71	58.2
	31-45 years	37	30.3
	46-60 years	11	9.0
	>60 years	3	2.5
Education	Junior High School	16	13.1
	Senior High School	65	53.3
	Diploma	13	10.7
	Bachelor/Postgraduate	28	23.0
Length of business	<1 years	25	20.5
	1-3 years	75	61.5
	>3 years	22	18.0
Total		**122**	**100%**

The results of the outer model evaluation using the convergent validity approach in Table 3 show that the factor loading value on the LazisMu Business Capital variable; Entrepreneurial Orientation; Digital Transformation and SME Performance> 0.70, so that the data meets the convergent validity criteria. The composite reliability evaluation has a Cronbach Alpha Value higher than 0.70, so the data meets the composite reliability criteria. Finally, the discriminant validity evaluation has an AVE value higher than 0.50, which means that this research data meets these criteria. Referring to the results of the outer model evaluation show that the research data meets the instrument criteria, so it is feasible to evaluate the inner model.

Table 3. Outer Model Test Results

Variable	Item	Loading Factor	Cronbach Alpha	ρc	AVE	Results
LazisMu Business Capital	BC1	0.932	0.920	0.944	0.808	Valid & Reliable
	BC2	0.842				
	BC3	0.894				
	BC4	0.926				
Entrepreneurial Orientation	EO1	0.811	0.746	0.855	0.664	Valid & Reliable
	EO2	0.866				
	EO3	0.765				
Digital Transformation	DT1	0.830	0.758	0.862	0.676	Valid & Reliable
	DT2	0.872				
	DT3	0.760				
SME Performance	SP1	0.774	0.813	0.877	0.642	Valid & Reliable
	SP2	0.869				
	SP3	0.806				
	SP4	0.752				

C. Inner Model Evaluation

Inner model evaluation is carried out to evaluate the feasibility of the structural model with three methods, namely: R Square (R^2), Q Square (Q^2), and Goodness of Fit (GoF). The results showed that the SME Performance variable has an R^2 of 0.678, which means that the SME Performance variable can be explained by the LazisMu Business Capital variable; Entrepreneurial Orientation; and Digital Transformation by 67.8%, which indicates in the strong category.

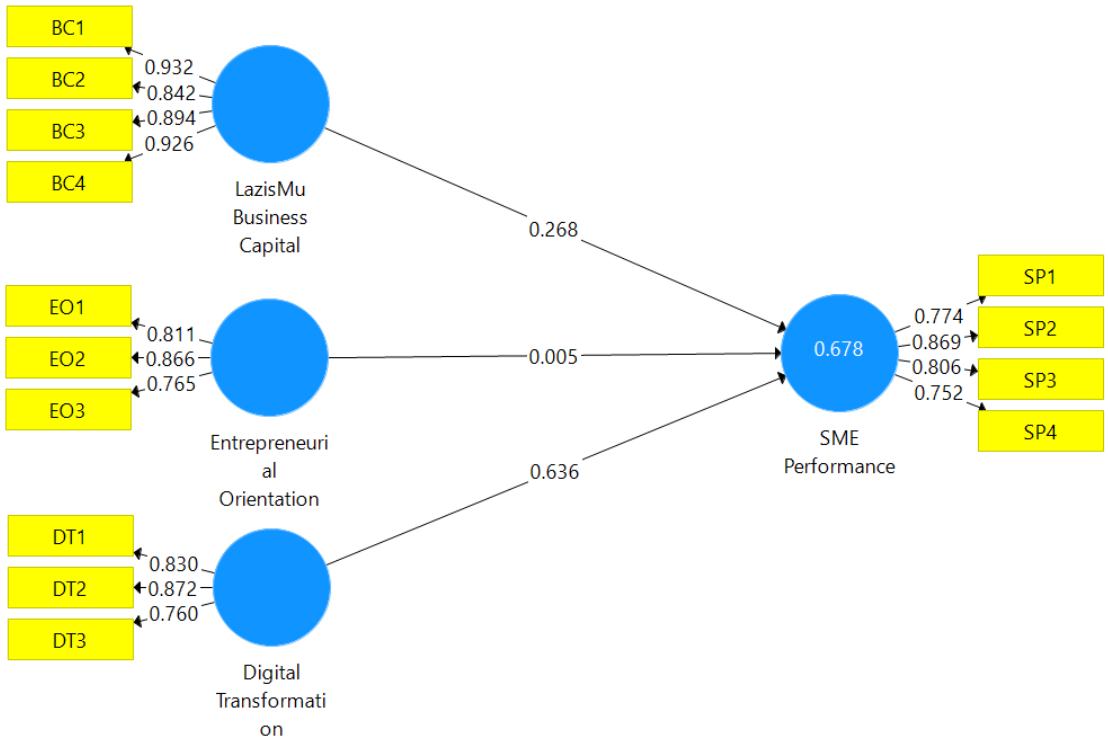

Fig. 2. Outer Model Test Results

Q^2 evaluation has a value of 0.425 which means that the SME Performance variable can be predicted by the LazisMu Business Capital variable; Entrepreneurial Orientation; and Digital Transformation by 42.5% with a strong category. GoF evaluation has a value of 0.688 in the strong category. This means that this research model meets the criteria of the research model so that the research data is feasible for hypothesis testing.

D. Hypothesis Test Results

This study tested the three hypotheses proposed. The research results in Table 4 regarding the effect of LazisMu Business Capital -> SME Performance (β=0.268; P-Values=0.000 <0.05) which means there is a significant influence between LazisMu Business Capital on SME Performance, so H1 is accepted. The results of research on the effect of Entrepreneurial Orientation -> SME Performance (β=0.005; P-Values=0.967 > 0.05). These results indicate that Entrepreneurial Orientation does not affect SME Performance, so H2 is rejected. Finally, the

effect of Digital Transformation -> SME Performance (β=0.636; P-Values=0.000 <0.05). This means that there is an influence between Digital Transformation on SME Performance, so H3 is accepted.

Table 4. Hypothesis Test Results

	β	T Stat	P Values	Results
LazisMu Business Capital -> SME Performance	0.268	3.633	0.000**	H1 accepted
Entrepreneurial Orientation -> SME Performance	0.005	0.042	0.967	H2 rejected
Digital Transformation -> SME Performance	0.636	5.982	0.000**	H3 accepted

Notes: ** significant at α 0.01 (1%); * significant at α 0.05 (5%).

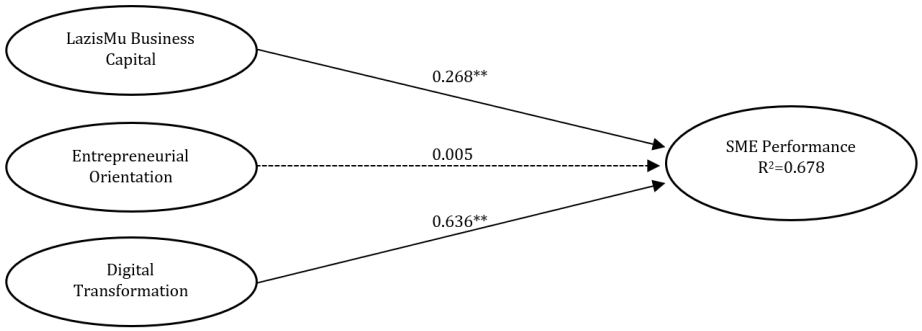

Fig. 3. Hypothesis Test Results

Discussion

The results showed that LazisMu business capital assistance had a significant effect on the performance of SMEs. This research proves that the business capital provided by LazisMu helps SMEs in forming a stronger capital structure. This allows business actors to be able to develop their business better. With the effective utilization of capital from LazisMu, SMEs can improve their business operations, such as the purchase of raw materials, investment in technology, or business expansion. This study has supported previous research that business capital assistance can improve the performance of business actors [14],[15].

Second, the results showed that entrepreneurial orientation does not significantly affect the performance of SMEs. The results indicate that entrepreneurial aspects such as orientation, risk-taking, and proactiveness may not have been sufficiently internalized or effectively applied by SMEs. Although SMEs have an entrepreneurial orientation, without consistent support and application, this orientation may not directly contribute to business performance. Risk-taking is an important factor, but without the right strategy, it will not necessarily improve SME performance. In addition, proactiveness must be supported by adequate knowledge and resources to have a positive impact on business performance. This suggests that despite having entrepreneurial intentions and characteristics, SMEs need to get more support and training to effectively implement these aspects in their business operations. That entrepreneurial orientation can drive business performance [16],[17].

Finally, this study found that digital transformation has a significant influence on SME performance. This research proves that digital transformation is proven to be a key factor in improving SME performance. The implementation of digital management helps SMEs in managing business operations more efficiently and accurately. In addition, digital transformation in operations allows SMEs to improve business process efficiency, reduce costs, and increase productivity. The use of digital tools for decision-making enables SMEs to make faster and data-driven decisions, which has a positive impact on business performance. This digital transformation gives SMEs the ability to compete more effectively in an increasingly competitive market, bringing significant improvements in the operational and strategic aspects of their business. The results of this study support previous research that there is a significant influence between digital transformation and SME performance [12],[18].

Conclusion

This study shows that venture capital assistance from LazisMu has a significant effect on the performance of SMEs, helping them to form a stronger capital structure and improve business operations through effective capital utilization. In contrast, entrepreneurial orientation does not have a significant effect on SME performance, suggesting that entrepreneurial aspects such as orientation, risk-taking, and proactiveness have not been sufficiently internalized or effectively applied by SME actors. In addition, the study found that digital transformation has a significant influence on SME performance, with the implementation of digital management and the use of digital tools for decision-making improving business efficiency and productivity.

Limitation and Suggestions

This study was limited to a sample of SMEs that received assistance from LazisMu in Karanganyar Regency, so the results may not be generalizable to all SMEs in Indonesia. The quantitative approach used may also not explore in depth other factors that affect SME performance. Therefore, it is recommended that further research be conducted with a wider sample and cover various regions in Indonesia. This will allow the results to be more generalized and provide a more comprehensive picture of the effect of venture capital assistance on SME performance in various regional contexts.

In addition, a qualitative approach can be used as a complement to dig deeper into other factors that influence SME performance. In-depth interviews or focus groups with SMEs can provide richer insights into the challenges and opportunities they face, as well as how various aspects of entrepreneurship and digital transformation are applied in daily practice. A combination of quantitative and qualitative approaches will provide a more holistic and in-depth understanding of the dynamics affecting SME performance. Finally, it is recommended that SMEs receive more entrepreneurial support and training to improve their business

orientation, risk-taking, and proactiveness. LazisMu and similar institutions should continue to provide business capital assistance along with training to ensure effective capital utilization. In addition, government policies and support from relevant agencies need to encourage digital transformation in SME operations to improve efficiency, productivity, and competitiveness in an increasingly competitive market.

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