An entrepreneurial finance study: MSME performance based on entrepreneurial and financial dimensions

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Abstract

Various researches have been conducted towards the dynamics of micro, small, and medium enterprise (MSME) developments, but there are still research gaps that can be explored further. The purpose of this research is to examine the determinant factors of MSME performance as seen from the entrepreneurial dimension and the financial activities done by entrepreneurs. The research objects of this study are two batik MSME centers in Central Java Province, which are Rembang Regency and Surakarta municipality. The research model was tested by using PLS-SEM with WarpPLS version 6.0. The research findings revealed there is a positive influence between the dimensions of entrepreneurship and outside finance, entrepreneurial dimension and MSME performance, outside finance, and MSME performance, as well as innovation investment and MSME performance. Another research finding found that the entrepreneurial dimension, which consists of entrepreneurial emotion and entrepreneurial cognition, does not have a positive influence on MSME performance. Meanwhile, outside finance has a negative influence on innovation investment. This research proposes a future research agenda to add other variables that are suspected of influencing MSME performance, whether from a financial or a non-financial aspect, such as financial literacy and the application of digital marketing.

Abstrak

Berbagai penelitian telah dilakukan terhadap dinamika perkembangan usaha mikro, kecil, dan menengah (UMKM), tetapi masih ada ruang lingkup penelitian yang dapat dieksplorasi lebih lanjut. Tujuan dari penelitian ini adalah untuk menguji faktor-faktor penentu kinerja UMKM dilihat dari dimensi kewirausahaan dan keuangan yang dilakukan oleh pengusaha. Dua pusat UMKM produsen batik di Provinsi Jawa Tengah, yaitu Kabupaten Rembang dan kota Surakarta dipilih sebagai obyek penelitian. Model penelitian diuji menggunakan PLS-SEM dengan WarpPLS versi 6.0. Hubungan antara dimensi wirausaha dan kinerja UMKM, pendanaan dari luar dan kinerja UMKM, serta investasi inovatif dan kinerja UMKM terbukti berpengaruh positif. Temuan penelitian lain menemukan bahwa dimensi wirausaha, yang terdiri dari emosi dan kognisi wirausaha, tidak berpengaruh positif terhadap kinerja UMKM. Sementara itu, pendanaan dari luar memiliki pengaruh negatif terhadap investasi inovatif. Penelitian ini mengusulkan agenda penelitian mendatang untuk menambahkan variabel lain yang diduga mempengaruhi kinerja UMKM, baik dari aspek keuangan atau non-keuangan seperti literasi keuangan dan penerapan pemasaran digital.

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1. Introduction

Entrepreneurship is a significant input in developing a country's economy. Entrepreneurs play a role in driving economic activities by establishing their own businesses. An entrepreneur can be considered as an individual who has the skills, initiative, and motivation to launch one's own business and always searches for a way to improve the business performance (Dhaliwal, 2016). Studies about entrepreneurship have been part of a developing field for the last few decades. Previous research revealed that there is a relationship between entrepreneurship aspects and finance activities. Scott & Scott (2016) examined the connection between the role of entrepreneurship through innovative ideas and financing from outside finance. The research results showed that entrepreneurs who have creative ideas actually find it difficult to obtain external financial support. This is due to asymmetric information between potential investors and the entrepreneur regarding the company's prospect of success. This condition can certainly weaken the R&D intensity, as well as have a bad impact on the MSME development itself.

Oftentimes, when a new business is carried out by an entrepreneur, it only receives small returns or even negative returns in the early period, but that does not impede an entrepreneur from continuing to innovate and run the business. Having unrealistic optimism and exaggerating one's abilities and the company's prospect for success forms the background of this behavior (Fast, Sivanathan, Mayer, & Galinsky, 2012).

Besides needing innovative ideas and even out-of-the-box thinking to gather external funds, entrepreneurs also need an entrepreneurship dimension that is sufficiently good from the emotional/psychological or cognition aspect. Potential investors need to be convinced through strong persuasion from the entrepreneur, in order that they will be willing to invest their funds in the business (Adomdza, Åstebro, & Yong, 2016; Pollack, Ruth-erford, & Nagy, 2012). An entrepreneur's emotional preparedness and cognition are suspected to have a positive correlation with the ability to obtain external financing so that it stimulates investment activities that ultimately improve the company performance. An entrepreneur needs to build legitimacy for one's business, in order that he/she can exhibit a good business signal and managerial capability to external parties (Nicholls, 2010). Due to the previous research limitations that are related to the entrepreneurship and finance factors as determinants of MSME performance, it encouraged this study to be conducted. Previous studies that examined strategies to improve MSME performance through collaboration in entrepreneurial and financial aspects, both directly and indirectly, are still limited. Even though at the empirical level, business management cannot be separated from the management elements, one of which is financial management. Therefore, this research positioned to fill the gap by entering the entrepreneurial dimension through the emotional and cognitive aspects of the entrepreneur, as well as the financial dimension through financing and investment activities.

Given the limitations of exact quantitative data on the majority of MSMEs in Indonesia, this research will examine the perceptions of entrepreneurs related to financial activities and corporate financial performance. It is this condition that distinguishes MSMEs in Indonesia from MSMEs in developing countries, where many of them have registered on the stock exchange so that they have valid financial data.

This research contributes to the strategy of MSMEs to improve business performance by collaborating the entrepreneurial aspects of entrepreneurs with entrepreneurial-oriented financial activities. When the cognitive factors and emotional conditions of the entrepreneur can be managed properly, it will support financial activities (financing and investment) that lead to the excellence of small business performance.

This research chose two centers of batik in Central Java Province (Surakarta Municipality and Rembang Regency) because both of them had striking differences in batik. Surakarta batik represents batik that is thick with the values of the Surakarta Palace (*batik Kraton*), while the Rembang batik has a more complex blend of cultures, namely Javanese and Chinese culture (coastal batik). The uniqueness of Rembang batik and rarely exposed to research encourages researchers to choose this center rather than other coastal batik centers.

The theories used in explaining the relationship between concepts in this research come from the theory of entrepreneurship and financial theory, where the synthesis of both results in the theory of entrepreneurial finance. Entrepreneurship theory pioneered by Schumpeter (1934) explains entrepreneurship as a process of innovation that produces new creation in business through the creation of new products, methods, markets, inputs, and organizations. The concept of innovation and creativity is the main factor in running a business because it can produce new products or services to the market. While financial theory discusses financial decisions such as financing, investment, and profit utilization. Further developments emerged the theory of entrepreneurial finance which is a synthesis of the two grand theories.

2. Hypotheses Development

Relationship between entrepreneurial dimensions and outside finance

The behavioral finance theory becomes a framework for connecting these two variables. The entrepreneur's optimism and confidence in the ability to manage a business can feed investors to want to fund the project. The positive attitude shown by entrepreneurs is captured by potential investors as a positive signal from the business prospect, so they want to invest their funds. The resources which are needed for a new company are not only in the form of financial capital, but they are also in the form of other input, such as human resources, raw materials, technology, among others. One of the abilities needed by an entrepreneur in operating a company is to recognize opportunities, whether in human resource opportunities (Javalgi & Todd, 2011), new business models (Chesbrough, 2010; Guo, Tang, Su, & Katz, 2017), or funding resource alternatives (Akorsu & Agyapong, 2012). These various resources will be mobilized by an entrepreneur through an entrepreneurial bricolage process so that it is able to produce certain creativity that was not previously there (Di Domenico, Haugh, & Tracey, 2010; Fisher, 2012). Here, it is seen that if an entrepreneurial spirit is attached to an individual, then the person will play a role in striving to fulfill resources to guarantee the company's sustainability.

Entrepreneurs try to fulfill their financing needs by attracting potential investors, in order that they are interested to invest in entrepreneurs' companies. In general, the entrepreneurs will attempt to convince or persuade potential investors by providing information about accurate business projections (Frydrych, Bock, Kinder, & Koeck, 2014). An entrepreneur's ability to persuade potential investors depends on whether the entrepreneur can make oneself seem attractive to possible fund providers (Bohner & Dickel, 2011) so that eventually the prospective fund providers will admit the existence/legitimacy of the new company (Nagy, Pollack, Rutherford, & Lohrke, 2012).

H_1: the entrepreneurial dimension has a positive influence on outside finance.

Relationship between entrepreneurial dimensions and innovation investment

This premise can be explained through entrepreneurial theory from an economic perspective. The existence of a proactive, risk-taking and innovative trait makes entrepreneurs more intense in carrying out their business investment decisions. The

intention to always create newness in its business model can make MSMEs compete in the market. Not infrequently the investment made is a predecessor compared to its competitors so that competitive advantage can be realized.

The role of an entrepreneur is to dominate the creation of creative and innovative ideas in developing a business, including for MSMEs. Nevertheless, their brilliant ideas are frequently not respected and unable to convince external parties, because they are considered as having a low chance of success (Manne, 2014). Meanwhile, according to the resource-based entrepreneurship theory, an entrepreneur who has a strong entrepreneurial spirit will be able to assemble natural resources, human resources, technological resources, and financial capital in the surrounding area to develop one's business (Alvarez & Busenitz, 2001).

Bravery to face the risk of failure, creativity, independence, proactiveness, and endurance are traits connected to an entrepreneur that can stimulate innovation investment activities in one's business. Having availability of resources will not be beneficial if they are not managed by an entrepreneur who has a high entrepreneurial spirit whether psychologically or cognitively (Ferreira, Garrido Azevedo, & Fernández Ortiz, 2011). Being equipped with positive entrepreneurship psychology that is supported by a sufficient entrepreneurship capability, these heterogeneous resources will be mobilized to support innovative investments both in the products and the production processes.

H_2:   the entrepreneurial dimension has a positive influence on innovation investments.

Relationship between entrepreneurial dimensions and MSME performance

Entrepreneurship theory from a psychological perspective is used to explain the relationship between these two variables (Baum, Frese, & Baron, 2014). Psychologists state that each person is differ-

ent in the level of need for success. People who have low success needs will be satisfied with the status they have, while people who have a high need for success are willing to compete and choose to be personally responsible for the tasks assigned to them. Entrepreneurs who have a need for strong success will strive to run their business with responsibility and well-organized. As a result, the business performance will be superior compared to entrepreneurs with low success needs.

Knowledge is an important asset for small and medium entrepreneurs in facing competition in the global world. The success of MSMEs greatly depends on the knowledge they possess and their past experiences (Inmyxai & Takahashi, 2010; Petrakis & Kostis, 2015). MSMEs can no longer disregard the importance of knowledge as a cognitive dimension that is essential for entrepreneurship. Thus, it is undeniable that knowledge is a determinant to success and a source of sustainable competitive superiority (Daud & Yusoff, 2010). Besides that, entrepreneurial success is influenced by its emotional orientation dimension. Padilla-Meléndez, Fernández-Gámez, & Molina-Gómez (2014) identified three dimensions of entrepreneurial emotion, which are innovation, risk-taking, and proactiveness. MSMEs which adopt innovation, risk-taking, and a proactive attitude to reach a competitive advantage will improve their work performance (Roux & Bengesi, 2014).

H_3:   the entrepreneurial dimension has a positive influence on MSME performance.

Relationship between outside finance and innovation investments

The relationship between outside finance and innovative investment is explained through the theory of entrepreneurial finance. This theory explains financial activity at the level of small businesses. The existence of internal and external funding support can increase the innovation activities of MSMEs in an innovative and proactive manner. The

need for financial capital plays a crucial role in the operational and investment activities of a company; it is likewise for micro and small scale businesses. Furthermore, if compared with corporate companies, MSMEs actually have to deal with the possibility of having external financing constraints due to the presence of asymmetric information (Van Caneghem & Van Campenhout, 2012). However, with the increasing role of finance intermediaries, such as venture investors, angel investors, and creditors, they contribute to fostering the growth of small businesses and encouraging product market innovations (Chemmanur & Fulghieri, 2014; Rupeika-Apoga, 2014).

In line with the entrepreneurial finance theory, the sufficient availability of internal and external finance sources will be able to develop a small enterprise (Mitter & Kraus, 2011). Possessing financial capital resources will stimulate entrepreneurs to be creative and innovative to produce new products, processes, markets, and even organizations.

H_4: outside finance has a positive influence on innovation investments.

Relationship between outside finance and MSME performance

The relationship between outside finance and the performance of MSMEs is explained through the theory of entrepreneurial finance. The strength of external funding sources both formally and informally can improve business performance. These funds can be used to fund day-to-day operations and strengthen investment, ultimately having a positive impact on business performance. Financing which originates from debt has a positive influence on company performance (Campello, 2006; Ortiz-Walters & Gius, 2012). If debt increases, then the company's performance will increase. Campello (2006) stated that a moderate level of debt can increase a company's performance compared with a

company which does not have any debt. There are various reasons, such as funds from debt can help increase the production, resulting in the company having a strategic advantage compared to its competitors in the industry, because the company is able to assemble resources better than its competitors. When the production and product marketing ability increase, then the sales growth will be reached, which will result in an increase in sales profits.

Oranburg (2016) stated that funds from debt are considered as being beneficial for a start-up company because, in the initial stage, an entrepreneur often experiences financial obstacles. When receiving additional funds from debt, an entrepreneur can take advantage of the funds to improve the development of the company. When in debt, there will be an obligation to pay the installments routinely, so that the entrepreneur will be more responsible in operating the company with the expectation that the company's performance can improve. An increase in the performance will improve the entrepreneur's credibility, which will, in turn, improve the credit rating.

H_5: outside finance has a positive influence on MSME performance.

Relationship between innovation investments and MSME performance

Schumpeter (1934) through his entrepreneurial theory identifies the characteristics of entrepreneurs as a person who has high initiative, responsibility and has a view of the future. Entrepreneurs have a role to combine productive factors to process and this is done on the first occasion before other people run it. This increases the chances of high success when the business is accepted by the market.

Based on the resource-based view theory (RBV), a company which can outperform its competitors is one which has a competitive advantage (Barney, Ketchen Jr, & Wright, 2011), and this com-

petitive advantage can appear from innovation investments through the R&D activities that are done by the company (Parida, Westerberg, & Frishammar, 2012). Engaging in a series of innovative activities is considered as being a trigger to the creation of differentiation for goods and services of a company (Liao & Rice, 2010), even more so in an MSME scope. MSMEs are considered as being in the entrepreneurial firm category which has the potential for rapid development since they are managed by entrepreneurs who are entrepreneurship oriented like being brave to take risks, innovative, proactive, and independent.

H_6: innovation investments have a positive influence on MSME performance.

3. Method, Data, and Analysis

This research was conducted in Rembang Regency and Surakarta municipality, Central Java Province. The research objects were batik MSMEs. Each location has its own unique batik traits, which are different in terms of coastal and non-coastal patterns. Besides that, both locations mostly consist of batik enterprises that have managed to penetrate the international market. The object of research from this study focuses on Central Java Province. Most of the municipalities and districts in Central Java Province have local batik, with variations in business development. Surakarta City and Rembang Regency are producers of *batik tulis* which dominates the batik product market in Central Java Province. The majority of the batik produced is of type batik with designs that are derived from the local culture. While coastal batik centers such as in Pekalongan have more diverse types of batik and have more varied characteristics from the above two locations due to complex cultural acculturation. This research chose the Rembang batik center as a representative of coastal batik because it was rarely exposed for research even though the location had the potential for the development of a large batik business besides Pekalongan batik.

In choosing the sample designs for this research, a non-probability sampling with a purposive sampling approach was used (Sekaran & Bougie, 2013). The analysis unit of this research was batik entrepreneurs who were engaged in production, whether in the form of handmade batik or printed batik. The MSMEs which did the production activities were evaluated on having higher innovation and experiment activities than MSMEs in the retailer or grocer category. Sufficient funds were needed as a consequence to support the product innovation activities or in the production process. Based on the criteria established, a total of 94 batik entrepreneur samples were obtained, with an allocation of 30 respondents from Rembang Regency and 64 respondents from Surakarta municipality.

The primary data was acquired through surveys with the research instrument in the form of questionnaires. The questionnaires were comprised of questions about batik MSME entrepreneurs' perceptions about entrepreneurship aspects, finance characteristics, and business performance features.

This research model tended to be recursive, consisting of latent variables and observed variables. The entrepreneurial dimension exogenous latent variable was proxied by entrepreneurial emotion (EE) and entrepreneurial cognition (EC). Entrepreneurial emotion is defined as an entrepreneur's emotions, whether individually or collectively, which cover the influences, moods, and feelings that are involved in the entrepreneurship process (Cardon, Foo, Shepherd, & Wiklund, 2012). EE contained 3 question items, while EC had 2 question items.

There were 3 endogenous variables, which were the observed outside finance (OF) variable, the observed innovation investment (II) variable, and the MSME performance (PER) latent variable. Outside finance is the external finance sources in the form of debt that can be used to support company operationalization (Ciarán Mac an & Brian, 2011). Company performance shows the results

achieved by an enterprise, whether it is measured financially or non-financially (Dossi & Patelli, 2010; Ghosh & Wu, 2012). Each endogen variable had 2 question items. The respondents' answers were categorized into a 5-point Likert scale of 1: very low; 2: low; 3: neutral; 4: high; and 5: very high.

The researcher conducted a pilot test to test the operationalization of the research instruments. The pilot test aims to test the operationalization of the research instrument whether it is in accordance with the conditions and well understood by the respondent. the following table contains the variables and indicators contained in the research questionnaire.

Data analysis was conducted with a Partial Least Squares (PLS) – Structural Equation Modeling (SEM). The PLS-SEM analysis used a WarpPLS version 6.0 program to test the hypotheses. According to Sholihin & Ratmono (2013), a PLS-SEM analysis should go through five stages, which are: a) Doing a model conceptualization. In this stage, it conceptually defines the constructs which will be researched and determines the dimensionality for each construct. Also, the latent construct formation indicators must be determined to see whether they are formative, reflective, or a combination of both of them.

In this research, a reflective latent variable or called Mode A is an indicator which is manifested in the construct (Latan & Ghozali, 2016); b) Determining the algorithm analysis method (outer model and inner model). In PLS-SEM with the WarpPLS 6.0 program, there are two algorithm adjustments which must be done before the model analysis, which are the outer model and the inner model. In the outer model, there are 11 algorithm choices that can be used (CFM1, REG1, PTH1, PLS Regression, PLS Mode M, PLS Mode M basic, PLS Mode A, PLS Mode A basic, PLS Mode B, and PLS Mode B basic).

This research used PLS Mode A, because of the reflective latent variables; c) Adjusting the inner model. There are five algorithm inner model choices in the WarpPLS 6.0 program (linear, warp2, warp2 basic, warp3, and warp3 basic). This research used the linear option because the hypotheses built in the structural model have linear relationships; d)

Table 1. Research variables and their measurements format

Variables	Indicators	Question Items	References
Entrepreneurial Dimension	Entrepreneurial Emotion	• I have many creative ideas. • I have strong support to develop. • I can work independently.	Modified from Cardon et al. (2012)
	Entrepreneurial Cognition	• I have business knowledge. • I have the expertise to operate a business.	Modified from Acedo & Florin (2006)
Outside Finance		• I use debt in the early stage of the business. • I use debt in the growth stage of the business.	Modified from Mac an Bhaird & Lucey (2011)
Innovative Investment		• I routinely allocate funds for experiments to produce new products. • I routinely allocate funds for experiments in the production process.	Modified from Duarte (2011)
Performance	Financial Performance	• What is the role of sales earnings in increasing the company profit? • What is the current company growth?	Modified from Richard, Devinney, Yip, & Johnson (2009)
	Market Performance	• What is the current customer growth? • What is the current market access to the company?	Modified from Prieto & Revilla (2006)

Determining the resampling method, which is a repetitive sampling procedure, because the significance value of the PLS model estimation is not known (Latan & Ghozali, 2016). In general, there are two resampling methods, which are bootstrapping and jackknifing. The jackknifing method will be stable to use if the total original sampling is under 100, but if the data gathering results are the same or more than 100 samples, then it will be stable to use bootstrapping (Latan & Ghozali, 2016); e) Depicting the path diagram as shown in the following empirical research model.

The model evaluation in PLS-SEM underwent two stages, an evaluation of the measurement model and an evaluation of the structural model. The evaluation of the measurement model (outer model) was done to determine the validity and reliability of the latent construct formation indicators. The validity testing is done to find out whether the items/indicators that present the latent construct are valid or not in seeing whether they can explain the latent construct being measured. Meanwhile, the reliability testing is done to discover whether or not the items/indicators from the instrument can be used to do further measurements more than two times with accurate results (Latan & Ghozali, 2016).

A summary of the rule of thumb of a model evaluation with reflective indicators can be seen in Table 2 below:

The reason for doing a structural model (inner model) evaluation is to predict the relationship between latent variables to see how much variance can be explained and to know the P-value significance. The stages of the structural model evaluation include: doing an evaluation of the size of the variance (adjusted R^2), conducting a Stone-Geiser test (to test the predictive relevance), measuring the fitness of the whole model (goodness of fit), and testing the P-value significance (inter-variable influence of the hypothesis tests). A summary of the rule of thumb evaluation of the structural model can be viewed in Table 3:
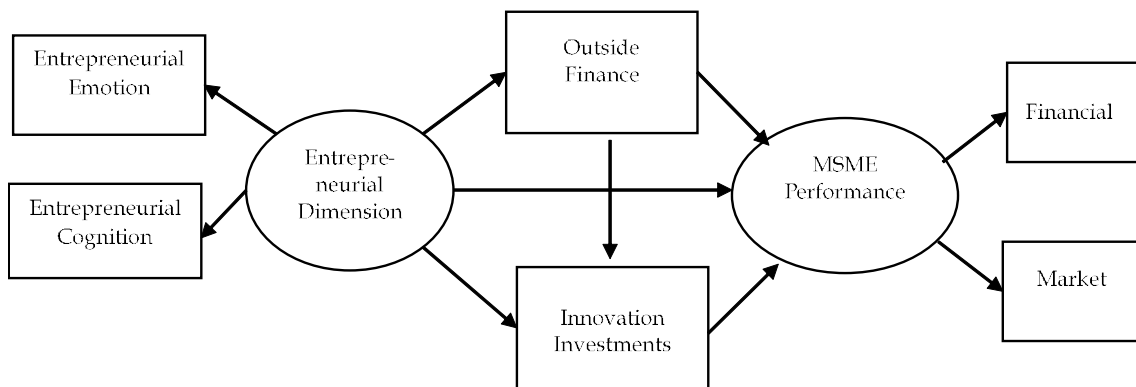

Figure 1. Path diagram

Table 2. Summary of the rule of thumb of a model evaluation in measuring reflective indicators

Criteria	Parameter	Rule of Thumb
Reliability Indicator	Loading Factor	> 0.7
Internal Consistency Reliability	Composite Reliability	> 0.7
Convergent Validity	Average Variance Extracted (AVE)	> 0.5
Discriminant Validity	The root of the AVE quadrat and correlation between constructs	The root of the AVE quadrat > Correlation between constructs

Source: Latan & Ghozali (2016)

Table 3. Summary of the rule of thumb evaluation of the structural model

Criteria	Rule of Thumb
R-square or adjusted R^2	≤ 0.70, ≤ 0.45, and ≤ 0.25 show a strong model, a moderate model, and a weak model
Q^2 predictive relevance	≥ 0.02, ≥ 0.15, and ≥ 0.35 (weak, moderate, strong)
	$Q^2 > 0$ shows that the model has a predictive relevance, and if $Q^2 < 0$ it shows that the model lacks predictive relevance
Average path coefficient (APC)	Acceptable $P < 0.05$
Average R-squared (ARS)	Acceptable $P < 0.05$
Average adjusted R-squared (AARS)	Acceptable $P < 0.05$
Average block VIF (AVIF)	Acceptable if ≤ 5, ideally ≤ 3.3
Average full collinearity VIF (AFVIF)	Acceptable if ≤ 5, ideally ≤ 3.3
Tenenhaus GoF (GoF)	Small ≥ 0.1, medium ≥ 0.25, large ≥ 0.36
Sympson's paradox ratio (SPR)	Acceptable if ≥ 0.7, ideally $= 1$
R-squared contribution ratio (RSCR)	Acceptable if ≥ 0.9, ideally $= 1$
Statistical suppression ratio (SSR)	Acceptable if ≥ 0.7
Significance (*two-tailed*)	P-value 0.1 (level 10%), P-value 0.05 (level 5%), and P-value 0.01 (level 1%)

Source: Latan & Ghozali (2016)

4. Results

An evaluation of the research model, as discussed in the previous section, covers two stages: an evaluation of the measurement model and an evaluation of the structural model. The model evaluation analysis used a PLS-SEM method with a Warppls version 6.0 application. The algorithm method used for the outer model was PLS mode A because all of the constructs in this research used reflective indicators. The inner method used a linear method because it was assumed that all of the relationships between constructs in this model were linear. Based on the data gathering results, it revealed that 94 respondents were acquired from the samples so that the resampling method used a jack-knifing method because it was more stable to be used if the total original number of respondents was under 100 individuals.

An evaluation was conducted on the measurement model to evaluate the reliability and validity of the latent variable formation indicators in this research, where all of the variables in this research model were measured with reflective indicators. The results of the indicator reliability analysis towards all of the variables with their indicators are provided in the following table.

Table 4. Research variables, indicators, and loading factor values

Variable	Indicator	Loading Factor
Entrepreneurial dimension	EE1	0.858
	EE2	0.798
	EE3	0.491
	EC1	0.752
	EC2	0.698
Outside finance	OF1	0.687
	OF2	-0.698
Innovative investment	II1	0.903
	II2	-0.351
MSME performance	Fin1	0.536
	Fin2	-0.022
	Mrk1	0.815
	Mrk2	-0.378

Based on Table 4, there are 8 indicators which have loading factors below 0.7, which are EE3, EC2, OF1, OF2, II2, Fin1, Fin2, and Mrk2. Referring to the rule of thumb in evaluating the reflective indicator measurement model, the indicators should be deleted from the measurement model. Hair, Hult, Ringle, & Sarstedt (2013) stated that indicators with a loading factor below 0.4 should be deleted from the model, but indicators with a loading factor be-

tween 0.4 and 0.7 should be analyzed first to see if they have an increasing effect on the average variance extracted (AVE) and the composite reliability. Besides that, indicators with a small loading factor are occasionally kept because they contribute to the construct validity. Based on the AVE and composite reliability analysis, 4 indicators with a loading factor between 0.4 and 0.7 (EE3, EC2, OF1, and Fin1) were kept in the model. Next, reliability and a validity analysis with complete details of the loading factor values, composite reliability values, and AVE variables are listed in Table 5.

Based on Table 5, all of the indicators from the entrepreneurial dimension variable, outside finance variable, innovation investment variable, and MSME performance variable are valid because they have loading factor values above 0.4. This means that all of the indicators have good indicator reliability. From the output results above, it can be seen that the AVE value for every variable is very good, meaning > 0.5 so that it fulfills the convergent validity criteria. This is also the case with the composite reliability value for every value, which is also very good at > 0.7 so that it meets the internal consistency reliability.

Table 5. Loading factor values, composite reliability, and average variance extract

Variable	Indicator	Indicator reliability	Internal Consistency Reliability	Convergent Validity
		Loading Factor	Composite Reliability	AVE
Entrepreneurial dimension	EE1	0.9	0.825	0.5
	EE2	0.8		
	EE3	0.5		
	EC1	0.8		
	EC2	0.7		
Outside finance	OF1	0.7	1	1
Innovation Investment	II1	0.9	1	1
MSME performance	Fin1	0.5	0.7	0.5
	Mrk1	0.8		

Table 6. AVE quadrat root value and correlations between variables

Construct	AVE Quadrat Root	Correlations			
		ED	OF	II	SP
Entrepreneurial dimension	0.703		0.121	0.020	0.059
Outside finance	1	0.121		-0.346	0.037
Innovation investment	1	0.020	-0.346		0.289
SME performance	0.712	0.059	0.037	0.289	

Table 7. The goodness of fit of the Structural Model

Criteria	Parameter
Average path coefficient (APC)	0.190/ P-vale=0.004 (<0.05)
Average R-squared (ARS)	0.085/ P-value=0.07 (>0.05)
Average adjusted R-squared (AARS)	0.065/ P-value=0.102 (>0.05)
Average block VIF (AVIF)	1.064
Average full collinearity VIF (AFVIF)	1.148
Tenenhaus GoF (GoF)	0.252
Sympson's paradox ratio (SPR)	1.000
R-squared contribution ratio (RSCR)	1
Statistical suppression ratio (SSR)	1
Nonlinear bivariate causality direction ratio (NLBCDR)	1

A comparison of the AVE quadrat root value with the correlations between constructs can be viewed in Table 6 below. From the output below, it can be seen that the AVE quadrat root value for every variable is bigger than the correlations between variables so that it exhibits good discriminant validity.

An evaluation of the structural model (inner model) is done to predict the relationships between variables by looking at how big the explained variance is and to discover the P-value significance (Latan & Ghozali, 2016). Thus, through an evaluation of the structural model, it could answer the 6 hypotheses proposed in this research. Before evaluating the relationships between the variables, the goodness of fit from this research model was evaluated, as seen in Table 7.

Based on Table 7 above, it can be seen that the research model has a rather good fit, even though the ARS and AARS values do not fulfill the criteria of having a P-value > 0.05. The interpretation of the fit model indicators depends on the purpose of the SEM analysis. If the purpose is to test a hypothesis of the relationships between variables, then the fit model indicators are not very important (Sholihin & Ratmono, 2013). Meanwhile, the APC value is very good with a P-value of < 0.05.

The AVIF value and the AFVIF value produced are 1.06 and 1.14 (< 3.3), which means that there is no multicollinearity problem between the indicators and exogenous variables. The GoF produced is 0.252 > 0.250, which means it is in the medium category. For SPR, RSCR, SSR, and NLBCDR, they produce a value of 1, which implies that there is no causality problem in the model (Latan & Ghozali, 2016).

Next, the estimation results of the relationships between variables and the size of their variance can be seen in Table 8.

According to Table 8, the R-squared value (R^2) was obtained for the variance which influenced outside finance by 0.01, which means that the influence of the entrepreneurial dimension variance towards the outside finance variance was only 1 percent and was more influenced (99 percent) by other variables outside this research model. Meanwhile, the variance which influenced innovation investment was 0.12, which means that the influence of the entrepreneurial dimension variance and the outside finance variance towards the innovation investment variance was 12 percent, and the remaining 88% was influenced by other variables outside this research model. Then the variance which influenced SME performance was 0.12, which means that the influence of the entrepreneurial dimension variance, the outside finance variance, and the innovation investment variance towards the SME performance variance was 12 percent, and the remaining 88 percent was influenced by other variables outside of this research model. The value of the R-squared (R^2) variance which influenced outside finance, innovation investment, and SME performance was included in the weak category ($R^2 < 0.25$). Then the Q-squared value which was produced for outside finance, innovation investment, and SME performance produced a value above 0, which means that the model has predictive relevance (Latan & Ghozali, 2016).

Table 8. Estimation results of the relationships between variables

Description Path	Path Coefficient	R^2	Q^2
Entrepreneurial dimension > Outside finance	0.121*	0.01	0.028
Entrepreneurial dimension > Innovation investment	0.063	0.12	0.136
Outside finance > Innovation investment	-0.354***		
Entrepreneurial dimension > SME performance	0.105*	0.12	0.124
Outside finance > SME performance	0.148**		
Innovation investment > SME performance	0.349***		

***, **, * denotes significance levels at 0.01, 0.05, and 0.1, respectively

Hypothesis 1 states that: The entrepreneurship dimension has a positive influence towards outside finance. Based on the output in Table 8, it can be seen that the entrepreneurship dimension variable has a positive and significant influence towards outside finance with a path coefficient value of 0.121 and a P-value of < 0.1. Consequently, this result supports the hypothesis, so that **Hypothesis 1 is accepted**.

Hypothesis 2 states that: The entrepreneurship dimension has a positive influence on innovation investment. Based on the output in Table 8, it can be viewed that the entrepreneurship dimension variable has a positive and insignificant influence towards innovation investment with a path coefficient value of 0.063 and a P-value of > 0.1. Thus, this result does not support the hypothesis, so that **Hypothesis 2 is rejected**.

Hypothesis 3 states that: The entrepreneurship dimension has a positive influence on MSME performance. Based on the output in Table 8, it can be seen that the entrepreneurship dimension variable has a positive and significant influence towards MSME performance with a path coefficient value of 0.105 and a P-value of < 0.1. Consequently, this result supports the hypothesis, so that **Hypothesis 3 is accepted**.

Hypothesis 4 states that: Outside finance has a positive influence on innovation investment. Based on the output in Table 8, it can be seen that the out-side finance variable has a negative and significant influence towards innovation investment with a path coefficient value of -0.354 and a P-value of < 0.01. Thus, this result does not support the hypothesis, so that **Hypothesis 4 is rejected**.

Hypothesis 5 states that: Outside finance has a positive influence on MSME performance. Based on the output in Table 8, it can be seen that the outside finance variable has a positive and significant influence towards MSME performance with a path coefficient value of 0.148 and a P-value of < 0.05. Consequently, this result supports the hypothesis, so that **Hypothesis 5 is accepted**.

Hypothesis 6 states that: Innovation investment has a positive influence on MSME performance. Based on the output in Table 8, it can be seen that the innovation investment variable has a positive and significant influence towards MSME performance with a path coefficient value of 0.349 and a P-value of < 0.01. Thus, this result supports the hypothesis, so that **Hypothesis 6 is accepted**.

5. Discussion

As for the positive and significant influence between the entrepreneurship dimension and outside finance, it depicts that the emotion factor and entrepreneurial cognition factor play an important role in company finance activities. An entrepreneur will strive to fulfill the business financial needs

Table 9. Entrepreneurial dimension and outside finance perception scores

Item	Item Average	Indicator Average	Grand Average
Entrepreneurial Emotion:		3.48	3.58
Creative ideas	3.47		
Strong support to advance	3.61		
Able to work independently	3.36		
Entrepreneurial Cognition:		3.68	
Company knowledge	3.68		
Expertise to run a business	3.67		
Outside Finance:		4.44	4.40
Debt as a primary funding resource in the early stage of the business	4.44		

Explanation: Very Low: 1.00-1.80; Low: >1.80-2.60; Moderate: >2.60-3.40; High: >3.40-4.20; Very High: >4.20-5.00

through utilizing debt to support the early stage of the business. The early stage is a crucial stage for the sustainability of the MSME itself (Olawale & Garwe, 2010) because from this point it can develop to become bigger. One of the strategies used by an entrepreneur to collect financial capital is by trying to convince investors about one's business prospects and competencies as a businessperson (Bohner & Dickel, 2011). Data on the respondents' perceptions justify this finding, where the average entrepreneurial dimension and outside finance scores are considered as being in the high and very high categories.

The test results corroborate that there is no proof of a positive and significant influence from the entrepreneurial dimension towards innovation investment. This finding indicates that the entrepreneurial emotion factor and the entrepreneurial cognition factor do not have an effect on innovation investment activities. Whether the entrepreneurship dimension is high or low, it does not provide enough stimulation for an entrepreneur's experimental activities to produce new products. A batik MSME which has superiority in batik motifs and designs will be more influenced by the market interest for continuously new batik products. As for the high competition that is found in batik companies from the various kinds of batik like handmade batik, paintings, stamped/printed, *shibori*, and batik from overseas, it demands entrepreneurs to be able to present new products before their competi-

tors. Alluding to this, the market orientation is connected with MSME product innovations, besides the innovation factor from the entrepreneurs themselves (Verhees & Meulenberg, 2004).

The next finding revealed there is a positive and significant influence between the entrepreneurial dimension and MSME performance. Human resources are the main asset for MSMEs to succeed in facing competition in the business world. The success of an MSME is greatly dependent on the entrepreneur's knowledge and managerial capabilities in processing the available input. This is in line with the entrepreneurship of the resource-based theory (Alvarez & Busenitz, 2001). An MSME entrepreneur needs to have knowledge about the business being run and the skills to operate the business so that the knowledge possessed will become a determinant for success and have a sustainable competitive advantage. Besides that, entrepreneurial success is also influenced by one's emotional orientation, such as coming up with creative ideas, having a desire to advance, and possessing high independence. An MSME that applies a series of innovation activities is willing to take calculative risks and acts proactively in carrying out one's business will improve business performance (Roux & Bengesi, 2014). Data on respondents' perceptions supports this finding, where the average entrepreneurial dimension score and the MSME performance score are considered in the high category.

Tabel 10. Entrepreneurial dimension perception and MSME performance scores

Item	Item Averages	Indicator Average	Grand Average
Entrepreneurial Emotion:		3.48	3.58
Creative ideas	3.47		
Strong support to advance	3.61		
Able to work independently	3.36		
Entrepreneurial Cognition:		3.68	
Business knowledge	3.68		
Expertise to run a business	3.67		
MSME Performance:		4.44	3.87
The role of company assets towards increasing profit			
Customer satisfaction		3.53	

Explanation: Very Low: 1.00-1.80; Low: >1.80-2.60; Moderate: >2.60-3.40; High: >3.40-4.20; Very High: >4.20-5.00

The next examination reveals that outside finance is not proven to have a positive and significant influence on innovation investment; this finding even shows that there is a negative influence. This means that the higher the outside influence is, it will actually reduce innovation investment and the other way around. Utilizing debt as a primary source of financial capital in the early stage of a business actually reduces innovation investment activities. This is estimated to be due to the finding that in the early stage of a business, the entrepreneur is still focused on company development. A company's early period is a critical phase/ full of instability so that an MSME which is able to traverse this phase can last longer (Barkham & Gudgin, 2002). In addition, the high level of company debt that is not balanced with the entrepreneurial capability can actually weaken innovation investments. Campello (2006) stated that high debt, in fact, has a negative effect. As for the obligatory consequence of paying interest and the loan principal, it causes the profit in the majority of the early company stages to be absorbed by this obligation, so that it results in low innovation investments.

The next result shows that there is a positive and significant influence between outside finance and MSME performance. An increase in debt can improve financial performance (Ortiz-Walters & Gius, 2012) because the majority of MSMEs still need internal or external funding support. Although debt has liquidation and bankruptcy costs, only entrepreneurs who have a strong relationship with banking prefer to use debt (Makpotche, Logossah, Amewokunu, Lawson-Body, & Sedzro, 2015). Besides that, an increase in the debt ratio will improve the business activities, so that the market needs can be served well. Data on the respondents' perceptions supports this finding, where the average outside finance and MSME performance scores are grouped into the very high and high categories.

In examining the influence of innovation investment towards MSME performance, it also shows positive and significant results. The high level of innovation investment activities in a batik company, which is reflected in routine fund allocations for product experiments, has a positive effect on company performance. The intensity of product experimentation triggers customer satisfaction through the innovative products produced (Yannopoulos, Auh, & Menguc, 2012) so that market performance improves. Improving business performance is seen from how high the role of using business assets is in assisting experiment activities to increase profit. Data on the respondents' perceptions supports this finding, where the average innovation investment and MSME performance scores are categorized as being very high and high.

In addition, this research model has an indirect effect between variables, namely the influence of entrepreneurial dimension on MSME performance through outside finance, the influence of entrepreneurial dimension on MSME performance through innovation investments, and the effect of outside finance on MSME performance through movement investments. The results of the analysis of the indirect influence or mediation between these variables are shown in Table 13.

Tabel 11. Outside finance and MSME performance scores

Item	Indicator Average	Grand Average
Outside Finance:	4.44	4.44
Debt as a dominant funding source in the early stage of the business		
MSME Performance:		3.87
The role of company assets towards increasing profit	4.20	
Customer satisfaction	3.53	

Explanation: Very Low: 1.00-1.80; Low: >1.80-2.60; Moderate: >2.60-3.40; High: >3.40-4.20; Very High: >4.20-5.00

6.   Conclusion, Limitations, and Suggestions

Conclusion

Based on testing the MSME performance determinants of entrepreneurship and finance aspects, it can be concluded that the entrepreneurial dimension, outside finance, and innovation investment are antecedents of MSME performance, while the entrepreneurial dimension is an antecedent of outside finance. Therefore, entrepreneurs need to emphasize the importance of the role of batik entrepreneurship from the emotional/psychological side as well as cognition side and also supported by finance activities such as external financing and innovation investments to create a more superior performance.

In addition, this research model shows the indirect effects of variables. Based on the results of the analysis of indirect effects, the outside finance variable does not mediate the influence of entrepreneurial dimension on MSME performance. Entrepreneurial dimension has a positive direct influence on MSME performance. Thus the results of the analysis show that innovative investments do not mediate the influence of entrepreneurial dimensions on MSME performance.

Furthermore, the results of the analysis show that the innovative investment variable has a negative mediating role on the effect of outside finance on MSME performance. This means that the increase in outside finance is followed by the decline in innovative investments, thereby reducing MSME performance. These results do not recommend increasing MSME performance through mediating innovative investments but MSME performance improvements are better done by directly influencing both variable innovative investment and outside finance towards MSME performance.

Limitations and suggestions

This research has limitations, such as the R-squared (R2) variance which influences SME performance to produce a small value or in the weak category (R2<0.25). This reveals that there are still many variables outside of the model that can become determinants of MSME performance so that it is recommended for future researchers to add other variables, whether from financial or non-financial aspects, such as financial literacy and applied digital marketing.

Tabel 12. Innovative investment and MSME performance scores

Item	Indicator Average	Grand Average
Innovation Investment:	4.49	4.49
Allocate funds for new product experiments		
MSME Performance:		3.87
The role of company assets towards increasing profit	4.20	
Customer satisfaction	3.53	

Explanation: Very Low: 1.00-1.80; Low: >1.80-2.60; Moderate: >2.60-3.40; High: >3.40-4.20; Very High: >4.20-5.00

Tabel 13. Indirect effect

Description Path	Path Coefficient	Finding	
Entrepreneurial dimension >outside finance> MSME performance	0.025	Insignificant	No Mediation
Entrepreneurial dimension >innovative invesments> MSME performance	-0.043	Insignificant	No mediation
Outside finance > innovative invesmants> MSME performance	-0.123***	Negative Significant	Negative Mediation

***, **, * denotes significance levels at 0.01, 0.05, and 0.1, respectively

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