

The Recovery of Firm Performance: Does Government's Non-Financial Support Really Matters?

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Abstract

Purpose: This research aims to aspire to examine the impact of credit access (CA), innovative investment (II), and risky financing (RF) on firm performance (FP). Then, it strives to demonstrate the mediating effect of II and RF and the moderating effect of the government's non-financial support (GS) towards the impact of CA on FP.

Methodology: Primary data was collected from a survey of 102 small and medium-sized batik entrepreneurs in Lasem-Rembang and Bakaran-Pati, Central Java Province, Indonesia. The data was processed using a SEM-PLS analysis with a mediating and moderating effect.

Findings: II proved to have a significant positive effect on FP. In this model, II and RF could fully mediate CA's impact on FP. Meanwhile, GS could only strengthen the effect of CA on II. Furthermore, CA's impact on II strengthens when GS is low. There are still limited papers that have studied strategies for MSE performance from a collaborative perspective of the institutional and resource-based view theories. These two theories have become the rationale for how entrepreneurs maintain and manage businesses in the endemic transition period by utilizing CA, implementing II, applying RF, and coupling with GS intervention, which increases FP.

Keywords: *Business Performance, Credit Access, Innovative Investment, Risky Financing, Government Non-Financial Support.*

INTRODUCTION

The COVID-19 pandemic has caused national and global economic growth to become negative (contraction), and there is no exception for the micro and small enterprises (MSE) batik creative industry sector in Indonesia. The imposition of large-scale social restrictions caused the movement of foreign and domestic tourists to come to a standstill. The batik MSE income fell drastically and only reached a maximum of 30% compared to the period before the pandemic. Based on field observations by the Association of Indonesian Batik Craftsmen and Entrepreneurs (APPBI), it is estimated that more than 50% of businesses have closed. As a result, some batik artisans were forced to switch professions to

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become builders, food sellers, rattan craftsmen, or workers in other business sectors. The shock of this business situation has reduced business performance in general.

There are several factors that affect the performance of MSEs, both from internal and external aspects. Internal factors such as the incompetence of entrepreneurs in running their businesses and limited capital are also classic problems faced by MSEs to develop their businesses (Mugambi & Karugu, 2017). Meanwhile, external factors that also have the potential to affect the performance of MSEs are government support/intervention. The business ecosystem is inseparable from a series of regulatory policies that will be implemented or have been implemented (for example: tax regulations, business licenses, business funding, etc.). Another role of the government as a catalyst and facilitator is the expectation of MSEs to help develop their businesses, especially in entering the transition period towards the COVID-19 endemic in Indonesia.

The institutional theory explains organizational relations with actors in the environment around the organization (Hessels & Terjesen, 2010). Business practices carried out by entrepreneurs cannot be separated from the laws, regulations, and government policies that encourage or limit certain practices (Spencer & Gómez, 2004). The Indonesian government pays considerable attention to the MSE sector through assistance programs, supporting regulations, and institutions that handle MSEs in order to have a competitive advantage at home and abroad. Government support is needed to overcome the limitations of MSEs in terms of financial ability, capacity, and professional business management capability.

The resource-based view theory explains from a strategic perspective that the ownership of heterogeneous resources and unique capabilities is the main material for formulating strategies (Ferreira et al., 2011), in order to create a competitive advantage to achieve superior organizational performance (Kellermanns et al., 2016). This theory emphasizes that organizational strength lies in scarce and valuable internal resources, both tangible and intangible ones (Wright & McMahan, 1992). Tangible assets can be easily adopted by competitors, but not so with intangible assets (Whitwell et al., 2007). Bulińska-Stangrecka & Bagieńska (2020) even found that intangible assets play a role in transferring knowledge to encourage the potential of business sustainability. In the context of MSEs, ownership of intangible assets (for example: culture, capability of entrepreneurs in managing a business, business networks, employee relations, flexible access to funding, access to government assistance, reputation, etc.) can strengthen the existence of a company in the midst of business competition.

RBV holds the viewpoint that a company will be able to create a competitive advantage when the company has resources that are scarce, not easily imitated, and cannot be replaced. The ability of MSEs to obtain funding faster, easier, and in accordance with their needs is an advantage over their competitors. Access to flexible funding owned by entrepreneurs

is one of the resources that can increase a competitive advantage and even boost firm performance (Latifi et al., 2021) MSEs generally have limited capital, therefore, the ease of obtaining credit is an important key to carry out daily operational activities and investments. Moderate debt levels can improve performance compared to companies that do not have debt (Campello, 2006; Cheong et al., 2020a; Ortiz-Walters & Gius, 2012). When MSEs are still in the introduction stage, entrepreneurs tend to continue to use debt because of insufficient internal funds. Debt will continue to be taken each time providing additional benefits that are greater than the additional costs. Easy credit access and low interest rates can increase external financing for firms (Duan et al., 2009). This debt can be used to expand the business reach and generate more sales so as to improve financial performance (Levine, 2003) and non-financial performance (Rita & Utomo, 2019).

Previous empirical research on the effects of credit access on performance has exhibited inconsistent results. Credit access has been shown to improve MSE performance (Cheong et al., 2020b; Worokinasih & Potipiroon, 2019). On the other hand (Itonga et al., 2016) and (Rita & Huruta, 2020) concluded that credit access does not affect the performance of MSEs. Credit access was also discovered to actually reduce firm performance (Mahmud et al., 2022). The inconsistency of these findings suggests that there are other variables that influence the effect between credit access and business performance, namely the existence of a mediating variable.

Studies on credit access are also related to financial activities, such as innovative investments and risky financing. The urge to continue to survive during the pandemic has triggered *batik tulis* MSE entrepreneurs to carry out innovative business practices and dare to take risks. Mann (2018) and Laborda et al., (2020) found that weak credit access discourages innovative investments for firms. Innovations require the firm's liquidity capabilities that depend on the firm's ability to generate profits. When profits are not sufficient to meet innovation activities, the company needs external funding in the form of debt. Thus, broad credit access stimulates entrepreneurs to increase the allocation of resources for innovative investments (Rita et al., 2021).

Furthermore, credit access is also related to risky financing. One of the obstacles faced by MSEs in developing countries is the limited capital owned by MSE entrepreneurs (Mahmud et al., 2022). It is undeniable that MSEs need capital to support working capital adequacy and business expansion. MSEs that experience funding difficulties may lose chances to capture business opportunities (Prijadi et al., 2022). The high credit access possessed by MSE entrepreneurs encourages them to take advantage of debt which is considered riskier than internal funds (profit). Smooth credit access has been proven to provide opportunities for MSMEs to perform better (Pan, 2019). When entrepreneurs are able to establish harmonious and dynamic business relationships with the suppliers and providers of funds, they will trust entrepreneurs by providing flexibility in access to finances (Purnomo, 2018) This

opportunity will encourage entrepreneurs to finance their businesses with debt rather than their own capital, even though it will encourage the use of debt with fixed capital costs, which has the potential to increase the risk of default (Kim, 2019). This risky speculative decision is one of the dominant characteristics of an entrepreneur to maintain the existence of one's firm (Ghosh, 2020).

Through innovative investments and risky financing, entrepreneurs have the opportunity to save their businesses and even be sustainable in the long-term, rather than do nothing. When entrepreneurs invest a lot of resources in innovations (product, process, and marketing), the competitive advantage will strengthen and improve performance (Guo et al., 2017; Kalil & Aenurohman, 2020). The resources invested to support innovation activities will result in a wider market reach, more efficient and effective business processes, and more suitable production materials. Business input factors such as technology, research and development, as well as the unique capabilities of entrepreneurs have a strong impact on increasing business growth (Ndesaulwa, 2016). The aspects of innovation in business are not only related to technology, but they can also be related to institutional aspects or business management. The high level of innovation in the application of technology in the management/institutional aspect will strengthen the performance of SMEs in the context of international business (Donbesuur et al., 2020). Even, innovative investments can increase business resilience when facing a recession wave (Jung et al., 2018).

However, a lack of capital caused by low credit access can weaken the performance of MSEs (Orser et al., 2000), because funds are a basic and flexible resource to be transformed into other forms of resources. High credit access encourages entrepreneurs to use these funds for innovative investments. Supported by the outpouring of time, energy, and thoughts from entrepreneurs, innovative investments are carried out in order to solve problems in new and creative ways (Rita & Huruta, 2020). Creativity and innovation are needed for MSEs to exist in the midst of market competition and financial crises (Meutia et al., 2018). In line with the RBV theory, it takes the ability of entrepreneurs related to the use of funds to develop businesses, which is reflected in the innovative investment variable. So, even though the credit access owned by MSE entrepreneurs is the same, if they are unable to stimulate innovative business activities, it will not have an impact on improving the business. The open opportunity to get debt triggers an increase in entrepreneurship for investment activities (Fragouli, 2017), thus stimulating company performance.

In addition, the courage of MSE entrepreneurs to take advantage of debt will motivate them to work harder and smarter in order to pay off their financial obligations due to debt. Risky financing can strengthen firm performance (Tsuruta, 2015). Adequacy of funds is one of the important inputs that ensures business continuity. If the amount of internal funds is insufficient, MSE entrepreneurs try to finance their working capital and investment needs through debt. However, the

problem of information asymmetry faced by small businesses makes it difficult for them to access external funding such as debt (Denis, 2004). Financial decisions for MSEs are different and unique when compared to large companies due to greater pressure on information asymmetry. Therefore, when entrepreneurs are able to build good business relationships with creditors, which is reflected in the high credit access, it will increase the bargaining position of MSEs in the eyes of other creditors (Fatoki, 2012). This opportunity will be exploited by entrepreneurs aggressively and boldly to fund their businesses with debt, even though it is realized that debt has fixed financial costs and higher risks than internal capital (Rita et al., 2022). Debt is the choice of external capital to develop a business compared to equity because it is able to provide a large amount of funds with alternative repayment schemes and interest rates (Weber et al., 2020) that can support scaling up and improve business performance.

The high credit access owned by MSEs has the potential to provide capital needs quickly and easily (Duan et al., 2009). This strength encourages entrepreneurs to use debt more often and dominate sources of venture capital or what is known as risky financing. The existence of strict financial consequences from debt has actually become the spirit of entrepreneurs to run their businesses persistently, be more professional in managing business finances, and be productive (Supramono & Putlia, 2010). The courage of MSME entrepreneurs to use debt as business capital cannot be separated from a psychological bias (Rita et al., 2021), such as high confidence, overoptimism, and planning fallacy that are often encountered in entrepreneurs (Rita & Wahyudi, 2019). The choice of funding will determine the growth and development of a business (Darmawan & Molla, 2016). Although the business situation is uncertain, it takes a brave entrepreneur to decide to fund one's business from debt, even though there is a risk of failure (Lee et al., 2015).

In addition to examine the role of mediating variables above, this study also examines the moderating effect of government non-financial support in the relationship between credit access and innovative investment on firm performance. MSEs can activate innovative activities if adequate resources are available, such as venture capital. Access to flexible external funding sources is the key to implementing innovative investments for small businesses, especially when internal capital is insufficient. But in fact, limited capital is often a problem for MSEs, so it has the potential to interfere with the creative investment activities of entrepreneurs (Laborda et al., 2020). In a situation like this, intervention from the government is needed as a facilitator whose role is to provide facilities for MSEs to grow and strengthen the national economy (improving the information technology infrastructure during the pandemic, training and mentoring for MSE entrepreneurs, etc.) (Affandi et al., 2020). Then as a catalyst, the government plays a role in strengthening the institutions, skills, and management of MSMEs (Gade, 2018), thus making MSEs feasible and ready to access credit. This is coupled with the role of the government as a regulator that controls

financial inclusion for MSEs in order to further strengthen credit access (Athaide & Pradhan, 2020), thus encouraging innovative investment.

Over the past few years, the Indonesian government has disbursed many kinds of credit to MSEs, but the absorption of these loans is still low (Rahma, 2020). This is possible because the level of sales during the pandemic has decreased significantly, so entrepreneurs are reluctant or afraid to go into debt for fear of not being able to pay off their loans. However, if the government intervenes through policies and creates a conducive business climate for MSEs, it is suspected that it will strengthen the influence of credit access on MSME performance. The intervention needed by MSEs is government non-financial support such as training and mentoring, because the injection of venture capital alone is not enough to maintain firm performance.

To achieve increased firm performance in the midst of a dynamic business environment, entrepreneurs need innovation to create efficiency and effectiveness in their business processes. However, MSE entrepreneurs do not necessarily have sufficient internal resources to fund innovation activities. Therefore, external funding sources are one of the solutions for innovative investment needs. The more there is open credit access, the more it will be possible for MSEs to carry out innovative investments which in turn will improve the firm performance. Government non-financial support will form a strong and sustainable MSE bargaining position (Songling et al., 2018). Generally MSEs are non-bankable (Samudro & Risha, 2021), and they are not necessarily able to reach external sources of funds independently. Various obstacles in gaining access to funding by MSEs need to be minimized holistically (Eyiah et al., 2018). In this case, the government acts as a catalyst for MSEs to reach investors and creditors through policies that are supportive for small businesses, as well as function as a mediator. (Du et al., 2017) demonstrated that government intervention can help MSEs access bank loans.

This study aims to comprehensively examine and analyze: a) the impact of the most dominant antecedents of firm performance (FP), whether it is credit access (CA), innovative investment (II), or risky financing (RF); b) the relationship between CA and FP through the mediation of II and RF; and c) the moderating effect of government non-financial support (GS) in the relationship of CA to FP, and CA to II. Recently, these studies generally examine the pandemic period (Kaberia & Muathe, 2020; Kassa, 2021; Luo & Xu, 2021), while this study is conducted during the Indonesian government's policy of easing towards the endemic transition of COVID-19. An analysis of the internal factors of a firm, which includes the financial aspects of an MSE, is necessary considering its contributions in maintaining business continuity, especially during times of a crisis. While external factors in the form of government support are useful as immunity for MSEs to survive economic and societal shocks. The ability of entrepreneurs to collaborate through internal and external factors is expected to accelerate the

recovery of MSE performance during the transition from the pandemic to an endemic.

Another value of this study lies in the theoretical framework used to analyze the MSE performance improvement strategy from the collaboration of the institutional theory and the resource-based view (RBV) theory, especially during the COVID-19 endemic transition period. These two theories have become the rationale for how entrepreneurs manage businesses in endemic transition periods by utilizing CA, implementing II, and applying RF, and how government intervention results in increasing FP. The institutional theory recognizes that organizations operate in a social sphere, not purely from an economic influence (Musimenta et al., 2017). Therefore, non-financial government incentives can also play a role in shaping and strengthening the business model run by MSEs through the commitment and professionalism of entrepreneurs in running their businesses.

This study offers theoretical and managerial contributions. This research provides a scientific basis for the recovery of MSE performance from the perspective of the institutional theory and the RBV theory. It also can become a reference for MSE entrepreneurs to improve their firm performance during the endemic transition period by considering the contributions of the stakeholders involved.

METHOD

This study used a quantitative-explanative approach. The aim was to predict the antecedents of *batik tulis* FP in the presence of GS moderation, involving CA, II, and RF. The formulation of this research model was based on the fact that the literature demonstrated that a direct influence between CA and FP is not always consistent. This study used a combination of the institutional theory and the RBV theory to build the proposed model Figure 1.

The population of this research was *batik tulis* firms that were fostered by the Cooperative and MSE Agency in Rembang Regency and Pati Regency, Central Java Province, in 2021, totaling 125 firms (100 MSEs in Lasem-Rembang and 25 MSEs in Bakaran-Pati). The sampling used a saturated sample (census) method, which utilized all the members of the population as a sample. Primary data was obtained through a survey by distributing questionnaires to *batik tulis* MSE entrepreneurs in both onsite research locations. The survey was carried out for 2 months from April-May 2022, during which the Indonesian government had begun to relax the COVID-19 policy.

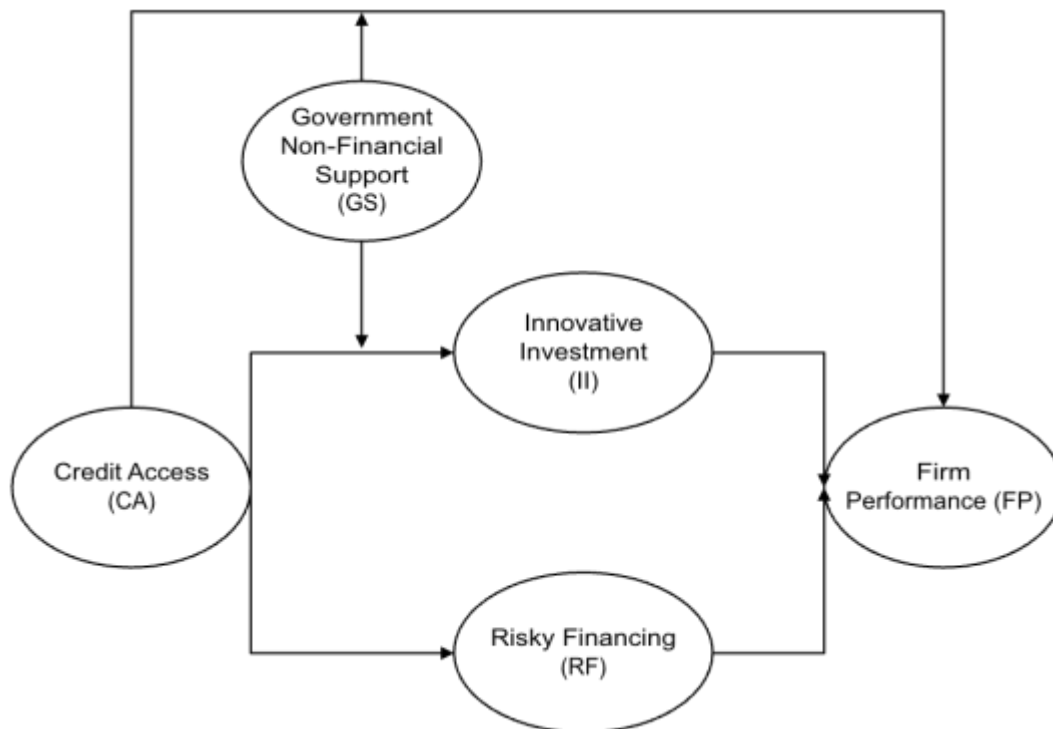


Figure 1. Theoretical Framework

Source: Developed for the research (2022)

An evaluation of the measurement model or outer model with reflective constructs in SEM-PLS was carried out by observing the value of the reliability indicator, namely the magnitude of the variance of the indicators/items to explain the latent construct and composite reliability to measure the overall construct reliability (Hair et al., 2017). In addition, it was also conducted to test the average variance extracted (AVE) and compare the square root of the AVE with the correlations between the constructs in the model (Latan & Ghozali, 2016).

The structural model to test hypotheses in this study was put into a structural equation that was processed simultaneously:

$$II = \alpha_1 + \beta_1 CA + \varepsilon_1 \tag{1}$$

$$RF = \alpha_1 + \beta_1 CA + \varepsilon_1 \tag{2}$$

$$FP = \alpha_1 + \beta_1 CA + \varepsilon_1 \tag{3}$$

$$FP = \alpha_1 + \beta_1 II + \varepsilon_1 \tag{4}$$

$$FP = \alpha_1 + \beta_1 RF + \varepsilon_1 \tag{5}$$

$$II = \alpha_1 + \beta_1 CA + \beta_2 GS + \beta_3 CA*GS + \varepsilon_1 \tag{6}$$

$$FP = \alpha_1 + \beta_1 CA + \beta_2 GS + \beta_3 CA*GS + \varepsilon_1 \tag{7}$$

The variables in the model are summarized in Table 1.

Table 1. Variable measurements

No	Variable	Indicator	Reference
1	Credit access (CA)	- Amount of credit - Credit process - Credit frequency	Modified from (Duan et al., 2009)
2	Innovative Investment (II)	- Capital expenditure - Exploration of information technology uses - Do research & development activities in the business	Modified from (Moltchanski et al., 2012); Rita & Huruta, 2020; Moltchanski et al., 2012; Moltchanski

			et al., 2012; Moltchanski et al., 2012; Moltchanski et al., 2012)
3	Risky Financing (RF)	- Ratio of long-term debt towards its own capital - Fixed financial costs	Modified from Meuleman & De Maeseneire, (2012); Rita & Huruta (2020)
4	Government Non-financial Support (GS)	- Training - Mentoring	Modified from Purwaningsih & Haryono (2019)
5	Firm Performance (FP)	- Sales growth - Capital growth - Profit growth - Workforce growth - Market growth	Modified from Sandra & Purwanto (2017)

In terms of capturing the further moderating impact of GS on the effect of the CA to II and FP, we follow (Nastiti et al., 2019a) by classifying these total MSEs into two subsamples based on the median values of GS. MSEs with GS above the median value of GS are classified as high GS, and below the median value are classified as low GS. This test aims to explain the different impacts of GA on the effect of CA to II and FP.

RESULTS AND DISCUSSION

By the total sample of 125 *batik tulis* MSEs in the two research locations, as many as 102 (82%) business units are still operating; the rest have not survived due to the pandemic. Based on the age category, the majority of the respondents are in the productive age range of the population, which is in the age interval >30-50 years (64%). The number of women entrepreneurs is more than men, namely 56 respondents (55%). The *batik tulis* MSE entrepreneurs in the two research locations were dominated by women, considering that batik involves perseverance, neatness, and patience in the production process. Then, as many as 96% of the entrepreneurs have been in this business for more than 5 years, considering that the batik business is usually passed down from generation to generation. Based on their educational background, entrepreneurs with a high school/ equivalent education numbered 48 respondents (47%), while those with lower education were 24 respondents (24%), and 26 respondents had higher education (25%). This shows that the education level of the owners of *batik tulis* MSEs is high because 72% have a minimum education of high school/ equivalent.

In order to produce valid and reliable research indicators from each construct, several tests were conducted before the hypothesis testing. The first-order reflective construct is tested by removing indicators with loading values < 0.7 and p-values > 0.05 because they do not become eligible. The evaluation test using Average Variances Extracted (AVE) shows that the AVE value for each construct is > 0.5, so it meets the convergent validity criteria. The Composite Reliability Coefficient value for all constructs > 0.7 meets internal consistency reliability. The results

of the Full Collinearity VIF test for each construct are < 3.3 , so it can be concluded that there is no collinearity problem in the model. In addition, the square root value for each construct in this study is greater than the correlation between constructs means that it meets the discriminant validity. Thus, all indicators used in this study can be concluded that meet the requirements as an indicator measuring the constructs.

The full model test results from this study are depicted in Figure 2 below:

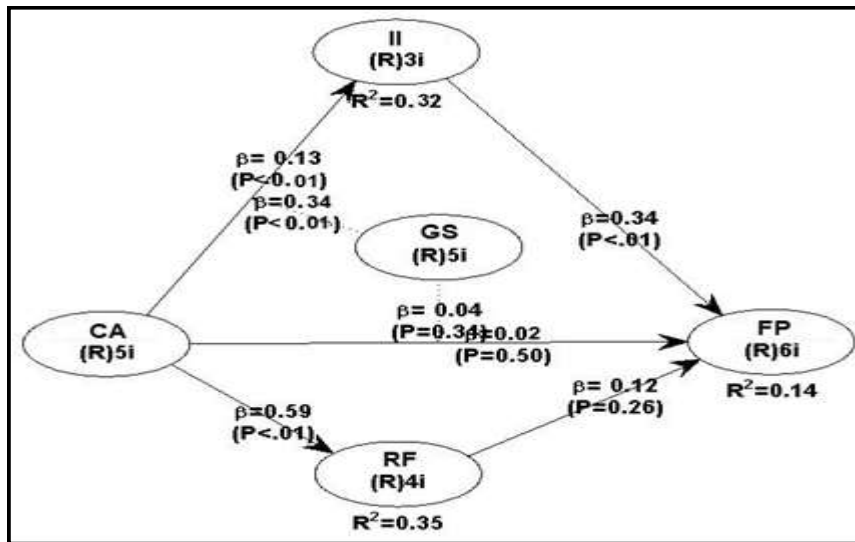


Figure 2. Full model output

Source: Processed primary data (2022)

Furthermore, Table 2 displays the findings generated after analyzing the proposed model.

Table 2. Hypothesis test results

Path	Coefficient
CA \square II	0.334**
CA \square RF	0.591***
CA \square FP	0.022
II \square FP	0.338***
RF \square FP	0.116
CA \square II \square FP	0.069**
CA \square RF \square FP	0.113***
CA*GS \square II	0.341***
CA*GS \square FP	0.043

Note: *, **, and *** represent that the values are significant at 10%, 5%, and 1% respectively.

Source: Processed primary data (2022)

The findings of this study indicate that CA has a positive effect on II (0.334**). The ease, adequacy, and cost of capital for access to external capital will encourage entrepreneurs to make innovative investments, especially when internal capital is insufficient. Innovations in business processes, markets, materials, and production processes require adequate funding support. During the transition to the endemic period, entrepreneurs have made new breakthroughs for their businesses, such as market developments, use of digital applications, and innovation efforts to develop new products from having broad access to funding.

Limited capital is an obstacle to innovation activities (Mahendra et al., 2015), but this problem can be anticipated by the high credit access that MSE entrepreneurs have (Aghion et al., 2011; Aidoo, 2019; Laborda et al., 2020).

CA is proven to have a positive effect on RF (0.591***). Weak credit access is a fact that the majority of MSEs face (Machmud & Huda, 2011), especially during times of a crisis. This condition can hinder MSMEs from capturing business opportunities, even though access to funding is one of the factors to encourage MSE performance improvement (Pan, 2019). When entrepreneurs have high access to external funding, they can easily fund their businesses from debt. Debt is a riskier source of funding than equity. Possessing more open credit access will give entrepreneurs a bargaining position in facing creditors (Fatoki, 2012), so that entrepreneurs are more flexible in capturing and realizing business opportunities.

CA is not shown to have a significant positive effect on FP. Primary data shows that although MSE entrepreneurs have easy credit access (the criteria for the process of obtaining funds are in the high category), it seems that entrepreneurs have not utilized it enough. This can be seen from the amount of fund participation from debt which is still in the moderate category and the frequency of obtaining funds which tends to be low in the last two years. The pandemic condition causes entrepreneurs to prefer internal funding to fund routine business operations, so it does not burden them. In fact, if it can be used properly, easy credit access funding can be used to increase turnover and operating profit. Increasing operating profit as a form of internal funding can also be used as additional capital to support the sustainable growth of a business (Nastiti et al., 2019b).

II has a positive effect on FP (0.338***). Entrepreneurs' initiatives to innovate can help improve firm performance (Bach et al., 2019). These results can be explained by the fact that the allocation of business resources (funds, time, and labor) for production and innovation activities, business processes, institutions, and marketing will produce competitive advantages, which in turn will have an impact on improving MSME business performance (Ndesaulwa, 2016). Innovative MSEs will have a greater chance to survive and excel in intense competition (Anwar, 2018). Innovative investments enable MSMEs to meet changing customer demands, improve their production process efficiency, diversify their products and service portfolios (Yahyaei et al., 2020), and even strengthen the performance of SMEs in international business (Donbesuur et al., 2020). In addition, the existence of innovative investments can increase business resilience when facing a recession wave (Jung et al., 2018), such as during the current transition period of the COVID-19 pandemic.

The other of testing results reveal that RF is not demonstrated to have a significant positive effect on FP. It can be seen from the observation data that the use of debt for business compared to equity needs still tends to be low, so that in the end RF does not have

implications for business performance. On the other hand, it is possible that MSME entrepreneurs understand enough that the use of debt that is not matched by the ability to pay it off actually has a negative impact on their business continuity, so that entrepreneurs refrain from using debt as a source of funding when not seizing a good business opportunity. This condition is associated with recovery due to the pandemic, which is still difficult for MSEs to be able to operate normally again.

II is shown to mediate the effect of CA on FP (0.069**). Entrepreneurs must be innovative in order to survive (Macdonald et al., 2007), especially in the midst of a business crisis that has no end in sight. Entrepreneurs must be able to express their innovations/creativity into business activities, one of which is in physical and non-physical investment activities. A physical investment is found in the procurement of assets to support business operations, while a non-physical investment is more in the accumulation of knowledge and capabilities of entrepreneurs and employees. To support investment flexibility, an injection of funds from debt is needed when MSEs lack internal funds (Wellalage & Fernandez, 2019). As a result, in the next process this innovative investment will boost business performance. This finding is in line with the test results of the direct effect of CA on FP which did not prove significant. It can be interpreted that credit access will be able to improve performance through innovative investments made by entrepreneurs.

RF is shown to mediate the effect of CA on FP (0.113***). Considering from the previous test results that CA is not able to directly influence FP, then an intermediary activity is needed, namely risky financing carried out by entrepreneurs so that performance can be optimal. The ease in applying for credit and the adequacy of the amount of funds needed will encourage entrepreneurs to take advantage of debt as additional business capital. Although behind this decision there are consequences of fixed capital costs and possible difficulties in repaying loans when they fall due, the worst effect is that the business will be liquidated (Moti et al., 2012). However, for entrepreneurs who dare to take risks, this is actually a challenge for them to manage these funds properly. Especially during the pandemic, which is not known when it will end, a strategic decision is needed from entrepreneurs to be brave to access debt. Of course, this speculative risk has been carefully considered by entrepreneurs with efforts to set aside funds to pay off loans when they are due, so that these potential risks can be minimized. Entrepreneurs think about the importance of having the courage to take on financial risks during periods of a crisis (Kozubíková et al., 2017).

The results of moderating test indicate that GS is able to strengthen the effect of CA on II (0.341***). Investment activities involve financial resources and non-tangible resources (time, thoughts, and energy from entrepreneurs). Especially for batik businesses which are included in the arts and creative industry, the availability of money is not enough to create a competitive advantage. Innovative or different investment activities are needed through the collaboration of funds and

efforts from entrepreneurs. It is necessary to improve the product quality and make service adjustments to attract consumers (Djatkiko & Pudyastiwi, 2020). To create innovative investments, government intervention is required through training and mentoring programs needed by entrepreneurs during the endemic transition period. Training and assistance related to business digitalization, marketing, and professional business financial management is able to strengthen CA's effect on II (such as: exploring the use of digital applications to support daily business and marketing activities, seeking new product manufacturing options and efficient production processes, and searching for alternative raw materials). This finding supports (Macdonald et al., 2007), who discovered that education and training will produce appropriate innovations for SMEs.

For further analysis, we do a robustness test by dividing the sample into two subsamples based on the level of GS (high and low). Table 3 shows CA to II and FP regression results by dividing into two subsamples based on GS. MSEs with GS above (below) the median value of GS are classified as high (low) GS. The existence of moderating effect showed different significantly in the two subsamples. Test results confirm that GS moderates the effect of CA to II. In which the impact of CA to II strengthens when GS is low. That is in line with the previous finding that GS can strengthen the impact of CA on II. Further, we know that CA positively affects II when GS is low (0.521**). On the other side, CA does not significantly impact II when GS is high (0.501). So, we can conclude that the GS moderates the effect of CA on II, which is the low level of government support will strengthen the influence of the CA on II. We argue that the low government intervention encourages entrepreneurs to take advantage of credit access to increase their business innovation. Especially during the pandemic, lower non-financial support from the government increases the entrepreneurial activity to be more independent and creative. It raises risk-taking behaviour to support their business sustainability. Schot & Steinmueller (2018) explained that even government policy as a form of government's incentive important for entrepreneurship, it need to consider the different scale, condition and nature of existing resources due to improper government support can actually limit entrepreneurial activities to create business innovation.

Table 3. Subsample Regression Result for Moderating Test

Variable Effect	GS HIGH	GS LOW	Result
CA -> II	0.501	0.521**	Moderating effect
CA -> FP	-0.747***	-0.446**	No moderating effect

Note: *, **, and *** represent that the values are significant at 10%, 5%, and 1% respectively.

Source: Processed primary data (2022)

The last finding table 2 shows that GS is not able to strengthen the effect of CA on FP. Another test result in table 3 by dividing the sample into two subsamples confirms GS is not moderating the effect of CA on FP due to the two subsamples having no difference significantly. Based on field data, it turns out that MSE entrepreneurs have a relatively low frequency of obtaining funds in the last 2 years (less than 5 times in the last 2 years), although in terms of the ease of applying for credit, it is relatively high. In fact, the role of the government in Indonesia and other countries to loosen credit limits for MSMEs has been reflected in various financial incentives during the pandemic (Liu et al., 2022; Tejomurti et al., 2020). This condition can be related to the business situations they face. When times are difficult, they will try to manage the debt rate that is actually needed to support their businesses during a crisis. In addition, when entrepreneurs do not have the option of using funds for business purposes, it also has the potential to reduce the realization of credit for businesses. Then the consequences of fixed capital costs from debt need to be reconsidered by entrepreneurs to increase their credit (Djatkiko & Pudyastiwati, 2020). Therefore, when the government launches various non-financial incentives in the form of training and business assistance, it will also not be able to drive business performance. Moreover, based on empirical data, the respondents answered that the government's non-financial support was in the moderate category, so that the effect was not able to increase credit access to improve MSME performance.

CONCLUSION

As a conclusion, business crisis conditions need to be addressed wisely and creatively by MSE entrepreneurs in order to survive in entering the endemic period (phase 2 of the new normal era). Business financial management needs to be elaborated with an entrepreneurial spirit in order to be able to perform better. The variables that are proven to be antecedents of FP are II and RF. This means that entrepreneurial-oriented investment and funding activities are able to improve business performance during the transition to the COVID-19 endemic for *batik tulis* MSEs in Lasem and Bakaran.

In addition, the business performance recovery model in the two research locations requires government non-financial support on the effect of CA on II. The training and mentoring programs from the government that involve other parties are able to strengthen the effect of CA to support II in *batik tulis* MSE. However, when the government wants to design a supportive program for MSEs, the government needs to consider the condition of the MSEs. Some MSEs need more financial support, especially for MSEs that are experienced or have business peculiarities. This type of MSEs does not necessarily require government technical support. If forced, the support will not be relevant to the needs of MSMEs, so it will not have a significant role in the decision to innovate. On the other hand, if the government supports it in a form that is by the needs of MSEs, it will be more meaningful for business strengthening. Thus, the government needs to estimate the form of support given to

entrepreneurs and look at the need, urgency and scale of the assisted business.

The existence of easily accessible funding sources will stimulate entrepreneurs to conduct experiments/trials intensively in producing new products, developing new processes, providing new gadgets in business digital activities, and others. Furthermore, the findings revealed that II and RF are required to bridge the effect of CA on FP. This means that efforts to restore MSEs' performance during the COVID-19 pandemic transition period are realized through entrepreneurial-oriented financial activities by utilizing open credit access for entrepreneurs. Debt plays a role as a leverage for firms to be able to operate more flexibly, especially when the businesses are experiencing contractions and pressure due to the pandemic. When internal funds are insufficient, external funding sources can be selected to meet business needs.

The findings of this study support the two theories used in framing this study. According to the institutional theory, the government's involvement through non-financial programs is needed to create a conducive business climate for business continuity during the endemic transition period. The presence of these government incentives acts as buffers for MSMEs, so that they can survive and overcome the negative impacts due to the pandemic so as to be able to restore healthy business conditions.

The RBV theory emphasizes the company's internal resources, both tangible and intangible assets that are rare, hard to imitate, and valuable. In referring to the RBV theory, the ability of entrepreneurs to optimally utilize credit access can stimulate entrepreneurial-oriented financial activities to restore business performance. The dual role as an owner and a manager triggers initiative, risk-taking, and creative efforts to maintain the existence of a business by rethinking the business strategies. Entrepreneurs' commitment and ability to continue to innovate using new raw materials, utilize creative production processes, produce new products, and use digital applications to support their businesses have proven to be able to save businesses during the pandemic.

Although this study has elaborated on the results of the existing literature, this research still has limitations (related to data representation only at the level of the sample studied, the research period, and the data processed). Therefore, it is necessary to investigate further about business sustainability during phase 2 of the new normal era in other business sectors such as services or trade. Next, research agendas can also compare the performance improvement strategy model proposed in this study in conditions before, during, and after the pandemic. The existence of limited financial data from MSEs makes researchers measure business performance from the perceptions of entrepreneurs. Therefore, future research can determine the sampling criteria by selecting small-medium scale businesses that already have simple financial records. Finally, this study only examined batik tulis MSEs that have lasted through the pandemic, so the number does not

meet the criteria of 10x the number of indicators. As a consequence, data processing was not carried out using a rigid analytical technique such as covariance-based SEM. Therefore, if there is a sufficient number of samples available, the researcher can process the data using a technique that necessitates more rigid assumptions to be fulfilled.

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