

Does Financial Resource Development Effort Affect the Dynamic Entrepreneurial Capability and Performance of SMEs?

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Abstract

The changes and uncertainty of the business environment in the VUCA era are serious challenges that must be faced, especially for SMEs. The unpreparedness of business actors to face these changes can impact the decline in SME performance and business sustainability. SMEs must continue to adapt to all changes that occur in their capabilities. Thus, SME players must have a business strategy using their resources by increasing dynamic entrepreneurial capabilities supported by financial resources to compete in the market. This research aims to analyze the relationship between digital technology capability, relational capability, innovation capability, financial resource development, and SMEs' performance in Surakarta. The results of 120 SME respondents in Surakarta show that dynamic entrepreneurial capability, in this case, is measured using the variables digital technology capability (DTC), relational capability (RC), and innovation capability (IC) which are proven to have a significant influence on SMEs performance and also the development of financial resources can only partially mediate digital technology capability, however Financial resource development cannot mediate the influence of relational capability or innovation capability on SMEs performance. This research implies that it is important for SMEs to have dynamic entrepreneurial capabilities and develop their financial resources to maintain and improve their business performance.

Keywords: digital technology capability; relational capability; innovation capability; innovation capability; financial resource development

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Introduction

Business competition worldwide, including SMEs, is experiencing rapid increases along with economic growth. SMEs are the main trigger of the national economy through their contribution to the employment of millions of people both formally and informally. Apart from that, SMEs have also contributed to economic growth (Mangifera et al., 2022). However, on the other hand, SMEs face financial constraints that can hinder the growth of their competitiveness. This is caused by increasing competition in the market, so companies must have a strategy to maintain their business (Fitriati et al., 2020).

The development of financial resources is one of the strategic approaches that SMEs can adopt to overcome this problem (Owusu, 2021). Financial resource development includes identifying, mobilizing, and managing existing financial resources to support business growth

and performance. Business performance shows the results of managing the resources owned at a specific time. According to (Ullah et al., 2021) performance describes the extent to which a business has carried out all its main activities using resources. Apart from that, performance can be interpreted as the impact of the strategy set by the company (Newman et al., 2021). Good business performance is expressed in three main indicators, namely the level of profit value obtained, sales growth as indicated by the value of increased sales, and market share compared with competitors, which ultimately brings profits to the company (Sudartono et al., 2022).

The low performance of SMEs can block growth and make it challenging to overcome the obstacles they face, especially financial problems. Financial problems are caused by the risky nature of their business, which is related to bank loan funding, ownership, and management structure (Moscalu, 2020). Previous literature suggests that

SMEs have limited financial resources to support their business performance (Muriithi, 2017) (Owusu et al., 2019). The ability to manage resources is very important to support business performance, so that SMEs can manage their financial resources well to achieve superior performance in their business (Suryani, 2017).

This research fills the gap in entrepreneurial ecosystem theory, which still has little to do with existing theories. Thus, this research identifies the development of MSME entrepreneurial ecosystems by referring to relevant theories by combining resource dependency and network theories. This research explores the importance of financial resources development to increase dynamic entrepreneurial capabilities from the perspectives of digital technology, networking, and innovation capabilities to impact SME performance.

Literature Review

Entrepreneurial dynamic capability refers to an entrepreneur's ability to integrate, build, and configure internal and external capabilities to deal with a rapidly changing environment (Bleady, Abbas et al., 2018). DC reflects the dynamic ability of SMEs to achieve superior performance in a particular market position (Bleady et al., 2018). Dynamic capabilities reflect certain characteristics that are unique and different so that they can create advantages for the business because companies have their special characteristics and uniqueness which becomes their attraction and differentiates them from similar companies (Teece et al., 2009). Dynamic capabilities are capabilities entrepreneurship adapts to a rapidly changing environment. Entrepreneurial orientation is inherently innovative, proactive, and risk-taking.

Dynamic skills. DC can be classified as entrepreneurial skills that can adapt to dynamic market changes (Teece, 2007). DC is a firm's ability to process and reconfigure internal and external capabilities in a rapidly changing environment (Fitriati et al., 2020).

SMEs Digital Technology Capability and Performance

Digital technology has a uniquely important role in the development of entrepreneurship related to transformation in business

processes (Proksch et al., 2021). Digital technology in this case can be interpreted as products and services in providing business information. By having digital technology capabilities, MSMEs will be able to inform their business processes with a wider reach and provide easier and more flexible services. According to (Ottemoesoe et al., 2021) are considered important for SMEs because they include activities that combine information technology, computing, communication, and connectivity capabilities as strategies in business processes. Supported by research results state that having digital technology capabilities has a positive impact on entrepreneurship because it plays a role in compressing the amount of time, minimizing resource use, increasing resource availability, and developing resources (Khurana et al., 2022).

Digital technology capabilities have been proven to influence SME performance. However, other research suggests otherwise that good performance is a driving factor for companies to adopt digital technology (Nugraha et al., 2022). For both large-scale and SMEs, several studies show the influence of a positive relationship between digitalization and performance (Yao & Xiao, 2022). Supported by other research, it shows that digitalization at the national/industry and company level has an impact on SME performance (Mangifera & Mawardi, 2022). According to Wang (2020) digital technology, when integrated into the company, affects the strategy, processes, and performance of SMEs in this research, the ability to implement technological capabilities in business practices is more important than the availability of technology. The literature identifies these capabilities as IT (Rachinger et al., 2019), digital (Agostini & Nosella, 2020) or digital technology capabilities. This research conceptualizes digital technology capabilities as capabilities that are reflected in the ability to use technology in marketing and finance and the scope of technology adopted by companies (Ravichandran, 2017).

Based on this literature, the hypothesis proposed in this research is:

H1: Digital technology capabilities have a significant effect on MSME performance

H5: Digital technology capabilities affect the development of financial resources.

SME's Relational Capability and Performance

Ability to establish, develop, and maintain relationships with internal and external parties or what is often referred to as relational capabilities influencing strategic and marketing flexibility (Maulana, 2021). Trust in a relationship has been proven to support a positive attitude toward change and successful adaptation to new environments and situations (Wu et al., 2016). Collaboration and communication in the use of digital technology with external partners show a positive impact on performance at the operational and strategic levels (Sijabat, 2018). In some literature, it is stated that SMEs have the characteristic of utilizing external resources to complement their limited internal resources. Several studies show that utilizing external networks is a strategy for SMEs to develop performance (Feliciano-Cestero et al., 2023). The ability to create social relationships with external parties and manage external communications by sharing information has a positive impact on SME performance at the operational, customer, and strategic levels, especially in uncertain and complex environments. Based on the above, we put forward the following hypothesis:

H2: Relational capabilities have a significant effect on SMEs' performance

H6: Relational capabilities have a significant effect on the development of financial resources

Innovation Capability on SMEs Performance

Small businesses are very active in responding to novelty and new technological innovations. Some firms tolerate uncertainty and take risks (Anwar et al., 2021). The ability to generate new ideas and solutions does not make it completely innovative. Innovation is the ability to successfully introduce new things in business, take risks, be entrepreneurial, and integrate them into business (Battistoni et al., 2023). Several studies highlight the difficulties of SMEs in developing their innovation capacity due to their limited resources (Wellalage & Locke, 2020). In general, SMEs can develop duality and innovation capabilities using external resources or internal human capital. In SMEs that successfully develop innovation capabilities, the ability to form knowledge with existing resources and

skills facilitates the creation of new products and services and access to new markets to improve business performance. Based on this, the hypothesis proposed in this research are:

H3: Innovation capability has a significant effect on SME's performance

H7: Innovation capability has a significant effect on the development of financial resources.

Financial Resource Development

The financial resources development of SMEs depends on the focus of SMEs allocated to building financial resources. The interaction of these factors determines the availability of funds to finance SMEs (Oquaye et al., 2020), according to which the availability of funds is the availability of financial capital for businesses. In contrast, (Pham et al., 2021) argue that financial access does not change spontaneously concerning the availability of financial resources, without sufficient attention to the use of funds from different financial sources. They suggest that the amount of attention that the decision-makers of an organization pay to obtain funds ultimately determines the organization and its availability of financial resources. There is ample evidence that financial capital resources affect the performance of SMEs (Yoshino, 2019). Financial resources are important for the development, growth, and innovation of SMEs (Mangifera et al., 2022). The lack of financial resources of SMEs hinders the growth of performance and prevents many innovative products and services from entering the market (Ferreira et al., 2021). Based on this description, a hypothesis is presented in this study:

H4: Financial resource development has a significant effect on SMEs performance

H8: Financial resource development can mediate digital technology capabilities on SMEs performance

H9: Development of financial resources can mediate relational capabilities on SMEs performance

H10: Financial resource development can mediate innovation capability on SMEs performance

Methods

This research uses a quantitative descriptive approach. The population in this research is SMEs

in Surakarta. This research uses a sampling technique which is probability sampling because each population element is considered to have the same opportunity to become a sample. The number of samples for this research was 120 respondents. So the sample in this research is SME actors in Surakarta. There are several criteria used in determining the sample in this research, namely SME actors in Surakarta in all business sectors, namely trade, services, and manufacturing. This research uses a quantitative descriptive approach. The population in this research is SMEs in Surakarta. This research uses a sampling technique, namely probability sampling because each element of the population is considered to have the same chance of being sampled. The sample size for this research was 120 respondents. So the sample in this research is SMEs in Surakarta. There are several criteria used in determining the sample in this research, namely SMEs in Surakarta in all business sectors, namely trade, services, and manufacturing. This research

variable consists of digital technology capability (DTC), relational capability (RC), innovation capability (IC), financial resource development (FRD), and business performance. DTC is measured by the ability to use technology in marketing activities related to products and services (Mangifera, Dyah, 2023), RC is measured by the ability of SMEs to develop and maintain relationships both internally and externally (Zhao et al., 2022), IC is measured by the ability of SMEs to continuously develop innovation in response to environmental changes (Kijkasiwat & Phuensane, 2020), while FRD is measured through financial capabilities carried out through raising and collecting as well as generating income outside of business (Ismail, 2022). Business performance is measured through business achievements that have been obtained through additional assets, increased profits, increased sales, and increased capital. Data analysis uses PLS-SEM to process data with Smart-PLS 3 software.

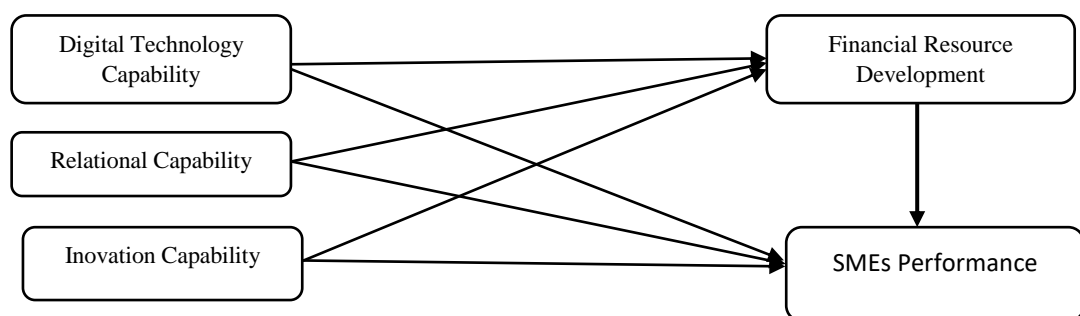


Figure 1. Theoretical Framework

Results and Discussion

Respondent Characteristic

Surakarta City had 11,757 micro, small, and medium enterprises (SMEs) in 2023, of which approximately 75 percent are engaged in trade, followed by the production sector with $\pm 15\%$ and services with $\pm 10\%$. Women entrepreneurs drive many SMEs. These SMEs are spread across all sub-districts in Surakarta City. In this research, the number of respondents studied was 120 SMEs from the trade, service, and manufacturing sectors in Surakarta... The gender of the SMEs who were respondents

was 59.29% male and 40.8% female. The last level of education of MSME actors who were respondents to this research was 59.2% SMA/SMK, 21.7% S1/S2, 7.5% SMP, 6.7% Diploma, and 5% Elementary School. The age of SMEs who were respondents to this research was 34.2% between 41-50 years old, 30% between 31-40 years old, 22.5% more than 50 years old, and 13.3% between 20-30 years old. The business profile is provided in Table 1. as follows

Table 1. Business Profile

Business Sector	Percentage
Services	29,20%
Trade	65%
Manufacture	5,80%
Type of Business	Percentage
Culinary	5%
Craft	8%
Food and Beverage	32%
Convection	4%
Agriculture	8%
Furniture	9%
Other	34%
Business Age	Percentage
1 - 2 years	17,50%
3 - 5 years	25,80%
5 - 10 years	28,30%
10 years <	28,30%

Source: Primary data (2023)

Table 2. Convergent Validity

Variable	Question	Outer Loading	Validity
Digital technology capability	X11	0,773	Valid
	X12	0,784	Valid
	X13	0,786	Valid
	X14	0,817	Valid
Relational Capability	X21	0,639	Valid
	X22	0,792	Valid
	X23	0,757	Valid
	X24	0,654	Valid
Innovation Capability	X31	0,739	Valid
	X32	0,692	Valid
	X33	0,857	Valid
	X34	0,754	Valid
Financial Resource Development	Z1	0,704	Valid
	Z2	0,747	Valid
	Z3	0,672	Valid
	Z4	0,808	Valid
Performance	Y1	0,786	Valid
	Y2	0,787	Valid
	Y3	0,673	Valid
	Y4	0,814	Valid

Source: Primary data (2023)

Discussion

Refers to the results of the convergent validity analysis, it can be seen that all questions representing each variable have an outer loading value of > 0.6. It implies that the question

representing each variable in this study meets the validity test requirements. The Average Variance Extracted (AVE) analysis results are presented in Table 2.

Table 3. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)	Validity
Performance (Y)	0,702	Valid
Financial Resource Development (Z)	0,662	Valid
Digital Capability (X1)	0,585	Valid
Relational Capability (X2)	0,514	Valid
Innovation Capability (X3)	0,503	Valid

Source: Primary data (2023)

Refers to the results of the Average Variance Extracted (AVE) analysis, the results of the AVE value starting from the performance variable are 0.702, the financial resource development variable is 0.662, the Digital Capability variable is 0.585, and the Relational

Capability variable is 0.585. 0.514, and an Innovation Capability of 0.503. It implies that each variable in this study has met the requirements for convergent validity because it has an AVE value > 0.5

Table 4. Cronbach's Alpha Test Result

Variable	Cronbach's Alpha	Reliability
Performance (Y)	0,862	Reliable
Financial Resource Development (Z)	0,827	Reliable
Digital Capability (X1)	0,711	Reliable
Relational Capability (X2)	0,760	Reliable
Innovation Capability (X3)	0,774	Reliable

Source: Primary Data (2023)

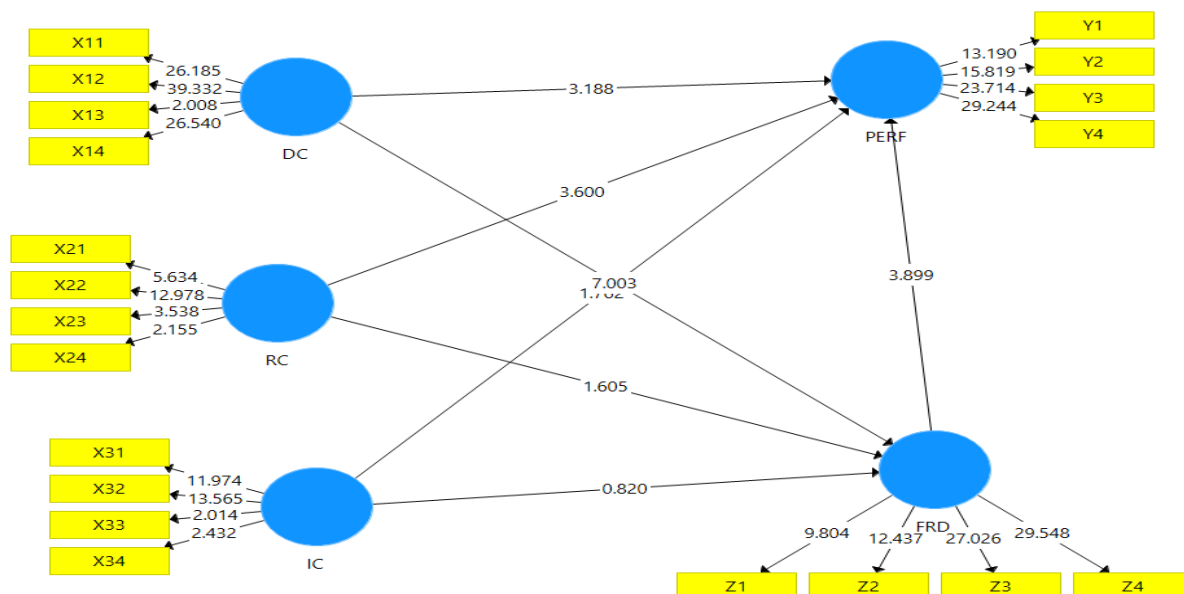


Figure 2. Inner Model

Table 5. Direct Effect Test

Model	Original Sample (O)	T-Statistics (O/STDEV)	P-Values	Sig.
H5 - DTC → FRD	0,488	7,003	0,000	Significant
H1- DTC → Performance	0,437	6,242	0,000	Significant
H4 - FRD → Performance	0,324	3,899	0,000	Significant
H7 - IC → FRD	0,059	0,820	0,413	Not Significant
H3 - IC → Performance	0,161	2,058	0,040	Significant
H6 - RC → FRD	0,130	1,605	0,109	Not Significant
H2 - RC → Performance	0,285	4,339	0,000	Significant

Source: Primary data (2023)

From Table 5 above, it can be seen that the P-Values of the influence of DTC on FRD 0.000, RC on performance 0.000, IC on performance 0.040, FRD on performance 0.000, and DTC on FRD 0.000 are all below 0.05, which means they are significant so it can be concluded that H1, H2,

H3, H4, H5 accepted. Meanwhile, the P-Values for RC against FRD is 0.109, and IC against FRD is 0.413 > 0.05, which means it is not significant, so it can be concluded that H6 and H7 are rejected.

Table 6 Indirect Effect Test

Model	Original Sample (O)	T-Statistics (O/STD EV)	P-Values	Sig
H8 - DTC → FRD → Performance	0,047	3,352	0,001	Significant
H9 - RC → FRD → Performance	0,026	0,734	0,463	Not significant
H10 - IC → FRD → Performance	0,028	1,494	0,136	Not significant

Source: Primary data (2023)

From Table 6 above, it can be seen that the original sample analysis value is 0.047, the T-Statistics value is 3.352, and the P-Values value is 0.0001. This means that the development of financial resources can mediate the influence of digital technology capabilities on SME performance, so the eighth hypothesis is rejected. From Table 6 above, it can be seen that the original sample analysis value is 0.047, the T-Statistics value is 3.352, and the P-Values value is 0.0001. This means that the development of financial resources can mediate the influence of digital technology capabilities

on SME performance, so the eighth hypothesis is accepted. Meanwhile, the results of the Original Sample analysis value are 0.026, the results of the T-Statistics value are 0.734 < 1.96, and the P-Values value is 0.463 > 0.05, so it can be interpreted that financial resource development cannot mediate relational capabilities on SME performance. , so the hypothesis is 0.028, the T-Statistics value is 1.49 < 1.96, and the P-value is 0.136 > 0.05, indicating that financial resource development cannot mediate the influence of innovation capability on SME performance, so the tenth hypothesis is rejected.

Discussion

In improving the performance of SMEs, they need to have digital technology capabilities, relational capabilities innovation capabilities, and financial resource development. By having digital technology capabilities, businesses can compete in the market. Especially in the marketing aspect, they support promotional and sales activities and payments. SMEs need to have digital capabilities in the current era of digitalization.

SMEs need to have digital technology capabilities to support their business activities. These results support research conducted (Proksch et al., 2021) that shows that a higher level of digitalization in business product and service offerings and processes can speed up time to market and the ability to develop quickly, thereby improving business performance. SMEs' capabilities of digital technology have been proven to influence the company's performance level (Bongiorno & Rizzo, 2018) defines DCT as the ability to use technological applications to create value for selling, buying, customers, suppliers, and the company itself. Having digital technology capabilities allows SMEs to collect more customer information with digital platforms to be able to actively integrate customer input in providing products or services on digital platforms. Through digital technology capabilities, SMEs can connect their technology through digital offerings, such as digital inventory logistics, payments, and customer or supplier relationship management systems, to produce more flexible digital relationships between owned resources and the company's internal and external processes. Thus, through digital technology capabilities, SMEs will further increase their marketing reach and number of sales, thereby improving their business performance.

The results of this research show that the ability to develop and maintain relationships with

both the internal and external environment, or relational abilities, has been proven to have an impact on improving performance. So the results of this research support research conducted (Naughton et al., 2020) which found that SMEs that can establish relationships in the supply chain can support their business performance. Besides that, relational capabilities support strategic accuracy in market competition so that it has an impact on performance (Wang et al., 2015). Several studies have found that utilizing external networks is a strategy used by SMEs to develop their ability to interact in the market. The ability to create good relationships, and social ties, and manage communication with suppliers, consumers, associations, financial institutions, and government has a positive impact on MSMEs, especially in the context of an uncertain and complex environment. Important for SMEs must have the ability to build good relationships with external parties in the supply chain so that they can help them maintain the availability of raw materials from suppliers, relationships with buyers and suppliers, the government, and similar business associations.

According to (Damanpour, 1991) a key factor in determining the performance and long-term survival of SMEs is their capacity for innovation. The study's findings confirm those of (Wajdi et al., 2020) who found that for SMEs to compete in the market, they need to be able to innovate. The origins of the term "innovation" can be found in the writings of Schumpeter (1934), who described it as the initial release of a novel good, service, or system. Innovation is typically defined as a result of a procedure. As a process, innovation is the identification and application of new approaches or strategies for business management that support SMEs in achieving their objectives. According to this literature, innovation is the use of fresh concepts for company management as well as new procedures or approaches for using already-existing resources. In this literature, innovation refers to the application of new ideas in managing a business and methods or techniques in processing existing resources. Apart from that,

SME players also stated that the ability to create new products and services as a result of innovation is also important, in this case, product differentiation, service development, and market-winning strategies. However, since innovation is an intangible asset, evaluating its prospective worth in the literature is still crucial. (Gault, 2018). By having the ability to innovate, SMEs will be able to have competitiveness to support their business performance. Innovation in creating products with new variants will be attractive to consumers because consumers increasingly have more choices to encourage sales and business profits.

This research shows that the development of financial resources supports the performance of SMEs. This means that it is important for SMEs to develop their financial resource capabilities to support the availability of finance to support their business. Much literature states that most SMEs use internal financial sources such as personal savings as their initial capital to start a business. This is due to limited capital and a lack of thorough financial preparation so the availability of their financial resources becomes limited. Through the ability to develop financial resources, they can invest from business profits and increase personal savings, increasing business capacity will help them improve business performance and sustainability. Personal savings are the most popular and available funding source used by most SMEs to generate financial resources. Financial resource development here includes the ability to use business profits to develop their business and business actors' ability to seek alternative funding from formal financial institutions and have capital reserves from other businesses. This shows that with the ability to develop financial resources, business sustainability can be maintained to support their business performance. The results of this research support research (Owusu, 2021).

The data processing results above show that financial resource development can only partially mediate digital technology capabilities but cannot mediate innovation capabilities and relational capabilities on SME performance. This is also confirmed by the fact that there is no significant correlation between RC and IC on the development of financial resources, meaning that

it is suspected that there are other factors that have a greater influence on the development of SMEs' financial resources. The technology development forces SME players to be more adaptive to the use of technology related to financial resources. This shows that SME players rely more on the use of digital platform services in financial development, such as using payment applications via digital wallets GoPay, Shopeepay, QRIS, Ibanking, and Mobile banking. So it can be said that the development of financial resources in SMEs is more about developing service aspects to support business operations such as sales transactions, payments, and financial reports. The increasing number of online sales services has an impact on increasing turnover and profits.

Conclusions

According to this research, SMEs in Surakarta can perform better when their financial resources and dynamic entrepreneurial capabilities measured by digital technology, relational, and innovative capabilities are developed. SMEs must have digital technology, relational, and innovation capabilities and develop financial resources to compete in the market, especially in marketing, supporting promotional and sales activities, and payment services. However, this research also has limitations in the number of respondents, only limited to Surakarta and from the SME business sector. Thus, it is necessary to conduct research to test other areas. Suggestions for further research include variables other than financial resource development as mediating variables.

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