

How is the Impact of Networking, Government Support, and Resources on Micro-Enterprises Near the Train Station

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia contribute 60.5% to the national GDP and employ 96.9% of the workforce, positioning them as the cornerstone of the national economy. Strengthening MSME performance is thus critical to accelerating economic development and escaping the middle-income trap on the path toward Golden Indonesia 2045. This research aims to explore the extent to which MSME network structures (density and centrality) enhance access to government support and, in turn, optimize organizational resources and performance. A quantitative research approach was employed, targeting micro-enterprises operating near train stations in major Indonesian cities (Jakarta–Bogor and Medan). Data were collected from 130 eligible respondents through an online survey. Hypotheses were tested using structural equation modeling with SmartPLS. The findings reveal that network centrality has a positive and significant effect on access to government support, while network density does not. Government support significantly influences resource optimization, which in turn strongly affects MSME performance. However, the direct effects of network density, network centrality, and government support on performance are insignificant, indicating that resource optimization mediates the relationship. These findings suggest that MSMEs should focus on strengthening their centrality within networks, rather than relying solely on communal ties, to secure government support that enhances resource utilization and performance outcomes. Policymakers are advised to design support programs that are accessible, needs-based, and complemented by capacity-building initiatives.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are job creators, business competitiveness boosters, product and service innovation supporters, poverty alleviators, and economic growth drivers (Poole, 2018; Doh and Kim, 2014; Ratten, 2014; Congo, 2010). MSME actors also constitute the majority of economic actors, accounting for 60% of economic actors in developed countries and up to 99% of economic actors in developing countries (Muriithi, 2017; Amoros and Bosma, 2014). Therefore, MSMEs have proven to be engines of innovation, welfare, and economic growth (Meressa, 2020; Abel-Koch et al., 2015; OECD, 2014). Thus, improving MSME performance is always an interesting research theme.

In the Indonesian context, MSME contribution to the national GDP reaches 60.5%, and the employment rate in the MSME sector is 96.9% (Indonesia Ministry of Cooperatives and MSMEs, 2024). This contribution far exceeds the average contribution of MSMEs in

developing countries, which is 20% (Muriithi, 2017; Chisala, 2008), and even exceeds the average contribution of MSMEs in developed countries, which is 55% (Bayraktar & Algan, 2019). Given this context, advancing the performance of MSMEs is a critical component of Indonesia's broader strategy to escape the middle-income trap (Hara, 2025; Kumagai & Nakamura, 2026).

Given their pivotal role in the economy, MSMEs often struggle with resource reliability due to their inherent liabilities of newness and smallness (Hoque, 2018; Hunt & Ortiz-Hunt, 2017; Bengtsson & Johansson, 2014; Fredin, 2014; Welter, 2011). To address these structural constraints, small business scholars emphasize the critical role of government support and inter-organizational collaboration in strengthening resource dependability (Kang & Park, 2012; Manolova et al., 2010; Gnyawali & Park, 2009; Levy et al., 2003). Building on this premise, the present study examines how network structure, government support, and resource reliability collectively influence MSME performance in Indonesia.

Several studies have examined the relationship between network structure, government support, and MSME performance. Zulu-Chisanga, Chabala, and Mandawa-Bray (2020) found that MSME resource optimization mediates the relationship between government support and MSME performance in developing economies. Nakku, Agbola, Miles, and Mahmood (2020) demonstrated that government support programs positively influence entrepreneurial orientation, which in turn affects MSME performance. Sheng, Zhou, and Li (2011) showed that business and political ties significantly influence firm performance in China. Similarly, Lu, Zhou, Bruton, and Li (2010) found that organizational capabilities mediate the link between resources and the international performance of entrepreneurial firms in emerging economies.

In the context of network structure, Gnyawali and Madhavan (2001) established that network density and centrality affect organizational access to critical resources. Yin, Yan, and Zhan (2022) demonstrated that network structure influences innovation diffusion and the effectiveness of government subsidies. Folmer, Nederveen, and Schutjens (2018) found that network importance and use differ between commercial and social enterprises. However, most of these studies were conducted in developed economies or in non-Indonesian contexts, limiting their applicability to Indonesia's unique archipelagic and socio-cultural environment.

Despite extensive research on MSME performance, several gaps remain: most studies examine network structure or government support in isolation rather than jointly; empirical evidence on the mediating role of MSME resources is limited, especially in Indonesia; prior work overlooks micro-enterprises near transportation hubs in dynamic environments; and no single model integrates network, institutional, and resource-based theories for Indonesia. This study addresses these gaps by integrating all three theoretical perspectives into a unified framework, focusing on micro-enterprises near major Indonesian train stations (Jakarta–Bogor and Medan), empirically testing the mediating role of MSME resources, and comparing the differential effects of network density versus centrality on access to government support—offering nuanced insights for both MSME managers and policymakers.

Based on the identified gaps and novelty, this study aims to analyze the impact of network density and centrality on access to government support, examine their direct effects alongside government support on MSME performance, investigate the mediating role of MSME resource optimization in the relationship between government support and performance, and provide empirical evidence from Indonesia's food and beverage micro-enterprise sector. The benefits

of this research are both theoretical and practical. Theoretically, it advances network structure, institutional, and resource-based theories by testing their integrated application in a developing economy, while empirically filling a critical gap on how network characteristics shape the effectiveness of government support. Practically, the findings offer actionable insights for policymakers to design more targeted support programs, for MSME managers to prioritize strategic network centrality over redundant ties, and for financial institutions and NGOs aiming to enhance MSME resource access, ultimately supporting Indonesia's goal of escaping the middle-income trap and achieving Golden Indonesia 2045..

METHOD

Research Model

This study employs a confirmatory quantitative approach to test hypothesized relationships within theoretically grounded model, utilizes numerical data analysis to assess the strength and significance of inter-variable relationships (Cooper & Schindler, 2014; Sekaran & Bougie, 2016). Grounded in the integration of network structure theory, institutional theory, and resource-based theory (RBT), the study examines how these frameworks jointly influence the performance of food and beverage MSMEs in Indonesia, with government support and firm resources conceptualized as a mediating variable. The proposed relationships are visually depicted in the research model below.

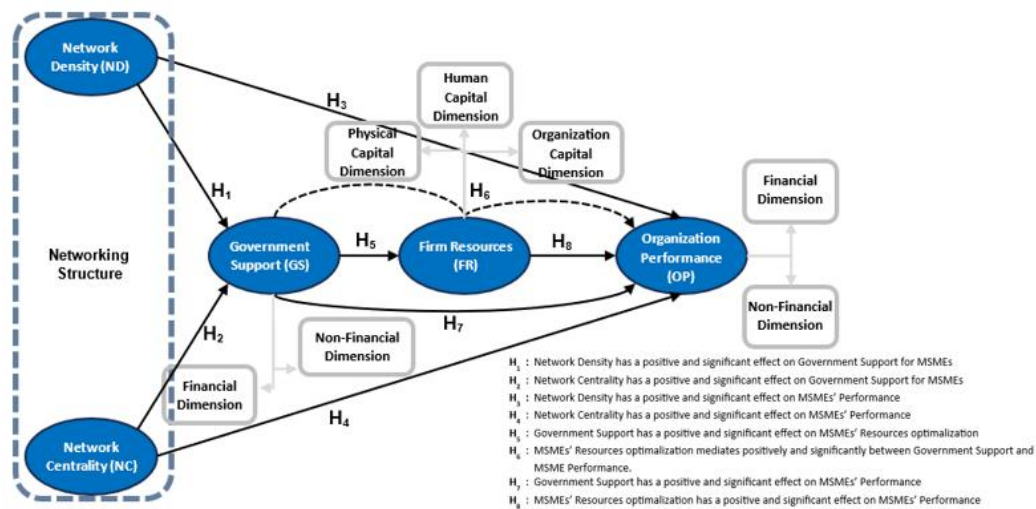


Figure 1. Research Model

Source: Author's elaboration (2025)

The Impact of Network Density on Access to Government Support

Network density, a key component of network structure, exhibits impactful correlation with the utility of inter-actor relationships (Gnyawali & Madhavan, 2001). Dense networks enhance organizational access to critical resources (Sheng et al., 2011) and information flows (Yin et al., 2022), thereby improving connectivity, efficiency, and trust among network members (Luo & Sun, 2015; Shoham & Ruvio, 2008). Such dynamics contribute to a favorable reputation, increasing the market presence and legitimacy of MSMEs (Folmer et al., 2018), and in turn, facilitating access to both financial and non-financial government support programs.

Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H1: *Network Density has a positive significant impact on Government Support for MSMEs*

The Impact of Network Centrality on Access to Government Support

In addition to network density, network structure also comprises network centrality, which similarly shows a positive influence with the utility of actor relationships (Gnyawali & Madhavan, 2001). Centrality facilitates organizational access to resources (Sheng et al., 2011) and information (Koka & Prescott, 2008), including access to government support. Centrality reflects the extent to which MSME secure strategic positions within a network (Gilsing et al., 2008; Phelps, 2010), enabling advantages such as privileged access to information (Guan & Yam, 2015), control over resource distribution (Pan et al., 2019), and influence over other actors (Ibarra, 1993). Higher centrality provides more direct, efficient pathways for resource and information exchange (Hammarfjord & Roxenhall, 2017), including channels related to government support. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H2: *Network Centrality has a positive significant impact on Government Support for MSMEs*

The Impact of Network Density on Improving MSME Performance

Beyond facilitating access to external resources, network density directly enhances organizational performance. Higher density enables MSMEs to garner robust support from their surrounding community, reinforcing operational effectiveness. It also signifies a strong level of acceptance within the ecosystem, which, according to institutional theory, contributes to superior performance outcomes compared to MSMEs with weaker network structures. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H3: *Network Density has a positive significant impact on MSMEs' Performance*

The Impact of Network Centrality on Improving MSME Performance

Like network density, centrality directly influences organizational performance (Naude et al., 2014; Tseng et al., 2016; Wang & Fang, 2012) Network centrality reflects the strategic role of an MSME within its network community and is closely linked to the degree of ecosystem acceptance. A stronger centrality position indicates greater recognition and influence within the network. In line with institutional theory, higher centrality are more likely to achieve superior performance. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H4: *Network Centrality has a positive significant impact on MSMEs' Performance*

The Impact of Government Support on MSMEs' Resources Optimization

Government support serves as a critical source of external resources which enhances MSME performance (Desai & Shaikh, 2018). Globally, MSMEs face common challenges—namely, the liabilities of newness and smallness which constrain their ability to explore and exploit strategic opportunities due to limited internal resources. In contrast, governments—by virtue of their authoritative role manage substantial economic resources within their jurisdictions, positioning them as essential enablers of MSME development. Consequently, government support is a pivotal antecedent to the optimization of MSME organizational resources. This relationship is further reinforced by the multi-stakeholder nature of MSMEs,

whose contributions to regional economic growth make them central to public policy objectives (Doh & Kim, 2014; Kongolo, 2010; Poole, 2018; Ratten, 2014). Given that regional economic performance is a key metric of governmental success, a mutualistic alignment of interests exists between MSMEs and government. These considerations underscore the strategic importance of government support in strengthening MSME resource capabilities. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H5: *Government Support has a positive significant impact on MSMEs' Resources optimization*

The Impact of Government Support on MSME Performance through MSMEs' Resources Optimization

While empirical evidence on the mediating role of organizational resources in the relationship between government support and organizational performance remains limited, several studies have established such mediation in the context of external collaboration strategies (Lu et al., 2010). Collaboration strategy, as a form of strategic alliance, involves cooperation among entities to achieve shared, value-driven objectives. As previously discussed, MSMEs operate within a multi-stakeholder environment, where various external actors, including local governments have vested interests in their performance. In this context, government support can be conceptualized as a strategic alliance, reflecting a collaborative effort toward mutually beneficial outcomes. Therefore, government support can be seen as a form of strategic collaboration aimed at achieving common objectives. A recent study found that MSME's resource optimization has a positive and significant mediating role between government support and MSMEs' performance (Zulu-Chisanga et al., 2020). Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H6: *MSMEs' Resources optimization mediates positively and significantly between Government Support and MSME Performance*

The Impact of Government Support on Leveraging MSME Performance

As one of the largest resource-controlling entities and the highest holder of institutional authority, government possesses various instruments (fiscal and non-fiscal) capable of intervening markets and influencing the behavior of actors within economic ecosystems (Kang & Park, 2012; Lu et al., 2010; Smallbone & Welter, 2001; Tambunan, 2008; Thongsri & Chang, 2019) Notably, the government is positioned to influence institutional legitimacy through formal (e.g., legislation) and informal approaches (e.g., social engineering). This underscores the relevance of examining government support as a critical institutional force in shaping MSME performance. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H7: *Government Support has a positive significant impact on MSMEs' Performance.*

The Impact of MSMEs' Resources Optimization on MSME Performance

According to resource-based theory, organizational performance excellence is driven by the effective utilization of internal and external resources (Barney, 1991). The theory highlights organizational capabilities as the key enabler in optimizing resources to explore and exploit opportunities. This variable is particularly relevant in the context of MSMEs, which commonly face liabilities of newness and smallness that constrain their access to critical resources.

Consequently, resource limitations represent a core barrier to performance enhancement, reinforcing the strategic importance of incorporating the organizational resource variable into the research model. Grounded in this conceptual synthesis and prior empirical findings, the following research hypothesis is proposed:

H8: *MSMEs' Resources Optimization has a positive significant impact on MSMEs' Performance*

Operationalization of Variables

All research variables are operationalized based on the previously established theoretical framework and then translated into measurable instruments and indicators. All instruments are measured based on respondents' perceptions, as obtaining objective and comprehensive data from MSMEs in developing countries is often difficult or nearly impossible (Adomako et al., 2018; Agyemang & Ansong, 2017; Neneh, 2018). These challenges arise from concerns over data confidentiality (Agyemang & Ansong, 2017; Krasniqi & Branch, 2018) and the underdevelopment of data systems (Zulu-Chisanga et al., 2020). However, such limitations are not expected to compromise the validity or reliability of the study, as subjective measures are widely used in previous research (Nakku et al., 2020; Thongsri & Chang, 2019) and have shown strong correlations with objective financial data (Christoffersen et al., 2014; Geringer & Hebert, 1991).

Table 1. Operationalization of Variables

Variable	Definition	Code	Indicator	Source
Network Density	This refers to MSME managers' perceptions of the average strength of ties within their organizational network structure.	ND1	All actors—individuals or institutions—within our MSME social network maintain strong interconnections, including ties formed through friendships, community affiliations, and organizational groupings;	Antia dan Frazier, 2001
		ND2	Interactions among all actors—individuals or institutions—within our MSME social network occur with relatively high frequency;	
		ND3	Relationships among actors—individuals or institutions—within our MSME social networks are characterized by strong emotional closeness and mutual trust;	
		ND4	All actors—individuals or institutions—within our MSME social networks engage in regular communication;	
		ND5	All actors—individuals or institutions—within our	

Variable	Definition	Code	Indicator	Source
			MSME social networks frequently consult and collaborate in addressing shared challenges;	
		ND6	All actors—individuals or institutions—within our MSME social network maintain strong and cohesive relational bonds, reflecting a high degree of unity;	
Network Centrality	Individual perceptions of MSME management regarding the strength of their organizational positioning within the social network structure.	NC1	Our MSME holds a prominent position within its social networks (e.g., peer groups, communities, and associations);	tia dan Frazier, 2001
		NC2	Our MSMEs can manage multiple relationships with other actors within their social networks (e.g., peer groups, communities, or institutions);	
		NC3	Our MSMEs actively participate in existing social networks (e.g., peer groups, communities, and institutions);	
		NC4	Our MSMEs maintain extensive connections within existing social networks (e.g., peer groups, communities, and institutional actors);	
		NC5	Our MSMEs occupy a central position within existing social networks (e.g., peer groups, communities, and institutional actors);	
Government Support	Individual perceptions of MSME management regarding the perceived usefulness of government and agency interventions.	GS1	The government and its agencies provide the technical support required by our MSMEs;	Li dan Atuahena-Gima, 2001
		GS2	Government entities are instrumental in facilitating financial support for MSMEs.	
		GS3	The government and its agencies assist MSMEs in obtaining raw materials and equipment essential for operational activities.	
		GS4	The government and its agencies offer various contractual opportunities to support MSMEs;	
		GS5	The government and its agencies provide targeted support programs for	

Variable	Definition	Code	Indicator	Source
			individuals seeking to start an MSME;	
		GS6	The government and its agencies offer guidance to individuals seeking to establish their own businesses.	
Firm Resources	Individual perceptions of UMKM management regarding the level of reliability of resources and expertise to be utilized by the organization	FR1	Our SMEs have excellent technical knowledge;	Story et al., 2015
		FR2	Our SMEs possess the expertise required to effectively identify and acquire relevant market information;	
		FR3	Our SMEs are actively seeking new ideas in the market;	
		FR4	Our MSMEs have ready access to financial capital to support their operational activities;	
		FR5	Our SME staff are experts in their respective specific tasks and functions;	
		FR6	Our SME staff are knowledgeable about business practices in our industry.	
Organization Performance	Individual perceptions of MSME management regarding their organization's performance level.	OP1	Our SMEs are capable of developing superior products and services compared to key competitors;	Katsikeas et al., 2006
		OP2	Our MSMEs have better market share growth than our main competitors;	
		OP3	Our SMEs have more unique and attractive products and services than our main competitors;	
		OP4	Our MSMEs have higher sales volume growth than our main competitors;	
		OP5	Our SMEs have higher employee growth than our main competitors;	
		OP6	Customer satisfaction with our MSMEs' products and services exceeds that of our main competitors;	
		OP7	Our MSMEs have a better rate of return on assets/return on capital than our main competitors;	
		OP8	Our SMEs gain better net profits than our main competitors;	

Variable	Definition	Code	Indicator	Source
		OP9	Our MSME maintains a healthier cash flow than its main competitors, with no significant disruptions in income or expenditure streams.	

Source: Compiled from Antia & Frazier (2001); Li & Atuahena-Gima (2001); Story et al. (2015); Katsikeas et al. (2006)

Population, Sample, and Unit Analysis

According to the Ministry of Cooperatives and MSMEs, as of mid-2024, approximately 1.7 million MSMEs operate in Indonesia's food and beverage sector. This sector was selected because it contributes the highest added value among all MSME sector, based on 2024 data from the Central Statistics Agency of Indonesia. Using the Krejcie-Morgan formula with 10% margin of error, the minimum required sample size was 96; this study collected 136 responses to enhance statistical validity and reliability. Primary data were obtained through a secure online survey, targeting eligible MSME owners or managers operating near train stations in major Indonesian cities, employing fewer than five workers, and with at least one year of operational experience.

The employee threshold follows the Central Statistics Agency (BPS) definition of micro-enterprises, which account for over 98% of MSMEs in Indonesia. The minimum one-year operational criterion ensures that respondents have experienced government support across a complete business cycle. Focusing on micro-enterprises allows for better control of size-related bias, as the liability of smallness may affect outcomes both positively. Organizational size is proxied by employee count (Boso et al., 2013; Schreiner et al., 2009) while firm age reflects exposure to the liability of newness, since older firms generally benefit from accumulated experience and a first-mover advantage. Owners and managers were selected as respondents to ensure strategic-level insights on the study's core variables: network structure, government support, resources, and performance. Given the conceptual scope, participants required decision-making authority beyond operational roles. Screening questions were employed to confirm respondent understanding and eligibility of government support mechanisms, thereby ensuring data quality and construct validity.

This study was conducted in the vicinity of a major urban train station (Jakarta-Bogor and Medan train station), a multimodal transportation hub from motorcycles to air travel that fosters a heterogeneous network environment and diverse relational dynamics. While prior research affirms that network structure affects organizational performance through environmental legitimacy, recent studies caution that overly cohesive networks may impede MSME performance due to homogeneity or *echo chamber* effects. In such settings, excessive relational closeness cultivates cognitive uniformity shared values, perspectives, and decision-making patterns that constrain openness to innovation and adaptive practices (Crona & Bodin, 2006). By selecting a heterogeneous network context, this study enables a more refined examination of the interaction between network structure theory, institutional theory, and resource-based theory in explaining MSME performance.

RESULTS AND DISCUSSION

Data were collected via a survey of food and beverage MSMEs located near Bojonggede, Bogor, Depok Lama, Pondok Cina, and Medan City train stations (February–March 2025). Of the 136 respondents, 130 met the eligibility criteria. Screening questions were included to assess respondents' familiarity with government support programs and to validate the reliability of their responses within the study context. The resulting respondent profile is presented as follows:

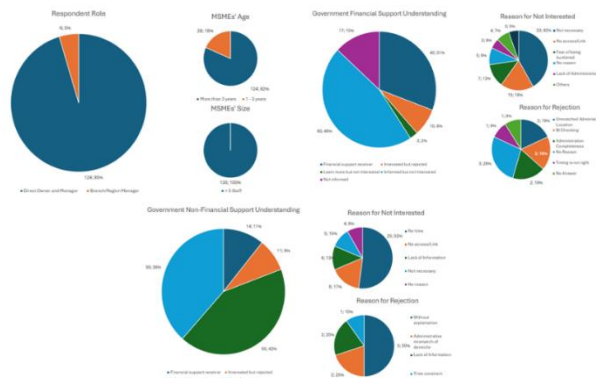


Figure 2. Respondent Profile
Source: Primary data analysis (2025)

Descriptive Analysis and Loading Factor

Descriptive analysis summarizes raw data into meaningful insights (Lind et al., 2002). Quantitative variables are typically described using two numerical methods, measures of location and measures of distribution. Location measures, such as the mean, indicate the central tendency of the data. However, relying solely on these can be misleading, so distribution measures are also considered to assess data variability. To evaluate variability, this study uses the coefficient of variation (CV), calculated by dividing the standard deviation by the mean. A CV between 0–10% indicates low variability, meaning data points are closely clustered around the mean. A CV of 10–20% reflects moderate variability, while a CV above 20% suggests high variability, indicating that the data are volatile and less predictable.

Table 2. Summary of Descriptive Analysis of Research Instrument

Network Density			Network Centrality			Government Support			Firm Resources			Organizational Performance		
Code	Mean	CV %	Code	Mean	CV %	Code	Mean	CV %	Code	Mean	CV %	Code	Mean	CV %
ND 1	4.96	24.4 %	NC 1	4.10	35.5 %	GS 1	2.08	67.1 %	FR 1	4.83	22.3 %	OP 1	4.80	22.5 %
ND 2	5.04	22.3 %	NC 2	4.55	28.1 %	GS 2	2.30	74.0 %	FR 2	4.52	24.9 %	OP 2	4.67	23.9 %
ND 3	4.98	24.2 %	NC 3	4.28	32.0 %	GS 3	1.89	75.4 %	FR 3	4.62	26.6 %	OP 3	4.68	24.1 %
ND 4	4.69	27.3 %	NC 4	4.46	30.5 %	GS 4	1.95	73.2 %	FR 4	3.96	38.7 %	OP 4	4.48	26.0 %
ND 5	4.40	32.0 %	NC 5	4.00	33.4 %	GS 5	1.95	66.2 %	FR 5	4.39	26.8 %	OP 5	3.76	34.4 %
ND 6	4.92	23.5 %				GS 6	1.91	71.0 %	FR 6	4.24	28.8 %	OP 6	5.18	19.2 %

Network Density			Network Centrality			Government Support			Firm Resources			Organizational Performance		
Code	Mean	CV	Code	Mean	CV	Code	Mean	CV	Code	Mean	CV	Code	Mean	CV
												OP7	4.62	22.0%
												OP8	4.47	24.3%
												OP9	4.45	25.2%
	4.83	Agree		4,28	Quite Agree		2,02	Disagree		4,43	Quite Agree		4,57	Quite Agree

Source: Primary data analysis using SPSS (2025)

Structural Model Analysis Variables (Outer Model)

At outer model analysis, the questionnaire items were evaluated based on their loading factors to assess the construct validity of the instrument. Items with inadequate loading values were excluded from further analysis. A loading factor of ≥ 0.5 is considered acceptable (Tatham et al., 2006), with ≥ 0.7 preferred for stronger validity (Savitri et al., 2021). The loading factor results for each construct are presented below:

Table 3. Outer Model Analysis (Loading Factor)

Network Density		Network Centrality		Government Support		Firm Resources		Organization-Performance	
Code	Loading Factor	Code	Loading Factor	Code	Loading Factor	Code	Loading Factor	Code	Loading Factor
ND1	0,776	NC1	0,758	GS1	0,848	FR1	0,530	OP1	0,770
ND2	0,784	NC2	0,881	GS2	0,839	FR2	0,746	OP2	0,878
ND3	0,811	NC3	0,825	GS3	0,871	FR3	0,679	OP3	0,795
ND4	0,763	NC4	0,790	GS4	0,927	FR4	0,750	OP4	0,916
ND5	0,614	NC5	0,888	GS5	0,904	FR5	0,762	OP5	0,806
ND6	0,824			GS6	0,912	FR6	0,794	OP6	0,808
								OP7	0,812
								OP8	0,792
								OP9	0,829

Source: SmartPLS output from primary data analysis (2025)

Statistically, the instruments have proven to be **valid**, meaning they accurately measure the intended constructs, and **reliable**, meaning they yield consistent and stable results when applied under similar conditions. Thus, the instruments are both theoretically sound and methodologically robust for measuring the variables.

Structural Model Analysis Variables (Inner Model)

The measurement inner model is used to predict relationships between variables within the research framework and to test the proposed hypotheses. The analysis evaluates key indicators including the path coefficient, coefficient of determination (R^2), and predictive

relevance (Q^2) (Hair et al., 2013). The path coefficient captures the direction and strength of inter-variable relationships. Employing a one-tailed t-test due to the directional nature of the hypotheses, the study adopts a significant criterion of $t > 1.65$ or $p < 0.05$. Thus, variables with t-values ≤ 1.65 are deemed statistically insignificant. The coefficient of determination (R^2) indicates the proportion of variance in the dependent variable that can be explained by the independent variables. An R^2 exceeding 0.75 reflects a strong explanatory power, while values between 0.50 and 0.75 are deemed moderate. Scores ranging from 0.25 to 0.50 indicate weak explanatory strength, and those below 0.25 are categorized as very weak. While predictive relevance (Q^2) assesses the ability of the research model to explain the variance in endogenous (dependent) variables. A Q^2 value greater than zero indicates that the model has predictive relevance, meaning the endogenous variables can be meaningfully predicted by the model's constructs.

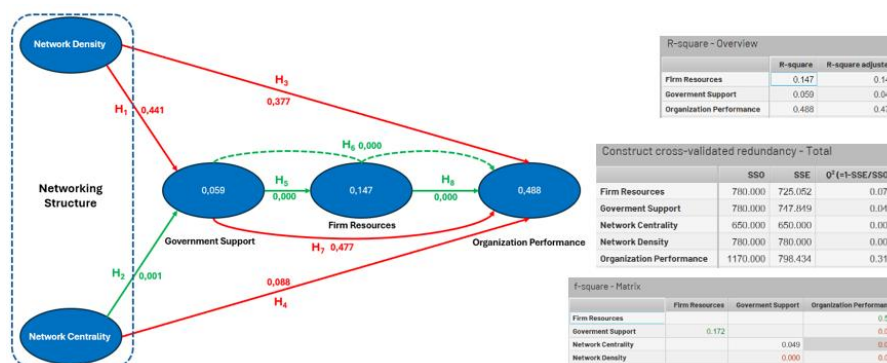


Figure 3. Inner Structural Model

Source: SmartPLS output from primary data analysis (2025)

Based on the coefficient of determination, the independent variables in the research model moderately explain 48.8% of the variance in the organizational performance variable. Meanwhile, they account for only 14.7% of the variance in the organizational resource variable and 5.9% in the government support variable both categorized as very weak. These findings indicate that 85.3% and 94.1% of the variance in the organizational resource and government support variables, respectively, remain unexplained, suggesting the presence of other influential factors not captured in the current model.

To assess the influence of each exogenous variable on its corresponding endogenous variable, the F-square values are examined. The F-square values for *network density* (0.001) and *network centrality* (0.019) in relation to *organizational performance*, indicating their negligible contribution to explaining its variance. However, *network centrality* plays a modest role in explaining *government support* (0.049 > 0.02), while *network density* and *government support* remains insignificant to performance (0.000). Notably, *organizational resources* have a strong effect on *organizational performance*, with an F-square value of 0.542, indicating high explanatory power (>0.35).

The results of the predictive relevance (Q^2) analysis indicate that the research model has predictive power for all endogenous variables, as each Q^2 value is greater than zero. Specifically, the predictive relevance values are 0.318 for *organizational performance*, 0.070

for *organizational resources*, and 0.041 for *government support*, confirming the model's capacity to explain variance in these constructions to varying degrees.

Network Density has a positive and significant effect on Government Support for MSMEs (H1 rejected)

This study finds that network density does not influence MSMEs' access to government support. Among the indicators, "closeness and warmth" (ND3) and "cohesiveness" (ND6) exhibit the highest reliability in representing network density and received relatively high scores. These results suggest that strong internal ties within MSME networks do not necessarily facilitate improved access to government supports.

One plausible explanation is the low perceived utility of government support. Data reveal that 46.15% of respondents reported disinterest in financial support, and 42.31% expressed similar views toward non-financial assistance, despite prior exposure to outreach initiatives. This suggests that MSMEs may not proactively leverage their networks to access government services due to limited perceived value.

This result highlights an underutilized opportunity. High network density reflects strong social capital, which could serve as an effective channel for disseminating government information and resources. Therefore, MSMEs are encouraged to strategically mobilize their networks to enhance access, visibility, and legitimacy within the institutional environment. Concurrently, government agencies should revisit existing support schemes, incorporating broader stakeholder participation and needs-based program design. Enhanced program socialization and alignment with MSME priorities are critical to enhance relevance and effectiveness.

Network Centrality has a positive and significant effect on Government Support for MSMEs (H2 accepted)

This study confirms a network centrality impact on MSMEs' access to government support. Among the indicators, the ability to manage multiple relations (NC2), activeness (NC3), and the presence of prominent actors (ND6) exhibit the highest reliability in representing the network centrality construct. However, only NC2 and NC3 received relatively high average scores, suggesting that these two dimensions are more salient to respondents than positional prominence.

These findings indicate that while MSMEs participate in community, most do not occupy central or authoritative positions that enable them to influence the flow of information and resources. A key inhibiting factor is the high operational workload borne by MSME owners, which limits their time and energy.

Notably, respondents reported no major barriers in maintaining multiple relationships, due in part to the affordances of social media. Nevertheless, they often lack the managerial capacity to convert these connections into strategic network positions. These constraints—linked to the liabilities of smallness.

Despite these limitations, the empirical results underscore the positive and significant role of centrality in facilitating government support access. This implies a need for targeted government interventions to strengthen MSME managerial competencies, particularly in the areas of knowledge management and human capital development. Enhancing these capabilities would enable MSME to delegate operational tasks more effectively, allowing for greater focus

on strategic network positioning. Ultimately, this shift would improve their legitimacy and inclusion in formal support mechanisms within the MSME ecosystem.

Network Density has a positive and significant effect on MSMEs' Performance (H3 rejected)

The analysis reveals that network density has no major effect on MSME performance. Despite exhibiting high levels of interconnectedness, such density does not appear sufficient to drive measurable performance gains. Theoretically, dense networks facilitate collective mobilization, resource exchange, and coordinated problem-solving. However, these benefits may be offset when networks become excessively embedded, leading to redundant linkages and inefficient resource utilization (Gomes et al., 2020; Han et al., 2017)

Although network homogenization is often cited as a barrier to performance (Crona & Bodin, 2006), this appears less relevant in this context due to the heterogeneous and dynamic nature of train station-based ecosystems. Therefore, the ineffectiveness of network density in enhancing performance is likely rooted in structural inefficiencies internal to the network itself.

These findings suggest a need for MSMEs to critically evaluate the strategic utility of their dense social ties. Rather than investing indiscriminately in maintaining broad relational networks, MSMEs should prioritize purposeful engagements that facilitate the efficient flow of valuable resources and information. Such optimization may enhance their ability to identify and exploit performance-enhancing opportunities more effectively.

Network Centrality has a positive and significant effect on MSMEs' Performance (H4 rejected)

The influence of network centrality on MSME performance was found to be minor, diverging from earlier studies. Although, excessive or fragmented engagement in networks may also generate resource inefficiencies for resource-constrained firms. Further analysis reveals an **indirect** effect of network centrality on performance, mediated by government support and improved resource reliability. This underscores the role of political embeddedness in converting central network positions into performance gains, especially in developing economies where institutional support is crucial (Pakpahan et al., 2024).

Accordingly, MSME actors should invest in building strategic centrality that enhances their visibility and credibility among institutional stakeholders. Such positioning may improve access to external resources, optimize internal capabilities, and ultimately elevate performance outcomes.

Government Support has a positive and significant effect on MSMEs' Resources optimization (H5 Accepted)

Government support demonstrated a prominent impact for optimizing MSME resources. Despite being perceived as limited, such support substantially enhanced MSME performance when accessed, indicating that even minimal yet well-targeted program can be impactful. However, this study also suggests that the benefits of government support programs have not been distributed evenly potentially due to inadequate outreach, unequal access, or inefficiencies in program delivery.

MSMEs' Resources optimization mediates positively and significantly between Government Support and MSME Performance (H6 Accepted)

Government support impact on MSME performance, mediated by MSME resources, is confirmed. These findings support the theoretical integration of institutional and resource-

based perspectives in explaining MSMEs' performance improvement. Government support facilitates resource optimization, enabling firms to mitigate the liabilities of smallness and newness.

However, despite these structural benefits, respondents reported generally negative perceptions of government support. For instance, while 30.77% of MSMEs reported receiving financial assistance through the People's Business Credit (KUR) program, many viewed the program as a conventional financial service rather than a strategic developmental initiative. Respondents noted that the KUR scheme imposes standard financial obligations including interest payments and administrative fees leading to its perception as a commercially neutral transaction.

These views are compounded by broader macroeconomic constraints such as price volatility and shortages of critical inputs in Indonesia (e.g., cooking oil, 3-kg LPG cylinders, and transportation fuel). Dissatisfaction with government's capacity to ensure supply chain stability which negatively affecting MSME operations reinforces skepticism regarding government effectiveness.

These findings suggest the need for the government to recalibrate its MSME support strategies. Emphasis should be placed on long-term resource capacity building and stabilization of supply chains for key goods and services. Descriptive analyses indicate that MSME perceptions are highly sensitive to both direct assistance and macroeconomic conditions. Strengthening relational ties between MSMEs and public agencies is thus critical to enhancing access to developmental resources and building sustainable organizational capacity.

Government Support has a positive and significant effect on MSMEs' Performance (H7 rejected)

The impact of government support on organizational performance was found to be trivial. This suggests that government support must be channeled through intermediary mechanisms, particularly resource optimization, to enhance MSMEs' performance. In the Indonesian context, various policies have been enacted to promote MSME development, including Government Regulation No. 7 of 2021, which mandates that at least 40% of government procurement be allocated to MSMEs, and that 30% of public infrastructure be reserved for MSME business use. Despite these interventions, the findings indicate that such measures are ineffective.

Field interviews suggest that political proximity may moderate access to government support. Some respondents reporting benefits only when they were aligned with incumbent political actors. This raises concerns regarding the equitable implementation and distribution of government support. Based on these findings, it is recommended that the government rigorously assess and enhance the design, delivery, and monitoring of MSME support programs. Emphasis should be placed on ensuring that such programs are not only accessible, but also strategically aligned with the capacity-building needs of MSMEs. Furthermore, these results underscore the importance of strengthening internal MSME resources to fully realize the potential benefits of government interventions.

MSMEs' Resources optimization has a positive and significant effect on MSMEs' Performance (H8 Accepted)

Organizational resources were found to be impactful on MSME performance, thereby reinforcing the resource-based view (RBV). Results indicated a generally high level of

agreement among respondents regarding the reliability of their resources. Among the dimensions evaluated, technical business knowledge received the highest score, reflecting MSMEs' confidence in their operational competencies. Study revealed that this confidence is largely shaped by business longevity, with many MSMEs having operated for over three years some even exceeding fifteen years. Their sustained survival through various economic disruptions, including the COVID-19 pandemic, has strengthened their belief in their technical capabilities.

In contrast, the lowest-rated dimension was access to financial capital. Most respondents reported continued dependence on informal funding sources such as family members or close personal networks due to reluctance to engage with formal financial institutions. Commonly cited barriers included high perceived financial burdens (e.g., interest rates and collateral), complex administrative requirements, a lack of perceived necessity, and among a small subset ideological objections, such as religious concerns.

Divergence between technical competence and financial access suggests that, while MSMEs possess strong operational expertise, they face constraints in resource mobilization and scalability. Hence, it is recommended that MSMEs actively participate in structured knowledge-transfer and capacity-building programs. Additionally, improving financial literacy especially in banking and formal credit mechanisms should be prioritized to enable MSMEs to better leverage financial instruments that support sustainable business growth.

CONCLUSION

The findings of this study yield several managerial implications for policymakers and MSME stakeholders, particularly in Indonesia's food and beverage sector. For the government, the results serve both as an evaluative tool for existing support programs and a framework for designing more effective future interventions. From an evaluative standpoint, this study highlights the limited perceived effectiveness of current government initiatives.

Research reveals widespread dissatisfaction among MSMEs regarding the government's role in maintaining macroeconomic stability, particularly in ensuring the availability of key resources. These recurrent shortages undermine the perceived credibility and effectiveness of government support, underscoring the need for a stable economic environment as a prerequisite for impactful MSME assistance. As a reference for future policy design, the study reveals low interest in support programs. Research suggests that future support schemes should be co-designed with MSME actors, prioritizing their actual needs and risk perceptions, particularly regarding credit repayment mechanisms that balance borrower capacity with institutional sustainability. With respect to non-financial support, MSMEs reported time constraints as a barrier. Although the government has introduced flexible online training platforms, participation remains low, indicating potential implementation challenges, including ineffective outreach or inadequate content relevance. Further research is needed to identify and address these barriers.

From the MSME perspective, this study yields three key managerial insights. First, MSMEs should critically evaluate the effectiveness of their network structures. Since these structures contribute minimally to performance, suggesting suboptimal resource allocation (Han et al., 2017). Second, internal resource development is crucial. Given the demonstrated impact of non-financial government support on capability enhancement, MSMEs are

encouraged to allocate dedicated time for structured learning to bridge capability-performance gaps. Third, MSME actors should prioritize strengthening their network centrality, enhancing their strategic positioning within the network—rather than relying solely on existing community ties. This approach is essential to improving access to government support and, in turn, optimizing the reliability of internal resources and securing sustainable competitive advantages.

Finally, the study emphasizes the importance of synergy between public support programs and MSME resource readiness. Even well-structured interventions may fail if internal capacities are insufficient. Therefore, a collaborative approach where policymakers and MSMEs co-develop support mechanisms is essential. In conclusion, improving MSME performance requires parallel investment in resource capacity and contextual program alignment, driven by mutual commitment from both the government and business actors. In simple terms, the overall managerial implications can be described in the research benefit map:

This study has several limitations. First, it was conducted in a context where MSME management practices in Indonesia remain relatively underdeveloped. Despite the existence of a dedicated ministry overseeing MSME affairs, a comprehensive, objective, and publicly accessible database on MSME profiles and performance such as those available for medium and large enterprises is still lacking. Given the critical contribution of MSMEs to Indonesia's economy, it is imperative for the government to improve data transparency and availability to enable more objective and bias-resistant academic research. Second, the geographical scope of the respondents is limited to MSME managers located near the Jakarta–Bogor and Medan railway stations. This limitation introduces a risk of selection bias, as the sample may not be representative of MSMEs across Indonesia. Third, the study has yet to consider the impact of digital technology particularly social media on the network structures of MSME actors. This omission may lead to an incomplete contextual understanding, given the growing reliance on digital platforms by MSMEs to build and maintain their business networks.

Future studies are encouraged to expand the sampling frame to include MSME actors located around train stations across Indonesia. Moreover, research can be extended to other traffic-generating locations with heterogeneous and dynamic network structures, such as bus terminals, to reduce potential selection and information bias. Additionally, future models should consider incorporating other explanatory variables beyond network structure that may influence the effectiveness of government support. This recommendation arises from the relatively low coefficient of determination observed for the government support variable in the current model. One such variable is entrepreneurial orientation, which may enhance MSMEs' capacity to recognize, explore, and exploit opportunities—particularly those embedded in government support programs.

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