

HOW BANK FINANCE AND GOVERNMENT SUPPORT AFFECT BUSINESS PERFORMANCE? EXAMINING MEDIATION

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ABSTRACT

Background: One sector with a high potential to be the focus of MSME development is the food and beverage sector. MSMEs are required to survive and continually increase their competitiveness by responding to changes in the external environment, both periodically and continuously, and by leveraging their internal capabilities.

Purpose: This study attempts to contribute to a better understanding of bank finance and government support in terms of entrepreneurial competence, financial behavior, and organizational performance. Specifically, this study investigates MSMEs' entrepreneurial competence and financial behavior and determines whether these competencies and behaviors can improve their business performance.

Design/methodology/approach: This study employs the SEM-PLS technique with cross-sectional data collected from April to May 2025 from 190 MSMEs in the halal food sector in Malang Raya, Indonesia. This study uses resource-based theory, which provides a theoretical lens for testing the influence of bank finance, government support, entrepreneurial competence, financial behavior, and halal food business performance.

Findings/Results: The study indicates that bank finance and government support improve business performance. Indirectly, competence can mediate the influence of bank finance and government support on business performance. However, this study's results provide evidence that financial behavior does not mediate the effects of bank finance and government support on business performance.

Conclusion: The study results indicate that MSME-owned financial institutions can improve their business performance. Government support and entrepreneurial competence also participate in this. However, excessive self-confidence and financial behavior do not mediate the influence of bank finance on the performance of halal MSMEs. The more competent MSME actors are, the more they can convince stakeholders about their ideas and products.

Originality/value (State of the art): This study contributes to understanding the factors that influence MSME halal performance, especially from the perspective of bank finance, government support, and entrepreneurial competence. The original value of this study lies in its integrated approach, which tests the mediating roles of self-confidence and financial behavior in the relationship between bank finance and halal MSME business performance. This aspect has rarely been raised in previous literature.

Keywords: bank finance, government support, entrepreneur competency, behavioral finance, business performance

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INTRODUCTION

MSMEs play a crucial role in economic development in developing countries by fostering creativity and innovation (Ghosh, 2016). However, they face challenges in achieving high interest rates due to information gaps between banks and businesses, as well as a lack of information (Amadasun & Mutezo, 2022). To address these issues, decentralised systems can help MSMEs achieve high interest rates and quality without compromising their creditworthiness and performance indicators (Utkarsh et al. 2022). Banks are essential sources of funding and financial services for companies, and without financial support, MSMEs cannot sustain their businesses (Cenni et al. 2015). To accelerate MSME growth, the government should actively engage and formulate policies that support it. Firms sustain numerous relationships based on resource dependence theory to ensure access to vital resources and support (Finnegan & Kapoor, 2023). Key government relationships include legislation, control of resources, direct cash subsidies, competition restrictions, and tax breaks (Pfeffer & Salancik, 2023). Government policies also contribute to the development of entrepreneurship and the sustainability of MSMEs, aligning with the resource-based view and social network theories. This interaction is neither unilateral nor passive, enabling firms to realise government objectives and contribute to MSME growth (Jayeola et al. 2022).

Government support is crucial for SMEs' financial and non-financial development, enhancing innovation, and ensuring sustainable performance (Alkahtani et al.). While government support does not directly improve organisational performance, it can enhance technological development. Decision-making in SME financial management is crucial, with different alternatives supporting different financial decisions (Guan & Yam, 2015). Wrong financial decisions can threaten the survival of SMEs (Raveendra et al. 2018). SME financial managers must be aware of behavioural factors that influence investment decisions, underscoring the importance of psychological factors. Irrational decisions can lead to biased results, and the study focused on three variables: overconfidence, illusion of control, and availability. By making sound decisions, SME financial managers can ensure their firms' survival and contribute to their growth (Hirchey & Nofsinger, 2009).

Entrepreneurial capability is a key factor for innovation and sustainable development of manufacturing SMEs in Malaysia (Al Koliy et al. 2024), Uganda (Kisubi et al. 2022), and Nigeria (Pulka et al. 2021). In Uganda, there is a close relationship between innovation capability and SME performance, with firm performance playing a significant partial mediating role. In Nigeria, SME performance is influenced by entrepreneurial capability, entrepreneurial orientation, and government economic support. The external environment also plays a significant moderating role in the relationship between entrepreneurial capability, government economic support, and SME performance. Government support plays a significant role in sustaining SMEs in various countries, such as Lahore, Pakistan (Aslam et al. 2023), and Malang Raya, Indonesia (Aisyah et al. 2024). Rasheed & Siddiqui's findings reveal that ignorance about financing requirements dominates corporate decision-making in Punjab Province, Pakistan (Rasheed & Siddiqui, 2019). Government incentives, such as tax breaks, loans, social support, and financial support, are effective in ensuring sustainable competitive performance in developing countries.

Developing projects and government incentives drive firm performance, as developing the internal environment within which the external environment of government policy operates is critically essential (Wei & Liu, 2015). Establishing institutions that promote government support for internationalisation and good governance can enhance performance. SMEs significantly impact a country's economic growth and rely heavily on political and government relations for sustainable production (Clement et al. 2003). Top management with strong ties to politics and governments can sustain a competitive advantage in dynamic markets (Li et al. 2008).

Entrepreneurial competence is crucial for SMEs' success, performance, survival, and growth (Utoyo et al. 2020). It involves acquiring, utilising, and developing resources to enhance and grow the business (Kyndt & Baert, 2015). This competency, which focuses on creating value across both the public and commercial sectors, applies to individuals and groups alike (Riyanti et al. 2020). Common attributes of entrepreneurship include initiative, risk-taking, persuasion, and independence. Highly competent entrepreneurs can transform problems into opportunities, thereby enhancing the performance of MSMEs (Kyndt & Baert, 2015). MSMEs have distinctive financial

management traits, shifting from individual to corporate financial management (Pennetta et al. 2024). Financial management researchers are interested in understanding the relationship between MSMEs and their owners, as they manage the economic behaviour (Donnellan & Rutledge, 2019). The RBV (Resource-Based View) theory outlines various tangible and intangible resources that can help MSMEs perform more successfully. Overall, MSMEs' performance is improved by entrepreneurial skills and other factors (Risman et al. 2023).

This study examines the direct and indirect effects of entrepreneurial ability and behavioural financial analysis on the performance of micro, small, and medium-sized enterprises (MSMEs). The study aims to examine whether entrepreneurial ability and behavioural financial analysis mediate the relationship between the independent and dependent variables. This research examines both direct and indirect effects of variables, with a focus on the sensitivity of the dependent variable to changes in the independent variables. The study acknowledges that multiple factors, including government support and financial assistance, influence MSME performance. From an academic perspective, this study aims to enrich the literature on the relationship between economic factors, government support, financial behaviour, and entrepreneurial ability in the context of Indonesian halal MSMEs. The findings can provide a basis for banks and local governments to develop more targeted financing and guidance programs for MSMEs. Socio-economically, this research is expected to contribute to the development of the halal MSME ecosystem, enhance regional competitiveness, and create sustainable employment opportunities in the Greater Malang.

METHODS

A cross-sectional survey was conducted to explore how bank finance, government support, entrepreneur competence, and behavioural finance influence the business performance of halal-certified Micro, Small, and Medium Enterprises (MSMEs) in the food sector, specifically within Malang Raya (Malang Regency, Malang City, Batu City). The focus on Malang Raya is justified by its status as a creative region with an economy bolstered by 17 creative economy sub-sectors, as well as the presence of educational institutions that

support halal certification for MSMEs. The research population comprises halal-certified MSMEs in the food sector in Malang Raya that comply with the MSME definition outlined in PP UMKM No. 7/2021. This definition categorises micro businesses (up to 10 employees), small businesses (11 to 49 employees), and medium businesses (50 to 150 employees). Utilising non-probability accidental sampling, the study targeted MSME owners/managers in the food and beverage sector with halal certification. Given the extensive and dynamic nature of the MSME population, the total sample size was determined using the formula proposed by Hair et al. (2014), resulting in 190 respondents surveyed between April and May 2025, calculated as the number of indicators (19) multiplied by 10.

This questionnaire is based on previous research. Yazdanfar & Öhman (2015) this study uses three-stage least squares (3SLS) developed a bank financing scale that uses three indicators leasing, loans, and letters of credit to measure respondents' bank financing. As Mishra & Zachary (2015) have used, government support is measured along three dimensions: institutional structure, sector motivation, and tax relief. As Kyndt & Baert (2015) have noted, entrepreneurial competence is measured by four indicators: risk-taking, persuasion, initiative, and independence. As Kent Baker et al. (2018) have noted, behavioral finance uses four indicators: overconfidence, anchoring, loss aversion, and self-attribution. SME performance can be assessed by their success in product quality, innovation, human resource management, customer relations, and finance (Mukson et al. 2021). Five indicators of SME performance are based on reputation, profitability, social responsibility, product value creation, and employee growth (Sefiani, 2013). All items for each variable indicator are rated on a 5-point Likert scale from 1 (strongly disagree) to 5 (strongly agree).

The overall hypothesis posits mediating roles for entrepreneurs' competency (M1) and behavioural finance (M2), suggesting a mediation model or an SEM-PLS (Hayes, 2017). To test the proposed hypotheses, we used a step-by-step approach using smart PLS for the first hypothesis (the direct effect model) and the second hypothesis (the indirect effect model), related to bank finance (X1), Government Support (X2), entrepreneurs' competency (M1), behavioural finance (M2), and business performance (Y).

Bank Finance and Business Performance

Financial services are crucial for the success and growth of Micro, Small, and Medium Enterprises (MSMEs). Banks provide loans, leases, and letters of credit as external financing sources for MSMEs, significantly impacting their performance (Ibor et al. 2017). The amount of loans given to companies significantly affects their performance, and bank credit significantly impacts their development (Aisyah et al. 2024). Letters of credit are a special type of payment that banks issue to sellers, ensuring they will pay a specified amount. They can also obtain loans from companies with financial shortages (Takahashi, 2018). Some banks and beneficiaries are using paperless letters of credit, which can promote international trade and benefit local purchases (Kraemer-Eis & Lang, 2012) in general, in the area of SMEs' access to finance, there are market imperfections - not only in times of crisis, but on an ongoing basis as a fundamental structural issue, based on uncertainty and asymmetric information between the demand side (entrepreneur. Leasing has received little research on its influence on MSMEs' performance, but it is essential for their growth (Schallheim et al. 2013). Some studies suggest that leasing and corporate debt are complementary, while others show that commercial bank financing positively benefits MSMEs (Ayuba & Zubairu, 2015; Ibor et al. 2017). Overall, providing accessible financial services at affordable costs is essential for MSMEs' success. Therefore, we develop the first hypothesis as follows:

H1: Bank financing significantly affects the performance of Halal MSMEs in the food and beverage sector.

Government Support and Business Performance

Government support is crucial in improving the performance of Micro, Small, and Medium Enterprises (MSMEs), which can be achieved through tax holidays, incentives, and proper monitoring (Mishra & Zachary, 2015). However, without government support, MSMEs may be unable to build a solid foundation of wealth (Zindiye et al. 2012). Governments provide various financial and non-financial support to MSMEs (Smallbone & Welter, 2001), such as tax reductions, credits, welfare aid, and monetary aid (Storey & Tether, 1998). The social network theory suggests that companies with strong external relations with other national/international companies or organisations can develop vast resources that provide competitive advantages (Burt, 2000). Government incentives and

developmental programs are essential for enhancing sustainable competitive performance in developing countries (Sheng et al. 2011). In return for government financial support, small and medium enterprises can launch into international markets, contributing to economic growth (Wei & Liu, 2015). Political and government connections heavily influence company performance in growing countries, and top management with strong ties can maintain a competitive advantage amid changing market conditions (Li et al. 2008). Therefore, the second hypothesis posits that government support significantly affects the performance of Halal MSMEs in the food and beverage sector. Therefore, we develop the second hypothesis as follows:

H2: Government support significantly affects the performance of Halal MSMEs in the food and beverage sector.

Mediating Effects of Entrepreneurs Competency

Competence is the minimum standard of performance as described by Strebler (1997); therefore, it is a behavior demonstrated by a person. It is the fundamental characteristic of a person who performs practical actions and/or performance in the workplace (Boyatzis, 1991). If competence is described as a single concept, the halo effect is attributed to more successful individuals who are thought to possess the necessary components for success (Boyatzis, 2008). Consequently, the idea of integrated emotional, social, and cognitive intelligence offers a simple framework for describing human character. Entrepreneurial competencies are knowledge and skills that enable entrepreneurs to know how they act and to perceive the positive or negative effects of their actions (Hazlina Ahmad et al. 2010). Opportunity, relational, analytical, innovative, operational, human, and strategic abilities, as well as commitment, learning, and personal competency areas, are among the facets of an entrepreneurial competency that are persistently considered. The following are examples of competency areas: Human, strategic, dedication, education, and strengths (Kyndt & Baert, 2015). More competencies that can be derived from previous research are linked to competency areas, including persistence, self-awareness, assertiveness, planning, independence, networking, and a vision for seeking opportunities (Segal et al. 2005). Competencies related to the competency areas of risk-taking, independence, and creativity were identified, which are attributes commonly used to define and measure entrepreneurial competencies (Draksler & Širec, 2018).

After identifying the competency traits of entrepreneurs, the next challenge is to measure them. Researchers have proposed various methods for measuring entrepreneurial competency. For example, Smith (2005) states that since there is a strong relationship between perceived competency and actual competency, Smith (2005), after identifying the competency traits of entrepreneurs, the next challenge is to measure these qualities. Researchers have proposed various methods for measuring entrepreneurial competency. Smith (2005) proposed a self-report assessment of competency and agreement with competency inquiries. It is because perceived competency and real competency are closely correlated. Entrepreneurial competence has a very significant relationship with MSME performance. Besides the direct relationship, it also mediates the influence of financial services over MSME performance. Part of the relationship between financial services and MSME growth is mediated by competence (Bin Mohamad & Sidek, 2013). Another study discovered a mediating effect of entrepreneurial competence in MSME performance (Sarwoko et al. 2013). In both studies, it was found that there is a significant relationship between entrepreneurial competence and MSME performance. Therefore, we develop the third and fourth hypotheses as follows:

H3: Entrepreneurial competence mediates the effect of bank finance on the performance of halal MSMEs in the food and beverage sector.

H4: Entrepreneurs' competency mediates the effect of government support on the performance of Halal MSMEs in the food and beverage sector

Behavioral Finance and Business Performance

Behavioral economics studies human behavior and explains why and how people make seemingly irrational or illogical savings and investment decisions (Belsky & Gilovich, 2009). To understand how SMEs make financing decisions, Briozzo & Vigier (2007) used behavioral factors as explanatory variables to demonstrate the impact of financial behavior on performance determinants. Therefore, behavioral factors have been incorporated into research to examine how SME owners and managers manage their financial affairs (Briozzo & Vigier, 2007). Furthermore, research by Raveendra et al. (2018) shows that behavioral factors directly or indirectly influence SME financial decisions. Jude & Adamou (2018) also indicate that corporate managers' behavior influences SMEs' decisions to apply for bank loans. Psychological factors influencing

individual decision-making stem from persistent biases (Ricciardi & Simon, 2000). According to Brealey et al. (2006), the process by which financial decisions are made is unclear, so attention is needed. Therefore, for entrepreneurs not to be affected by behavioral biases when they invest the money they access, it is essential to integrate behavioral finance (Zhang & Cueto, 2017). Recently, researchers have paid considerable attention to the behavioral bias of owner-managers due to its suppression effect (Jude & Adamou, 2018).

Behavioral factors that limit investors' ability to make rational investment decisions have a negative impact on MSME performance. As a result, behavioral finance can affect entrepreneurs' behavior and the performance of MSMEs. Combining behavioral finance is therefore very important because investment decisions are influenced by the entrepreneur's behavior (Zhang & Cueto, 2017). Behavioral biases must be examined to gain better insight into the decision-making procedure (Baker et al. 2007). According to a study by Kent Baker et al. (2018), MSMEs are highly susceptible to behavioral biases, specifically self-attribution (overconfidence) and anchoring (owner-managers also do not exhibit loss aversion). The following study, therefore, attempts to evaluate how behavioral biases, namely self-attribution, overconfidence, loss aversion, and anchoring, impact MSME performance. The study of entrepreneurial bias is relatively new in its origin, quickly extending into a critical business area (Zhang & Cueto, 2017). The attributes used to measure behavioral finance are self-attribution, overconfidence, loss aversion, and anchoring (Kent Baker et al. 2018). Therefore, we develop the fifth and sixth hypothesis as follows:

H5: Behavioral finance mediates the effect of bank finance on the performance of Halal MSMEs in the food and beverage sector

H6: Behavioral finance mediates the effect of government support on the performance of Halal MSMEs in the food and beverage sector

Based on the relationship between the variables above, this research model shows the direct and indirect influences of bank finance and government support on business performance, with entrepreneurs' competency and behavioral finance as mediating variables (Figure 1). This study uses a causality model or an influence relationship. Structural equation modeling (SEM), based on components or variants, and Partial Least Squares (PLS) are used to test the research hypothesis.

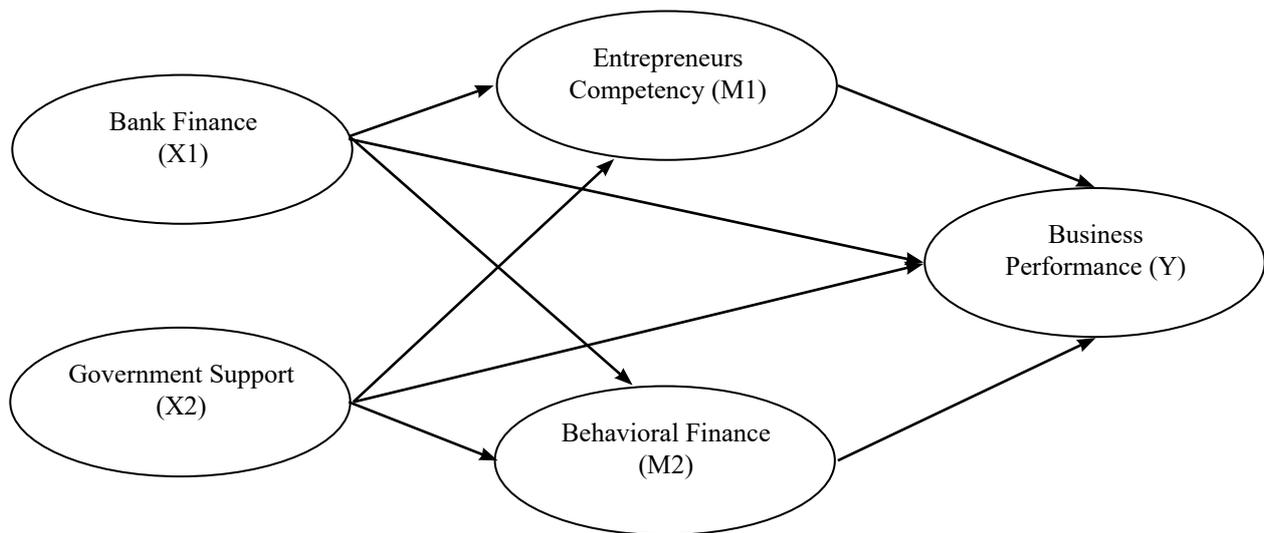


Figure 1. Conceptual framework of the relationship between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance

RESULTS

Descriptive Statistics

As shown in Table 1, the majority of respondents were female (78.9%). The average age of respondents was 44.7 years (41-45 years old). The majority of respondents (52.6%) had completed secondary education. Most businesses are expected to obtain halal certification by 2023 (61.1%) and are owner-operated (76.3%). The average operating period of the companies was 6-10 years (50.0%). Most of these businesses were micro-enterprises with 1 to 10 employees (85.3%). The majority of respondents' businesses are located in Malang Regency (55.3 percent).

Convergent Validity

Table 2 presents the results of measuring each dimension or indicator within the observed variables, which are used to assess convergent validity and confirm the formation of the latent constructs. A loading value greater than 0.70 is considered highly valid, suggesting a strong correlation between the indicator and the latent variable it measures. This threshold confirms that the indicators are reliable and contribute significantly to explaining the construct, thereby supporting the overall validity of the measurement model.

Composite Validity

The construct is considered reliable if its value is above 0.60. Further evidence of the reliability of the variables

used is that each variable's Cronbach's Alpha exceeds 0.7, as shown in Table 3. In addition, the composite reliability of each variable exceeds 0.7, indicating high reliability. In addition, it was found that each variable has an AVE value above 0.5 after assessing the discriminant validity with Average Variance Extracted (AVE).

Structural Model Evaluation (Inner Model)

In this study, SmartPLS was employed to develop and estimate a Partial Least Squares (PLS) structural model, which serves as the basis for analysing the relationships among the research variables. Using SmartPLS, a structural model was constructed to visualise and test the measurement and structural relationships among latent variables, providing a comprehensive representation of the hypothesised causal links. The resulting structural diagram clearly illustrates these relationships, depicting the direction and strength of influence among the constructs under study (Figure 2).

$$M1 = 0.168 X1 + 0.855 X2 + ei; R_1^2 = 63.1\%$$

$$M2 = 0.256 X1 + 0.291 X2 + ei; R_2^2 = 21.7\%$$

$$Y = 0.967 X1 + 0.142 X2 + 0.160M1 + 0.032M2 + ei; R_3^2 = 91.3\%$$

Description: X1 (Bank finance); X2 (Government support); M1 (Entrepreneurs competency); M2 (Behavioral finance); Y (Business performance); e (Residual)

Table 1. Respondent description based on gender, age, education level, business status, and business scale

Respondent Description	Frequency	%	
Gender	Male	40	19.1
	Female	150	78.9
Respondent's age	25 – 30 years	7	3.7
	31 – 35 years	26	13.7
	36 – 40 years	51	26.8
	41– 45 years	85	44.7
	46 – 50 years	14	7.4
	51 – 55 years	7	3.7
Education level	Middle School/Equivalent	39	20.5
	High School/Equivalent	100	52.6
	Diploma	11	5.8
	Undergraduate	34	17.9
	Postgraduate	6	3.2
Halal Certified	2021	32	16.8
	2022	42	22.1
	2023	116	61.1
Business status	Business Owner	145	76.3
	Business Manager	45	23.7
Company Age	1 – 5 years	56	29.5
	6 – 10 years	95	50.0
	11 – 15 years	25	13.2
	16 – 20 years	14	7.4
Total Employees	1 – 10 people	162	85.3
	11 – 50 people	20	10.5
	51 – 150 people	8	4.2
Business locations	Malang Regency	105	55.3
	Malang City	60	31.6
	Batu City	25	13.2

Table 2. Results of outer model reflective indicator measurements between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance

Indicator	Loading factor	Description	Ranking
X1 (Bank finance)			
Lease (X1.1)	0.788	Valid	3
Loan (X1.2)	0.876	Valid	1
Letter of Credit (X1.3)	0.821	Valid	2
X2 (Government support)			
Institutional Structure (X2.1)	0.829	Valid	2
Sector Motivation (X2.2)	0.812	Valid	3
Tax Relief (X2.3)	0.856	Valid	1
M1 (Entrepreneur's competency)			
Risk Taking (M1.1)	0.763	Valid	4
Persuading (M1.2)	0.939	Valid	1
Initiation (M1.3)	0.824	Valid	3
Independence (M1.4)	0.887	Valid	2

Table 2. Results of outer model reflective indicator measurements between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance (continue)

Indicator	Loading factor	Description	Ranking
M2 (Behavioral finance)			
Overconfidence (M2.1)	0.796	Valid	3
Anchoring (M2.2)	0.926	Valid	2
Loss Aversion (M2.3)	0.710	Valid	4
Self Attribution (M2.4)	0.929	Valid	1
Y (Business performance)			
Reputation (Y1)	0.790	Valid	5
Profitability (Y2)	0.878	Valid	1
Social Engagement (Y3)	0.821	Valid	4
Value Added Product (Y4)	0.876	Valid	2
Growth number of Employees (Y5)	0.854	Valid	3

Table 3. Results of Cronbach's alpha, composite reliability, and AVE tests between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance

Variables	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Bank finance	0.77	0.78	0.87
Behavioral finance	0.87	0.93	0.91
Business performance	0.90	0.90	0.93
Entrepreneurs competency	0.88	0.89	0.92
Government support	0.78	0.79	0.87

Table 4 shows the results of the coefficient of determination (R^2). The R-square for model 1, which assesses the impact of the variables X1 (bank finance) and X2 (government support) on the dependent variable M1 (entrepreneurs' competency), is 0.631 (63.1%). Model 2 presents the relationships among the variables X1 (bank finance), X2 (government support), and the dependent variable M2 (behavioral finance). Its R-square is 0.217 (21.7%). Model 3 presents how the variables X1 (bank finance), X2 (government support), M1 (entrepreneurs' competency), and M2 (behavioral finance) influence the dependent variable Y (business performance). Its R-square is 0.913 (91.3%).

The Influence of Bank Finance on Business Performance

Bank financing positively impacts business performance, supporting growth and development. It provides companies with capital to expand operations, enhance production, and innovate. Consistent access to bank financing fosters strong market relationships and financial health, making companies preferred by business partners and customers (Aisyah et al. 2024).

Bank capital, or resource-based bank financing, is strategic as it enables companies to increase their competitive advantage (Kozlenkova et al. 2014). Bank financing provides value by investing in strategic assets, technology, and innovation. However, not all companies can easily access bank financing due to factors such as credit history and business performance (Ibor et al. 2017). Efficient utilisation of funding is a key factor of excellence that is difficult for competitors to imitate. Banking and financial services improve the operations and growth of Micro, Small, and Medium Enterprises (MSMEs), which are vulnerable due to limited access to financial services. Banks typically provide loans, leases, and letters of credit as external financing sources for MSMEs' services (Cámara & Tuesta, 2014). The amount of loans given to companies significantly affects MSMEs' performance. Bank credit significantly impacts MSMEs' development (Ayuba & Zubairu, 2015). Bank finance is considered traditional interest-bearing loans, but can also take additional forms such as interest-free loans, factoring, leasing, and letters of credit (de la Torre et al. 2010).

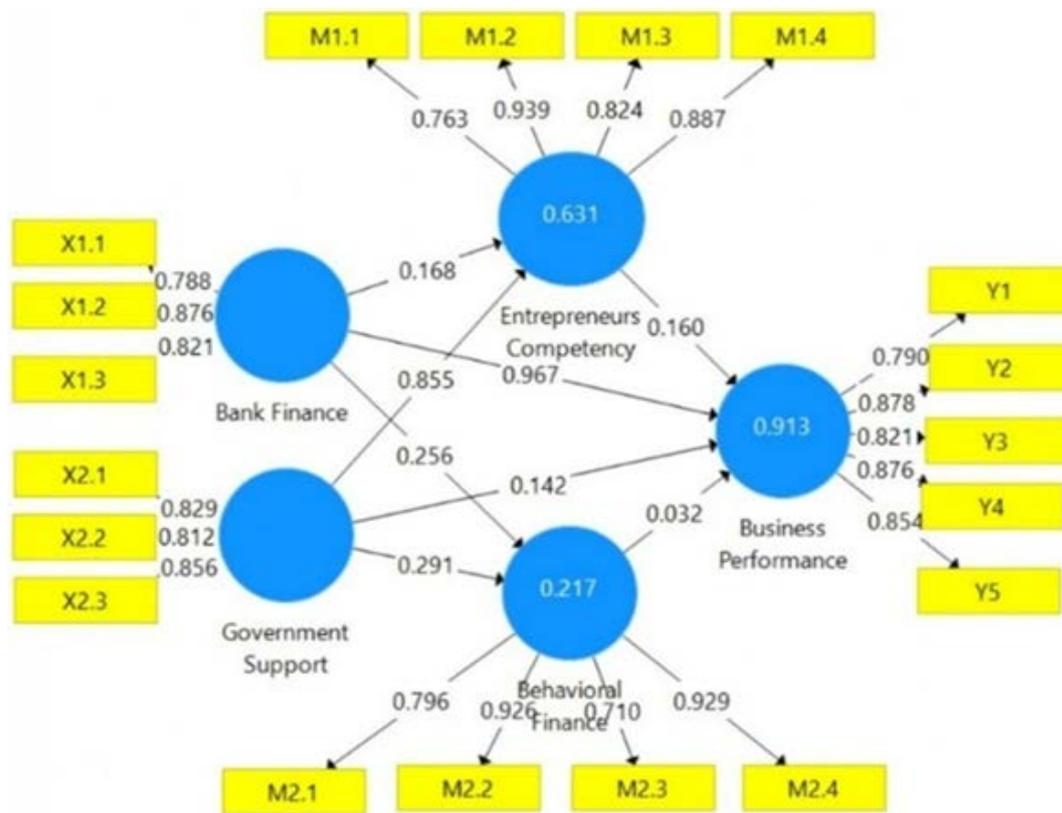


Figure 2. Structural model diagram after data analysis on the relationship between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance

Table 4. Results of determination coefficient on the relationship between bank finance, government support, entrepreneurs' competency, behavioral finance and business performance

Influence	R Square
X1 (Bank finance), X2 (Government support) → M1 (Entrepreneur's competency)	0.631
X1 (Bank finance), X2 (Government support) → M2 (Behavioral finance)	0.217
X1 (Bank finance), X2 (Government support), M1 (Entrepreneur's competency), M2 (Behavioral finance) → Y (Business performance)	0.913

The Influence of Government Support on Business Performance

The study reveals that government support for halal MSMEs in the food and beverage sector in Malang Raya can enhance business performance. It can be achieved by creating a conducive business environment and motivating the industry through business facilities, premises, licensing, and marketing. The growth rate of MSMEs is partly due to government support, such as tax relief, incentives, and an effective monitoring system (Zhu et al. 2012; Zindiye et al. 2012). Government value-added services, such as tax incentives, subsidies, and rules promoting business

establishment, can enhance companies' competitive advantage by expanding the market. Direct government assistance, both financial and non-financial, is a key determinant of improved MSME performance (Kozlenkova et al. 2014). According to the OECD assessment, without government support for public-private discourse, the MSME sector's motivation would be weak. Government support can also help MSMEs by establishing rules that promote fair competition, such as transparency requirements, laws, regulations, and tax burdens (Zhu et al. 2012). These systems, rules, and norms can support the development of appropriate institutional structures and arrangements for MSMEs across economic contexts (Zindiye et al. 2012).

Entrepreneurial Competence Mediates the Effect of Bank Finance on Business Performance

The study's results indicate that entrepreneurial competence mediates the effect of bank finance on the performance of halal MSMEs in the food and beverage sector in Malang Raya. Entrepreneurial competence is vital in determining how bank financing can impact business performance. As a mediating variable, entrepreneurial competence affects how effectively bank funding can be managed to increase business growth and profitability. Bank financing still directly impacts business performance, but this impact is further strengthened by entrepreneurial competence. Highly competent entrepreneurs can optimize their funding to increase competitiveness and profitability. The relationship between bank finance and firm performance is mediated by entrepreneurial competence. Financing may not be used optimally without adequate competence, which can burden the business. Therefore, in addition to increasing access to funding, business actors must develop entrepreneurial competence to manage capital more effectively and improve business competitiveness.

Understanding entrepreneurial success through the lens of entrepreneurial competence is crucial because it enables entrepreneurs to understand their own behaviour and encourages them to recognise both the potential positive and negative consequences of their actions (Hazlina Ahmad et al. 2010). A study by Man et al. (2002) identified 10 aspects of entrepreneurial competence: opportunity, interpersonal skills, analytical thinking, innovation, operational skills, strategic competence, commitment, learning ability, and personal strengths. Furthermore, the mentioned perseverance, self-awareness, confidence, planning ability, independence, networking, persuasion, and opportunity-seeking. Segal et al. (2005) also considered risk-taking, persuasion, independence, and initiative as essential components of entrepreneurial competence. Common characteristics used to measure and define entrepreneurial competence include risk-taking, persuasion, independence, and initiative (Draksler & Širec, 2018; Draksler & Širec, 2018; Draksler & Širec, 2018).

Entrepreneurial Competence Mediates the Effect of Government Support on Business Performance

According to the study's findings, the indirect impact of government support on the performance of halal MSMEs in Malang Raya's grub plus glug domain is attributed to enterprising skills. Specifically, expertise might operate as a moderator in the relationship between the kind of backup and the company's performance. That is, where backup takes the form of incentive policy, capital support, and training and on easier terms of regulation. However, the effectiveness of this support depends heavily on the entrepreneurial competence of business actors. Government support still directly affects business performance, but entrepreneurial competence further amplifies that impact. In other words, government support remains beneficial for businesses, but businesses run by highly competent entrepreneurs will derive greater benefits. Entrepreneurial competence is not only an imperative variable but also a moderator of the relationship between government support and business performance. Without adequate competence, government support may not have its optimized effect on businesses (Aisyah et al. 2025). Entrepreneurial competence significantly influences MSME performance. Besides its direct influence, it acts as an intervening variable in the relationship between financial services and MSME performance. The relationship between financial services and MSME growth is partially mediated by competence (Bin Mohamad & Sidek, 2013). Another study discovered a mediating effect of entrepreneurial competence in MSME performance (Sarwoko et al. 2013). These two studies have similar findings regarding the influence of entrepreneurial competence on MSME performance, which is quite important.

Behavioral Finance Mediates the Effect of Bank Finance on Business Performance

The study's findings reveal no mediation; the effect of bank finance on the performance of halal MSMEs in the food and beverage sector in Malang Raya is attributed to behavioral finance. If the substantial direct impact of bank financing on business performance exists, then the mediating role of financial behavior is likely. For example, a business that secures a large loan at a low interest rate may immediately increase production without being overly influenced by how the business owner manages its finances. Financial management in business remains weak, so capital is

not managed effectively. Not all business owners have strong financial literacy, so even with bank financing, they may still not manage it properly.

Behavioral Finance is the understanding of “an approach to human perception that explains why and how individuals make ostensibly unsound or unreasonable choices in saving and investing their money” (Belsky & Gilovich, 2009). In their discussion of the factors that explain why the reflection of behavior on the determinants of performance can be considered legitimate, Briozzo & Vigier (2007) included behavioral factors as explanatory variables. Therefore, this study examines how MSME owner-managers decide on their financial matters (Briozzo & Vigier, 2007). In addition, Raveendra et al. (2018) showed that behavioral elements directly or indirectly influence MSME financial decisions. Jude & Adamou (2018) showed that operator behavior influences MSME decisions to apply for bank loans. Psychological factors that influence individual decisions are caused by persistent bias (Ricciardi & Simon, 2000). According to Brealey et al. (2006), the process by which financial decisions are made is unclear, so attention is needed. Thus, it is important to teach students behavioral finance so they can avoid bias when making investment decisions later (Zhang & Cueto, 2017). A lot of attention has been paid to the behavioral bias of owner-managers in recent research works because of its suppressive nature (Jude & Adamou, 2018).

Behavioral Finance Mediates the Effect of Government Support on Business Performance

The findings of the study reveal that there is no mediation, in this case, behavioral finance, between government support and the performance of halal MSMEs in the culinary-automatically beverage sector in Malang Raya. Such government support, for example, in the form of capital, fiscal incentives, or training, has a significant impact on business performance. If this direct effect is strong, the mediating role of financial behavior becomes less evident, as the support is sufficient to encourage business growth or stability without the need for further processing through changes in financial behavior. For behavioral finance to function as a mediator, government support must change how business actors manage their finances. However, if business actors tend to maintain existing financial management practices or are not

sufficiently responsive to government programs, the expected changes in financial behavior will not occur. Even though the government provides support, low levels of financial literacy among business actors can hinder the implementation of more effective financial practices (Aisyah et al. 2024). Without increasing literacy and the ability to integrate assistance into optimal financial management, government support does not translate into changes in financial behavior that impact performance. The study’s results showing that behavioral finance does not affect performance were also reinforced by Utami & Abdullah (2024).

Managerial Implications

The study reveals that bank financing and government support positively impact MSME performance in Greater Malang. Access to financing and public policy intervention are crucial for strengthening competitiveness. To improve productivity and sustainability, MSMEs must utilise banking facilities and government programs, such as capital loans, interest subsidies, training, and mentoring. Entrepreneurial competency mediates the influence of bank finance and government support on business performance, indicating that performance improvement depends on financial assistance and entrepreneurial skills. Entrepreneurship training, business coaching, and ongoing development are recommended to enhance MSMEs’ performance. However, behavioural finance cannot mediate the influence of bank finance and government support. It suggests that MSMEs lack sufficient financial literacy and discipline to optimise external support. Banks and the government should integrate more financial education into MSME development programs to ensure sustainable changes in economic behaviour.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study reveals that MSME-owned bank financing significantly impacts the performance of these businesses. It shows that actors with access to banking capital improve their profitability. Government support also contributes to MSME performance, with tax relief boosting their profitability. Entrepreneurial competence mediates the effect of bank finance on the

performance of halal MSMEs. Capital financing can enhance entrepreneurial competence, allowing MSMEs to convince stakeholders about their ideas, products, or business visions. The more competent MSMEs have, the more it impacts their profitability. However, behavioural finance cannot mediate the influence of bank finance on the performance of halal MSMEs. Excessive self-confidence in behavioural finance does not improve business performance or profitability. The study suggests that while government support can influence financial behaviour, it does not significantly affect MSME performance.

Recommendations

This study not only adds to the body of knowledge that a lack of access to financing primarily hampers MSME growth, but also argues that financing availability may serve as a substitute input to foster entrepreneurial competence, thereby improving firm performance. Apart from the above conceptual novelty, this study applied Structural Equation Modeling to develop a causal model of performance determinants, adding further methodological originality and widening the application of entrepreneurial competence. According to this study, behavioural finance has a minimal impact on MSME performance. In fact, this finding is consistent with the majority of the existing literature. Therefore, the present study proposes future research to examine the effect of behavioural finance on MSME performance, while accounting for moderating variables such as culture and economic status.

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