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ENTREPRENEURIAL SELF-EFFICACY, INNOVATIVE BEHAVIOR, AND BUSINESS PERFORMANCE AMONG MSES IN CENTRAL JAVA

Muhammad Dani Raditya*, Hidajat Hendarsjah

Department of Management, Faculty of Economics and Business, Sebelas Maret University
Jl. Ir. Sutami 36 A Surakarta, Central Java, 57126, Indonesia

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Abstract:

Background: Micro and Small Enterprises (MSEs) are central to Indonesia's economy, yet many still struggle to transform entrepreneurial confidence into innovative actions that improve business performance.
Purpose: This study examines the effect of Entrepreneurial Self-Efficacy (ESE) on Business Performance (BP), with Innovative Work Behavior (IWB) as a mediator and Entrepreneur-Owned Fund (EOF) as a moderator.
Design/methodology/approach : A quantitative explanatory approach was applied to 125 MSE owners in the Solo Raya region. The data were analyzed using linear regression, mediation testing, and moderation testing.
Finding/Results: The results show that ESE positively affects IWB and BP, while IWB also positively affects BP. IWB partially mediates the relationship between ESE and BP. However, EOF does not moderate the relationship between ESE and IWB, indicating that internal financial resources do not necessarily strengthen the conversion of entrepreneurial confidence into innovative behavior.
Conclusion: The findings highlight that psychological capability and innovative behavior are more central to MSE performance than internal financial resources alone. MSE development policies should therefore integrate financial support with mentoring, entrepreneurial capability building, and innovation-oriented assistance.
Originality/value (State of the art): This study offers a nuanced view of EOF by showing that internal funds do not always serve as a moderating resource in the ESE–IWB relationship.

Keywords: business performance, entrepreneur-owned fund, entrepreneurial self-efficacy, innovative work behavior, micro and small enterprises

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* Corresponding author:
Email: daniraditya27@student.uns.ac.id

INTRODUCTION

Micro and Small Enterprises (MSEs) in Indonesia play a crucial role in supporting the national economy. According to 2023 data from the Central Statistics Agency, MSEs account for 83.61% of all business units in Indonesia and are spread across various sectors, particularly wholesale and retail trade and the manufacturing industry (Badan Pusat Statistik, 2023). This dominance demonstrates that MSEs are the backbone of the regional and national economy, particularly in providing employment and increasing community income (Ramadani et al. 2025). In Indonesia, MSEs contribute more than 60% to the national Gross Domestic Product (GDP) and absorb more than 90% of the workforce (KADIN, 2025). However, in an increasingly competitive and dynamic business environment shaped by globalization, digitalization, and market disruption, many MSEs in Indonesia still struggle to improve their competitiveness and maintain business sustainability (Link UMKM, 2025).

Based on data from Hasanudin (2024), the number of MSEs in Surakarta increased drastically from 3,600 units in 2021 to 11,100 units in 2022. Nevertheless, this substantial increase in quantity is not always accompanied by improvements in quality, particularly in terms of innovation, managerial capacity, and product competitiveness (Hasanudin, 2024). The report also noted that many MSEs in Solo Raya still face difficulties in accessing important resources such as technology training, business mentoring, and digital market penetration to improve business performance (BRIDA, 2020). Research by Munandar et al. (2025) further confirms that the competitiveness of MSEs in Indonesia remains weak. This gap between quantitative growth and qualitative performance underlines the need to examine the internal factors that drive sustainable MSE performance, particularly in the Solo Raya context.

In this context, Entrepreneurial Self-Efficacy (ESE) is believed to be a key internal factor influencing the innovative behavior of business owners (Messikh, 2022). Individuals with high ESE have greater confidence in solving entrepreneurial challenges, taking initiative, and implementing creative solutions for business development (Srimulyani & Hermanto, 2021). In other words, ESE not only shapes personal motivation but also directly affects innovative work behavior (Hidayah & Rodhiah, 2024). According to Srimulyani & Hermanto, (2021), ESE encompasses three main dimensions: individual beliefs, action control, and cognitive resources. In the context of MSEs, entrepreneurs with high ESE tend to be more independent, proactive, and solution-oriented when facing market or internal business challenges (Fauziyah & Pangaribuan, 2023; Lestari et al. 2022), making ESE an important foundation for encouraging innovative attitudes and sustainable business development (Caliendo et al. 2023).

The concept of ESE is closely related to the framework of innovative work behavior (IWB), which refers to individual behavior in the work context that reflects the search, development, and implementation of new ideas to improve organizational or business performance (Waheed & Khan, 2025). According to Janssen (2000), IWB consists of three main dimensions, namely idea generation, idea promotion, and idea realization. IWB is regarded as a key component in organizational innovation processes, including in micro and small businesses that rely heavily on the adaptability and creativity of their owners (Janssen, 2000). Business actors with high levels of IWB are more likely to survive amid market competition because they are able to adapt and create innovative advantages based on fresh ideas (Asaul & Faltinskij, 2013). This relationship is also supported by Rumijati & Hakim (2023) who showed that ESE is positively correlated with IWB because entrepreneurs with high self-efficacy are more likely to explore ideas, face innovation risks, and implement changes in business practices.

Innovative Work Behavior (IWB) not only reflects the adaptability of business actors but also positively correlates with business performance (BP) (Firdaus & Sakinah, 2023). In the context of MSEs, business actors who demonstrate IWB tend to be able to improve work processes, increase operational efficiency, and produce more competitive products or services (AlEssa & Durugbo, 2022). A study by Marwan & Soleman (2025) shows that IWB has a significant influence on improving business performance, and even mediates the relationship between entrepreneurial orientation (EO) and knowledge management (KM) on MSE performance in Indonesia. However, not all ESE can be converted into IWB that generates business impact, especially when not accompanied by adequate financial capabilities (Srimulyani et al. 2023). This confirms that innovative behavior is not merely a personal attribute, but also a strategic bridge connecting individual

psychological capacity with tangible business outcomes (Orozco et al. 2024).

Although many studies show a positive correlation between ESE and IWB, not all studies find a consistent positive impact. In some contexts, ESE only drives innovation when business owners have adequate internal financial resources (Srimulyani et al. 2023). In this case, the capital capacity of business owners, also known as Entrepreneur-Owned Fund (EOF), has the potential to be an important moderator in the relationship between ESE and IWB. Entrepreneur-Owned Fund (EOF) refers to a business owner's internal financial capacity, including personal capital, business savings, or reserve funds available to support business operations and development, particularly in the context of innovation (Alshebami, 2025). If EOF is high, ideas emerging from self-efficacy are more likely to be realized into innovative behavior (Gálvez-Albarracín et al. 2018); however, if EOF is low, innovative behavior remains hampered even when ESE is high (Li et al. 2020). In many MSEs, limited access to external financing makes EOF the only reliable source of funding for experiments, the purchase of new production equipment, or the launch of innovative products, making it a determining factor in whether entrepreneurs with high ESE are able to undertake innovative actions (Setyowarni & Prihatiningtyas, 2022). Therefore, this study examines the moderating effect of EOF in the relationship between MSE actors' ESE and their innovative behavior, as studies specifically addressing this issue in the Indonesian MSE context remain scarce.

This study considers Entrepreneurial Self-Efficacy (ESE) to have a strategic role in driving business performance, both directly and indirectly through innovative work behavior (IWB). Business owners with high levels of ESE tend to be more confident in exploring and executing new ideas, which have the potential to improve processes, increase efficiency, and create competitive advantage. However, the effectiveness of ESE in driving IWB does not occur in a vacuum, because it is strongly influenced by the availability of internal funds from the business owner in the form of Entrepreneur-Owned Fund (EOF), which serves as a supporting resource that enables the realization of ideas into concrete actions (Srimulyani et al. 2023). Theoretically, this research is grounded in the Resource-Based View (RBV), which emphasizes that competitive advantage stems from unique, non-imitable, and value-creating internal resources (Osakwe et al. 2022), thereby positioning ESE, IWB, and EOF as strategic resources rooted in the business owner. This theoretical lens is complemented by Social Cognitive Theory (Bandura, 1977) and Dynamic Capability Theory (Teece et al. 1997), which together explain how self-confidence, innovative behavior, and resource availability interact to shape sustainable business performance in the MSE context.

Based on the background described above, this study addresses five main questions: whether entrepreneurial self-efficacy has a positive effect on innovative work behavior in MSEs, whether entrepreneurial self-efficacy has a positive effect on business performance in MSEs, whether innovative work behavior has a positive effect on business performance in MSEs, whether innovative work behavior mediates the relationship between entrepreneurial self-efficacy and business performance in MSEs, and whether the availability of entrepreneur-owned funds moderates the influence of MSEs' self-efficacy on innovative work behavior. Accordingly, this study aims to analyze the influence of ESE on business performance, with IWB as a mediating variable and EOF as a moderating variable, in the context of MSEs in the Solo Raya region. This model is built on the assumption that MSE competitiveness and performance are determined not only by external market factors or regulations, but also by the internal capacity of the business owner, both psychological in the form of self-confidence and structural in the form of financial resources (Srimulyani & Hermanto, 2021). Theoretically, this research is expected to enrich understanding within the RBV framework by positioning ESE, IWB, and EOF as strategic internal resources of the business owner. Practically, this research is expected to provide recommendations for MSE actors and policymakers in optimizing the management of ESE and EOF as an effort to improve IWB and sustainable business performance.

METHODS

This study uses two types of data, namely primary data and secondary data. Primary data were collected directly from the first source through a questionnaire instrument using a five-point Likert scale that was developed based on the indicators of each research variable. Secondary data were used to complement the primary data and consisted of laws, reports from

government agencies, and academic publications related to MSEs in the Solo Raya region. The research method employed in this study is a survey, which, according to Sekaran & Bougie (2011), is a method of collecting primary data from individual respondents through a structured questionnaire. This study involved 125 Micro and Small Enterprises (MSEs) located in the Solo Raya region, which includes Surakarta, Sukoharjo, Boyolali, Sragen, Wonogiri, Karanganyar, and Klaten.

The population of this study is large and heterogeneous with the classification referring to Law No. 20 of 2008. Based on this regulation, micro-enterprises are defined as businesses with annual sales of at most IDR 300 million, whereas small enterprises are those with annual sales of more than IDR 300 million up to IDR 2.5 billion. The sample size was determined at 125 respondents using a purposive sampling approach. Data were collected through both online and offline questionnaires, namely by using Google Forms and by distributing questionnaires directly to MSE locations. The combination of online and offline methods was chosen to ensure broader coverage and to reach respondents across the seven cities and regencies within the Solo Raya region.

This study uses a quantitative explanatory approach to systematically test the causal relationships among variables through numerical data analysis and statistical procedures. An explanatory research design was selected because the study does not merely describe the phenomenon, but also seeks to explain the mechanism underlying the relationships among the hypothesized variables (Blumberg et al. 2014). According to Sekaran & Bougie (2011), quantitative analysis enables researchers to measure variables, test hypotheses, and draw inferential conclusions objectively through standardized statistical procedures. The data analysis techniques used in this study include linear regression analysis to test the effect of independent variables on dependent variables, a mediation test (Sobel Test) to examine whether Innovative Work Behavior (IWB) mediates the relationship between ESE and BP, and a moderation test to determine whether Entrepreneur-Owned Fund (EOF) moderates the relationship between ESE and IWB. The results of each test were analyzed and interpreted systematically to answer the research hypotheses based on the level of statistical significance (p-value < 0.05) and the direction of the relationship indicated by the regression coefficients.

Previous studies indicate that when entrepreneurs have sufficient internal funds, they have greater flexibility to conduct experiments, participate in training, incentivize innovation, and bear the risks associated with testing new ideas (Alshebami, 2025; Indraputri & Pramesti, 2024). In addition, Bandura (1977) explains that self-efficacy encourages individuals to initiate and sustain effortful behavior in pursuing challenging goals, which in the entrepreneurial context can be reflected in innovative action. The relationship between IWB and BP is also supported in the literature, as De Jong & Den Hartog (2010) demonstrated that innovative behavior contributes significantly to organizational performance. Furthermore, the moderating role of financial resources in the relationship between ESE and IWB is grounded in the Resource-Based View (Barney, 1991), which emphasizes that the transformation of psychological capabilities into behavioral outcomes depends on the availability of supporting resources. Based on these theoretical and empirical foundations, this study proposes the following hypotheses:

H1: Entrepreneurial Self-Efficacy (ESE) has a positive effect on Innovative Work Behavior (IWB).
H2: Innovative Work Behavior (IWB) has a positive effect on Business Performance (BP).
H3: Entrepreneurial Self-Efficacy (ESE) has a positive effect on Business Performance (BP).
H4: Innovative Work Behavior (IWB) mediates the relationship between Entrepreneurial Self-Efficacy (ESE) and Business Performance (BP).
H5: Entrepreneur-Owned Fund (EOF) moderates the influence between Entrepreneurial Self-Efficacy (ESE) and Innovative Work Behavior (IWB).

The framework of this research is based on the Resource-Based View (RBV) proposed by Barney (1991), which emphasizes that competitive advantage and sustainable business performance depend on the ability of business actors to manage and utilize valuable, rare, inimitable, and non-substitutable resources. In the context of MSEs, these resources are not limited to physical assets, but also include the personal capabilities of business owners, such as self-confidence, creativity, and the ability to innovate. Entrepreneur-Owned Fund (EOF) is positioned as a moderating variable that conditions the relationship between ESE and IWB, reflecting the argument that the availability of financial resources determines the extent to which psychological motivation can be translated into innovative action. The conceptual model of this research describes the relationship between ESE, EOF, IWB, and BP among

MSE actors in the Solo Raya region with RBV serving as the main theoretical basis for explaining how both personal and financial resources shape business excellence and performance. As shown in Figure 1, this framework integrates psychological capital (ESE), behavioral output (IWB), financial resource availability (EOF), and organizational outcome (BP) into a single explanatory model.

RESULTS

Respondent Profile

This study involved 125 Micro and Small Enterprises (MSEs) owners from the Solo Raya region. As shown in Table 1, 60.0% of the respondents were male and 40.0% were female, indicating that male respondents were more dominant in the sample. The largest age group was 35-44 years, accounting for 39.2% of the respondents, followed by the 25-34 year age group at 36.0%. In terms of educational background, most respondents were high school or vocational school graduates, representing 50.4% of the sample, while respondents with a bachelor's degree accounted for 25.6%. Based on the length of business, most respondents had operated their businesses for 1–3 years, accounting for 48.8% of the sample, followed by those operating for 3–5 years at 37.6% and less than 1 year at 13.6%. Based on business characteristics, most respondents operated in the food and beverage sector, representing 53.6% of the sample, followed by services at 20.8% and retail at 17.6%. Most businesses employed 1-5 people, accounting for 56.0% of respondents, while 21.6% were self-managed businesses without employees. Regarding monthly turnover, 74.4% of the businesses earned between IDR10-50 million per month, while 25.6% earned less than IDR10 million per month. These characteristics indicate that the respondents represent MSE actors with relatively diverse demographic and business profiles in the Solo Raya region.

Descriptive Statistics and Reliability

Based on the Table 2, all constructs have an average score of approximately 3.00 on a five-point Likert scale. This result indicates that respondents' perceptions of ESE, IWB, BP, and EOF tend to be in the moderate category. The standard deviation values, ranging from approximately ±1.40 to ±1.42, show that respondents' answers varied across the scale but remained within an acceptable range for analysis. The CITC values for all constructs exceed the minimum acceptable threshold of 0.30, indicating that all items are valid in measuring their respective constructs. The reliability results also show that Cronbach's alpha values are 0.952 for ESE, 0.921 for IWB, 0.858 for BP, and 0.776 for EOF. Since all Cronbach's alpha values are greater than 0.70, the measurement instruments can be considered reliable and internally consistent. Therefore, the constructs used in this study are statistically adequate for subsequent regression, mediation, and moderation analyses.

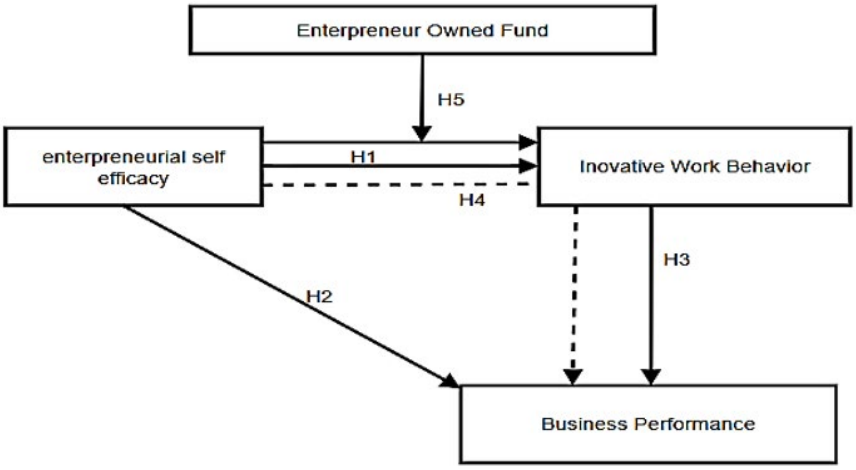


Figure 1. Conceptual Framework of the Relationship between ESE, EOF as Moderator, IWB as Mediator, and BP among MSEs in Solo Raya

Table 1. Respondent profile of 125 MSE respondents in the Solo Raya Region

Category	Indicator	Number of people	Percentage (%)
Gender	Male	75	60.0
	Female	50	40.0
Respondent Age	< 25 years	11	8.8
	25–34 years	45	36.0
	35–44 years	49	39.2
	> 45 years	20	16.0
Last education	Junior High School	10	8.0
	High School/Vocational School	63	50.4
	Diploma	20	16.0
	Bachelor degree	32	25.6
Length of Business	< 1 year	17	13.6
	1–3 years	61	48.8
	3–5 years	47	37.6
Type of business	Food and beverage	67	53.6
	Service	26	20.8
	Retail	22	17.6
	Others (Crafts, Fashion, etc.)	10	8.0
Number of employees	None (own business)	27	21.6
	1–5 people	70	56.0
	6–10 people	19	15.2
	> 10 people	9	7.2
Turnover per Month	< IDR10 million	32	25.6
	IDR10–50 million	93	74.4

Table 2. Descriptive statistics and measurement quality of ESE, IWB, BP, and EOF constructs

Construct	Number of items	CITC range	Cronbach's alpha	Mean	Std. Dev	Min	Max
ESE	10	0.729–0.843	0.952	3.00	1.40	1	5
IWB	8	0.693–0.770	0.921	3.00	1.42	1	5
BP	3	0.719–0.764	0.858	3.00	1.42	1	5
EOF	4	0.499–0.624	0.776	3.00	1.42	1	5

Note: Entrepreneurial Self-Efficacy (ESE); Innovative Work Behavior (IWB); Business Performance (BP); Entrepreneur-Owned Fund (EOF)

Diagnostic Tests

Table 3 reports the diagnostic tests used to assess whether the regression model satisfies the required statistical assumptions. The normality test of the residuals shows a Kolmogorov-Smirnov significance value of 0.200, which is greater than 0.05. This result indicates that the residuals are normally distributed and that the normality assumption is fulfilled. The multicollinearity test shows that the tolerance value for ESE and IWB is 0.463, which is greater than the minimum threshold of 0.10. The VIF value is 2.161, which is below the maximum threshold of 10.00, indicating that there is no multicollinearity problem between the independent variables. The heteroscedasticity test using the Glejser method also shows significance values of 0.572 for ESE and 0.644 for IWB, both of which are greater than 0.05. Therefore, the regression model is considered free from heteroscedasticity, and the data are appropriate for further hypothesis testing.

Path Analysis (Direct Effects) and Mediation (Indirect Effect)

Table 4 presents the results of the direct and indirect effect tests in the ESE–IWB–BP model. The results show that Entrepreneurial Self-Efficacy (ESE) has a positive and significant effect on Innovative Work

Behavior (IWB) with B = 0.513, SE = 0.174, t = 2.943, and Sig. = 0.004. This finding supports H1 and indicates that MSE owners with higher entrepreneurial self-efficacy tend to demonstrate stronger innovative work behavior. The effect of IWB on Business Performance (BP) is also positive and significant, with B = 0.560, SE = 0.096, t = 5.839, and Sig. < 0.001. This result supports H2 and shows that innovative work behavior contributes to improved business performance among MSEs. In addition, ESE has a positive and significant direct effect on BP, with B = 0.316, SE = 0.092, t = 3.423, and Sig. < 0.001, thereby supporting H3. These findings indicate that entrepreneurial self-efficacy contributes to business performance both directly and through the behavioral mechanism of innovation.

Table 4 also presents the mediation test used to examine the indirect effect of ESE on BP through IWB. The Sobel test result shows a Z value of 2.690 with Sig. = 0.007 indicating that the mediating role of IWB is statistically significant. This result supports H4 and confirms that IWB mediates the relationship between ESE and BP. The mediation can be interpreted as partial mediation because ESE remains significantly related to BP while also influencing BP through IWB. In practical terms, this finding indicates that MSE owners with stronger self-efficacy are more likely to improve business performance when their confidence is translated into innovative work behavior. Therefore, the direct and indirect effect tests demonstrate that ESE and IWB are important explanatory factors in the performance of MSEs in Solo Raya.

Moderated Regression Analysis

Table 5 presents the moderated regression results used to test whether Entrepreneur-Owned Fund (EOF) moderates the relationship between ESE and IWB. The results show that ESE has a significant effect on IWB, with B = 0.513, SE = 0.174, t = 2.943, and Sig. = 0.004. However, EOF does not have a significant direct effect on IWB, as indicated by B = -0.079, SE = 0.182, t = -0.435, and Sig. = 0.664. The interaction term between ESE and EOF is also not significant with B = 0.066, SE = 0.054, t = 1.220, and Sig. = 0.225. Since the interaction effect is not statistically significant, EOF does not moderate the relationship between ESE and IWB. This means that the level of internal funds owned by entrepreneurs does not strengthen or weaken the effect of entrepreneurial self-efficacy on innovative work behavior in this sample. Therefore, H5 is not supported.

Table 3. Diagnostic Tests of Regression Assumptions for the ESE-IWB-BP Model

Assumption	Indicator	Value	Cut-off	Conclusion
Normality of residuals	Kolmogorov-Smirnov Sig.	0.200	> 0.05	Assumption met
Multicollinearity	Tolerance (ESE; IWB)	0.463	> 0.10	Assumption met
	VIF (ESE; IWB)	2.161	< 10.00	Assumption met
Heteroscedasticity	Glejser Sig. for ESE	0.572	> 0.05	Assumption met
	Glejser Sig. for IWB	0.644	> 0.05	Assumption met

Table 4. Direct and Indirect Effect Estimates in the ESE–IWB–BP Model among 125 MSEs in Solo Raya

Path / Effect	B	SE	t / Z	Sig.	Interpretation
ESE → IWB	0.513	0.174	2.943	0.004	Positive and significant
IWB → BP	0.560	0.096	5.839	< 0.001	Positive and significant
ESE → BP	0.316	0.092	3.423	< 0.001	Positive and significant
Indirect effect via IWB (Sobel)	-	-	2.690	0.007	Partial mediation supported

Note: Entrepreneurial Self-Efficacy (ESE); Innovative Work Behavior (IWB); Business Performance (BP); Entrepreneur-Owned Fund (EOF)

Table 5. Moderated regression results for the interaction of ESE and EOF on IWB among 125 MSEs in Solo Raya

Variables	B	SE	t	Sig.	Information
ESE	0.513	0.174	2,943	0.004	Significant
EOF	-0.079	0.182	-0.435	0.664	Not significant
ESE × EOF	0.066	0.054	1,220	0.225	Not moderating

Note: Entrepreneurial Self-Efficacy (ESE); Innovative Work Behavior (IWB); Business Performance (BP); Entrepreneur-Owned Fund (EOF)

Figure 2 provides a visual synthesis of the hypothesis testing results presented in Table 4 and Table 5. The figure summarizes the significant direct paths from ESE to IWB, from IWB to BP, and from ESE to BP. It also shows the significant mediating role of IWB in the relationship between ESE and BP based on the Sobel test result. At the same time, Figure 2 displays the non-significant interaction between ESE and EOF, confirming that EOF does not function as a moderator in the relationship between ESE and IWB. Therefore, Figure 2 is not presented as a separate finding, but as a visual summary that connects the direct effect, mediation, and moderation results into one integrated model. This figure helps clarify that the main explanatory mechanism in the model lies in the direct and indirect role of ESE through IWB, rather than in the moderating effect of EOF.

Specifically, this study aims to analyze the influence of Entrepreneurial Self-Efficacy (ESE), Innovative Work Behavior (IWB), and Entrepreneur-Owned Fund (EOF) in explaining Business Performance (BP) among MSEs in Solo Raya. The results show that ESE has a positive and significant effect on both IWB and BP, while IWB also has a positive and significant effect on BP. The mediation test confirms that IWB partially mediates the relationship between ESE and BP, indicating that self-efficacy contributes to business performance both directly and indirectly through innovative behavior. However, the moderation test shows that EOF does not significantly moderate the relationship between ESE and IWB. Overall, these findings suggest that psychological confidence and innovative behavior are more central in explaining MSE performance than the availability of internal funds alone.

H1 is supported, confirming that ESE is a significant driver of IWB among MSEs in Solo Raya. This finding is consistent with Social Cognitive Theory (Bandura, 1977), which explains that individuals with high self-efficacy are more likely to initiate and sustain goal-directed behavior. In the entrepreneurial context, this confidence is reflected in the ability of business owners to generate ideas, take initiative, solve problems, and implement creative actions. The result is also in line with McGee et al. (2009) and Srimulyani et al. (2023), who identified ESE as an important psychological antecedent of entrepreneurial creativity and initiative. Therefore, for MSEs with limited formal support and resources, self-efficacy becomes an internal force that helps business owners translate confidence into innovative work behavior (Fauziyah & Pangaribuan, 2023; Lestari et al. 2022).

H2 is supported, indicating that IWB has a positive and significant effect on BP in the MSE context. This result shows that innovative behavior is not merely an individual characteristic, but also a practical mechanism that contributes to better business outcomes. In MSEs, innovative behavior may appear in the form of process improvement, product development, simple technology adoption, marketing adjustment, or faster responses to customer needs. These actions can improve efficiency, strengthen customer value, and increase the competitiveness of small businesses. This finding is consistent with De Jong & Den Hartog (2010), AlEssa & Durugbo (2022) and Firdaus & Sakinah (2023) who emphasized that innovative work behavior contributes to organizational and business performance.

H3 is supported, showing that ESE has a direct positive effect on BP even without considering IWB as a mediator. This finding reinforces the Resource-Based View (Barney, 1991), which explains that valuable and difficult-to-imitate internal resources can support competitive advantage. In the MSE context, ESE can be understood as an intangible psychological resource that helps business owners make decisions, manage uncertainty, and persist in achieving business goals. Entrepreneurs with high self-efficacy tend to demonstrate resilience, strategic thinking, and stronger confidence in managing available resources. This result is consistent with Caliendo et al. (2023) and Messikh (2022) who found that self-efficacy contributes to entrepreneurial and business performance.

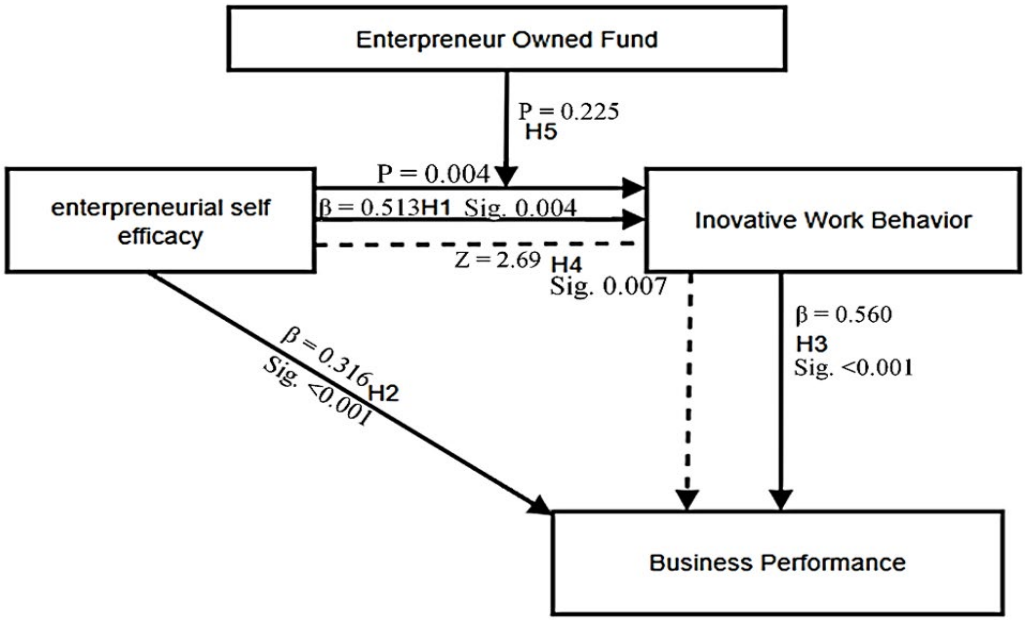


Figure 2. Summary of hypothesis testing results showing the standardized regression coefficients of the ESE–IWB–BP pathway and the non-significant moderating effect of EOF among MSEs in Solo Raya

H4 is supported, as the results confirm that IWB partially mediates the relationship between ESE and BP. This finding indicates that ESE contributes to business performance through both direct and indirect pathways. The direct pathway reflects the role of self-efficacy in strengthening decision-making, persistence, and confidence in managing business challenges. The indirect pathway shows that ESE encourages entrepreneurs to engage in innovative work behavior, which subsequently improves business performance. This result extends the findings of Norena-Chavez & Guevara (2020), Orozco et al. (2024) and Srimulyani et al. (2023), by confirming that innovation-related behavior is an important mechanism through which psychological capability is transformed into business outcomes.

H5 is not supported, because EOF does not significantly moderate the relationship between ESE and IWB. This result indicates that the level of internal funds owned by entrepreneurs does not strengthen or weaken the influence of self-efficacy on innovative work behavior in this study. One possible explanation is that many MSEs in Solo Raya prioritize operational continuity over innovation investment, so available funds may be used mainly for daily business needs rather than experimentation or product development (Setyowarni & Prihatiningtyas, 2022). Another explanation is that business owners with high self-efficacy may still engage in innovation under financial limitations by relying on creativity, experience, informal networks, or incremental improvements. From the RBV perspective, this finding is meaningful because financial resources alone may not generate competitive advantage unless they are supported by managerial capability and cognitive readiness (Barney, 1991; Alshebami, 2025; Indraputri & Pramesti, 2024). Therefore, the non-significant moderating effect of EOF suggests that psychological capital, particularly ESE, is more decisive in encouraging IWB than internal fund availability alone.

Managerial Implications

The findings of this study provide theoretical implications for entrepreneurship and strategic management literature. First, this study extends the Resource-Based View by positioning ESE as an intangible psychological resource that can support business performance in the MSE context. This perspective broadens the understanding of internal resources beyond physical and financial assets by emphasizing confidence, initiative, and entrepreneurial capability. Second, the significant mediating role of IWB supports Dynamic Capability Theory (Teece et al. 1997) because it shows that psychological motivation must be translated into adaptive and innovative behavior before it can fully contribute to business

outcomes. Third, the non-significant moderating effect of EOF provides a more nuanced understanding of Social Cognitive Theory (Bandura, 1977) as intrinsic psychological factors appear to play a stronger role than financial resource availability in encouraging innovative behavior.

The results also provide practical implications for MSE actors, policymakers, financial institutions, and business support organizations. For MSE owners, the findings suggest that strengthening self-efficacy is important because confidence in managing business challenges can encourage innovation and improve performance. This can be developed through business management training, exposure to successful entrepreneurial role models, mentoring, and structured innovation activities. For policymakers and financial institutions, the findings imply that capital support should be accompanied by mentoring, coaching, and psychological empowerment, because financial resources may not automatically generate innovation without entrepreneurial readiness (Alshebami, 2025; Indraputri & Pramesti, 2024). For business incubators and entrepreneurial communities, collaborative ecosystems that facilitate knowledge sharing, peer learning, and practical innovation support are needed to strengthen the link between ESE, IWB, and sustainable MSE performance (Munandar et al. 2025).

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study examined the roles of Entrepreneurial Self-Efficacy (ESE), Innovative Work Behavior (IWB), and Entrepreneur-Owned Fund (EOF) in shaping Business Performance (BP) among 125 MSEs in the Solo Raya region. The findings show that ESE has a positive and significant effect on IWB and BP, while IWB also has a positive and significant effect on BP. These results indicate that entrepreneurial confidence and innovative behavior are important factors in improving MSE performance. The mediation test confirms that IWB partially mediates the relationship between ESE and BP, meaning that ESE improves BP both directly and indirectly through innovative behavior. However, EOF does not moderate the relationship between ESE and IWB, suggesting that internal financial resources do not strengthen or weaken the effect of self-efficacy on innovative behavior in this study.

Recommendations

Based on these findings, MSE owners are encouraged to strengthen entrepreneurial self-efficacy through business training, mentoring, and continuous learning. MSE actors also need to develop innovative work behavior by improving business processes, adjusting products or services, and responding more actively to market changes. Government agencies, financial institutions, and business support organizations should combine capital assistance with coaching and psychological empowerment programs. This is important because financial resources may not automatically encourage innovation without sufficient confidence, capability, and readiness from business owners. Future studies are recommended to include other contextual variables, such as entrepreneurial orientation, digital technology adoption, market conditions, or external financing access, to provide a broader understanding of MSE performance.

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