



## Framework of Mediating Role of MSEs Performance on The Relationship Between Entrepreneur Environment and Entrepreneur Satisfaction

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Received: 15<sup>th</sup> May 2021

Accepted: 22<sup>nd</sup> June 2021

Published: 10<sup>th</sup> July 2021

### ABSTRACT

This study aimed to determine the effect of MSE performance in modulating the relationship between the entrepreneurial environment and entrepreneurial satisfaction. The main problem faced by Small and Medium Enterprises (SMEs) in Indonesia today is poor entrepreneurial satisfaction. Many businesses fail because the founders couldn't operate them. It is related to the low performance of SMEs and an unsupportive entrepreneurial environment. As a result, entrepreneurs who fail will leave their businesses and return to being workers. The data for this research will be processed quantitatively using AMOS SEM. This research will conduct in Pekanbaru City, Riau Province, Indonesia. This research will broaden the understanding of the factors that influence the satisfaction of an entrepreneur in Indonesia.

**Keywords:** Small and Medium Enterprises, Indonesia, AMOS SEM, Entrepreneurial Environment, Entrepreneurial Satisfaction

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### INTRODUCTION

Challenges to the growth and sustainability of Small and Medium Enterprises (SMEs) arise from economic conditions, government policies, the social environment, digital technology, and increasing competition (Iskamto et al., 2019; Omerzel Gomezelj & Kušce, 2013). In a supportive environment, SMEs can grow, while in a non-supportive environment, SMEs decrease (Abdullah & Mansor, 2018). The external and internal environment is very influential on the satisfaction of an entrepreneur. When receiving awards from the environment, an entrepreneur feels satisfied and proud so he tries to improve the performance of his business. Conversely when entrepreneurs feel unappreciated by the social environment then they become disappointed (Binder & Coad, 2013). Furthermore, a substantial amount of study on self-employment performance has found that it is influenced by a variety of environmental elements, including inside, outside, and situational elements (Adel et al., 2020). The environment is a resource reservoir; the surplus of resources is referred to as environmental munificence, and it can have a direct influence on performance (Omerzel Gomezelj & Kušce, 2013). External influences might include elements of the surrounding environment as well as situational situations that are beyond of the entrepreneur's control. Various studies have found that extrinsic influences can influence behavioural entrepreneurship (Abdullah & Mansor, 2018)

### LITERATURE REVIEW

#### Entrepreneur Environment

People's social systems and cultures collide to generate the Cultural and social Business Environment, and as a result, The Journal of Management and Theory Practice

entrepreneurs are shaped by it (Omerzel Gomezelj & Kušce, 2013). The business environment is critical to the growth and commercial development of any country, and it encourages and creates opportunities for individuals to engage in various commercial ventures in order to improve the quality and level of life (Banham, 2010; Iskamto, Karim, et al., 2020). Moreover, the word "business environment" refers to the whole forces and elements that impact and effect company performance in a business environment, rather than the actual surroundings (Omerzel Gomezelj & Kušce, 2013). As a result, in order for their business to perform and be successful, small company owners must deal with the factors that impact their small company enterprises (Iskamto, Ghazali, & Afthanorhan, 2020). According to the findings of Mukhtar Shehu & Mahmood, (2015) study, there is a need to research the business environment since business enterprises do not function in a vacuum but rather in dynamic business settings. The business environment is critical for the survival and performance of small businesses, and there is also a need to investigate success factors that can improve small business performance during economic recessions, downturns, and crises in order to create an appropriate economic environment for small business growth (Döckel & Ligthelm, 2015). According to Omerzel Gomezelj & Kušce (2013) External sources and knowledge are required for SME enterprises. The environment is a collection of resources; the degree of resource richness is referred to as environmental benevolence, and it has a substantial impact on the business performance. There are many business environment factors but this study will only focus

on: training and development; business infrastructure; competitive position; access to infrastructural facilities; social and cultural norms. The importance of entrepreneurial training and development cannot be overstated. This refers to numerous formal education programmes as well as training programmes for entrepreneurs and small and medium-sized business personnel. External partnerships with other organisations, as well as partnerships with academic and research organisations, are extremely beneficial in the process of collecting information (Ahmad et al., 2018; P. L. Ghazali et al., 2015). The quality and affordability of businesses, as well as the legal and technological infrastructure required by rising firms, are all essential considerations (Banham, 2010). Varied advisors in their social networking sites (friends, family, buddies, etc.) and different major advisors are highly crucial for the success of entrepreneurs (Krishnan & Kamalnabhan, 2015). Newly founded businesses are able to thrive and thrive by providing a suitable business environment. Physical infrastructure, such as telecommunications, energy supply and utilities, and so on, should be widely accessible to entrepreneurs. (Nuryakin, 2018) outline the elements that determine a company's competitiveness in their research; further, they show that a company's competitiveness has a beneficial influence on a company's performance. Cultural and societal conventions, such as preference or aversion to coping with entrepreneurial activity, have a significant influence on entrepreneurial activity. More new enterprises will be formed in cultures where the culture appreciates those who have successfully started a new firm. Locations having a meeting space for entrepreneurs and potential entrepreneurs to exchange ideas, issues, and solutions typically have more enterprises than other areas (Adam et al., 2020; P. L. Ghazali & Mohd, 2012).

### **MSEs Performance**

The research revealed a lack of consensus on what defines a successful measure. Some studies concentrated on the use of financial indicators, while others investigated non-financial success indicators. The former claimed that typical revenue growth indicators such as profitability, return on investment and sales turnover could foretell a firm's success or failure (Fried & Tauer, 2015). The academics who prefer financial indicator of success often stated that it is critical for the performance of firms to create money and profits, as well as showing some level of development as evidenced by their sales and revenue (Iskamto, 2020; Moorthy et al., 2012). Some scholars also believed that sustainability, rather than expansion, is the goal of many small firms, but the scholars of this group said that, while development is not regarded crucial, sustainability of a firm nevertheless necessitates financial health. The latter group, on the other hand, stressed the significance of non-financial indicators of performance (Trihudyatmanto & Purwanto, 2018). Likewise, (Bahari et al., 2018) defended the contribution of non-financial indicators by stating that financial successes are not as important as human qualities such as accountability, which are seen as primary criterion for accomplishment. The firm's performance represents two aspects: the firm's business performance and the entrepreneur's personal success and happiness (Dijkhuizen et al., 2018; Iskanto, Ghazali, & Aftanorhan, 2020). Exploring the elements that contribute to the success of businesses is a very popular topic in the literature. Performance may be seen from several perspectives, and agreement on the most dependable performance parameters

has yet to be reached. There is no agreement on how to quantify the success of SMEs in specific. (Abreu et al., 2019) argue that the most strong indications of a small- or medium-sized enterprise's effectiveness and efficiency for the entrepreneur, i.e. the owner of a SME, are (in particular) job satisfaction and pleased customers. They validated the entrepreneur's impression of the firm's success and development had an effect on the performance of their SMEs (Bahari et al., 2018). Rather than optimizing the SME's incomes, the entrepreneur may choose the independence and lifestyle that entrepreneurship provides (Belasen & Hafer, 2012; P. L. Ghazali et al., 2019). The elements of a small company entrepreneur's personal performance assess the entrepreneur's non-financial goals, which may include personal fulfilment (Cooper & Artz, 1995; P. Ghazali et al., 2017). Entrepreneurs who chose to establish their own firm for motives other than financial gain report a higher degree of happiness than those who are driven into company just for financial gain (Kabir et al., 2017). If a business is fairly successful but does not reach the aims and objectives of the founders, its development is restricted, and the entrepreneur may even close such a business down.

### **Entrepreneur Satisfaction**

Numerous researchers have consistently found that self-employed are more satisfied than workers, even when their salary is smaller (Carree & Verheul, 2012). The higher level of happiness among entrepreneurs may be due to the fact that discontent with a salaried job may foster the desire to become self-employed, however its impact on the actual start-up is unknown (Guerra & Patuelli, 2016). In any case, people who become self-employed report a greater rise in work satisfaction when compared to their prior employment than those who switch to another paid position (Andersson, 2008; Benz & Frey, 2008). According to Krishnan and Kamalnabhan (2015), women company owners are more satisfied with their possessions. The outcomes associated with initial expectations and enterprising females are two of the most intriguing. Female entrepreneurs may be more satisfied since they believe they have less tempting choices. Those with higher initial expectations are more fulfilled, according to the notion of difference. Many people who are optimistic about their initial prospects will have a better sense of ownership of the company, regardless of how things turn out. According to Delgado-García et al., (2012), favourable opinions influenced an entrepreneur to achieve large and aggressive aims, but unfavourable considerations influenced an entrepreneur to disclose a narrow range of aims. According to (Binder & Coad, 2013), entrepreneurship based on preference has benefited not just for job satisfaction but also for general happiness and enhanced health.

### **Firm Performance as A Mediator**

According to (Carree & Verheul, 2012) research, its success as a mediator among intellectual resources, common human assets, inspiration, personal characteristics, and business satisfaction (income, well-being, and leisure time). It discovers that success has a beneficial impact on income fulfilment. Life Partners and six controls are variables that only have a little impact on satisfaction. Six variables have a substantial direct effect on satisfaction as well as a large impact on company performance. Life Partner and six venture-specific factors are the only variables that have an indirect influence on entrepreneur happiness. Along with the direct consequences, it provides indirect support for firm

performance. Both directly and indirectly, job correlation has a beneficial influence on income satisfaction (via business performance).

## RESEARCH FRAMEWORK

The proposed study framework aims to investigate the output variables of MSEs in Indonesia. Figure 1 below depicts this pattern. The hypotheses listed below have been created for research purposes. Such theories will be mentioned based on the reference analysis's numbering scheme for Hypothesis. Because of the difficulties of answering hypotheses using the Structural Equation Modeling (SEM) approach, this statement type hypothesis was chosen.

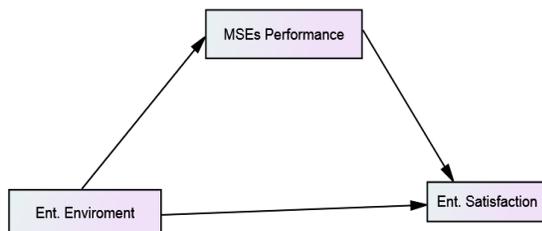


Figure 1: Research Framework

## RESEARCH HYPOTHESIS

The following hypothesis is, therefore proposed:

H1: Entrepreneur Environment has a significant positive effect on MSEs performance

H2: MSEs performance has a significant positive effect on Entrepreneur Satisfaction

H3: Entrepreneur Environment has a significant positive effect on Entrepreneur Satisfaction

## METHODOLOGY

The unit of analysis in this study is micro and small businesses in Pekanbaru, Indonesia. 400 MSMEs in the Indonesian city of Pekanbaru will be chosen as examples. Simple Random Sampling was used to choose the samples. Data about MSME entrepreneurs received from the Indonesian government. SPSS version 23 will be used to evaluate initial data and offer descriptive analyses regarding the thesis samples such as averages, standard deviation and variance, as well as to do Exploratory factor analysis (EFA) (Iskamto, Ghazali, & Aftanorhan, 2020). The AMOS Structural Equation Model (SEM) is used to analyse research data in order to analyse, validate, and test hypotheses (Awang, 2015; Babbie, 2010; P. Ghazali et al., 2012; Hair et al., 2018).

## CONCLUSION

The goal of this study was to establish the relationship between entrepreneurial happiness and environmental variables that impact entrepreneurial performance. Entrepreneur satisfaction is predicted to improve with these specified characteristics. On the other side, the goal of this research is to establish a link between Entrepreneur Satisfaction, the entrepreneurial environment, and the performance of Micro, Small, and Medium Enterprises (MSEs) in Indonesia. I hope that this research will boost and improve entrepreneur happiness, as well as the performance of SMEs and the entrepreneurial environment.

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