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## Does Neoclassical Theory Exist in SMEs? Evidence from Central Java-Indonesia

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### Abstract

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Financial and non-financial aspects can influence company performance, not excluding small-medium enterprises (SMEs). This research examines the non-financial aspect, since studies in this area are still limited. This research strives to demonstrate the existence of the neoclassical theory in the relationship framework between the business aspect (real sector) and SME performance. This study, which was conducted on batik SMEs in Central Java Province-Indonesia, consisted of 265 samples. The data was obtained from surveys through distributing questionnaires and conducting interviews with batik SME entrepreneurs. The data analysis used a structural equation model (SEM). These study results documented that business prospects have direct and indirect effects on SME performance. The indirect influences are produced through entrepreneurial-oriented financial mediation. This finding reveals that the neoclassical theory will be more effective to improve company performance through entrepreneurial-oriented finance. The importance of the role of this mediating variable is shown from the total effect of the coefficient that is higher than the indirect effect or the direct effect of the coefficient.

## INTRODUCTION

The Ministry of Cooperatives and SMEs of the Republic of Indonesia reports that in terms of number of units, MSMEs have a share of around 99.99 percent (62.9 million units) of the total business actors in Indonesia, while large businesses only amounted to 0.01 percent or around 5400 units in 2017. Micro Enterprises absorb around 107.2 million workers (89.2%), small enterprises 5.7 million (4.7%), and medium enterprises 3.73 million (3.11%); while large enterprises absorb around 3.58 million people. This means that collectively, MSMEs absorb around 97% of the national workforce, while large enterprises only absorb about 3 percent of the total

national workforce. Taken together, the scale of economic activity for MSMEs contributes around 60 percent to Indonesia's total Gross Domestic Product (GDP). In 2017, Indonesia's GDP was around IDR 13600 trillion. It means that the total income of MSMEs is around IDR 8160 trillion. Micro enterprises contribute around Rp. 5000 trillion per year, small enterprises Rp. 1300 trillion, medium enterprises around Rp. 1800 trillion; and large enterprises of around IDR 5400 trillion ([www.ukmindonesia.id](http://www.ukmindonesia.id)). If the figure above is divided by the number of MSME units, the mean income of MSM and large enterprises can be estimated, the results of which are as follows:

**Tabel 1.** The Mean Income of Micro, Small, Medium, and Large Enterprises in 2017

Business Scale Category	Jumlah (Unit)	Percentage of Business Units	Total Revenue (IDR trillion / year)	Percentage of Contribution to GDP	Average Revenue per Business Unit (IDR / year)
Micro	62,106,900	98.7%	4,727.99	34.12%	76,126,646.15
Small	757,090	1.2%	1,234.21	8.91%	1,630,202,485.83
Medium	58,627	0.11%	1,742.44	12.57%	29,720,777,116.35
Large	5,460	0.01%	5,136.22	37.07%	940,699,633,699.63
Total	62,928,077	100%	12,841	93%	

Source: Central Bureau of Statistics (processed)

Table 1 shows that the productivity per business unit has indeed increased in line with the category of business scale. Micro enterprises only have an average business income of around Rp. 76 million per year or IDR 253 thousand per day; small enterprises IDR 1.63 billion per year or IDR 5.4 million per day; and medium enterprises Rp. 29.7 billion per year or around IDR 99 million per day. Meanwhile, the average income of large enterprises is around IDR 941 billion per year or IDR 3.15 billion per day (assuming 300 days per year). When compared with the upper limit of turnover criteria, the average turnover of micro enterprises is currently only about 25 percent of the upper limit of turnover of IDR 300 million; small enterprises 65 percent, and medium enterprises 59 percent. This seems to imply that the productivity of micro enterprises is still much lower than that of SME which makes it generally more fragile and may be easily crushed by competitive pressures. There must be inherent and structured assistance so that micro enterprises

can increase production efficiency, productivity, and resilience in facing competition. On the other hand, micro-entrepreneurs also need to be open to technological novelty, especially in utilizing various digital solutions that can expand markets while reducing various production costs.

Various problems that are generally attached to small scale enterprises, whether from a financial aspect (Iriyanti and Azis, 2012, Jahur and Quadir, 2012, Ortiz-Walters and Gius, 2012) or a non-financial aspect (Emami et al., 2012, Hamdani and Wirawan, 2012, Ropega, 2011), can have an effect on the business performance. This research can be categorized in the entrepreneurial finance sphere. This field studies small business finance and pioneering business finance through formal and informal finance sources (Mitra, 2012, Van Der Wijst, 2012); the uniqueness of SME finance characteristics and management (Dahnil et al., 2014, Mateev and Ivanov, 2011); as well as the combination of a financial and entrepreneurial perspective

(Yazdipour, 2011). The majority of the research studies are about entrepreneurial finance from the supply (financer) side, whereas this topic can be reviewed from the demand (entrepreneur) perspective. This research discusses entrepreneurial finance especially from the entrepreneur side through entrepreneurial-oriented finance activities.

Up until now, entrepreneurial finance studies frequently discuss financial aspects and SME performance. These financial aspects cover finance sources, whether formal (Balboa et al., 2011, Mallick and Yang, 2011) or informal, that can be accessed by SME entrepreneurs (Mitter and Kraus, 2011, Bammens and Collewaert, 2014). Non-financial aspects like the entrepreneurship dimension and SME performance have also been frequently studied (Çaliyurt, 2011, Dunn and Liang, 2015, Estwick, 2013, Rezaei et al., 2012); as well as research about government policy support (Echecopar et al., 2012, Li et al., 2016, Prelipcean and Boscoianu, 2014). As far as is known, there have not been many studies about non-financial aspects, especially from the SME business dimension itself. Therefore, this research focuses on the influence of the business aspect towards SME performance through testing the neoclassical theory.

Various research has been conducted on the relationship between business prospects and company performance. Kachlami and Yazdanfar (2016) mentioned that theoretically, the company prospect relationship that is represented by growth opportunity and company performance that is represented by profitability can have positive and negative behaviour. Popa and Ciobanu (2014) support these results, in that an enterprise with low and high growth opportunities has high profitability, while an enterprise with middle growth opportunities has low profitability. There is a positive influence in the relationship between business growth and a small company's performance (Pett and Wolff, 2009, Gupta et al., 2013). Meanwhile, a unique relationship is also found between growth opportunity and profitability, where profitability increases growth opportunity, but in the next stage growth opportunity actually disrupts profitability (Jang and Park, 2011). In contrast, Markman and

Gartner (2002) were unable to demonstrate that there is an influence between the two variables. This research examines the influence of business prospects towards SME performance directly and indirectly through the entrepreneurial-oriented finance mediation variable. This idea was not found by the researcher when conducting a literature review.

Based on the research gap, it can be concluded that there is still a controversy between the influence of the business prospect on SME performance. This signifies that there is a missing link in the relationship of the two variables, so that a company which has a prospective that is uncertain to produce high performance, depends on how the prospect is able to be seen by the entrepreneur as an opportunity to be developed (Digan et al., 2017). These differences in the results are suspected to be due to the presence of a mediating role of a particular variable that has an influence on the relationship of the two variables. Based on the argument above, in this research, an entrepreneurial-oriented finance concept is formulated as a mediating variable in explaining the relationship between the business prospect and SME performance. This variable is a synthesis of the finance and entrepreneurship concept, which is derived from the entrepreneurial finance theory, which places emphasis on the role of finance in developing an enterprise (Urim and Imhonopi, 2015).

This study aims to examine the direct effect of business prospects on the performance of SMEs and the indirect effect through the mediation of entrepreneurial-oriented finance in batik SMEs in Central Java-Indonesia.

The Neoclassic Theory is often used to explain the economic growth topic, where this theory details about price formation, production, and revenue distribution through a demand and offer mechanism in a particular market (Aspromourgos, 1986). When this theory is applied in a micro scope like SMEs, then it can play a role in explaining about business growth or prospects, especially when it is related with company production or operationalization. Maximizing profit or utility is a company's goal by utilizing the available resources (human capital, financial capital, or even technology). An entrepreneur needs to have a unique ability to

mobilize and transform limited heterogeneous resources to achieve a competitive advantage in the market. In the end, this competitive advantage will be able to encourage an increase in business performance.

This study contributes towards substantiating the neoclassical theory at the SME level through the role of mediation from entrepreneurial-oriented finance in the relationship between the business prospect and SME performance. Then for SME entrepreneurs, they should possess an entrepreneurial-oriented finance ability, so that it will optimize their business performance through risky financial activities, innovative investments, and proactive profit policies. A good business prospect will have a greater effect on improving the business performance through the entrepreneurial-oriented finance of the entrepreneur oneself.

The premise between the business prospect and company performance can be explained in the neoclassical theoretical framework. The business prospect has various dimensions. The first one is growth opportunity, which is proxied with an increase in the company's physical assets, an increase in the spending ratio for research, and development (Titman and Wessels, 1988). An increase in the growth opportunity can improve the company performance (Hessels and Parker, 2013) and stimulate further investments (Mocviciociov et al., 2010).

The second business prospect dimension is productivity. According to the neoclassical theory, if a company has a high level of productivity, then the company will have a good prospect in the future (Kendrick, 1973). An enterprise which has a growth in productivity has a greater chance to improve its financial performance, because it will have a stronger competitive ability than its competitors. In this research, productivity includes its own financial capital contribution towards the total asset growth, the total asset contribution towards sales, as well as the sales contribution towards profit (Popa and Ciobanu, 2014, Afeef, 2011).

The third business prospect dimension is technological resources. A company which applies technology is proxied as a company which has a good prospect related with its growth (Hanadi and Aruna, 2013, Lecerf and Omrani,

2020). Only a limited number of studies have discussed the technology aspect in an SME scope. However, SMEs rely on innovative and creative activities in their businesses to create a competitive advantage in the market. One media which can help this goal is through utilizing technology to support the business. An SME which has a high prospect tends to apply technology in supporting its operationalization to achieve efficiency, gain a competitive advantage, and finally improve the product market and financial performance. An SME which has technology appropriate with the newest developments, based on its needs, as well as the ability to apply it effectively in its business operations will have a greater opportunity to improve its performance, because it will have a greater competitive ability over its competitors. Technological ownership that is superior, compatible, and easily applied will be able to stimulate financial performance, market performance, and continued investments (Chege and Wang, 2020).

Hypothesis 1: The business prospect has a positive influence on SME performance. When a company develops, its investment and operational activities will also increase. This has an effect on the need to add financial capital to accommodate innovative and proactive investments. According to the opportunity-based entrepreneurship theory, positive changes to the business environment can bring about entrepreneurship. Entrepreneurship opportunities can arise from a locus of change that is directed to the existence of opportunities, sources of opportunities, and an initiator of change (Eckhardt and Shane, 2003). A company's sustainability does not only depend on the presence of the entrepreneur, but it also involves the company's locus and sources of opportunity. These three things are considered to be able to give rise to creative, innovative, and proactive activities as they relate to financing and funding utilization activities.

A company that has a high prospect tends to need greater financing than a company that has a low prospect. This positive company prospect is met with an aggressive response by an entrepreneur through one's financing activity, such as by increasing debt, which will be used to finance investments (González and González,

2011, Trinh et al., 2017). Besides that, funds which originate from profit accumulation can also be used to create business prospects. This means that increasing business prospects can improve entrepreneurial-oriented finance, which is indicated from an increase in risky external financing, innovative investments, and utilizing profit proactively.

Hypothesis 2: The business prospect has a positive influence towards entrepreneurial-oriented finance. According to the entrepreneurial finance theory, an entrepreneur who is able to take into account the time and amount of funding that must be accumulated, allocate funds efficiently to realize business opportunities, and make decisions to get out of financial problems, will achieve business success (Mitter and Kraus, 2011). Kerr et al. (2010) revealed that a company which is able to access greater financing will have better performance. Increasing debt can improve the financial performance (Ortiz-Walters and Gius, 2012), because only an entrepreneur who has better performance expectations in the future will be brave to use debt for one's enterprise.

Besides financing, an entrepreneur who is able to do innovative investments is greatly influenced by one's resources and capabilities. When the financial capital, entrepreneurship, and technology are sufficient, it will be able to stimulate innovative investments. Innovative investments are marked by allocating funds for creative activities, research, and developments or actions that are directed towards creating products, markets, methods, and new materials, in order to increase company profit (Croitoru, 2012). An entrepreneur who has company profit, entrepreneurial ability, and management ability will be able to allocate one's profit in proactive activities to initiate a market (Ferreira et al., 2011).

Hypothesis 3: Entrepreneurial-oriented finance has a positive influence towards SME performance.

A company which has a good prospect should have high performance and the other way around. However, that is not always the case. It is no longer the case that the same business prospect will produce different company performance; it depends on the availability of internal and external funds to take advantage of the

opportunities. This premise can be explained in the framework of the entrepreneurial finance theory. Mitter and Kraus (2011) revealed the importance of the role of the entrepreneur in looking for resources, in order to do business innovations so that company growth increases.

Different performance with the same business prospect can be due to diversity in the available funds, the entrepreneur's ability to allocate resources for productive and efficient business activities, as well as a policy to use profit optimally. This is an entrepreneurial ability to see opportunities, develop ideas, and assemble resources, including finance in business realization (Alvarez and Busenitz, 2001, Guo et al., 2017). This means that entrepreneurial-oriented finance will be able to turn a company that has poor prospects into a company that has high performance.

Hypothesis 4: Entrepreneurial-oriented finance mediates the influence of the business prospect towards SME performance.

## RESEARCH METHODS

The population of this research was SMEs involved in the batik business that were located in Central Java Province, which were in Pekalongan, Rembang, and Surakarta. The total population of MSMEs that were under the auspices of the Cooperative Office and MSME at that location was 1,230. The coastal and non-coastal society's cultural variations influence the product variations that are produced (Rita et al., 2018). The probability sampling design used was complex probability sampling with an area sampling method (Sekaran and Bougie, 2013), based on culture. The analysis of this research was batik producer entrepreneurs, who were responsible for the finances and business management. Based on the criteria, there were 265 respondents chosen from three research locations. The primary data was in the form of respondents' perceptions accumulated with an observation by distributing questionnaires.

The variables arranged in the research model are detailed as follows: The business prospect was measured from the dimensions: growth opportunity (Anderson and Reeb, 2003), productivity growth (Chalos and Chen, 2002, Pares, 1980), and technological resources

(Ramdani et al., 2009). The indicators of growth opportunity consisted of three items, which were: (a) experiment expenditure ratio towards sales; (b) sales cost ratio towards sales; and (c) intangible asset ratio towards sales. The indicators of productivity growth were comprised of three items, including: a) asset productivity which revealed the total asset contributions owned by the company towards sales; b) sales productivity which showed the sales contributions towards the size of the net profit after taxes; and c) the financial capital productivity itself which measured its own financial capital contributions towards the total assets. Technology resource availability is needed by SMEs to assist innovation activities in their product and production processes. Batik SMEs which have a strong distinctiveness from the side of pattern or design focus their activities on product experimentation and the production process. Technology plays an important role to support the activities. The willingness of SMEs to adopt and apply technology in their innovation activities and experiments is an indicator that their businesses have good prospects. The indicators of technological resources consisted of three items, which were: a) relative advantage, b) compatibility, and c) complexity (Ramdani et al., 2009).

Entrepreneurial-oriented finance was measured from the dimensions: risky financing, innovative investments, and proactive profit policy. These indicators were modified from the entrepreneurial orientation indicators from

Miller (2011), which consisted of risk taking, innovation, and proactiveness aligned with the financial activity indicators of Klonowski (2016), which were comprised of financing, investments, and profit policy.

The SME performance was measured from the dimensions: financial performance, market performance, and entrepreneurial performance. Financial performance was proxied from return on assets (ROA), return on sales (ROS), and sales growth (Torugsa et al., 2012). Market performance was measured from customer satisfaction, customer total growth, and market access growth (Brouthers and Nakos, 2004). Then entrepreneurial performance was measured with employee prosperity, entrepreneurial satisfaction in increasing profit, and employee total growth (Rita and Thren, 2019, Shane and Nicolaou, 2013).

Each indicator was measured with three question items using a 5-point Likert scale (1. Very Low; 2. Low; 3. Average; 4. High; 5. Very High). A tiered model which has latent variables can be estimated using SEM (Structural Equation Modelling) (Jr et al., 2010), with the assistance of AMOS software.

## RESULTS AND DISCUSSION

Table 2 below details the respondent batik company profile from the three regions, which include the company stage, annual profit, volume, and annual production volume.

**Table 2.** Profile of Respondents

<b>Business Stage</b>	<b>Surakarta</b>	<b>Rembang</b>	<b>Pekalongan</b>
Start-up	4 (7%)	0 (0%)	4 (2%)
Introduction/survival	31 (52%)	28 (93%)	93 (43%)
Mature	8 (13%)	1 (3%)	57 (26%)
Decline	7 (12%)	1 (3%)	32 (15%)
Shake-out	6 (10%)	0 (0%)	20 (9%)
Renewal	4 (7%)	0 (0%)	11 (5%)
<b>Total</b>	<b>60 (100%)</b>	<b>30 (100%)</b>	<b>217 (100%)</b>
<b>Sales/year (IDR)</b>			
Min	10,000,000	26,000,000	15,000,000
Max	19,000,000,000	800,000,000	31,104,000,000
Mean	1,731,683,333	227,233,333	804,177,064
Std. Deviation	3,801,498.369	186,811,667	2,241,178,364
<b>Production Volume (Unit/year)</b>			

<b>Business Stage</b>	<b>Surakarta</b>	<b>Rembang</b>	<b>Pekalongan</b>
Min	120	240	180
Max	600,000	7,200	18,000,000
Mean	22,587	1,596	172,429
Sts. Deviation	76,918	1,345	1,465,746

Source: Central Bureau of Statistics (processed)

The company stages between SMEs show the diversity, starting from the start-up stage until the renewal stage. SMEs in the introduction/survival stage (above 40 percent) are divided into Surakarta (52 percent), Rembang (93 percent), and Pekalongan (43 percent). More than 90 percent of batik enterprises in Rembang are in the introduction/ survival stage category. This stage is characterized by having a profit increase from year to year and starting to employ other people in the enterprise. Different conditions were seen in Surakarta and Pekalongan, as on average the companies have been in operation for over 10 years, so that the SMEs in the introduction/ survival stage are not as many as in Rembang. Moreover, the SMEs in both regions are in the mature stage, decline stage, shake-out stage, and even renewal stage. The mature stage is marked by having profit that begins to be stable/ experience a saturation point, and already employs a manager/ trustworthy individual to assist with managing the company. The decline stage is marked by profit starting to decline and high costs. The shake-out stage is shown by a company that begins to experience shock, where the profit goes up and down and there is a change of business strategies. The renewal stage can be considered as when a company is renewed and the profit starts to increase again, it enters a new market, it has new products, or it has a new organization.

Based on the annual profit, according to the criteria established by the Republic of Indonesia Amendment No. 20/2008 regarding categorizing MSMEs, batik enterprises in Surakarta and Pekalongan are in the middle scale category, while batik enterprises in Rembang are in the small scale category. The largest annual profit distribution value is seen in Surakarta, followed by Pekalongan and Rembang. On average, Surakarta has the highest annual profit at Rp. 1.7 billion. The high annual profit in

Surakarta signifies that there is more active commerce activity compared with Rembang and Pekalongan. Despite this, the respondents in Surakarta and Pekalongan believe that the annual profit has tended to go down compared with the previous years. This condition is due to the presence of increasingly fierce business competition, where now every city/region has its own specialty batik, so that there are fewer sales. In addition, there are more batik variants with lower quality and cheaper prices.

The production volume (unit/year) that is produced by SMEs in the three regions is also various. The lowest production volume is 120 units/year (Surakarta), and the highest production volume is 18 million units/year (Pekalongan). The largest average production volume is found in Pekalongan (177.863 units/year), and the lowest average production volume is 1,596 units/year in Rembang. The highest production unit distribution is in Pekalongan, which is almost 1.5 million units, and the lowest distribution at less than 1,500 units is in Rembang.

Presented in Figure 1 is the full model testing results from AMOS and a Sobel test to examine the role of the mediating variable. The SEM output provides goodness of fit model indexes as follows. The chi-square value is high (108.984) with a probability less than 5% (0.000). The chi-square results reveal that the zero hypothesis is rejected (the model is not appropriate with the empirical data or the model does not fit). The chi-square value is very sensitive towards the number of samples (the bigger the sample is, the more significant it is). Therefore, other measurements need to be considered like GFI, CFI, TLI, RMR, and CMINDF values. The GFI (0.914) and CFI (0.925) values already fulfill the criteria of being over 0.90, while the TLI value is slightly below 0.90. RMR which is useful to evaluate errors in

covariance predictions that can create residuals, displays a value of less than 0.1. CMINDF, which is used to minimize the sample measurement effects in the chi-square model, also shows a value below 5. Based on the index analysis, it can be surmised that the model is accepted to conduct an estimation.

The empirical testing results state that the financing access has a positive and significant direct effect towards SME performance (direct effect). A positive and significant influence is also seen from the influence between financing access towards entrepreneurial-oriented finance, as well as between entrepreneurial-oriented finance towards SME performance (indirect effect).

**Figure 1.** Testing of the Full Model

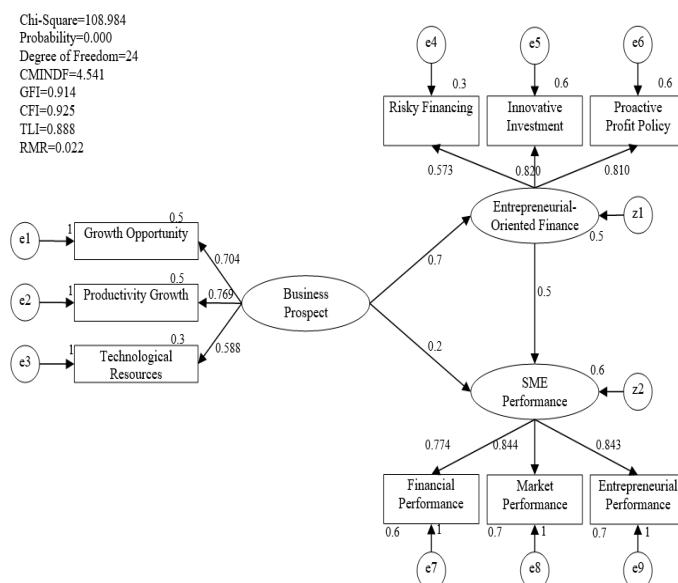


Figure 1 shows the framework of the testing in full model. Where, the CMINDF is relative/normed chi-square; GFI is Goodness of

Fit Index; CFI is Comparative Fit Index; TLI is Tucker Lewis Index; and RMR is Root Mean Square Residual.

**Table 3.** Full Model Regression Analysis Results (Standardized Regression Weights)

			Estimate	P
EOF	<---	BP	.755	***
SP	<---	EOF	.592	***
SP	<---	BP	.273	**
RF	<---	EOF	.573	***
PG	<---	BP	.769	***
GO	<---	BP	.704	***
TR	<---	BP	.588	***
PPP	<---	EOF	.810	***
II	<---	EOF	.820	***
FP	<---	SP	.774	***
MP	<---	SP	.844	***
EP	<---	SP	.843	***

Note: \*\*\* sig. at  $\alpha$  1%, \*\* sig at  $\alpha$  5%.



Where, EOF is Entrepreneurial Oriented Finance; BP is Business Prospect; SR is SME Performance; RF is Risky Financing; PG is Productivity Growth; GO is Growth Opportunity; TR is Technological Resources; PP is Proactive Profit Polic; II is Innovative Investment; FP is Financial Performance; MP is Market Perform; and EP is Entrepreneurial Performance.

Table 4 shows that the total effect of the coefficient is higher than the direct effect of the coefficient, so that this can signify that entrepreneurial-oriented finance contributes towards the research gap between the business prospect towards SME performance. The Sobel test results reveal that the entrepreneurial-oriented finance variable is able to mediate the business prospect variable towards SME performance through partial mediation.

**Table 4.** Business Prospect Path Analysis towards SMEs Performance through Entrepreneurial-Oriented Finance.

Path	Direct Effect	Indirect Effect	Total Effect	P
BP → EOF → SP	0.273	0.447	0.720	0.004**

Source: Central Bureau of Statistics (processed)

Influence of business prospect towards SME performance. These research findings (Table 3) show that the business prospect has a positive and significant influence on the SME performance with a coefficient of 0.273. These results are in line with previous research findings (Mocviociov et al., 2010).

The neoclassical theory states that the growth of company supporting physical assets and an increase in the spending ratio for R&D will affect the company performance. Besides that, a company which has a growth in productivity has greater opportunities to improve its performance, because it has a stronger competitive ability than its competitors. As a result, growth opportunities, productivity improvements, and sufficient technological resources are able to improve SME performance (Prasanna et al., 2019). Therefore, growing opportunities, increasing productivity and the

availability of technological resources play a role in improving the performance of MSME.

Growth opportunities in a batik enterprise that include expenditure increases for sales experiments, sales cost increases for sales, and intangible asset increases towards sales are the main triggers of superior SME performance. In line with that, productivity growth which covers the role of sales changes towards a company's profit increase, the role of asset changes towards a company's sales increases, as well as the role of financial capital changes towards the increase in total company assets also have a positive role towards SME performance. Meanwhile, technological resources like current technological superior developments, as well as appropriateness and ease of applying technology in a batik enterprise also play a positive role towards SME performance.

A business with good prospects tends to ensure greater profit for its owner. In a business, a prospect is understood as something which has the potential to provide a positive return, so that the business wheel can keep spinning. A prospect can be related with returns when the primary prospect is managed properly. Batik products which are good quality and have their own unique traits will be able to compete and fulfill market needs, so that the company's opportunity for growth potential will also be high. Quality and unique products are supported by high productivity in the production process to improve the business performance whether financially or non-financially. Productivity from the side of operational expenditures, business asset utilization, and financial capital can be realized through the adoption of technology innovations in batik SMEs. Batik SMEs are businesses which are passed down from one generation to the next and tend to still use traditional methods. However, by having technology innovation assistance in their business activities, it can improve the company performance.

Influence of Business Prospect towards Entrepreneurial-Oriented Finance. The hypothesis test results show that the business prospect has a significant and positive influence on entrepreneurial-oriented finance with a

regression coefficient of 0.755. When a business develops, the business activities carried out by entrepreneurs will also increase. This increase in business activities includes investment activities as well as in routine operational activities. This condition has an impact on increasing capital requirements to accommodate innovative and proactive investment activities.

A business that has high business prospects (as seen from the opportunities for growth, productivity and technology resources) tends to require more business funding than a less prospective business. Entrepreneurs consider that this positive business prospect should be responded to aggressively through their funding activities. Funds are needed to seize these business opportunities.

The entrepreneur will increase the financing activity internally or externally when faced with an opportunity for business growth. This decision is often made even though it entails higher costs. This effort is done to encourage innovative investment activities that are expected to be able to increase the company's profit, so that it can proactively develop the enterprise. This finding of a positive influence between the business prospect and entrepreneurial-oriented finance is in line with previous research by Trinh *et al.* (2017).

When a company has more opportunities to grow, it is necessary to increase productivity and technology resources to solve business problems. An entrepreneur will respond to it by improving the financial capital structure, even if the entrepreneur has to pay a higher interest. This effort is done to encourage innovative investment activities that are expected to be able to increase the company's profit. A profit increase facilitates the company to have financial reserves to proactively develop the business. The business prospect level plays a role in managing the company finances, because it encourages the entrepreneur to arrange input, company output, and investments in a prudential manner.

Influence of entrepreneurial-oriented finance towards SME performance. Based on testing, results were obtained that entrepreneurial-oriented finance has a positive

and significant influence on business performance with a regression coefficient of 0.592. These results support previous findings (Margaritis and Psillaki, 2010, Rita and Huruta, 2020). This means that when entrepreneurial-oriented finance increases, which consists of risky financing, innovative investment, and proactive profit policy, it will have an impact on improving the performance of MSMEs.

Based on entrepreneurial theory and resource theory, an SME entrepreneur who has a high entrepreneurial-oriented finance ability will be able to obtain funds and then allocate them for innovative investments and bring in profit in order to create a more competitive business (Eckhardt and Shane, 2003). Debt is used aggressively in the early phase, growth phase, or expansion phase in batik SMEs. Using innovative investment activities and profit proactively is also done by entrepreneurs. This becomes a special characteristic of a batik enterprise which emphasizes innovation and creativity in the products it produces. An entrepreneur who has resources and financial capital will be able to see wider opportunities, develop ideas, assemble available resources, develop organizations, improve products, and create markets. When an SME creates superior value in its business, the performance will be high

When an entrepreneur has financial resources, the individual will be able to see opportunities, develop ideas, mobilize the resources owned, create a market, and develop the products. A total of 84 percent of entrepreneurs stated that both internal and external funding had an effect on business performance. When they get additional funds for their business, entrepreneurs can buy and process more raw materials, thereby increasing their business capabilities, quality, market and profits. Meanwhile, only 16 percent stated that funding had no effect on business performance. Business funding from debt is unable to increase profits, is unable to increase market share and actually adds to the burden on entrepreneurs.

When beginning a business, an entrepreneur assembles and combines internal and external resources, so that the entrepreneur

can devise a new business creation. When an SME has superior values in a business, the work performance will be high. This causes entrepreneurial oriented finance to have a positive influence towards SME performance.

Entrepreneurial-oriented finance mediates the influences between the business prospect and SME performance. The Sobel test reveals that the p-value is 0.004, which means that entrepreneurial-oriented finance plays a role as an influential mediator between the business prospect and SME performance. This implies that a good prospect can better optimize the business performance through the entrepreneur's ability to identify resources, manage resources, and realize opportunities to become a superior business.

A prospective company will not necessarily produce high performance; it depends on how the prospect is able to be seen by the entrepreneur as an opportunity to be developed (Eckhardt and Shane, 2003). An entrepreneur's ability to manage an enterprise that is manifested in entrepreneurial-oriented finance activities is proven to optimize the influence of business prospects towards improving the SME performance. A prospect is an opportunity that contains a degree of uncertainty; it can be positive or negative when not managed properly.

An entrepreneur who is able to manage financial activities and has a strong entrepreneurial orientation will be able to mediate business prospects, in order that they can better support the company performance whether financially or non-financially. If an entrepreneur has the ability to motivate, the need for achievement, independence, an urge, self-efficacy, as well as cognitive factors like knowledge, abilities, and skills that are supported by a constructive environment, the entrepreneur will be able to realize them to become a successful enterprise (Al-Damen, 2015, Fuad and Bohari, 2011). Entrepreneurs who have the ability to raise funds aggressively, develop innovative investments and take advantage of operating profits proactively will create an advantage over their competitors. On the other hand, entrepreneurs who do not have the

entrepreneurial ability to raise funds, develop investments and generate profits for prospective businesses are unable to improve the business performance.

Besides company productivity, technological resources are an indication that the enterprise possesses a prospect or not. An entrepreneur who has high determination will be able to see and take advantage of the available technology to develop the company. There is a strong relationship between R&D expenditures and the financial capital structure (Titman and Wessels, 1988, Chen et al., 2010). An entrepreneur who sees good business prospects will utilize the technology on hand by increasing the amount of debt. The funds will be used to increase innovative and proactive investments. The diversity of available financing resources is supported by the ability to allocate funds for productive and efficient business activities to produce more superior performance, even if it is in the same business prospect condition.

In line with the entrepreneurial finance theory, an entrepreneur who has a greater ability to gain access to financing and can allocate funds optimally to realize opportunities will achieve business success (Mitter & Kraus, 2011). This finding also strengthens the resource-based entrepreneurship theory. An enterprise which has superior financial resources, human resources, technology, and management capabilities can beat the competition, so that there is an improvement in business performance.

## CONCLUSION

These research findings answer the research problem regarding the controversy of the influence between the business prospect and SME performance through the neoclassical theory. It was discovered that the business prospect has a direct and an indirect effect towards SME performance. Entrepreneurial-oriented finance is shown to mediate the influence of the business prospect towards SME performance through partial mediation. These results reveal that the neoclassical theory will be more effective to explain the relationship between the two variables

through the mediation of entrepreneurial-oriented finance. The significance of the role of the mediating variable is demonstrated from the high total effect of the coefficient compared with the indirect effect of the coefficient or the direct effect of the coefficient.

SMEs have limited financial data, where the majority of SMEs do not have formal or well organized financial reports. Therefore, this paper examined data of batik SME entrepreneurs' perceptions towards their business prospects and performance. This research studied perceptions based on financial principle measurement that were then crosschecked with answers from open questions that were based on factual information. This was beneficial to reduce respondent bias when answering the questions.

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## APPENDIX

Table. 5 Questionnaire

Business Prospect	Answer				
	Very Low (1)	Low (2)	Moderate (3)	High (4)	Very High (5)
<b>A. Growth Opportunity</b>					
1.	How much is the expenditure growth for the experiment/test in the batik enterprise?				
2.	How much is the asset value growth in the batik enterprise?				
3.	How much is the financial capital expenditure growth used to add to the total assets of the batik enterprise?				
<b>B. Productivity Growth</b>					
4.	What is the role of expenditure changes in increasing the profit of the batik enterprise?				
5.	What is the role of asset changes in increasing the sales of the batik enterprise?				
6.	What is the role of the financial capital changes in increasing the total assets of the batik enterprise?				
<b>C. Technological Resources</b>					
7.	What are the current technological superior developments in the batik enterprise?				
8.	What are the current technological adjustments with the needs in the batik enterprise?				
9.	How easy is it to apply technology in the batik enterprise?				
<b>D. Entrepreneurial-Oriented Finance</b>					
<b>A. Risky Financing</b>					
10.	In the initial stage of your business, did you use financing that mostly originated from debt?				
11.	In the business growth stage, did you use financing that mostly originated from debt?				
12.	In the business expansion stage, did you use financing that mostly originated from debt?				
<b>B. Innovative Investments</b>					
13.	Do you routinely allocate funds to experiment on producing new products?				
14.	Do you routinely allocate funds to try out production processes?				
15.	Do you routinely allocate time to produce new and better methods in creating products?				
<b>C. Proactive Profit Policy</b>					
16.	Do you routinely allocate profit to develop your business?				
17.	Do you utilize profit to produce new batik designs that have not been made before by competitors?				
18.	Do you utilize profit to produce new products that have not been made before by competitors?				

**D. SME Performance**

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**A. Financial**

19. What is the role of assets towards improving your business profit at this time?
20. What is the role of sales earnings towards increasing your business profit at this time?
21. What is your sales growth at this time?

**B. Market**

22. What is your customer satisfaction at this time?
23. What is the condition of your customer growth at this time?
24. What is the market access of your company at this time?

**C. Entrepreneurial**

25. What is the employee welfare like in your company at this time?
  26. How satisfied are you towards the increase in your company's profit at this time?
  27. What is the growth of your company's employees at this time?
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