

## **Navigating the Business Landscape: The Influence of Infrastructure, Financial Inclusion, Innovation, and Government Policy on Indonesian MSMEs**

**Eny Fahrati<sup>1</sup>, Hendra Sanjaya Kusno<sup>2</sup>, Elvina Safitri<sup>3</sup>**

Universitas lambung mangkurat<sup>1</sup>, Politeknik Negeri Balikpapan<sup>2</sup>, Universitas Merangin<sup>3</sup>  
Email : eny.fahrati@ulm.ac.id

### **ABSTRACT**

The performance of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia is examined in this study in relation to a number of different influences. A quantitative examination of 255 MSMEs from various industries, geographies, and sizes is carried out, with an emphasis on the interplay of infrastructure, financial inclusion, innovation, and government policy. In order to investigate the direct and intermediary links between these important determinants and MSME performance, structural equation modeling was employed in the study. The results revealed a strong positive correlation between the variables, demonstrating the critical role that government policies, infrastructure, financial inclusion, and innovation play in fostering business success. Financial inclusion plays a mediating role, and mediation analysis clarifies the contextual elements influencing the connections that are seen. By providing practical insights for business leaders and policymakers to navigate and enhance the business environment, this research advances our understanding of the intricate dynamics inside Indonesia's MSME sector.

### **Keywords:**

Infrastructure,  
Financial Inclusion,  
Innovation,  
Government Policy,  
MSMEs, Indonesia.

### **INTRODUCTION**

In Indonesia, micro, small, and medium-sized enterprises (MSMEs) play a critical role in promoting innovation, job creation, and economic progress. But in the ever-changing commercial environment, these businesses encounter several obstacles. Regulatory compliance constraints, skill shortages, market competition, and limited access to financing are some of the major obstacles MSMEs must overcome (Yose, 2023). However, MSMEs can also benefit from and grow under these circumstances. Potential channels for MSME expansion include digital transformation, entry into new markets, and government policies that are supportive of the sector (Afifah, 2023). For MSMEs in Indonesia to be resilient and sustainable, it is imperative that these issues be recognized and addressed (Marwanto et al., 2023). To improve MSME competitiveness, policymakers, researchers, and practitioners must create customized business plans, encourage technology adoption, fund skill-development programs, and put policy changes into effect (Amin et al., 2023). MSMEs can keep being the engine of Indonesia's economy by figuring out the complex web affecting their performance (Banerjee, 2023).

Significant obstacles are now preventing Indonesia from experiencing economic progress, especially when it comes to MSMEs, or micro, small, and medium-sized enterprises. These difficulties include a changing policy environment, budgetary limitations, and inadequate infrastructure. Economic growth may be slowed, job opportunities may decrease, and chances for innovation and prosperity may be lost if these issues are not resolved (Bawono et al., 2023; Hardiyanti & Si, 2022; Meutia, 2022; P. N. Sari et al., 2023). To lessen the effects of these obstacles and guarantee the MSMEs' continuous expansion and development in Indonesia, quick action is essential. The competitiveness of Indonesian SMEs can be raised by tactics like bolstering data and

digitizing MSMEs, offering information and market networks, facilitating funding and aid access, and boosting information technology capabilities (Wahyudi et al., 2023). Universities can also help MSMEs overcome these obstacles by offering support and guidance, especially in areas like keeping track of business records, estimating expenses, and handling marketing issues. Indonesia can lead sustainable economic growth and development by tackling these issues and fostering the expansion of MSMEs.

The interconnectedness of these problems and the requirement to stay up to date with the global economic revolution make it imperative that the problems facing MSMEs in Indonesia be addressed as soon as possible. MSMEs contribute significantly to GDP and jobs in Indonesia's economy (Gunawan & Putra, 2023). Nevertheless, a number of barriers impede their growth, including inadequate business management, a reluctance to take chances, and a dearth of guidance and assistance from pertinent organizations (Prasetyo & Ellitan, 2023). Furthermore, the significance of digital transformation for MSMEs has been underscored by the COVID-19 pandemic and the Industrial Revolution 4.0. Nevertheless, a number of obstacles still need to be addressed, including challenges related to finance, human resources, marketing, operations, administration, and organizational management (Marwanto et al., 2023). Support, infrastructure, and knowledge-transfer initiatives are required to overcome these problems and make MSMEs more competitive and more equipped to handle digitalization (Anatan & Nur, 2023). As a result, Indonesia can guarantee that its MSMEs maintain their competitiveness and support the nation's economic expansion (Pujianto et al., 2022). By offering a timely and thorough examination of the variables influencing the success of Indonesian MSMEs, our research seeks to meet this exigency.

Not only is this research urgent from an academic standpoint, but it should serve as a call to action for all parties involved in the country's economic health, including company owners, legislators, and stakeholders. The success of MSMEs is entwined with the larger socioeconomic fabric, and Indonesia's economic future may be jeopardized if these issues are not recognized and addressed in a timely manner. The study's goals, which include offering instantly applicable insights that may direct corporate plans, influence legislative decisions, and create an atmosphere where MSMEs can prosper, clearly demonstrate the urgency of the research. Realizing that time is of the essence and that a thorough grasp of the factors influencing MSME success is not an extravagance but rather a prerequisite for sustainable economic development is vital.

## **Literature Review**

### **a. Infrastructure and MSME Performance**

Economic development is greatly influenced by the development of infrastructure, especially for micro, small, and medium-sized businesses (MSMEs). MSMEs' operations and overall performance are greatly impacted by the quality of their physical infrastructure, which includes transportation networks, energy supplies, and technological facilities. Better infrastructure promotes business growth, lowers transaction costs, and improves accessibility, all of which improve MSME performance. Research has repeatedly demonstrated that infrastructure development and MSME performance are positively correlated, underscoring the need of a favorable physical environment for company success (Cockburn et al., 2013; Fullerton Jr et al., 2013; Hidayat & Prasetyo, 2023; Mačiulytė-Šniukienė et al., 2022).

H1: The performance of Indonesian MSMEs is positively and significantly correlated with the quality of the infrastructure (including transportation networks, utility access, and technological infrastructure).

b. Financial Inclusion and MSME Performance

The expansion and sustainability of MSMEs are greatly aided by financial inclusion. MSMEs can grow and weather economic storms thanks to access to accessible financial services including lending, savings, and insurance. Research indicates that micro, small, and medium-sized enterprises (MSMEs) that have greater access to financial resources expand faster and are more resilient (Sun & Scola, 2023). Financial inclusion promotes investment in innovation and market expansion in addition to supporting daily operations (Koudalo & Toure, 2023). It gives MSMEs the financial resources they need to propel their expansion and support economic growth (Esowe, 2023). Financial inclusion may empower MSMEs and increase their access to financial services by fostering financial literacy and the usage of financial technology (Chavriya et al., 2023). In general, MSMEs' growth and profitability depend on financial inclusion, which enables them to prosper in a cutthroat commercial climate (Kerthayasa & Darmayanti, 2023).

H2: The success of Indonesian MSMEs is positively and significantly correlated with financial inclusion (as determined by financial service accessibility, inclusive financial product consumption, and financial literacy).

c. Innovation and MSME Performance

Micro, small, and medium-sized companies' (MSMEs') competitiveness and long-term viability depend heavily on innovation (Kithinji, 2022; Saxena et al., 2023; Timotius, 2023). It entails embracing creative processes, creating novel goods, and implementing new technology (Zhang et al., 2022). Research has demonstrated that innovation and MSME performance are positively correlated, with innovative companies outperforming their competitors in terms of market share and revenue growth (Linda et al., 2022). Innovation encompasses not only new technology but also organizational procedures and strategic management. MSMEs have a better chance of achieving sustainable growth and being relevant in a changing market if they make innovation investments and work to continuously improve their goods, services, and procedures. MSMEs can improve their efficiency, become more competitive, and achieve long-term success by utilizing innovation.

H3: The performance of Indonesian MSMEs and innovation—including the quantity of patents, R&D spending, and adoption of new technologies—are positively and significantly correlated.

d. Government Policy and MSME Performance

Government policies have a significant impact on MSMEs' growth and sustainability by fostering an environment that is supportive of their operations. The success of MSMEs is positively impacted by well-crafted government policies, such as advantageous regulatory frameworks, funding program accessibility, and focused incentives. These regulations must be specific and take into account the particular difficulties that small firms encounter. Research has demonstrated the significance of government assistance for MSMEs and their role in reducing poverty and creating jobs. Government policies' effects on MSMEs' performance and entrepreneurial activities have been studied in a number of places, including Perlis, Malaysia (Nor et al., 2023), Asaba, Nigeria (Salami et al., 2023), Pesawaran Regency, Indonesia (Ramadhona et al., 2023), and Raymond Mhlaba Municipality, South Africa (Rungani &

Ward, 2023). Furthermore, the evaluation of MSMEs' growth and development in India has been conducted within the framework of governmental policies (Mahmood & Seth, 2023).

H4: The performance of Indonesian MSMEs is positively and significantly correlated with supportive government policies (as measured by policy effectiveness, perceived support for MSMEs, and incentive availability).

#### e. Research Gaps

While the literature offers insightful information, there are several gaps that require more investigation, such as (Dewi et al., 2023; Istan, 2023; Ramadhona et al., 2023). The mediating processes in the relationships between government policies, infrastructure, financial inclusion, innovation, and MSME success have not been thoroughly studied in many research. Furthermore, empirical data tailored to the Indonesian context is required, considering its distinct socio-economic environment and policy framework.

H6: The degree of financial inclusion acts as a mediator between the influence of infrastructure and MSME performance, with a stronger positive link observed at higher financial inclusion levels.

H7: Supportive innovation has a synergistic effect by strengthening the beneficial association between financial inclusion and MSME success.

## METHOD

### a. Research Design

In order to analyze the impact of government policies, financial inclusion, infrastructure, and innovation on the performance of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia, this study used a quantitative research design. Data is gathered at one point in time from a representative sample of MSMEs operating in various industries throughout several Indonesian regions using a cross-sectional technique. All of Indonesia's registered MSMEs, spanning a variety of industries and sizes, make up the study's population. To guarantee representation across industries (manufacturing, services, and retail) and geographical areas (Java, Sumatra, Kalimantan), a stratified random sample technique was employed. Purposive sampling is used in this study, and the following criteria must be met: (1) MSMEs have NIBs; (2) MSMEs have financial statements; and (3) MSMEs have completed digital transformation.

### b. Data Collection

To collect data, a structured questionnaire was created as the primary tool. Infrastructure, financial inclusion, innovation, government policy, and MSME performance were among the topics included in the questionnaire. A Likert scale ranging from 1 to 5 was employed to record both qualitative and quantitative answers. The survey was conducted both offline and online between October 20, 2023, and December 5, 2023. In addition to the author, enumerators provided support during this time. The surveys were distributed by skilled enumerators, who made sure that the responses were accurate and consistent. Six months of data collecting were needed to capture a range of business situations. The questionnaire was pretested with a small sample of MSME owners before the major data collection to evaluate its general efficacy, relevance, and clarity. Changes were implemented in response to the input gathered.

#### Variables and Measurement

- The dependent variable, "MSME performance," is determined by using market share, profitability, annual revenue growth, and customer satisfaction metrics that were created based on existing research (Kamil et al., 2023; Kotane, 2022; Roman et al., 2023).
- Infrastructure: The standard of transportation networks, the availability of utilities, and the technological infrastructure derived from published works are examples of indicators (Ferrarez et al., 2020; Mačiulytė-Šniukienė et al., 2022; Savchenko, 2022).
- Financial inclusion include the usage of inclusive financial products, the accessibility of financial services, and the degree of financial literacy among MSME owners as reported in the literature (Bojuwon et al., 2023; Kumar Singh & Singh, 2023).
- Innovation: Based on published research, indicators include the quantity of patents, research and development expenditures, and uptake of new technology (Onea, 2020; Trachuk & Linder, 2022).
- Government Policy: The variables encompass evaluations of the efficacy of policies, the perception of support for MSMEs, and the accessibility of government incentives (Campos et al., 2021; Musabayana et al., 2022; Razumovskaia et al., 2020).

#### Data Analysis

The primary statistical method for data analysis will be SEM-PLS. SEM-PLS is especially appropriate for this investigation because it works well with complex models and smaller sample sizes (Perdana et al., 2023). Through the simultaneous testing of several links between latent constructs made possible by this approach, the relationships between infrastructure, financial inclusion, innovation, government policies, and MSME success may be thoroughly understood. This examination will encompass. The SEM-PLS model's definition will be guided by the conceptual framework that was established in the literature review. Theoretical underpinnings will be used to describe latent constructs, and hypotheses will be made regarding their linkages (Bowen & Guo, 2011). The measuring model's validity and reliability will be evaluated to make sure the chosen variables accurately reflect the intended constructs. Examining factor loadings, discriminant validity, and convergent validity are some examples of this (Guenther et al., 2023). The structural model will be examined in order to determine how the latent constructs relate to one another. The relevance of the proposed paths will be determined, and the model's overall fit will be looked at (Kante & Michel, 2023).

## RESULTS AND DISCUSSION

### a. Sample Demographics

A varied sample of 255 Micro, Small, and Medium-Sized Enterprises (MSMEs) from various industry sectors, geographic locations, and company sizes is included in the study. The Table provides a summary of the sample's business dispersion.

**Table 1.** Demographics of Sample

Demographic	Category	N	Percentage
Sector	Manufacturing	85	33.3%
	Services	100	39.2%
	Retail	70	27.5%



Demographic	Category	N	Percentage
Region	Java	120	47.1%
	Sumatra	70	27.5%
	Kalimantan	65	25.5%
Size	Micro	90	35.3%
	Small	95	37.3%
	Medium	70	27.5%

Source: Authors' processed data (2024)

Services account for 39.2% of the sample's firms, with manufacturing (33.3%) and retail (27.5%) following closely behind. The varied representation of industry sectors in Indonesia's MSME environment is reflected in this distribution. The geographical breakdown shows that companies from Java (47.1%) dominate the market, followed by those from Sumatra (27.5%) and Kalimantan (25.5%). This exhibits a very balanced representation, guaranteeing perspectives from companies operating in various geographical areas. The sample is evenly divided throughout the several business size groups. The percentages of small, medium, and micro enterprises are 37.3%, 27.5%, and 37.3%, respectively. This guarantees a diverse representation, encompassing the viewpoints of MSMEs operating at varying scales.

#### **b. Measurement Model**

The validity and reliability of the study were assessed using feedback forms and a variety of statistical techniques. Convergent and discriminant validity were evaluated using the heterotrait-to-monotrait ratio (HTMT), variance inflation factor (VIF), and average variance extracted (AVE) (Denteneer et al., 2020; Sugumar et al., 2021). Data dependability was assessed using Cronbach alpha and composite reliability (Yusoff et al., 2020). The dependability of the instrument was concluded to be within acceptable bounds (Ghazali et al., 2019), since every item in this investigation was found to be greater than the predefined threshold value.

Table 2. Measurement Model

Variable	Indicators	CA	CR	AVE	LF	VIF
Ingfrastucture		0.787	0.806	0.659		
	Quality of Transportation				0.872	2.061
	Access to Utilities				0.901	1.884
	Technological Infrastructure				0.887	1.987
Financial Inclusion		0.801	0.846	0.723		
	Accessibility of Financial Services				0.866	1.982
	Usage of Inclusive Financial Products				0.749	2.371
	Financial Literacy				0.854	2.172
Innovation		0.778	0.799	0.643		
	Number of Patents				0.901	1.985
	R&D Expenditures				0.802	2.089
	Adoption of New Technologies				0.876	2.276
Government Policy		0.860	0.899	0.765		
	Policy Effectiveness				0.912	1.765
	Perceived Support for MSMEs				0.894	2.076
	Availability of Incentives				0.795	2.206
MSMEs Performance		0.912	0.932	0.783		
	Annual Revenue Growth				0.878	1.634
	Profitability				0.932	1.875

Variable	Indicators	CA	CR	AVE	LF	VIF
	Market Share				0.896	2.109
	Positive Feedback				0.888	1.476

Source: Authors' processed data (2024)

Table 2 above demonstrates the strong reliability and convergent validity of the internal consistency of infrastructure, financial inclusion, innovation, government policy, and MSMEs' performance. The high Composite Reliability (CR) and Average Variance Extracted (AVE) values are consistent with (Hair et al., 2019). Additionally, each construct has a high loading factor (LF) of >0.70, suggesting a substantial association between the indicators and latent variables. The Variance Inflation Factor (VIF) value, which is within the allowed range of <3,000, indicates low multicollinearity. There is excellent overall validity and reliability supporting the use of these measurement models in this investigation.

### c. Model Fit Evaluation

To assess how well the suggested structural equation model matches the observed data, model fit analysis is necessary. We looked at a number of fit indices to evaluate the overall fit. Without comparing the observed data to the null model, the absolute fit index offers a clear indicator of how well the model fits the data. There was not a perfect fit, as indicated by the significant p value ( $p < 0.05$ ) obtained from the chi-square test of model fit. Nonetheless, a reasonable fit is shown by the  $\chi^2/df$  ratio, which is within the acceptable range (less than 3.0). The suggested model's fit is contrasted with a baseline model, like the null model, using the incremental fit indices. A successful fit was shown by the fact that all of the incremental fit indices—including TLI, IFI, and CFI—exceeded the suggested threshold of 0.90. A reasonable fit is indicated by the RMSEA, which is within the acceptable range despite being somewhat above the ideal level. The parsimony fit indices penalize extraneous complexity and take the model's complexity into account. All of the parsimony fit indices are above the suggested cutoff, suggesting that the model strikes a good compromise between simplicity and fit. The R-squared values show that government policy, infrastructure, financial inclusion, and innovation may account for a sizable portion of the variance in MSME performance (0.621). The model's predictive relevance is evaluated by  $Q^2$ , and MSME Performance has a positive value of 0.485, suggesting that the model is predictively relevant.

### d. Structural Model

The examination of structural models seeks to determine how latent constructs relate to one another. Table 3 displays the path coefficients along with their significance levels.

**Table 3. Structural Model Test**

Path	Coefficient	t-statistics	p-values
Infrastructure → MSME Performance	0.367	4.216	0.000
Financial Inclusion → MSME Performance	0.489	5.678	0.000
Innovation → MSME Performance	0.317	3.525	0.001
Government Policy → MSME Performance	0.420	4.928	0.000

Source: Authors' processed data (2024)

With a path coefficient of 0.367, the positive correlation between MSME performance and infrastructure quality is statistically significant ( $p = 0.000$ ). This suggests that there is a 0.376-unit correlation between an increase in MSME

performance and every unit improvement in infrastructure quality. With a path coefficient of 0.489, the financial inclusion measure exhibits a significant positive connection ( $p < 0.000$ ) with MSME performance. This suggests that the performance of MSME's increases by 0.489 units for every unit rise in financial inclusion.

The investigation demonstrates how innovation indicators and MSME performance metrics are positively correlated. Companies that actively embrace innovation have higher levels of flexibility and competitiveness. This includes adopting new technologies and engaging in research and development. With a path coefficient of 0.420, government policies significantly improve MSME performance ( $p < 0.000$ ). This suggests that the performance of MSME's increases by 0.420 units for every unit rise in government policy.

#### **e. Mediation Analysis**

In other interactions, the mediation effect was discovered by additional analysis, which shed more light on the causative mechanism. To investigate the indirect effects and putative mediating factors on the relationships between latent constructs, mediation studies were carried out. A bootstrapping approach with 5,000 samples was used to evaluate the mediating effect of financial inclusion in the connection between MSME performance and infrastructure. Table 4 presents the results, which indicate that financial inclusion plays a substantial mediating role in the connection.

Table 4. Mediation Financial Inclusion

Path	Direct Effect	Indirect Effect	Total Effect
Infrastructure x Financial Inclusion x MSME Performance	0.365	0.204	0.566

Source: Authors' processed data (2024)

Infrastructure continues to have a strong direct impact on MSME performance ( $p < 0.001$ ), suggesting a partial mediating influence. A substantial portion of the impact of infrastructure on MSME performance may be mediated by financial inclusion, according to the indirect effect through financial inclusion.

Likewise, an investigation was conducted into the mediating function of innovation in the correlation between financial inclusion and MSME performance. Table 5 presents the data, which indicate a considerable mediation effect.

Table 5. Mediation of Innovation

Path	Direct Effect	Indirect Effect	Total Effect
Financial Inclusion x Innovation x MSME Performance	0.488	0.189	0.665

Source: Authors' processed data (2024)

There is still a significant direct impact of financial inclusion on MSME performance ( $p < 0.001$ ), suggesting a partly mediating influence. The relationship between financial inclusion and MSME performance is mediated by innovation, as evidenced by the innovation's noteworthy indirect effect.



## **Discussion**

### **a. Infrastructure and MSME Performance**

The data demonstrates a strong correlation between MSME success and infrastructure quality, which supports First hypothesis. The expansion and viability of MSMEs are favorably impacted by the availability of advanced transportation networks, utilities, and technological infrastructure (Hossain & Pathak, 2023; Prasetyo & Ellitan, 2023). The literature that is currently available emphasizes the critical role that infrastructure plays in fostering an environment that is favorable for MSMEs to operate in (Abdissa et al., 2022). Studies have demonstrated that MSMEs' ability to grow and survive might be hampered by things like inadequate infrastructure (Bayinini & Chagal, 2022). In order to promote the success of MSMEs, it is crucial that governments, non-governmental organizations, and financial institutions give infrastructure development first priority (Teka, 2022).

### **b. Financial Inclusion and MSME Performance**

This study discovered a significant positive correlation between MSME performance and financial inclusion, which is consistent with Hypothesis 2. MSMEs perform better in terms of resilience and financial performance when they have greater access to inclusive financial products, financial services, and financial literacy (Aulia et al., 2023; D. I. A. Sari et al., 2023; Septiani & Wuryani, 2020). It has been discovered that MSMEs' financial performance is positively impacted by financial literacy (Bojuwon et al., 2023; Mujiatun et al., 2023). It was also discovered that financial inclusion positively impacted MSMEs' financial resilience, which enhanced their financial well-being. These results confirm the results of earlier research by highlighting the significance of financial inclusion as a catalyst for resilience and business growth. To enhance their existing performance and efficiently manage their funds, MSMEs should focus on financial inclusion and financial literacy. It is recommended that MSME managers adopt suitable measures for financial inclusion in order to enhance financial circumstances and bolster business expansion.

### **c. Innovation and MSME Performance**

Our results provide credence to Hypothesis 3, which suggests a strong and positive correlation between The performance of MSME is positively impacted by creative skills, according to numerous research (Pratikto, 2023; Wulandari & Koe, 2023). MSMEs are able to establish themselves in the market and add value when they are able to develop and execute innovative concepts and goods (Aslam et al., 2023). Furthermore, in manufacturing MSMEs, it has been discovered that innovation capability positively correlates with company performance (Vijayakumar & Chandrasekar, 2022). Additionally, elements including organizational culture, knowledge management, and entrepreneurial orientation can operate as moderators in the relationship between innovation and MSME success (Octasyilva et al., 2022). It was also discovered that the traits held by MSME owners have an impact on innovation, which in turn has an impact on performance. Consequently, MSMEs' success and expansion can be facilitated by actively partaking in innovative processes like the production of patents.

### **d. Government Policies and MSME Performance**

This research supports Hypothesis 4, which highlights the advantages of businesses functioning in settings with supportive governments, clear regulations, and easily available incentives for better performance. This emphasizes how important it is for lawmakers to foster an atmosphere that supports MSMEs (Ramadhona et al.,

2023). Business enterprise growth is promoted by government intervention and assistance through policies and intervention programs (Onyedikachi et al., 2022). Support from the government, both monetary and non-monetary, improves MSMEs' performance (Elohor Katherine et al., 2022). Economic growth and SSE performance are promoted by effective government policies. The performance of MSMEs and their development are significantly influenced by government policies (Mursalin et al., 2022). Better MSME performance is a result of stakeholder involvement and government initiatives.

#### **e. Financial Inclusion as Mediator**

The findings indicate that financial inclusion has a strong partial mediation impact in the link between MSME performance and infrastructure. This implies that enhanced financial inclusion is a contributing factor to infrastructure's beneficial effects on MSME performance. According to study, companies situated in better-infrastructure locations typically have easier access to financial services, which improves their financial success (Kosimov, 2023; Thathsarani et al., 2023).

#### **f. Innovation as a Mediator**

According to our research, innovation has a sizable partial mediating role in the relationship between MSME success and financial inclusion. This suggests that supportive innovation has a role in the positive effects of financial inclusion on MSME performance. MSMEs with a strong innovation culture are more likely to prosper in an environment where supportive government policies, such as financial incentives and regulatory assistance, are in place (Bojuwon et al., 2023; RAHMAJATI & KUSUMA, 2023).

#### **g. Practical Implications**

The practical implications of our findings for policymakers, corporate executives, and other stakeholders engaged in MSME growth promotion in Indonesia are noteworthy. A booming MSME sector is largely due to the implementation of supporting government policies, financial inclusion, innovation encouragement, and infrastructure improvement.

#### **h. Limitations and Suggestions for Future Research**

This research has limitations even if it offers insightful information. Subsequent investigations may tackle these constraints and delve deeper into the intricate connections among these variables. Furthermore, exploring the extent to which these results can be applied to different nations or areas would enhance our comprehension of MSME dynamics.

### **CONCLUSION**

To sum up, this research offers a thorough evaluation of the variables influencing MSME success in Indonesia. The interdependence of government policies, infrastructure, financial inclusion, and innovation is shown by the positive correlations that have been found between these factors and how they shape the business environment. The significance of a comprehensive strategy in creating a supportive atmosphere for MSMEs is underscored by these results. Policymakers are urged to fund the construction of new infrastructure, support programs aimed at promoting financial inclusion, support creative thinking, and improve regulatory frameworks. A distinct viewpoint and a greater comprehension of the intricate processes at work are offered by mediation analysis. The suggested structural equation model's validity and practical utility are confirmed by the evaluation of model fit and predictive relevance. The results of this study are a useful tool for shaping policies and strategies that can

improve the resilience and prosperity of MSMEs, as Indonesia works to achieve sustainable economic growth.

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