

Perceived Government Support on MSME Business Performance: The Mediating Role of Digital Capability

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ABSTRACT

Purpose: This study aims to examine how perceived government support affects MSME performance, mediated by digital capability in Dompu Regency.

Research Method: A quantitative approach was used, involving a survey of 100 MSME actors selected through purposive sampling. Primary data were analyzed using Partial Least Squares-Structural Equation Modeling (PLS-SEM) via SmartPLS 4.0.

Results and Discussion: The PLS-SEM analysis indicates that perceived government support significantly enhances both MSME performance and digital capability. Furthermore, digital capability positively affects performance and significantly mediates the relationship between government support and MSME performance. This demonstrates that external government support requires internal digital internalization to optimize business results.

Implications: Theoretically, it extends the Resource-Based View by positioning digital capability as a strategic mechanism. Practically, it urges local policymakers to integrate digital competency training into MSME empowerment programs. Future studies should expand geographically and explore other moderating factors.

Originality: This research uniquely positions digital capability as a mediator rather than an independent variable in a non-metropolitan context characterized by distinct gaps in digital infrastructure.

Keywords: digital capability; government support; MSME performance; Resource-Based View.

1. Introduction

Perceptions of government support for MSME performance in Dompu City have become a crucial issue for the economic development of West Nusa Tenggara (NTB). Data from the Central Statistics Agency (BPS) shows that the number of MSMEs in Dompu Regency in 2025 reached 4,716 units, an increase of 15.25% from 2024, when there were 4,092 units. This indicates a rise in community entrepreneurial activity and the role of MSMEs as drivers of the local economy (Dompu Regency BPS, 2025). MSMEs make a significant contribution to the economy and employment, yet many business owners still face various challenges in improving productivity and business competitiveness (Purnamasari *et al.*, 2025). Advances in digital technology present significant opportunities for MSMEs to improve efficiency and expand their markets; however, many MSME operators still face limitations in leveraging digital technology in their business operations (Hakim & Iswahyudi, 2024).



Business performance is a key indicator in assessing the success of a business; in the SME sector, improvements in SME performance are influenced not only by internal factors—such as managerial capabilities, innovation, and marketing strategies—but also by external factors, including the business environment and government support (Husnah, 2024). Government support perceived by MSME entrepreneurs, whether in the form of policies, access to financing, training, or business development facilities—can encourage entrepreneurs to enhance their business capacity and improve their business performance (Koordinator *et al.*, 2024). Previous research indicates that government support plays a crucial role in improving SME performance. Government programs such as business training, access to financing, and policies supporting SME development can enhance business capacity and ensure SME sustainability (Adyatma & Ayudiati, 2024). When business owners feel that the government is paying attention to and supporting them, they tend to be more motivated to develop their businesses and capitalize on available market opportunities (Septino, 2024). Such support can take the form of government policies, product promotion, and marketing facilitation that help MSMEs enhance their competitiveness in broader markets (Widiyowati & Sarungu, 2025). Government support positively affects MSME performance through various empowerment programs that enhance entrepreneurs' capacity for innovation and technology adoption (Apidana *et al.*, 2024). The adoption of such technologies has been shown to boost productivity, operational efficiency, and sales among MSMEs (Apriani Sijabat, 2024).

Wahyullah *et al.*, (2023) conducted a study of 120 MSME owners in Mataram City. They found that financial management and human resource competencies have a positive and significant impact on MSME performance, whereas government support does not. These findings align with the results of a study stating that although government support has continued to increase year after year, it has not encouraged SME owners to expand their businesses, as the support provided tends to be in the form of grants, which makes business owners less innovative and dependent on aid (Tandilino *et al.*, 2025). This situation reinforces the argument that external support, such as government policies alone, is insufficient to drive improvements in MSME performance without the business owners' internal capacity to effectively utilize digital technology (Mulyanto *et al.*, 2025). Therefore, there are strong indications that the relationship between perceptions of government support and MSME performance is not direct but is mediated by business owners' digital capabilities (Ladian & Fauzi 2025). Consequently, research on the mediating role of digital capability in the relationship between perceptions of government support and MSME performance is highly relevant and important for further study (Hafeez *et al.*, 2025).

Based on the empirical studies presented, several research gaps underscore the urgency of this study. There is a significant theoretical gap because most previous studies have examined only the direct relationship between government support and SME performance, without considering the mediating role of digital capability as an intervening variable linking the two (Sartono, 2025). There is also a methodological gap: previous studies have tended to examine digital capabilities merely as an independent variable that directly influences business performance, rather than as a mediating variable explaining the mechanism by which government support translates into improved business performance (Samsuden *et al.*, 2024). There is also a contextual gap that warrants serious attention: while many studies provide general insights into the digitalization of SMEs, very few explore the unique challenges and opportunities faced by specific sectors and regions—even though each context has distinct structural constraints, customer expectations, and technological needs (Muis, 2025). However, there is still little research examining how digital capabilities function as strategic resources from the

Resource-Based View (RBV) perspective, thereby enabling SMEs to leverage government support more effectively to enhance their business performance (Putra & Santoso, 2020). In fact, the RBV emphasizes that competitive advantage is determined not only by the possession of resources but also by an organization's ability to manage and utilize those resources effectively to improve business performance (Barney, 1991). Therefore, research that specifically examines the mediating role of digital capabilities in the relationship between perceptions of government support and SME performance is highly relevant and warrants further investigation.

Digital capability is proposed as a mediating variable that bridges the relationship between perceptions of government support and MSME performance. Previous research indicates that government support does not necessarily directly improve MSME performance. This effect tends to be stronger when it enhances the digital capability and business capacity of MSME operators (Faturrahman, Ega Saiful Subhan, 2025; Fitriana *et al.*, 2024). In line with this, a study of 402 SMEs in Indonesia demonstrated that the adoption of digital technology mediates the relationship between government support and SME performance, and that government support does not automatically improve performance without first being internalized through business owners' digital capabilities (Nugroho *et al.*, 2024). This integrated mediation approach is superior to conventional bivariate analysis because it models the complex interactions among external factors, organizational capabilities, and business performance (Jie *et al.*, 2025). This study seeks to answer the following research questions: (RQ1) Does the perception of government support have a positive and significant effect on the business performance of MSMEs in Dompu Regency?; (RQ2) Does the perception of government support have a positive and significant effect on the digital capabilities of MSME actors in Dompu Regency?; (RQ3) Does digital capability have a positive and significant effect on the business performance of MSMEs in Dompu Regency?; (RQ4) Does digital capability mediate the relationship between the perception of government support and the business performance of MSMEs in Dompu Regency?

This study offers a novel contribution by integrating digital capabilities as a mediating variable—rather than merely an independent variable—within the framework of the relationship between perceptions of government support and MSME business performance, an approach that has yet to be extensively explored empirically in the Indonesian SME management literature (Wulandari *et al.*, 2024). This study adopts an integrated Resource-Based View (RBV) perspective to explain how digital resources become a competitive advantage (Aslamiyah *et al.*, 2024). This study makes a specific contextual contribution by focusing on Dompu Regency, a non-metropolitan area in West Nusa Tenggara characterized by digital infrastructure gaps and distinctive limitations in the business support ecosystem, which have not previously been examined in studies on the mediation of digital capabilities (Singgih Purnomo, Nurmalitasari, 2024). This study aims to examine the effect of perceptions of government support on MSME business performance, with digital capabilities serving as a mediating variable in Dompu Regency. Theoretically, this study expands the Resource-Based View (RBV) by explaining that digital leadership and digital innovation capabilities interact to drive improvements in MSME performance (Junita & Damanik, 2025). This study contributes by integrating the mediation approach into a single, unified structural model, in contrast to previous studies that examined these variables separately and in a bivariate manner (Kim & Jin, 2024). In practical terms, the findings of this study are expected to provide more targeted policy recommendations for the Dompu Regency government in designing SME empowerment programs that are not only oriented toward providing

support but also toward strengthening the digital capabilities of business owners as a prerequisite for such support to drive performance improvement effectively (Chen *et al.*, 2021).

The remainder of this paper is organized as follows. Section 2 provides a literature review and hypothesis development. Section 3 presents the research method and design. Section 4 provides the results and discussion. Section 5 presents Concluding Remarks and Recommendations.

2. Literature Review and Hypothesis Development

2.1 Literature Review

2.1.1 Resource-Based View (RBV)

This study uses the Resource-Based View (RBV) approach developed by Jay B. Barney (1991) as its primary theoretical framework. The Resource-Based View explains that sustainable competitive advantage arises when a firm can leverage strategic resources that are valuable, rare, inimitable, and not easily replaced by other resources, a concept known as VRIN (Valuable, Rare, Inimitable, and Non-substitutable) (Barney, 1991). The Resource-Based View (RBV) serves as the theoretical foundation for explaining how the use of digital resources and other strategic capabilities enhances a company's competitiveness and performance (Rifka Alkhilyatul Ma'rifat, I Made Suraharta 2024). The Resource-Based View (RBV) is built on the assumption that every company possesses distinct resources that are not easily transferred or imitated by competitors. Furthermore, government support can be viewed as an external resource that contributes to strengthening internal resources through various policies such as training and subsidies; as a result, MSMEs become better able to optimize the use of their existing resources and enhance their capacity to address market dynamics and challenges (Koordinator *et al.*, 2024). From the RBV perspective, this study explains that perceptions of government support can help MSMEs build and strengthen digital capability as a strategic resource, which in turn contributes to improved MSME business performance (Ilma Alyani, Imam Teguh Saptono, 2024).

2.1.2 Perception of Government Support

Government support is defined as the perception among MSME actors of institutional assistance—such as working capital, skills training, and market access—that influences business motivation and competitiveness (Government 2021). This support encompasses various policies, programs, and initiatives aimed at facilitating and strengthening business development. It takes various forms, including funding assistance, supportive regulations, tax incentives, business development services, and training programs for business owners (Perdana *et al.*, 2023). The indicators of perceptions of government support in this study are based on the research by Awaludin (2025) and Septiana (2025), which refer to the views of MSME entrepreneurs regarding government assistance and policies that they perceive as influencing the sustainability of their businesses, namely: 1. Access to financial assistance (subsidies, soft loans); 2. Availability of training and technical assistance; 3. Ease of business licensing and regulations; 4. Market promotion through government-sponsored exhibitions or platforms; 5. Responsiveness of government services to SME complaints.

2.1.3 Digital Capability

Digital capability is an organization's ability to use, integrate, and develop digital technologies to improve performance and competitiveness. This capability encompasses learning processes, technology integration, and the ability to adapt to changes in the digital environment. Furthermore, digital capability is a strategic capability that enables companies to leverage digital resources to enhance competitive advantage and ensure business sustainability (Sugiarto *et al.*, 2024). In this study, it is measured using indicators adopted from previous research (Maycotte *et al.*, 2025; Sagala & Ōri, 2024; Wulandari *et al.*, 2024), namely: 1. Digital literacy (use of tools such as Google Workspace or Canva), 2. Integration of e-commerce platforms (Shopee, Tokopedia, or the company's own website), 3. Use of data analytics for decision-making, 4. Cybersecurity and customer data management, 5. Technological adaptation.

2.1.4 MSME Business Performance

Performance refers to the results achieved by a company—in terms of both quality and quantity—in carrying out its business activities in accordance with its established objectives (Ni Made Suindari 2020). Business performance is generally measured by factors such as increased sales, profit growth, productivity, and the business's ability to maintain sustainability amid increasingly competitive market conditions (Apriani Sijabat, 2024). Indicators of MSME business performance, as referenced in the research (Rifka Alkhilyatul Ma'rifat, I Made Suraharta, 2024; Rina Indrayani, 2023; Witanti & Hadiana, 2018), are: 1. Sales growth, 2. Profitability, 3. Productivity, 4. Customer satisfaction and retention, 5. Product innovation. These indicators are subsequently used as the basis for measuring variables in this study.

2.2 Hypothesis Development

2.2.1 Perceptions of Government Support Influence the Business Performance of MSMEs

From the Resource-Based View (RBV) perspective, government support can be viewed as a valuable external resource because it provides access to capital, market information, and business legitimacy—which MSME operators find difficult to obtain on their own—thereby directly strengthening MSMEs' capacity to improve their performance (Barney, 1991). Government support policies (GSP), which include both financial and non-financial assistance, can have a direct impact on SME performance and an indirect impact by strengthening entrepreneurial orientation (EO) (Miles, 2024). This argument is supported by consistent empirical evidence (Fitriana *et al.*, 2024; Simanjuntak, 2025; Sombolayul, 2023), which indicates that government support has a positive and significant effect on both the growth and performance of MSMEs. This reinforces the hypothesis that:

H1: *Perceptions of government support have a positive and significant effect on the business performance of MSMEs.*

2.2.2 Perceptions of Government Support Influence the Digital Capability of MSMEs

Perceptions of government support refer to MSME actors' views on the extent to which the government assists—through digital training, technological facilities, access to capital, business incentives, and mentoring—in the digitalization of their businesses. Such support is believed to enhance the digital

capabilities of MSMEs by improving digital literacy, facilitating e-commerce, promoting the adoption of information systems, and fostering the adoption of new technologies (Ramona Rupeika-Apoga, 2022). According to Barney (1991), the Resource-Based View holds that competitive advantage is achieved when an organization can leverage resources that are valuable, rare, inimitable, and non-substitutable. In this study, government support is viewed as an external resource that helps MSMEs gain access to training, technology, and information to build digital capabilities. This concept aligns with the findings of Chen *et al.*, (2021), which indicate that government support plays a crucial role in enhancing the digital capabilities of MSMEs through various digitization programs. Empirical studies by Rusdiani (2026), Salkiah and Putra (2025), and Sugianto (2025) also indicate that government support positively contributes to the improvement of MSMEs' digital capabilities. This reinforces the hypothesis that:

H2: *Perceptions of government support have a positive and significant effect on the digital capabilities of MSMEs.*

2.2.3 Digital Capability Influences the Business Performance of MSMEs.

Digital capability refers to the ability of MSMEs to leverage digital technologies—such as e-commerce, digital literacy, data analysis, system security, and digital collaboration—to help businesses operate more efficiently and adapt to market needs. It is believed that high digital capability can enhance MSME business performance by optimizing business processes and expanding market access (Ladian & Fauzi, 2025). From the Resource-Based View (RBV) perspective, digital capability is an internal resource that is valuable, rare, inimitable, and non-substitutable (VRIN), because the combination of an organization's ability to integrate, manage, and reconfigure digital technology is difficult for competitors to imitate and cannot be replaced by other resources, thus becoming a key determinant of competitive advantage and sustainable business performance improvement (Barney, 1991). Previous empirical studies (Fadelan & Berau, 2025; Frans Sudirjo *et al.*, 2023; Safrudin *et al.*, 2018) indicate that digital capability has a significant positive effect on MSME performance.

H3: *Digital Capability has a significant positive effect on MSME business performance.*

2.2.4 Digital Capability as a Mediator Between Perceived Government Support and MSME Business Performance.

Digital Capability is a mediating variable that explains the effect of perceived government support on improvements in MSME performance. Such support is believed to enhance SMEs' digital capabilities by improving digital literacy, facilitating e-commerce use, promoting the adoption of information systems, and enabling the adoption of new technologies (Ramona Rupeika-Apoga, 2022). From a Resource-Based View (RBV) perspective, external resources such as government support do not automatically improve performance unless they are converted into valuable and hard-to-imitate internal capabilities. Therefore, digital capability serves as a mechanism for transforming external resources into internal competitive advantages, in line with the RBV's fundamental assumption that a company's performance is determined by its ability to manage resources strategically, not merely by their ownership (Barney, 1991). Digital capability positively impacts business performance. Digital capability also acts as a mediator, strengthening this influence on performance, making the development of capabilities key to sustainable improvements in digital performance (Sugianto, 2025).

H4: *Digital capability mediates the relationship between perceptions of government support and MSME business performance.*

3. Research Method

3.1 Data Collection

Data for this study were collected using a questionnaire distributed in person (hardcopy) to Micro, Small, and Medium Enterprises (MSMEs) in Dompu Regency, West Nusa Tenggara Province, based on the criterion that respondents had been active for at least one year. The selection of Dompu Regency as the research location was based on the empirical finding that MSMEs in Dompu Regency have grown significantly and play a key role in the economy; however, they still face challenges in utilizing digital technology, and government support needs to be optimized through training, mentoring, and business facilitation to improve MSME performance (Aldi Sajian, 2025; Faturrahman, Ega Saiful Subhan 2025; Risqi Mubarak, M. Ikhwan Mansuri 2025). The questionnaire instrument used in this study was not pre-tested separately because all indicators were adapted from previous studies that have been proven to be valid and reliable. This approach is commonly used in quantitative research that utilizes validated instruments. Each statement item was measured using a five-point Likert scale, namely: (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree). A five-point Likert scale was chosen for its ability to adequately capture gradations of response while reducing the cognitive load on respondents when completing the questionnaire (Hair *et al.*, 2022).

3.2 Population and Sample

The population of this study comprises all Micro, Small, and Medium Enterprises (MSMEs) in Dompu Regency. Given that the MSME population is relatively large and spread across various business sectors, based on 2025 data from the Dompu Regency Central Statistics Agency (BPS), the number of MSMEs was recorded at 4,716 units (Dompu Regency BPS 2025). This study employs purposive sampling, which involves selecting a sample based on specific criteria (Sugiyono, 2023). This technique was chosen to ensure that the respondents involved truly align with the study's objectives and possess relevant characteristics. The criteria for respondents in this study are: (1) MSME operators residing in Dompu Regency; (2) Businesses that have been operating for at least one year; (3) Owners or managers directly involved in business operations; (4) Those who have received or are aware of government support programs; and (5) Those who use or have used digital technology in their businesses.

These criteria were established to ensure that respondents have an adequate understanding of government support, the use of digital technology, and business performance dynamics, so that the responses provided reflect actual conditions in the field (Etikan *et al.*, 2016). With a population of 4,716 MSMEs, the minimum sample size was calculated at 100 respondents. This number was deemed adequate because the study used the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach, which is relatively tolerant of small-to-medium sample sizes. To account for data that might not meet the study's criteria, questionnaires were distributed to 120 MSME owners, and all were successfully returned. However, after applying the inclusion criteria, 20 questionnaires were deemed ineligible because respondents either lacked at least 1 year of business experience or had not yet incorporated digital technology into their business operations. Consequently, the sample size available for analysis was 100 respondents, with an effective response rate of 83%.

A sample size of 100 respondents was deemed adequate for Partial Least Squares-Structural Equation Modeling (PLS-SEM) analysis. According to Hair *et al.* (2022), the PLS-SEM method can be

applied to small- to medium-sized samples by adhering to the “10 times rule,” which requires a sample size of at least 10 times the number of indicators or the largest structural path in the research model. Therefore, the sample size in this study meets the criteria for PLS-SEM analysis, as presented in Table 1.

Table 1. Questionnaire Distribution and Response Data

Notes	Total	%
Questionnaires distributed	120	100%
Questionnaires returned	120	100%
Questionnaires did not meet the criteria	20	17%
Total valid sample	100	83%

Table 2. Respondent Characteristics

Description	Category	Total	%
Business Type	Food	40	40%
	Retail	30	30%
	Services	20	20%
	Other	10	10%
Gender	Men	55	55%
	Women	45	45%
Age	20–30 years	30	30%
	30–40 years	35	35%
	40–50 years	25	25%
	Over 50 years	10	10%
Length of Business Operation	1–3 years	35	35%
	3–5 years	30	30%
	Over 5 years	35	35%
Highest Level of Education	High school	45	45%
	D3	15	15%
	S1	38	38%
	S2	2	2%

Table 3. Variables and Measurements

Variables	Code	Indicators	References
Perception of Government Support (X)	X1.1	Access to financial assistance (subsidies, soft loans)	(Awaludin 2025; Septiana 2025)
	X1.2	Training and technical assistance	
	X1.3	Ease of business licensing and regulations	
	X1.4	Market promotion (exhibitions/government platforms)	
	X1.5	Responsiveness of government services	
Digital Capability (Z)	Z1.1	Digital literacy	(Maycotte <i>et al.</i> , 2025; Sagala and Őri, 2024; Wulandari <i>et al.</i> , 2024)
	Z1.2	E-commerce platform integration	
	Z1.3	Use of data analytics	
	Z1.4	Cybersecurity and data management	
	Z1.5	Technology adoption	
MSME Business Performance (Y)	Y1.1	Sales growth	(Rifka Alkhilyatul Ma’rifat, I Made Suraharta 2024; Rina Indrayani, 2023; Witanti & Hadiana 2018)
	Y1.2	Profitability	
	Y1.3	Productivity	
	Y1.4	Customer satisfaction and retention	
	Y1.5	Product innovation	

Source: Previous Research (2026)



3.3 Data Analysis

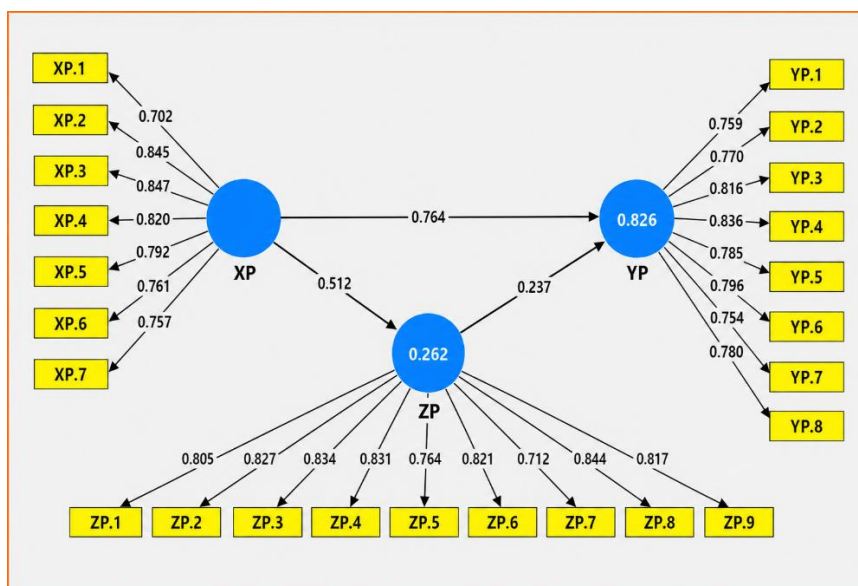
The primary analytical method in this study is Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0. PLS-SEM was chosen because it can analyze complex models with simultaneous relationships among latent variables and test mediating effects within a single integrated model. Furthermore, this method does not require the assumption of normality and is suitable for small- to medium-sized sample sizes (Chen *et al.*, 2021; Hair *et al.*, 2022; Sarstedt *et al.*, 2024).

4. Results and Discussion

4.1 Analysis Results

This study focused on 100 Micro, Small, and Medium Enterprises (MSMEs) in Dompu Regency, West Nusa Tenggara, that met the established inclusion criteria. Specifically, this study examined the effect of perceptions of government support on MSME business performance. It evaluated the role of digital capability as a mediating variable in this relationship using PLS-SEM analysis with SmartPLS 4.0.

Figure 1. Measurement Model (Outer Model)



Source: SmartPLS (2026)

Based on Table 4, all research instruments met the criteria for excellent construct reliability and convergent validity. The Cronbach's Alpha values for all variables were above 0.70, namely Perception of Government Support (0.900), MSME Business Performance (0.913), and Digital Capability (0.933), indicating high internal consistency of the instruments. Composite Reliability (rho_c) values also met the minimum threshold of 0.70 for each variable, with values of 0.921, 0.929, and 0.944, respectively. Meanwhile, the Average Variance Extracted (AVE) values for all variables were above 0.50: Perception of Government Support (0.625), MSME Business Performance (0.620), and Digital Capability (0.651), confirming that each construct explains more than half of the variance in its respective indicators. Thus, all research instruments were deemed valid and reliable for use in the hypothesis testing phase (Hair *et al.*, 2022).

Table 4. Measurement Model (Outer Model) Results

Variable	Indicators	Instrument	Outer loadings	Cronbach's alpha	CR	AVE
Perception of Government Support	Access to financial assistance (subsidies, soft loans)	XP.1 <- X	0.702	0.900	0.921	0.625
		XP.2 <- X	0.845			
	Training and technical assistance	XP.3 <- X	0.847			
		XP.4 <- X	0.820			
	Streamlined business licensing and regulations	XP.5 <- X	0.792			
	Market promotion (exhibitions/government platforms)	XP.6 <- X	0.761			
	Responsiveness of government services	XP.7 <- X	0.757			
MSME Business Performance	Sales growth	YP.1 <- Y	0.759	0.913	0.929	0.620
		YP.2 <- Y	0.770			
	Profitability	YP.3 <- Y	0.816			
		YP.4 <- Y	0.836			
	Productivity	YP.5 <- Y	0.785			
		YP.6 <- Y	0.796			
	Customer satisfaction and retention	YP.7 <- Y	0.754			
Digital Capability	Product innovation	YP.8 <- Y	0.780	0.933	0.944	0.651
	Digital literacy	ZP.1 <- Z	0.805			
		ZP.2 <- Z	0.827			
	E-commerce platform integration	ZP.3 <- Z	0.834			
		ZP.4 <- Z	0.831			
	Use of data analytics	ZP.5 <- Z	0.764			
		ZP.6 <- Z	0.821			
	Cybersecurity and data management	ZP.7 <- Z	0.712			
		ZP.8 <- Z	0.844			
	Product innovation	ZP.9 <- Z	0.817			

Source: SmartPLS (2026)

Table 5. Discriminant Validity (Fornell-Larcker)

	XP	YP	ZP
XP	0.791		
YP	0.886	0.787	
ZP	0.512	0.629	0.807

Source: SmartPLS (2026)

Based on Table 5, the evaluation of discriminant validity using the Fornell-Lacker criteria shows that the root-mean-square AVE value for each construct (shown on the diagonal) is greater than the correlation values between the other constructs. The root-mean-square AVE values for Perception of Government Support (0.791), MSME Business Performance (0.787), and Digital Capability (0.807) all exceed the cross-correlations between variables, confirming that each research variable is empirically distinct from the others and that the model meets the required criteria for discriminant validity (Hair *et al.*, 2022).

Table 6. R-Square (R2) Test Results

	R-square	R-square adjusted	Kriteria
YP	0.826	0.822	Kuat
ZP	0.262	0.255	Lemah

Source: SmartPLS (2026)

Based on Table 6, the R-Square value indicates that the research model has good predictive power. The MSME Business Performance (YP) variable has an R-Square value of 0.826, which falls into the "strong" category; this means that the variables Perception of Government Support and Digital Capability explain 82.6% of the variance in MSME Business Performance. Meanwhile, the Digital Capability (ZP) variable has an R-Square value of 0.262, which is classified as weak, indicating that Perception of Government Support explains 26.2% of the variance in Digital Capability. At the same time, the remainder is influenced by other factors outside the scope of this research model (Hair *et al.*, 2022).

Based on Table 7, the effect size (F2) evaluation shows the variation in the predictive impact of exogenous variables on endogenous variables. The effect of Perceived Government Support on MSME Business Performance has a large effect size ($f^2=2.476$), indicating a very substantial predictive contribution. The effect of Perceived Government Support on Digital Capability is also classified as large ($f^2 = 0.356$), while the effect of Digital Capability on MSME Business Performance is classified as medium ($f^2 = 0.238$). These findings confirm that the perception of government support is the dominant predictor in the model, whereas digital capability makes a meaningful additional contribution to explaining MSME business performance (Hair *et al.*, 2022).

Table 7. Test Results: Effect size (F2)

Relationships Between Variables	f-square	Description
Perception of Government Support → MSME Business Performance	2.476	Large
Perception of Government Support → Digital Capability	0.356	Large
Digital Capability → MSME Business Performance	0.238	Medium

Source: SmartPLS (2026)**Table 8.** Hypothesis Test Results (Path Coefficients & Specific Indirect Effects)

Variable Relationships	Original sample (O)	T statistics (O/STDEV)	P values	Decision
<i>Direct Effects</i>				
Perception of Government Support → MSME Business Performance	0.764	17.317	0.000	Accepted
Perception of Government Support → Digital Capability	0.512	7.256	0.000	Accepted
Digital Capability → MSME Business Performance	0.237	4.572	0.000	Accepted
<i>Indirect Effects</i>				
Perception of Government Support → Digital Capability → MSME Business Performance	0.112	3.464	0.001	Accepted

Source: SmartPLS (2026)

4.2 Discussion

4.2.1 The Effect of Perceived Government Support on MSME Business Performance (H1)

The results of the PLS-SEM analysis indicate that perceived government support has a positive and significant effect on MSME business performance, with a path coefficient of 0.764 and a p-value of 0.000 (< 0.05); therefore, H1 is accepted. This finding can be understood through the respondent profile, which was dominated by MSME operators in the culinary (40%) and trade (30%) sectors, with 65% in the productive age range of 20–40 years and business durations varying from 1 to more than 5 years. MSME operators with prior experience in running their businesses tend to be better able to perceive the tangible benefits of the five dimensions of government support, namely access to financial assistance (subsidies and soft loans), training and technical assistance, streamlined business licensing and regulations, market promotion through government-sponsored exhibitions or platforms, and responsive government services—which collectively drive growth in sales, profitability, productivity, customer satisfaction, and product innovation. These findings align with research (Septino, 2024) confirming that positively perceived government support encourages SME operators to be more confident in developing their business capacity and competitiveness. These findings are also consistent with the Resource-Based View (RBV) approach, which asserts that government support serves as a strategic external resource that strengthens the internal capacity of MSMEs, thereby ultimately improving overall business performance (Barney, 1991).

The results of this study are supported by several prior studies that have consistently found a positive and significant effect of perceived government support on MSME business performance. Fitriana *et al.*, (2024) demonstrated that government support has a significant positive effect on MSME performance through the moderating and mediating mechanisms of strategic change. Simanjuntak (2025) also confirmed similar findings in the context of MSMEs in Padangsidempuan City, where digitalization and government support jointly and significantly improved business performance. Furthermore, Sombolayul (2023), in an empirical study of SMEs in Makassar, affirmed that government policies have a tangible positive impact on business performance. Thus, these research findings further strengthen the scientific consensus that perceptions of government support are a key determinant in driving improvements in MSME business performance. (Fitriana *et al.*, 2024; Simanjuntak, 2025; Sombolayul, 2023) have consistently found a significant positive effect of the perception of government support on the business performance of MSMEs.

4.2.2 The Effect of Perceived Government Support on Digital Capability (H2)

The results of the PLS-SEM analysis confirm that perceived government support has a positive and significant effect on the digital capability of MSMEs, with a path coefficient of 0.512 and a p-value of 0.000 (< 0.05), thus accepting H2. This finding can be understood through the characteristics of the respondents, who were predominantly MSME owners of working age between 20 and 40 years old (65%), with educational backgrounds of high school (45%) and bachelor's degree (38%), and the majority operating in the food and beverage sector (40%) and the retail sector (30%). This demographic profile reflects a group that is generally more open to technology adoption; thus, when the government provides programs covering all five dimensions of support—namely, financial assistance for the procurement of digital devices, digital literacy training and technical assistance, regulatory ease for digital-based businesses, product promotion through government platforms, and responsiveness to

MSMEs' technological needs, the respondents were able to significantly enhance their capabilities in terms of digital literacy, e-commerce platform integration, the use of data analytics, cybersecurity and data management, and the adoption of new technologies. These results align with the Resource-Based View (RBV) perspective, which asserts that government support serves as an external resource that enables MSMEs to build digital capabilities, creating a valuable, difficult-to-imitate competitive advantage (Barney, 1991).

These research findings are supported by several prior studies that consistently demonstrate the positive and significant impact of government support on MSMEs' digital capabilities. Rusdiani (2026) demonstrated that local government policies through the "MSME Go-Digital" program significantly improved the digital capabilities of MSMEs, including digital literacy and access to broader market platforms. Salkiah and Putra (2025) confirmed that the effectiveness of government policies in promoting digitalization positively impacts the competitiveness and digital capabilities of MSMEs. Furthermore, Sugianto (2025) demonstrated that government support has a positive and significant effect on the digital marketing capabilities of MSMEs in Indonesia. Thus, the results of this study further reinforce the consensus that perceptions of government support predict MSMEs' digital capabilities (Rusdiani, 2026; Salkiah & Putra, 2025). This finding is consistent with Sugianto's (2025) research, which demonstrated that government support positively contributes to the improvement of MSMEs' digital capabilities.

4.2.3 The Effect of Digital Capability on MSME Business Performance (H3)

The results of the PLS-SEM analysis demonstrate that digital capability has a positive and significant effect on MSME business performance, with a path coefficient of 0.237 and a p-value of 0.000 (< 0.05); thus, H3 is accepted. This finding can be understood by examining the respondents' profiles, all of whom are MSME operators with at least one year of experience using digital technology in their business operations, across a diverse range of sectors including food and beverage (40%), retail (30%), services (20%), and others (10%). MSME owners with high proficiency across all five dimensions of digital capability—namely, digital literacy (use of tools such as Google Workspace or Canva), e-commerce platform integration (Shopee, Tokopedia, or their own websites), the use of data analytics for decision-making, cybersecurity and customer data management, and technology adaptation, have proven capable of improving operational efficiency, expanding market reach, and ultimately driving sustainable growth in sales, profitability, productivity, customer satisfaction, and product innovation. These results align with the Resource-Based View (RBV) approach, which posits that digital capabilities are strategic internal resources with VRIN characteristics and serve as the primary catalyst for sustainable improvements in business performance (Barney, 1991).

These findings reinforce arguments previously confirmed by numerous prior studies on the role of digital capabilities in determining MSME business performance. Ladian and Fauzi (2025) demonstrated that digital capability has a positive and significant effect on SME performance, with digital business transformation partially mediating this relationship. Fadelan and Berau (2025) also reported similar results for SMEs in Tanjung Redeb, where digital capability and digital literacy jointly and significantly improved business performance. Frans Sudirjo *et al.*, (2023) further demonstrated that digital capability—operationalized through marketing capability and digital marketing—has a significant positive effect on the marketing performance of MSMEs in West Java. Thus, this research further reinforces the notion that enhancing digital capability is a strategic investment that tangibly

drives an overall improvement in MSME business performance. Ladian and Fauzi (2025). These findings reinforce the argument that high digital capability acts as a catalyst for improved business performance, as confirmed by the studies (Fadelan & Berau, 2025; Frans Sudirjo *et al.*, 2023).

4.2.4 Digital Capability Mediates the Effect of Perceived Government Support on MSME Business Performance (H4)

The results of the PLS-SEM analysis demonstrate that digital capability positively and significantly mediates the relationship between perceived government support and MSME business performance, with an indirect path coefficient of 0.112 and a p-value of 0.001 (< 0.05); thus, H4 is accepted. This mediation finding can be understood through the realities faced by the 100 MSME operator respondents in Dompu Regency: the majority of respondents had a high school education (45%), operated businesses in the culinary (40%) and trade (30%) sectors, and were aged 20–40 years (65%). The initial limitations in digital literacy among most respondents make digital capabilities a crucial bridge between external government support and improved business performance. In other words, when the government provides digital training, facilitates access to technology, and offers guidance on business digitization through its five dimensions of support, these benefits do not immediately lead to increased sales growth, profitability, productivity, customer satisfaction, and product innovation; rather, they must first be internalized through the strengthening of the five dimensions of digital capability: digital literacy, e-commerce integration, the use of data analytics, cybersecurity, and technology adaptation. This finding is fully consistent with the Resource-Based View (RBV) perspective, which asserts that external resources, such as government support, can optimally contribute to performance only after they have been converted into strategic internal capabilities (Barney, 1991).

This mediation finding is supported by several previous studies that consistently demonstrate the positive and significant role of digital capabilities as a mediating variable. Nugroho *et al.*, (2024) demonstrated in a study of 402 SMEs in Indonesia that e-commerce adoption significantly mediates the relationship between government support and SME performance; thus, government support does not automatically improve performance without first being internalized through the business owners' digital capabilities. Junita & Damanik, (2025) confirm that digital innovation capability partially and significantly mediated the relationship between digital leadership and SME performance in Pekanbaru's culinary sector. Ladian and Fauzi (2025) further confirm that digital capability has a positive and significant effect on SME performance, with digital business transformation serving as a significant partial mediator. These three studies consistently affirm that digital capability is a strong and important mechanism in converting external support into tangible and sustainable improvements in business performance.

5. Concluding Remarks and Recommendation

Based on the results of the PLS-SEM analysis of 100 SME operators in Dompu Regency, all hypotheses of this study were accepted and empirically proven. First, the perception of government support has a positive and significant effect on SME business performance ($\beta=0.764$, $p=0.000$), indicating that the stronger the perceived government support—through access to financial assistance, training, and technical assistance, ease of licensing, market promotion, and service responsiveness, the higher the business performance, which includes sales growth, profitability, productivity, customer satisfaction, and product innovation. Second, the perception of government support has a positive and significant effect



on digital capability ($\beta=0.512$, $p=0.000$), indicating that government programs and policies effectively drive improvements in digital literacy, e-commerce integration, data analytics, cybersecurity, and technology adoption among MSMEs. Third, digital capability has a positive and significant effect on MSME business performance ($\beta=0.237$, $p=0.000$), confirming that MSME operators with higher digital capabilities achieve better business performance. Fourth, digital capability was found to positively and significantly mediate the relationship between perceptions of government support and SME business performance ($\beta = 0.112$, $p = 0.001$).

These findings collectively confirm that government support, when successfully internalized into strong digital capabilities, will synergistically drive sustainable improvements in SME business performance. Therefore, the local government of Dompu Regency should design MSME empowerment programs that are not only oriented toward providing physical and financial assistance but also strategically focus on strengthening entrepreneurs' digital competencies through structured digital literacy training, guidance on e-commerce adoption, and facilitation of data analytics use—as prerequisites for ensuring that such external support effectively accelerates performance improvement.

Theoretically, this study successfully fills an existing gap in literature by positioning digital capability not merely as an independent variable that directly influences performance, but as a mediating variable that mechanistically explains how government support translates into improved SME performance. Thus, this study expands the Resource-Based View (RBV) perspective in the context of MSMEs in non-metropolitan areas with digital infrastructure gaps, while integrating a mediation approach into a more comprehensive structural model than previous bivariate studies. The contextual contribution of this study is also significant, given that Dompu Regency has never been the focus of previous studies on the mediation of digital capabilities. Moving forward, MSME operators are advised to proactively utilize every government-provided digitalization program as a long-term strategic investment, integrate e-commerce platforms into their daily operations, and cultivate data-driven decision-making habits to optimize the benefits of existing government support and accelerate improvements in competitive and sustainable business performance.

Statement of Use of Generative AI

During the preparation of this work, the author used generative artificial intelligence tools to support the scientific writing process. Grammarly was used to check grammar, refine writing style, and improve clarity in scientific writing. All interpretations, analyses, and conclusions presented in this study are the sole responsibility of the author.

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