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Effect of government role and human resource competence on level of success of small and medium enterprises in East Java province with business performance as mediation variable

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Abstract

The objective of this research is to reveal the effect of government role and human resource competence on level of success of SMEs in East Java Province with business performance as mediation variable. Using quantitative research, causal relationship across variables is ensured through SEM-PLS method. Sampling technique is purposive random sampling with 130 SMEs used as sample. Data collection technique is using questionnaire. The results of research show that government role and human resource competence affect level of success of SMEs in East Java Province; and business performance is the mediation variable to the effect of government role and human resource competence on level of success of SMEs in East Java Province.

Keywords: SMEs, government role, human resource competence, business performance, level of success

Abstrak

Penelitian bertujuan untuk mengungkap efek peran pemerintah dan kompetensi sumberdaya manusia terhadap tingkat keberhasilan Usaha Mikro Kecil dan Menengah di Jawa Timur dengan kinerja usaha sebagai mediasi. Penelitian ini dirancang dengan menggunakan pendekatan kuantitatif dan hubungan kausal antar variabel penelitian yang dianalisis dengan SEM PLS. Penelitian dilakukan pada pengelola UMKM di Jawa Timur Indonesia dengan sampel 130 UMKM, menggunakan simple random sampling, sedangkan data penelitian diambil melalui kuesioner. Temuan penelitian mengungkapkan bahwa Peran pemerintah dan kompetensi sumberdaya manusia berpengaruh terhadap tingkat keberhasilan UMKM di Jawa Timur, selain itu diungkapkan bahwa kinerja usaha merupakan variabel mediasi pada pengaruh peran pemerintah dan kompetensi sumberdaya manusia terhadap tingkat keberhasilan UMKM di Jawa Timur.

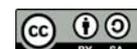Kata kunci: UMKM, peran pemerintah, kompetensi sumber daya manusia, kinerja usaha

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Introduction

Scientific reviews have regarded small and medium enterprises (SMEs) as one of many factors with great contribution to economic progress. Any scientific contribution to SMEs advancement is thus considered relevant in this matter. The fundamental question is how SMEs can be developed to attain their maximum success. Indeed, the success of SMEs involves a lot of elements. For instance, from a business perspective, the most recognized element is "number", which is about how far a unit in SMEs can improve its sales and earnings. More information about SMEs are given by Law No.20 of 2008 on Small and Medium Enterprises (Habsari & Kholifah, 2018; Bhinekawati, 2016; Umar et al., 2018).

Previously, the condition of local SMEs had declined in the first two years of the Covid-19 pandemic, namely in 2020-2021. Based on a survey from the United Nations Development Program (UNDP) and the Institute for Economic and Social Research at the University of Indonesia (LPEM UI) which involved 1,180 respondents from SMEs throughout Indonesia, it was found that at that time more than 48% of SMEs experienced raw material problems, 77% of their income decreased, 88% of SMEs experienced a decrease in product demand, and even 97% of SMEs experienced a decrease in asset value. Therefore, strategies and efforts from various parties are needed to improve the conditions of local SMEs (Siregar., 2017).

In East Java, the SME sector has contributed 57.81% to East Java's GRDP or the equivalent of Rp. 1.4 trillion, this has also contributed to economic growth in East Java which was recorded at 5.74 percent. The potential for SMEs in East Java to grow is quite large. Moreover, it is shown by the development of MSME Working Capital Credit (KMK) and Investment Credit (KI) disbursements that have continued to increase, reaching above 31 percent of total credit distribution (Dewi et al., 2023).

Empirical studies already proved that SMEs level of success is determined by many factors (Harmawan, 2019), which among others are government role (Habsari & Kholifah, 2018; Saputra et al., 2015; Ondang et al., 2019; and Akhmad et al., 2018), human resource competence (Arief & Rosiawan, 2009; Idrus & Abdussakir, 2019; Laguna et al., 2012; Mejri & Zouaoui, 2020; Sarwoko & Nurfarida, 2018; Sidek & Mohamad, 2014; Umar et al., 2018), and business performance (Merdekawati & Rosyanti, 2020; Makarenko et al., 2019; Ramani, 2018; and Nandita et al., 2019). It is true that those factors above are similarly influential to SMEs success but at different significance level. Besides, the correlation across these factors, especially for certain indicators, is not significant. This study tries to reaffirm the position of these factors.

Reports of other researchers also use variables that are almost the same as this study. It's the same as studying the success factors of SMEs. However, so far, there has been no research that specifically examines the role of the mediating variable of SME business performance on the influence of the role of government and human resource competence on the success of SMEs, especially in East Java. Therefore, this research represents novelty because its existence is the main guideline for further research on SME development. In the context of East Java Province, the government launched a coaching program for the benefit of developing SMEs. The hope is that the success of SMEs will make a significant contribution to economic progress in the area of East Java Province.

Literature Review

Government Role

Role is a dynamic aspect from the position where individual or organization resides. If this individual or organization fulfills their rights and duties as expected, then this entity is said as already

completing their function (Nirwana et al., 2017). Government role in the context of this research is to develop the entrepreneurial capacity of people to make them capable in determining and organizing any effort needed to attain successful business. In relation to government contribution to people development, government role is differentiated into four, respectively facilitative role, educative role, representational role and technical role (Ondang et al., 2019). Every government has authority to make policy (Akhmad et al., 2018). Therefore, government role can be directed to benefit SMEs or to facilitate them to grow and develop, particularly in financial matter, which is one of crucial matters for SMEs (Feranita et al., 2019). Local government can empower SMEs by stipulating business friendly regulations (Harini et al., 2016).

Empirical reviews at home and abroad agree that the government has an important contribution to the performance of SMEs and the success rate of SMEs. These contributions are mostly direct, which include establishing legal products such as laws and regulations that support SME performance (Feranita et al., 2019; Harini et al., 2016), providing capital assistance and subsidies (Nguyen et al., 2018), and encourage international cooperation for imports and exports (Sri Budhi & Purbadharmaja, 2015; Suriyanti & Binangkit, 2019). Theoretically, a role is defined as a dynamic aspect of the position in which an individual or organization is (Nirwana et al., 2017). With this theory, it is important for the government to carry out its functions properly as expected because this function has a direct impact on the people's economy, including SMEs.

Human Resource Competence

Competence is a capability or a characteristic of an individual in forms of knowledge, skill and behavior needed in such a manner that the individual can do the job professionally, effectively and efficiently based on the predetermined performance standard (Utami & Desnormasari, 2018; Kurniawan et al. 2018). In addition, competence is a basic character of individual underlain by criteria of role model, effective performance, and excellency in any job or situation (Hayati, 2018). As a concept, "competence" is sometimes confused with "skill". Both terms are different but often used alternately. In the perspective of management, competence is usually defined within personal or organizational context (Yaşar et al., 2013).

Good human resource competence in managing SMEs can determine the performance of SMEs and the success rate of SMEs. This competency can be related to managerial and product marketing aspects. In a marketing perspective, human resource competency is a vital key to achieving good organizational performance (Awad, 2018). Also said by Yasar et al. (2013) and Juni et al. (2013), competency is positively related to performance and competency is positively related to the success rate of SMEs (Mejri & Zouaoui (2020); Sarwoko & Nurfarida, 2018). In other words, competent individuals lead to better organizational performance which will also increase the success of the organization. The competence of each individual in SMEs will contribute to the business performance of SMEs and the success of SMEs. Therefore, owners, managers and members of SMEs must have competence in dealing with critical situations and these competencies can be made effective by observing environmental barriers and strengthening relationships with internal resources and will have an impact on the success rate of SMEs (Soejono et al., 2015).

Business Performance

Performance is the job output attained by an individual or a group of individuals in a corporation in which this attainment should be in conformity with

the given authority and responsibility and the attainment of corporate goals must be legally acceptable, not defying laws and not colliding with moral or ethic standards. Corporate performance is actually the product of various decisions continually made by corporate management board (Pramaishella, 2018). The definitions above associate job output with behavior. By this statement, performance can be defined as behavior activity directed towards the implementation of organizational tasks. Business people (entrepreneurs) who have high performance are usually characterized by several indicators, such as: strong willingness to take personal responsibility, dare to take the risk and to assume the risk in case of failure, set realistic goals, have comprehensive job plan, and eager to give the best effort for goal realization (Utami & Desnormasari, 2018).

As explained by Pramaishella (2017), at least, SMEs need support from related policies/regulations to protect their business activities. This legal support is taken into account when SMEs have to face the dynamics of an unexpected situation. In addition, this support can help SMEs to achieve their economic success at the local or national level. Makarenko et al. (2019) and Rankhumise & Masilo (2018) explained that SME efforts to succeed are often hampered by problems related to expansion such as limited access and lack of networks to improve product marketing.

Business Success

Small and medium enterprises are said to be successful if their business units grow and give contribution to local or national economic progress. Less successful SMEs are those that are left alone without support from policy maker. The success of SMEs is vital because their success affects a lot of people. Successful SMEs not only increase local revenue but also provide jobs for local workers (Saputra et al., 2015). Referring to Law No.20 of 2008, SMEs need to be empowered to optimize their development

(Trimurti, 2012).

Then the research hypothesis that can be formed is:

H$_1$: There is a significant influence of the Role of Government (GR) on Business Performance (BP)

H$_2$: There is a significant influence of Human Resource Competence (HRC) on Business Performance (BP)

H$_3$: There is a significant influence of the Government's Role (GR) on the Level of Success (LS)

H$_4$: There is a significant influence of Human Resource Competence (HRC) on the Level of Success (LS)

H$_5$: There is a significant influence of Business Performance (BP) on the Level of Success (LS)

H$_6$: There is a significant influence of the Government's Role on the Level of Success with Business Performance as a mediating variable

H7: There is a significant effect of Human Resource Competence on the Level of Success with Business Performance as a mediating variable

Method

The current research is designed to use quantitative approach. Data obtained through a questionnaire with a Likert scale. Variable measurement uses the average score of each item. Causal relationship across variables is processed with *Structural Equation Modelling Partial Least Squares* (SEM PLS). Two kinds of variables are used in this research, namely latent (construct) variable as *unobserved* variable and indicator variable as *observed* variable of every latent variable. On the other hand, latent variable comprises exogenous latent variable, mediation (intervening) variable and endogenous latent variable. In this study, exogenous latent variables are denoted by Government Role/GR (includes indicators of establishing legal products, providing capital assistance and subsidies, and encouraging international

cooperation for imports and exports) and Human Resource Competence/HRC (consisting of five aspects, namely motives, self-concept , traits, knowledge, and skills). While the mediating variable is represented by Business Performance/BP (consisting of indicators of availability of access and the presence of an appropriate network) while the endogenous latent variable is called the Level of Success/LS (indicator of profit, productivity, work efficiency, competitiveness, and competence and business ethics).

Population and Sample

Small and Medium Enterprises (SMEs) in East Java Province, precisely the owner or the manager, are designated to be research population. Throughout 2022, SMEs in East Java totaled 1.153 million. This research covers the culinary business sector, fashion business, and agribusiness business. The sampling technique is cluster random sampling, which is a sampling technique that is carried out by taking representatives from each region or existing group (sector). Number of sample is determined by Malhotra technique (Malhotra et al., 2017, p. 712), which requires that number of sample is at least five to ten times of number of items in the questionnaire given to research population. Reason behind the use of Malhotra technique is that the exact number of research population is unknown because the number of SMEs is still growing at any time and there are many SMEs not updated yet in the registry data held by the Official of Cooperatives and SMEs for East Java Province. Early assumption is that one indicator is represented by one questionnaire item, which after multiplying 13 indicators to 10, then there are 130 SMEs obtained to be research sample.

Research Instrument

Questionnaire type in this research is closed questionnaire that uses Likert Scale involving four intervals. Scoring system is arranged in a way that respondents will encounter four answer alternatives. The description of score includes (1) very disagree/ very incompatible, (2) disagree/ incompatible, (3) agree/compatible, and (4) very agree/very compatible.

Data Analysis

Primary data of this research are in the form of the recap of respondents' answer to questionnaire items. Data analysis and hypothesis test are conducted with *Partial Least Square* (PLS) method supported by SmartPLS 2.3.8. This method enables the current research to find out the contribution of causal relationship across latent variables. Reason behind the use of PLS method is that the current research observes and measures four latent variables consisting of reflective indicators in small number of sample. Hypothesis test in PLS is done with *resampling bootstrap* method (Jaya & Sumertajaya, 2008) in which the process involves the testing of *Goodness of Fit* for *Outer Model* and *Inner Model* (Jogiyanto, 2011; Jogiyanto, 2011). The analysis results are considered significant if significance value (*p-value*) of the results is smaller than significance level (α) of 0.05.

Result

Outer Model Evaluation

Goodness of Fit for *Outer Model* was tested to determine (1) convergent validity, which is measured through (a) *factor loading* value and (b) AVE value; and (2) reliability, which is estimated by *Composite Reliability* test. This validity test is used to measure the validity of a questionnaire. An instrument is valid if it has an outer loading value > 0.7 (Ghozali, 2014). Then, if some invalid items are found, they must be deleted and cannot be counted in the data analysis process. The results of convergent validity test with *factor loading* value checking are shown in Figure 1. Next, the results of convergent validity test with AVE value checking are elaborated in the Table 1.
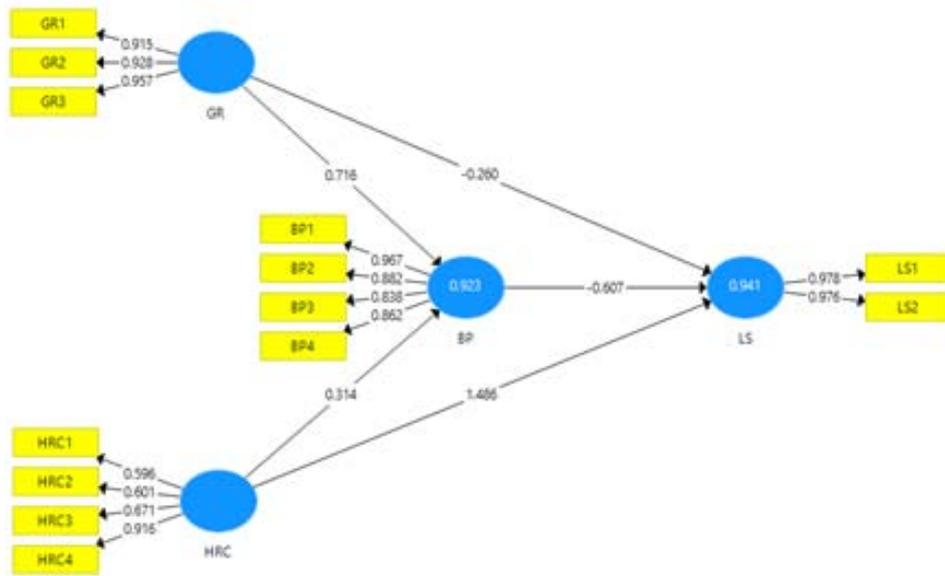
Figure 1. Results of Factor Loading Values
(Source: Results of Analysis with SmartPLS)

Table 1. Summary of AVE Value

Latent Variable	AVE
GR	0.871
HRC	0.501
BP	0.790
LS	0.955

Source: Results of Analysis with SmartPLS

After obtaining *factor loading* values, measurement equation for exogenous indicator is determined as in Table 2. Furthermore, measurement equation for endogenous indicator is presented as in Table 3.

On the other hand, the results of reliability test through *Composite Reliability* value checking are displayed in the Table 4.

Testing of Goodness of Fit for Inner Model

Goodness of Fit for Inner Model was tested to determine R Square (R^2) value. The Table 5 below contains the results of R^2 value. All the results of test on Goodness of Fit are resumed in the Table 6.

Referring to the contents of Table 6, it is shown that all criteria of goodness of fit have been met, including two criteria of

Table 2. Measurement Equation for Exogenous Indicator

Exogenous Indicator		Exogenous Construct		Error $\delta = 1 - \lambda^2$
		GR _Government Role_	HRC _HR Competence_	
GR1	=	0.915GR		+ 0.163
GR2	=	0.928GR		+ 0.139
GR3	=	0.957GR		+ 0.084
HRC1	=		0.596HRC	+ 0.645
HRC2	=		0.601HRC	+ 0.639
HRC3	=		0.671HRC	+ 0.550
HRC4	=		0.916HRC	+ 0.161

Source: Results of Analysis with SmartPLS

Table 3. Measurement Equation for Endogenous Indicator

Endogenous Indicator		Endogenous Construct		Error $\varepsilon = 1 - \lambda^2$	
		BP *Business Performance*	LS *Level of Success*		
BP1	=	0.967BP		+	0.064
BP2	=	0.882BP		+	0.221
BP3	=	0.838BP		+	0.297
BP4	=	0.862BP		+	0.256
LS1	=		0.978LS	+	0.044
LS2	=		0.976LS	+	0.047

Source: Results of Analysis with SmartPLS

goodness of fit for outer model (Hair, Hult, Ringle, & Sarstedt, 2017, p. 107) and one criterion of goodness of fit for inner model (Hair et al., 2017, p. 186). Research model is said to be fit which therefore can be used in hypothesis test.

Table 4. Summary of *Composite Reliability* Calculation

Latent Variable	*Composite Reliability*
GR	0.953
HRC	0.795
BP	0.938
LS	0.977

Source: Results of Analysis with SmartPLS

Table 5. Summary of R^2 Value

Latent Variable	R *Square*
BP	0.923
LS	0.941

Source: Results of Analysis with SmartPLS

Hypothesis Test

Alternative hypothesis (Ha) is accepted if $t_{count} \geq 1.96$ (Hair Jr et al., 2017). The summary of t-statistic (t_{count}) calculation for direct effect test is elaborated in the Table 7.

Based on the contents of Table 7, variables GR and HRC have direct and significant effect on variable BP. Similarly, variable BP also has direct and significant effect on variable LS. According to the Norm of Baron and Kenny (Hair Jr et al., 2017), mediation or moderation test can only be conducted if the direct effect is found to be significant. The contents of Table 7 indicate that all direct effect relationships are significant. Following this indication, it can be said that (1) hypothesis test on mediation effect of variable GR on variable LS through variable BP and also (2) hypothesis test on mediation effect of variable HRC on variable LS through variable BP, can be conducted. Both hypothesis tests are executed with

Table 6. Summary of the Results of Test on Goodness of Fit

Goodness of Fit		Parameter	*Rule of Thumb*	Description
Outer Model	Convergent Validity	*Factor Loading*	All *factor loading* > 0.7	Convergent valid
		AVE	All AVE > 0.5	
	Reliability	*Composite Reliability*	*Composite Reliability* > 0.7	Reliable
Inner Model	R^2 Evaluation	R^2 Value	$R^2 > 0.25$	Fit

Source: Results of Analysis with SmartPLS

Table 7. Summary of t_{count} Calculation for Direct Effect Test

No	Direct Effect	Hypothesis		Path Coeff.	P-value	Decision	Description
		H_0	H_a				
1.	GR on BP (GR → BP)	$H_{0(1)}$: $\gamma_{11}= 0$	$H_{a(1)}$: $\gamma_{11} \neq 0$	0.716	0.000	H_1 is accepted	Effect is positive and significant
2.	HRC on BP (HR → BP)	$H_{0(2)}$: $\gamma_{12}= 0$	$H_{a(2)}$: $\gamma_{12} \neq 0$	0.314	0.000	H_2 is accepted	Effect is positive and significant
3.	GR on LS (GR → LS)	$H_{0(3)}$: $\gamma_{21}= 0$	$H_{a(3)}$: $\gamma_{21} \neq 0$	-0.260	0.000	H_3 is accepted	Effect is negative but significant
4.	HRC on LS (HR → LS)	$H_{0(4)}$: $\gamma_{22}= 0$	$H_{a(4)}$: $\gamma_{22} \neq 0$	1.486	0.000	H_4 is accepted	Effect is positive and significant
5.	BP on LS (BP → LS)	$H_{0(5)}$: $\beta_{21}= 0$	$H_{a(5)}$: $\beta_{21} \neq 0$	-0.607	0.000	H_5 is accepted	Effect is negative but significant

Source: Results of Analysis with SmartPLS

Table 8. Summary of t_{count} Calculation for Indirect Effect Test

No	Indirect Effect	Hypothesis		Path Coeff.	P-value	Decision	Description
		H_0	H_a				
1.	GR on LS through BP (GR→BP→LS)	H_0: $\gamma_{21}+\beta_{21}=0$	H_6: $\gamma_{21}+\beta_{21}\neq0$	-0.435	0.000	H_0 is rejected, H_a is accepted	Effect is negative but significant
2.	HRC on LS through BP (EM→BC→BP)	H_0: $\gamma_{22}+\beta_{21}=0$	H_7: $\gamma_{22}+\beta_{21}\neq0$	-0.190	0.000	H_0 is rejected, H_a is accepted	Effect is negative but significant

Source: Results of Analysis with SmartPLS

Table 9. Structural Equation

Endogenous Construct		Exogenous Construct	Error $\zeta = 1 - R^2$	
BP	=	0.716 GR + 0.314 HRC	+	0.077
LS	=	-0.260 GR + 1.486 HRC − 0.607 BP	+	0.059

Source: Results of Analysis with SmartPLS

SmartPLS 3.2.8 to process values from *bootstrapping* calculation. The summary of t-statistic (t_{count}) calculation for mediation effect test is explained in the Table 8.

Using path coefficient values and R^2 values derived from the testing of *goodness of fit* for *inner model*, then structural equation involving each latent variable can be established. This equation is expounded in the Table 9.

Discussion

Effect of Government Role on Business Performance

The effect of *government role* (GR) on *business performance* (BP) of SMEs in East Java Province had been analyzed and the result showed that coefficient value is 0.716, which is positive while significance value is 0.000, which is < α of 0.05.

Correspond to this result, government role has positive and significant effect on business performance of SMEs. Therefore, H1 is accepted. This research is in line with research (Feranita et al., 2019; Harini et al., 2016; Sri Budhi & Purbadharmaja, 2015; Suriyanti & Binangkit, 2019) which states that there is a significant influence between the role of government on business performance. It is important for the government to carry out its functions properly as expected because this function has a direct impact on the people's economy, including SMEs. Government support for the performance of SMEs is a form of government support for economic progress. The example of this support is that the government facilitates SMEs in seeking capitalization and open export access for Indonesian entrepreneurs to bring their products to international market.

Effect of Human Resource Competence on Business Performance

Analysis procedure was applied to the effect of *human resource competence* (HRC) on *business performance* (BP) of SMEs in East Java Province. The analysis result indicated that human resource competence has positive (0.314) and significant (0.000 < α of 0.05) effect on SMEs business performance. Thus, H2 is accepted. This result is in line with the findings of previous studies which generally stated that human resource competence is linearly correlated with business performance (Sánchez, 2012; Sheehan, 2014; Utami & Desnormasari, 2018; Wardana & Utama, 2017). Competent individuals lead to better organizational performance. The competence of each individual in SMEs will contribute to the business performance of SMEs. Competence basically consists of several aspects such as knowledge, skills, and work attitudes, all of which must be in accordance with established standards. All of the above statements confirm that the good and competitive performance of SMEs is supported by competent human resources.

Effect of Government Role on Level of Success

Other relationship that was also put in analysis is the effect of *government role* (GR) on *level of success* (LS) of SMEs in East Java Province. The analysis result revealed that the effect of government role on level of success is negative but significant, which is verified by coefficient value of -0.260 and significance value (*p-value*) of 0.000 that is smaller than significance level of 0.05. Therefore, H3 is accepted. Negative mark in this relationship signifies that SMEs presume that government role on SMEs progress still needs to be improved, especially when SMEs must cope with a dynamic global situation like covid-19 pandemic. In the respect of Law No.20 of 2008, the government supposes to empower SMEs to optimize their development (Trimurti, 2012). This action is necessary regardless whatever situation the SMEs confront. Government always has authority to make policy (Akhmad et al., 2018), including policy that supports SMEs. Also, government role must be directed to benefit SMEs or to facilitate them to grow and develop, particularly in financial matter, which is one of crucial matters for SMEs (Feranita et al., 2019).

Effect of Human Resource Competence on Level of Success

Statistics analysis has been conducted on the effect of *human resource competence* (HRC) on *level of success* (LS) of SMEs in East Java Province. The result uncovered that the effect is positive and significant, which is proven by coefficient value of 1.486 and significance value (*p-value*) of 0.000, which is smaller than significance level (α) of 0.05. Thus, H4 is accepted. This result is comparable to the findings of previous researches, including Laguna et al. (2012), Mejri & Zouaoui (2020), Sarwoko & Nurfarida (2018), Sidek & Mohamad (2014), and Umar et al. (2018), which generally said that human resource competence contributes to business

performance. Theoretically, the contribution of human resource competence encompasses five aspects such as *motives, self-concept, traits, knowledge,* and *skills* (Widjaja, 2018). All these aspects simultaneously enshape the quality and capability of individuals who are involved in or running a business. If SMEs are run by individuals with strong business motives, good self-concept, supportive attitude/posture, good knowledge, and most importantly, reliable skills, those SMEs will success sustainably. The success of SMEs, according to Sitepu (2017), can be seen from the increase of their growth, product values and socio-economical stability.

Effect of Business Performance on Level of Success

The effect of *business performance* (BP) on *level of success* (LS) of SMEs in East Java Province had also been analyzed and the result showed that coefficient value is negative (-0.607) while significance value is 0.000 (< α of 0.05). Although the relationship between these two variables is negative, business performance has meaningful contribution to level of success of SMEs. However, high level of business performance leads to low level of level of success. Therefore, H5 is accepted. This result does not agree with the findings of Nandita et al. (2019) and Ramani (2018) which generally informed that SMEs performance has linear relationship with SMEs success. Better performance is associated with higher level of success. In this context, the problem is that the ideas are not always prevailed in the field. Good performing SMEs do not always have or get high level of success. For instance, business units with good performance suddenly experience setbacks because of regulations that prohibit export and import activities due to certain condition and situation.

Business Performance Mediates the Effect of Government Role on Level of Success

Pertinent to the indirect effect, it was found that the mediation of *business performance* (BP) to the effect of *government role* (GR) on *level of success* (LS) of SMEs in East Java Province is negative and significant. This result was denoted by coefficient value of -0.435 and significance value (*p-value*) of 0.000, which is smaller than significance level of 0.05. Thus, H6 is accepted. Such inverse relationship indicates that SMEs presume that the government is needed to take further action for improving its role on SMEs progress. Based on this statement, the success of SMEs is greatly relied on government role (Habsari & Kholifah, 2018; Saputra et al., 2015; Ondang et al., 2019; Akhmad et al., 2018). In other words, the actualization of government role must be directly correlated with the success of SMEs and also with the national economics. The government should give not only direct aids but also tax deduction. Besides, the government can be helpful to SMEs progress by launching programs to empower and develop the capability of SMEs to support Local Revenue (PUD) and appoint the Official of Cooperatives, SMEs, Industry and Trade for supervising this program. The empowerment of SMEs is a mandatory program that must be realized by the government because this program is a strategic key to Indonesian economic development.

Business Performance Mediates the Effect of Human Resource Competence on Level of Success

Other mediation finding is that the mediation of *business performance* (BP) to the effect of *human resource competence* (HRC) on *level of success* (LS) of SMEs in East Java Province is negative and significant. This result was represented by coefficient value of -0.190 and significance value (*p-value*) of 0.000, which is smaller than significance level (α) of 0.05. Therefore, H7 is accepted. Business performance is found to be inversely related with business success. This position is highlighted for its incompatibility to the existing theory. Under micro economic theory, referring to David Ricardo's production theory, the

negative relationship between business performance and level of success is caused by production factors (Kennedy, 2017). In addition, this Ricardian production theory determines that when a company scales up one input unit by similar number in continuous manner, while other input remains fixed, then this company gets the more than proportional increase in output (*increasing returns*). But, at certain point of time, this output will decrease (*diminishing returns*) and even deliver negative value. It can also be said that the output/ performance is like to be kept continually increasing until this increase reaches the most proper combination of production factors, precisely a combination when the increasing returns are the highest. However, when this peak combination is reached, any addition to the existing workforce may only cause the diminishing returns or even will not deliver anything at all.

Conclusion

This study concludes that the role of government and human resource competencies significantly influence the success rate of SMEs. That is, if the government's role and resource competencies are increased, it will have an impact on the success rate of SMEs in East Java Province. In addition, business performance was found to be a variable mediating the effect of the government's role and human resource competency on the success rate of SMEs significantly. This means that business performance is an important variable for increasing the success of SMEs in East Java Province based on the factors of the government's role and the competence of human resources. Therefore, for the success rate of SMEs, it is necessary to review the increase in the variables of the government's role, human resource competencies and business performance.

By this conclusion, the research suggests that the government can support SMEs development by making policies or stipulating regulations that do not hamper the growth and expansion of SMEs. The Official of Cooperatives, SMEs, Industry and Trade can be appointed by the government to supervise a program that empowers and develops the capability of SMEs to support Local Revenue (PUD). Mentoring and extention programs can be implemented periodically to maintain SMEs' business performance and improve the success probability of their product marketing.

Further research is recommended to consider other variables into the model of the current research. The inclusion of these variables can give more comprehensive information about the relationship between government role and human resource competence with business performance and level of success. Other recommendation is that the effect across variables needs to be reviewed at different business scope, such as trade and service sector, private enterprise or other business institutions. Different business scope may give different business perspective. The next research is also recommended to produce different characteristic by using wider research scope and larger population. With this more extensive characterization, the research can complete previous findings in more representative way.

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