



REVIEW ARTICLE

Section: *Digital Humanities***Strengthening the performance of MSMEs in North Sumatra based on social impact with government support as mediation**Benni Kurniawan¹, Marlon Sihombing¹, Muhammad Arifin Nasution¹ & Hatta Ridho¹¹Department of Doctoral Development Studies, Faculty of Social and Political Sciences, Universitas Sumatera Utara, Indonesia*Correspondence: bennikurniawan@students.usu.ac.id**ABSTRACT**

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in driving economic growth, job creation, and poverty reduction in North Sumatra Province. However, optimizing MSME performance still faces various structural challenges, particularly related to the social impact generated by MSMEs, such as job creation and improving community welfare, which have not fully contributed to improving MSME performance. This indicates a gap in the process of transforming social impact into business performance. Government support through policies, financing, and assistance is expected to bridge this gap, but its effectiveness as a mediation mechanism still shows mixed results. The lack of studies that simultaneously integrate social impact, government support, and MSME performance confirms a research gap regarding the strategic role of government support in strengthening the influence of social impact on MSME performance. This study aims to analyze the influence of social impact on optimizing MSME performance, with government support as a mediating variable, among small business actors in North Sumatra. A quantitative approach was used with the Structural Equation Modeling–Partial Least Squares (SEM-PLS) method to test the causal relationships between variables simultaneously. The results showed that social impact and government support had a positive and significant effect on optimizing MSME performance. This was also the case when government support was used as a mediating variable between social impact and performance. Government support plays an important role as a mediating mechanism in strengthening the influence of social impact-oriented business activities on MSME performance. The findings of this study contribute theoretically by enriching the literature on development economics and social impact-based entrepreneurship, as well as contributing practically to local governments in formulating more adaptive, inclusive, and public value-oriented MSME assistance programs.

KEYWORDS: social impact, government support, small business performance, entrepreneurship, small enterprises

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, playing an important role in job creation, increasing community income, and reducing poverty (Diallo et al., 2023). In North Sumatra Province, the regional economic structure is still heavily dependent on micro businesses and the informal sector, making MSME performance a key factor in driving inclusive regional economic development. Studies show that strengthening MSME performance can contribute significantly to local economic growth and community welfare (Kwong et al., 2023). Despite their strategic role, MSME performance in North Sumatra is not yet optimal. Small businesses still face various structural obstacles, one of which is unequal access to government support programs. A number of studies have found that government support does not always have a direct impact on improving business performance if it is not accompanied by an understanding and readiness on the part of MSME actors to utilize it effectively (Fauziyah & Ekaningtias, 2022; Putri, 2023).

In this context, the orientation of MSMEs towards creating social impact has become an increasingly important aspect. Social impact reflects the extent to which business activities are able to bring about tangible positive changes for the community, such as improved economic welfare, workforce empowerment, and improved quality of life for local communities (Edgar, S., 2024). Measurable social impact not only reflects business social responsibility, but also has the potential to strengthen the legitimacy and sustainability of MSME performance (Zulkefly et al., 2021). However, the social impact generated by MSMEs does not always automatically translate into improved business performance. Several studies confirm that the relationship between social impact and performance is highly dependent on contextual factors, including the ability of business actors to manage resources and the availability of external environmental support (Chen, 2023). Without adequate institutional support, social impact tends to be difficult to convert into sustainable performance advantages (Arena et al., 2014; Xie et al., 2021).

In this case, government support plays a strategic role as a mechanism that bridges the influence of social impact on MSME performance. Government support includes public policy, access to financing, training and mentoring, as well as the provision of infrastructure and public services conducive to business development. The good governance approach places government support as an important instrument in creating an inclusive and public value-oriented business climate (Hanifah & Ahmad, 2020; Huiping & Yang, 2021). Various Indonesian government programs such as People's Business Credit (KUR), MSME digitalization facilitation, and entrepreneurship training have been implemented to strengthen the capacity of micro businesses. However, the effectiveness of these programs still shows mixed results, indicating that government support plays more of an indirect role in strengthening the social impact of MSMEs before leading to improved business performance (Nurhaeda & Tenriola, 2022).

On the other hand, empirical studies that specifically place government support as a mediating variable in the relationship between social impact and MSME performance are still relatively limited, especially in regions such as North Sumatra, which has unique socioeconomic characteristics. Most previous studies have only examined the influence of these variables partially, thus failing to explain the integrative mechanism underlying the optimization of social impact-based MSME performance (Chen et al., 2021; Bin Li, 2023). Based on these empirical phenomena and research gaps, this study considers it important to examine the optimization of MSME performance in North Sumatra by placing social impact as the main factor and government support as a mediating variable. This approach is expected to provide a more comprehensive understanding of the role of the state in strengthening the social impact of MSMEs so as to encourage sustainable business performance improvement.

Literature Review

Social Impact and Small Business Performance

Social impact represents the extent to which microbusiness activities are able to generate positive and measurable social change for the community, whether in the form of improved economic welfare, workforce empowerment, or improved quality of life for local communities (Edgar, S., 2024). A business orientation towards creating social impact is believed to strengthen business legitimacy, increase stakeholder trust, and expand social networks that support business sustainability. A number of studies show that MSMEs with a strong commitment to social impact tend to perform better than businesses that are solely oriented towards economic profit (Zulkefly et al., 2021; Wijayanti, A., 2023).

In addition, the involvement of business actors in activities that have a social impact also reflects the intrinsic motivation of entrepreneurs in creating shared value for society (Lambrechts et al., 2020). This motivation plays a role in increasing business resilience and the adaptability of MSMEs in facing the challenges of a dynamic business environment. Previous studies confirm that the social impact generated by entrepreneurs has a positive relationship with business performance, although the strength of its influence may vary depending on the context and characteristics of the business environment (Bublitz et al., 2020; Xie et al., 2021).

Social Impact and Government Support

The social impact generated by MSMEs has the potential to increase government attention and response to small business activities. MSMEs that are able to demonstrate a tangible contribution to society tend to be perceived as strategic partners in achieving economic and social development goals, thus having a greater chance of obtaining policy support, financing, and assistance programs from the government. The New Public Service perspective emphasizes the importance of collaboration between the government and business actors in creating public value through economic activities that have a social impact (Sabilla & Kriswibowo, 2021). Previous studies have shown that the government tends to provide greater support to business actors who have social legitimacy and a positive reputation in the community (Adomako and Tran., 2023). A strong social impact serves as a signal to the government that these MSMEs have the potential to contribute to the achievement of regional development goals. Empirical findings support a positive relationship between the social orientation of a business and the level of government support received by MSME actors (Hanifah & Ahmad, 2020; Li et al., 2020).

Government Support and Small Business Performance

Government support is an external factor that plays an important role in creating a business environment conducive to the development of MSMEs. Government support in the form of policies, access to financing, training, mentoring, and infrastructure provision is believed to be able to increase business capacity, operational efficiency, and the competitiveness of MSMEs (Prasannath et al, 204). The good governance perspective positions government support as a strategic instrument in promoting sustainable growth of small and medium-sized enterprises (Huiping & Yang, 2021).

A number of empirical studies show that government support has a positive effect on MSME performance, although the level of effectiveness depends on the suitability of the program to the needs of business actors (Chen, 2023). Adaptive and responsive support for field conditions has been proven to increase the productivity and performance of micro businesses. However, several studies also emphasize that without the right implementation mechanisms, government support does not always result in significant performance improvements (Fauziyah & Ekaningtias, 2022; Nurhaeda & Tenriola, 2022).

Mediation of Government Support

Although social impact has the potential to improve MSME performance, this influence is not always direct (Chen, 2023). Government support acts as a mechanism that strengthens and bridges the social impact of businesses so that it can be converted into tangible performance improvements. Government support helps MSMEs institutionalize socially impactful activities through relevant policies, financing, and mentoring programs, so that the resulting social impact can be optimized economically.

Previous research shows that government support can mediate the relationship between various contextual factors and business performance. Li's (2023) research found that government support functions as a mediator in the relationship between the digital economy and entrepreneurial performance, while Chen et al. (2021) emphasized that the social legitimacy of a business strengthens access to institutional support that impacts performance. In the context of MSMEs, this indicates that a strong social impact will be more effective in improving business performance if supported by a responsive and inclusive government.

Conceptual Framework and Hypotheses Development

This study develops a conceptual framework presented in Figure 1. It explains the strengthening of MSME performance in North Sumatra through a social impact-oriented approach with government support as a mediating variable, based on the New Public Service (NPS) perspective. Social impact is understood as the

ability of small businesses to generate social benefits such as job creation, community empowerment, and social inclusion, which promote alignment with public policy objectives and increase legitimacy and access to government programs. Government support, in the form of policies, financing, training, and business infrastructure facilitation, acts as an institutional mechanism that not only directly influences the performance of small businesses but also strengthens the effectiveness of social impact orientation in achieving sustainable business performance, in line with the principles of Good Governance. Based on this theoretical reasoning, the following hypotheses are proposed:

- H1: Social impact has a positive and significant effect on MSME performance.
- H2: Social impact has a positive and significant effect on government support.
- H3: Government support has a positive and significant effect on MSME performance.
- H4: Government support mediates the relationship between social impact and MSME performance.

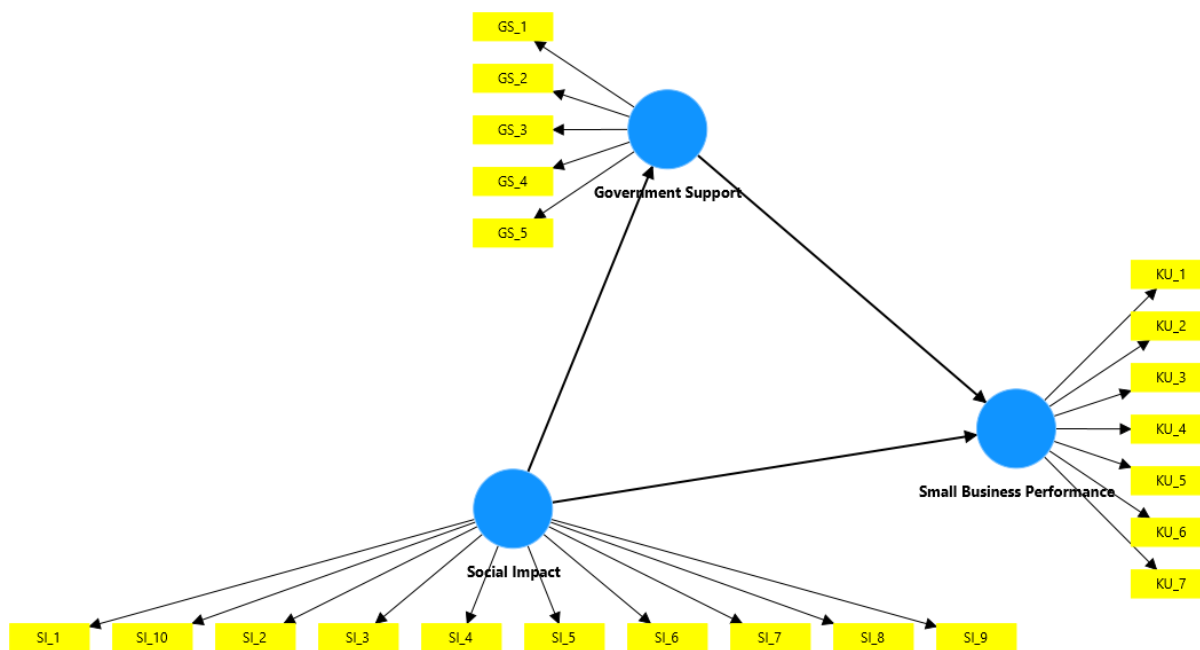


Figure 1. Conceptual framework

Methodology

Research Design

This study uses a quantitative research design with a questionnaire to examine the mediating role of government support in the relationship between social impact and small business performance. A quantitative approach was chosen because it allows for testing theoretical models, identifying relationships between variables, and increasing the generalization of findings to a broader sample (Hair, 2014). The analysis technique used is Partial Least Squares Structural Equation Modeling (PLS-SEM), which is considered appropriate for exploratory research models involving complex relationships and relatively smaller sample sizes compared to covariance-based SEM (Henseler et al., 2015).

Population and Sample

The population of this study includes small business owners in North Sumatra Province from various sectors, including food and beverages, retail trade, services, and handicrafts. The sample in this study consists of entrepreneurs who act as the main decision makers in business activities. A total of 150 respondents were obtained through purposive sampling with the criteria of businesses that have been operating for at least two years, employ fewer than 20 workers, and are classified as small businesses according to Indonesian regulations. Data collection was conducted from May to July 2025 using a structured questionnaire distributed online and offline.

Data Collection Instrument

The research instrument used a closed questionnaire with a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree). Each construct was operationalized through a number of indicators adapted from previous relevant and empirically tested studies, with adjustments to the characteristics of MSMEs in North

Sumatra Province. The social impact construct measures the extent to which MSME activities have a positive social impact, such as improving the economic welfare of the community, creating and empowering the local workforce, contributing to the community, and improving the quality of life in the surrounding environment (Zulkefly et al., 2021; Bublitz et al., 2020). The government support construct reflects MSME actors' perceptions of government support, which includes policies and regulations, access to financing, training and mentoring programs, digitalization facilitation, and the provision of infrastructure and public services to support businesses (Hanifah & Ahmad, 2020; Huiping & Yang, 2021). Meanwhile, small business performance is measured based on financial performance indicators, business growth, customer satisfaction, business sustainability, and the adaptability and competitiveness of MSMEs in facing the dynamics of the business environment (Zulkefly et al., 2021; Xie et al., 2021).

Data Analysis Technique

The research data was analyzed using SmartPLS version 4.0 software through two main stages, namely measurement model evaluation and structural model evaluation. Measurement model evaluation was conducted by testing indicator reliability through outer loading values, internal consistency using Cronbach's Alpha and Composite Reliability, and convergent validity based on Average Variance Extracted (AVE) values, while discriminant validity was confirmed using Fornell–Larcker criteria and Heterotrait–Monotrait (HTMT) ratios. The structural model evaluation included testing the coefficient of determination (R^2) to assess the ability of endogenous variables in explaining the variation in MSME performance, testing the significance of the path coefficients through a bootstrapping procedure with 5,000 resamples, and calculating predictive relevance (Q^2) and effect size (f^2) to assess the strength and predictive relevance of the model. Furthermore, mediation analysis was conducted to test the indirect effect of social impact on MSME performance through government support as a mediating variable.

Results

Respondent Characteristics

A total of 150 small business owners in North Sumatra Province participated in this study. The characteristics of the respondents in Table 1 show a relatively balanced gender composition, with 52% male and 48% female. The majority of respondents were in the 25–44 age range (65.3%), reflecting a productive and active group of entrepreneurs. The respondents' education levels were quite good, with 61.3% having a diploma or bachelor's degree, followed by 26.0% with a high school diploma, and 12.7% with a postgraduate degree. Based on business type, the food and beverage sector (37.3%) and trade/retail (28.0%) dominated the research sample, followed by the service sector (21.3%) and crafts and other sectors (13.4%). In terms of business duration, most respondents had been running their businesses for 3–5 years (40.7%), while 30.0% had been operating for more than five years and 29.3% for less than three years. These findings indicate that the research respondents represent a diverse and dynamic group of small business owners in North Sumatra Province.

Table 1. Characteristic Respondent

Category	Sub-category	Frequency (n)	Percentage (%)
Gender	Male	78	52.0
	Female	72	48.0
Age	< 25 years	18	12.0
	25–34 years	47	31.3
	35–44 years	51	34.0
	≥ 45 years	34	22.7
Education Level	Junior/Senior High School	39	26.0
	Diploma/Bachelor's Degree	92	61.3
	Master's Degree or higher	19	12.7
Type of Business	Food & Beverage	56	37.3
	Retail/Trading	42	28.0
	Services	32	21.3
	Others (Crafts, etc.)	20	13.4
Years in Business	< 3 years	44	29.3
	3–5 years	61	40.7
	> 5 years	45	30.0

Measurement Model Evaluation

Reliability and construct validity testing was conducted in the early stages of analysis. Based on the results presented in Table 2, all indicators had loading values above the recommended limit of 0.70, ranging from 0.728 to 0.892. Cronbach's Alpha values ranging from 0.905 to 0.953 and Composite Reliability values ranging from 0.929 to 0.954 indicate an excellent level of internal consistency. In addition, the Average Variance Extracted (AVE) values ranged from 0.657 to 0.786, which exceeded the minimum threshold of 0.50, confirming the fulfillment of convergent validity (Hair et al., 2011).

Table 2. Reliability and Validity of Constructs

Construct	Item	Loading Factor	AVE	CR (pc)	Cronbach's Alpha
Government Support	GS1	0.793	0.724	0.929	0.905
	GS2	0.889			
	GS3	0.859			
	GS4	0.861			
	GS5	0.851			
Social Impact	SI1	0.862	0.674	0.954	0.953
	SI2	0.806			
	SI3	0.830			
	SI4	0.763			
	SI5	0.890			
	SI5	0.813			
	SI7	0.785			
	S8	0.728			
	S9	0.868			
	S10	0.852			
Small Business Performance	KU1	0.874	0.689	0.939	0.939
	KU2	0.892			
	KU3	0.876			
	KU4	0.806			
	KU5	0.804			
	KU6	0.784			
	KU7	0.767			

Discriminant validity was evaluated using the Heterotrait–Monotrait (HTMT) ratio and the Fornell–Larcker criteria. Based on the results presented in Table 3, all HTMT values were below the recommended limit of 0.85, indicating that discriminant validity was met (Henseler et al., 2015). The results of testing using the Fornell–Larcker criteria in Table 4 also show that the AVE square root value of each construct is higher than the correlation between other constructs, indicating that each construct has adequate discrimination in accordance with the criteria proposed by Fornell (1981).

Table 3. Heterotrait–Monotrait Ratio (HTMT)

	Government Support	Small Business Performance	Social Impact
Government Support			
Small Business Performance	0.769		
Social Impact	0.764	0.760	

Table 4. Fornell–Larcker Criterion

	Government Support	Small Business Performance	Social Impact
Government Support	0.851		
Small Business Performance	0.728	0.830	
Social Impact	0.737	0.730	0.821

Structural Model Evaluation

The structural model analyzed using the PLS-SEM approach can be seen in Figure 2. The bootstrapping technique was used with 5,000 resamples to test the significance of the relationship between variables. The results of the analysis show that social impact has a positive and significant effect on government support ($\beta = 0.737$; $T = 10.560$; $p < 0.001$), so H2 is accepted. Social impact is also proven to have a positive and significant effect on small business performance ($\beta = 0.424$; $T = 3.120$; $p = 0.002$), which supports H3. Furthermore, government support has a positive and significant effect on small business performance ($\beta = 0.416$; $T = 2.983$; $p = 0.003$), thus accepting H1. In addition to the direct effect, the results of the indirect effect test show that government support significantly mediates the relationship between social impact and small business performance ($\beta = 0.306$; $T = 2.477$; $p = 0.013$), indicating partial mediation, thus supporting H4. Overall, the research model was able to explain 46% of the variation in government support ($R^2 = 0.46$) and 52% of the variation in small business performance ($R^2 = 0.52$), indicating a moderate and adequate level of explanatory power in explaining the mechanism of improving the performance of social impact-based MSMEs.

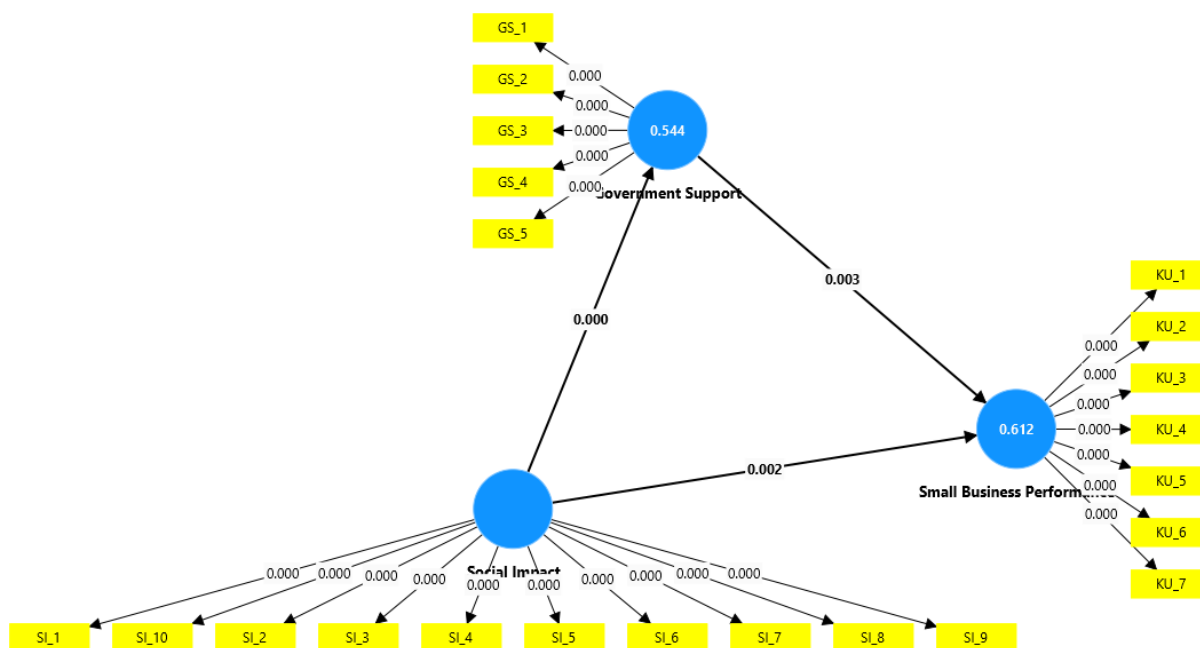


Figure 2. Structural Model Results

Hypotheses Testing

The results of hypothesis testing are summarized in Table 5. All four hypotheses (H1–H4) were supported, confirming both the direct and indirect effects. This highlights the importance of Government Support as a mediating mechanism that strengthens the influence of Social Impact on Small Business Performance.

Table 5. Hypotheses Testing

Hypothesis	Path	β (Original Sample)	T-value	P-value	Result
H1	Government Support → Small Business Performance	0.416	2.983	0.003	Supported
H2	Social Impact → Government Support	0.737	10.560	0.000	Supported
H3	Social Impact → Small Business Performance	0.424	3.120	0.002	Supported
H4	Social Impact → Government Support → Small Business Performance	0.306	2.477	0.013	Supported

The results of hypothesis testing are summarized in Table 5. All hypotheses proposed in this study were supported, indicating that both direct and indirect effects in the research model are statistically significant. These findings confirm that social impact and government support are important determinants in improving MSME performance.

H1: Government Support → Small Business Performance

The test results show that government support has a positive and significant effect on small business performance ($\beta = 0.416$, $T = 2.983$, $p = 0.003$). This finding indicates that government support in the form of policies, financing, training, mentoring, and infrastructure provision can improve the operational capacity, business efficiency, and competitiveness of MSMEs (Prasannath et al, 2024). Targeted support helps micro-entrepreneurs overcome resource constraints and business environment uncertainties, thereby directly impacting business performance improvement. These results are in line with previous studies that confirm that government support is a strategic external factor in promoting the growth and sustainability of MSMEs (Huiping & Yang, 2021; Fauziyah & Ekaningias, 2022). Furthermore, these findings reinforce the perspective of good governance, which positions the government as a key actor in creating a business ecosystem conducive to MSMEs (Sabilla & Kriswibowo, 2021).

H2: Social Impact → Government Support

The second hypothesis test shows that social impact has a positive and highly significant effect on government support ($\beta = 0.737$, $T = 10.560$, $p < 0.001$). These results indicate that MSMEs that are able to generate tangible social impacts, such as community empowerment, job creation, and improved local welfare, tend to receive greater attention and support from the government (Adomako and Tran., 2023). Strong social impact serves as a signal of social legitimacy and positive reputation, so that MSMEs are perceived as strategic partners in achieving economic and social development goals. These findings are consistent with the New Public Service perspective, which emphasizes collaboration between the government and business actors in creating public value (Sabilla & Kriswibowo, 2021). They are also in line with empirical studies that have found a positive relationship between business social orientation and the level of government support (Hanifah & Ahmad, 2020; Li et al., 2020).

H3: Social Impact → Small Business Performance

The test results also show that social impact has a positive and significant effect on small business performance ($\beta = 0.424$, $T = 3.120$, $p = 0.002$). This finding indicates that MSME orientation towards social impact creation not only benefits society but also contributes directly to improved business performance (Bublitz et al., 2020). Involvement in social activities can strengthen stakeholder trust, expand social networks, and increase customer loyalty, which ultimately impacts business economic performance. These results support the shared value perspective, where the creation of social value and economic value can occur simultaneously. These findings are in line with previous studies stating that entrepreneurs with strong social commitment tend to have better resilience and business performance (Xie et al., 2021; Zulkefly et al., 2021).

H4: Social Impact → Government Support → Small Business Performance (Mediasi)

The fourth hypothesis, which tested the mediating role of government support in the relationship between social impact and small business performance, was also found to be supported ($\beta = 0.306$, $T = 2.477$, $p = 0.013$). These findings indicate that although social impact can directly improve MSME performance, this effect is stronger when mediated by government support (Chen, 2023). This indicates that government support acts as an institutional mechanism that helps MSMEs convert social impact into more structured and sustainable performance improvements. Support in the form of policies, financing, and mentoring programs enables business social activities to be institutionalized and optimized economically (Adomako and Tran., 2023). These results are in line with the findings of Li (2023) and Chen et al. (2021), which confirm that institutional support can mediate the relationship between social legitimacy and business performance. Thus, a responsive and inclusive government plays a key role in strengthening the contribution of social impact to MSME performance.

Discussion

This study aims to explain the mechanism of how social impact and government support play a role in improving the performance of MSMEs in North Sumatra Province. The results of the study show that all hypotheses proposed are empirically supported, indicating a significant direct and indirect relationship between social impact, government support, and small business performance. These findings provide evidence that the optimization of SME performance is not only determined by internal business factors, but is also greatly influenced by social legitimacy and institutional support from the government.

The test results show that government support has a positive and significant effect on MSME performance. These findings confirm the strategic role of the government in creating a conducive business environment, especially for micro businesses with limited resources. In the context of North Sumatra, government support in the form of financing, training, mentoring, and affirmative policies serves as an enabling factor that helps MSMEs improve their production capacity, operational efficiency, and market competitiveness (Adomako and Tran., 2023). This finding reinforces the perspective of good governance, which positions the government as a facilitator of inclusive economic development through collaboration with business actors (Huiping & Yang, 2021). However, these results also confirm the argument that the effectiveness of government support is highly dependent on the suitability of programs to the real needs of MSME actors, as highlighted by Fauziyah and Ekaningias (2022).

Furthermore, research findings show that social impact has a very strong influence on government support (Hanifah & Ahmad, 2020; Li et al., 2020). This indicates that MSMEs that are able to generate real social impacts, such as empowering the local workforce, improving community welfare, and contributing to community development, tend to gain higher social legitimacy in the eyes of the government. From an institutional theory perspective, social impact serves as a signal of legitimacy that encourages positive responses from public institutions in the form of policies and support programs. These findings are also in line with the New Public Service approach, which emphasizes the creation of public value through collaboration between the state and non-state actors, including MSMEs (Sabilla & Kriswibowo, 2021).

In addition to influencing government support, social impact has also been proven to have a direct effect on MSME performance. This finding reinforces the concept of shared value, whereby the creation of social value and economic value is not a trade-off, but rather mutually reinforcing. MSMEs that are oriented towards social impact tend to have stronger relationships with stakeholders, higher levels of public trust, and broader social networks, which ultimately have a positive impact on business performance. In the context of micro businesses in North Sumatra, social orientation also reflects the intrinsic motivation of entrepreneurs, which contributes to the resilience and adaptability of businesses in facing the dynamics of the business environment. These findings are consistent with the studies by Bublitz et al. (2020) and Xie et al. (2021), which confirm that social impact is an important determinant of the sustainability of small business performance.

Furthermore, the results of this study indicate that government support mediates the relationship between social impact and MSME performance (Chen, 2023). These findings indicate that although social impact has the potential to improve business performance, this effect is not always optimally realized without adequate institutional support. Government support acts as a mechanism that helps MSMEs institutionalize socially impactful activities through access to financing, capacity building, and integration with regional development

programs. In other words, government support enables the social impact generated by MSMEs to be converted into more structured and sustainable performance advantages.

These mediation findings make an important contribution to the SME literature, particularly by explaining the integrative mechanism between social impact, government support, and business performance. Unlike previous studies that tended to examine variable relationships in isolation, this study demonstrates that the role of government is more accurately understood as a catalyst that strengthens the influence of social impact on SME performance. This aligns with the findings of Chen et al. (2021) and Li (2023), who emphasize the importance of institutional support in bridging social legitimacy and business performance.

Overall, the results of this study confirm that optimizing the performance of MSMEs in regions such as North Sumatra requires an integrative approach, in which the social impact orientation of businesses is strengthened by the role of a responsive and inclusive government. Thus, MSME development is not only oriented towards economic growth, but also towards the creation of sustainable social value through synergy between business actors and the state.

Conclusion and Implications

Conclusion

This study aims to analyze the role of social impact and government support in improving the performance of MSMEs in North Sumatra Province, with government support as a mediating variable. The research data was obtained from 150 MSME actors (small business owners) collected through a structured questionnaire, then analyzed using the Partial Least Squares–Structural Equation Modeling (PLS-SEM) approach. This approach was chosen because it is capable of testing complex structural relationships and accommodating the heterogeneous characteristics of MSME data. The results show that all hypotheses proposed are empirically supported. Government support is proven to have a positive and significant effect on MSME performance, indicating that government support in the form of policies, financing, training, and mentoring plays an important role in increasing the capacity and competitiveness of micro businesses. In addition, social impact has a strong positive influence on government support, showing that MSMEs with tangible social contributions tend to gain greater legitimacy and attention from the government.

This study also found that social impact has a direct effect on MSME performance. This finding confirms that business orientation towards creating social impact not only benefits society but also contributes to improving business economic performance. Furthermore, the mediation test results show that government support significantly mediates the relationship between social impact and MSME performance. This indicates that social impact will be more effective in improving business performance if it is reinforced by responsive and inclusive institutional support.

Overall, this study concludes that optimizing the performance of MSMEs in North Sumatra requires an integrative approach, in which the social impact orientation of business actors is combined with the active role of the government as a facilitator and catalyst for local economic development. These findings contribute theoretically by enriching the literature on the mediating role of government support in the relationship between social impact and MSME performance, as well as practically by contributing to the formulation of MSME development policies that are not only oriented towards economic aspects but also towards the creation of sustainable social value.

Theoretical Implications

This study makes a significant theoretical contribution to the development of entrepreneurship and SME studies by emphasizing social impact as a strategic determinant of business performance, particularly in the context of SMEs in developing regions. The findings show that creating social impact not only serves as a form of social responsibility, but also has real strategic value in improving business performance. Thus, this study broadens the shared value perspective by showing that social value and economic value can be empirically integrated into micro and small business practices and contribute directly to the achievement of sustainable performance.

Furthermore, this study enriches institutional theory and the New Public Service perspective by revealing the role of government support as an institutional mechanism that bridges the social impact and economic performance of MSMEs. The mediation findings confirm that the role of the government is not only direct but

also functions as a catalyst that institutionalizes the social impact orientation of MSMEs into the framework of economic development policies and programs. Through an integrative model that simultaneously tests the relationship between social impact, government support, and business performance, this study provides a more comprehensive understanding of the structural mechanisms underlying the optimization of social impact-based MSME performance, particularly in the context of the regional economies such as North Sumatra Province.

Practical Implications

From a practical standpoint, the results of this study have important implications for policymakers, MSME actors, and relevant stakeholders. For local governments, the findings of this study emphasize the importance of designing SME support policies and programs that are not only oriented towards increasing economic capacity, but also consider the social impact generated by business actors. Financing, training, and mentoring programs should be designed to be adaptive and responsive to the characteristics of SMEs that have a real social contribution, so that the support provided can result in sustainable performance improvements.

For MSME actors, this research shows that an orientation towards creating social impact can be an economically valuable business strategy. Business actors are expected not to view social activities as a cost burden, but rather as a long-term investment that can strengthen legitimacy, stakeholder trust, and access to government support. Thus, the integration of social and economic goals is key to increasing the resilience and competitiveness of micro businesses.

For MSME support institutions, such as financial institutions, business incubators, and mentoring organizations, the results of this study indicate the importance of a collaborative approach in supporting social impact-based MSMEs. Synergy between the government, support institutions, and business actors is needed to ensure that the social impact generated by MSMEs can be optimized into measurable and sustainable business performance.

Limitations and Future Research Directions

This study has several limitations that need to be considered when interpreting the results. The use of a cross-sectional design limits the study's ability to capture the dynamics of changes in social impact, government support, and MSME performance in the long term. In addition, the data collected through questionnaires is self-reported, which has the potential to cause respondent perception bias. Future research should use a longitudinal approach and combine survey data with secondary data or qualitative methods, such as in-depth interviews, to obtain a more comprehensive picture and improve the validity of the findings.

Another limitation relates to the scope and research model. The research focus, which is limited to MSMEs in North Sumatra Province, means that generalizing the results to other regions or contexts must be done with caution. Future research could replicate this model in different regions or conduct comparative studies between regions to capture variations in socioeconomic characteristics. Furthermore, this study only considers government support as a mediating variable, so future studies are advised to consider the role of other mediating or moderating variables, such as entrepreneurial capabilities, digital technology adoption, social capital, or institutional quality, to deepen the understanding of the mechanisms of improving the performance of SMEs based on social impact.

Closing Remark

This study confirms that MSME performance can be optimized through the integration of social impact orientation and responsive government support. Social impact has been proven to be not only a form of social responsibility, but also a strategic asset that strengthens business legitimacy and encourages access to government support, which ultimately contributes to the sustainable improvement of MSME performance. In the context of regional economic development, such as in North Sumatra Province, synergy between MSME actors and the government is key to realizing inclusive and public value-oriented economic growth, while also opening up opportunities for the development of more adaptive and competitive MSME policies and practices in the future.

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