Analysis of The Effect of Government Business Support Services And Absorptive Capacity Moderation on The SMEs Performance Using The Structural Equation Modeling (Case Study: STIP NTB Entrepreneurial Incubator)

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Abstract

Small and Medium Enterprises (SMEs) are the backbone of Indonesia's industry, so their development is very important for the government. One of the efforts of the West Nusa Tenggara regional government to help the SMEs is development through facilitating the STIP entrepreneurial incubator, where STIP aims to help the problems faced by SMEs, such as the provision of the latest facilities and machines, training for SMEs, as well as exposure and marketing assistance, to encourage the performance of SMEs. This is very important in the context of the ongoing COVID-19 pandemic, which has resulted in many SMEs experiencing productivity erosion that threatens their sustainability of SMEs. However, support from the government is not always enough for SMEs because there is a gap between what is provided by the government and what the business needs, and there is an absorptive capacity factor that is an important determinant in determining how successful the business incubation program is. Therefore, an evaluation is needed to determine whether government assistance has been effective in improving the performance of SMEs, which is the purpose of this study with the Structural Equation Modeling – Partial Least Square (SEM-PLS) method. The results showed that there was a significant influence of government business support services and absorptive capacity moderation on SME performance, with proposals to improve the implementation of the absorptive capacity development framework in the entrepreneurial incubation program.

Keywords
Government business support services, absorptive capacity, business incubation program, SME performance, SEM-PLS

1. Introduction

The government attaches great importance to the sustainability of SMEs, because SMEs are the backbone of the industry of developing countries such as Indonesia, with 99.7% of the industry in Indonesia being SMEs according to the Ministry of Industry (Santia, 2021). In the context of the ongoing COVID-19 pandemic and the economic recession that followed, this is very important, because many SMEs are experiencing productivity erosion due to restrictions on economic activities to limit the spread of COVID-19 and the implications produced by these policies, namely declining demand, is threatening the sustainability of various SMEs. This problem is supported by data showing that 30 million small-to-medium-scale businesses in Indonesia went bankrupt and ceased to operate during the pandemic (Pratama, 2020). Thus, the urgency for the government as the person in charge of the country's economy and its citizens' welfare is to support SMEs so that they can rise again and ensure that this crucial pillar can improve its performance again. During the COVID-19 pandemic, the central government to local governments has made various efforts to help the sustainability of SMEs. One of the ways the government distributes this assistance is through the government's entrepreneurial incubator facility to help the sustainability of SME operations and development, whereas, in the province of West Nusa Tenggara, the form of local government business support services is through the Science Technology and Industrial Park (STIP) entrepreneurial incubator.

STIP was formed to help problems faced by SMEs, such as financial assistance and non-financial assistance namely training and marketing assistance. At STIP, as a government business support service, SMEs that need assistance are

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provided with various facilitations, both from the provision of facilities such as electricity and the latest tools or machines, training for SMEs, as well as exposure and marketing assistance through networking support and holding exhibitions to attract buyers and investors, to encourage the performance of SMEs. The STIP NTB entrepreneurial incubator is already classified as one of the government business support services in Indonesia that has been well executed, and the role of STIP entrepreneurial incubation is very important in answering problems that are increasingly prevalent during the pandemic with many SMEs being hit so that they need help. However, there has been no evaluation to show the effectiveness of the role of the STIP entrepreneurial incubator in SMEs themselves. The relationship becomes even more important to be examined further when there are studies that show that government support is not always enough for small-to-medium enterprises because there is a gap between what the government provides and what the business needs (Kaufmann and Tödtling, 2002). There are also studies that show that the absorptive capacity factor is an important determinant in determining how successful the business incubation program is (Lo and Tian, 2019), so it is also necessary to conduct research to see how much influence the moderation of absorptive capacity has on how strong the relationship between government business support services and SME performance is.

1.1 Objectives

Therefore, the purpose of this study is to carry out an analysis using the Structural Equation Modeling – Partial Least Square (SEM-PLS) model with the SmartPLS application to analyze the influence of government business support services through the STIP entrepreneurial incubator on SMEs in NTB, as well as to test the effect of moderation of SME absorptive capacity on the relationship between government business support services and SME performance, and provide proposed improvements based on the results of the evaluation. This can help local governments measure the effectiveness of the program, improve their entrepreneurial incubation programs, and fill gaps from existing studies by examining the relationship between government support and the performance of SMEs receiving such support, while considering the impact of the influence of the absorptive capacity of SMEs themselves.

2. Literature Review

Structural Equation Modeling (SEM) is one of the ways of data analysis used in a comprehensive explanation of the relationship between variables in research. SEM itself is a statistical technique capable of analyzing patterns of relationships between latent constructs and their indicators, latent constructs with one another, as well as direct measurement errors (Hair et al., 1995). Using SEM, it can be directly analyzed between several dependent and independent variables. In using SEM, it is first necessary to build a hypothesis model consisting of a structural model and a measurement model in the form of a path diagram based on the justification of the theory. The structural model in SEM is a model that describes the relationships that exist between latent variables. The measurement model in SEM is a model that connects latent variables with observed variables measured in the form of factor analysis. Latent variables are variables that cannot be observed directly, but some other indicator variables can represent them if they can be measured. Indicator variables or can also be referred to as manifest variables are variables that can be measured and can be obtained through data collection methods such as questionnaires or surveys (Wijanto, 2008). The type of SEM modeling that will be used for this study is Partial Least Square (SEM- PLS). SEM-PLS is a very powerful research analysis method because it can be applied to all data scales, does not require many assumptions, and can confirm relationships that do not yet have a strong theoretical foundation (Jaya and Sumertajaya, 2008). Unlike SEM in general, which is covariant-based on proving the theory with parametric assumptions to be met, SEM-PLS is variant-oriented and uses algorithms that allow obtaining the best weight estimate in each latent variable without the need for a large sample size and the fulfillment of assumptions (Ghozali, 2014).

Government business support services is an approach used by the government to promote, expand, support, and organize training to SMEs with the hope of progress and development of SMEs in accordance with the government's agenda, which is to increase competitiveness (Figure 1). It has been argued that to obtain local and international competitiveness, GBSS has a positive influence (Chandra, 2009). Indicators of government business support services based on previous research are (Jaya and Sumertajaya, 2008): (Figure 1)

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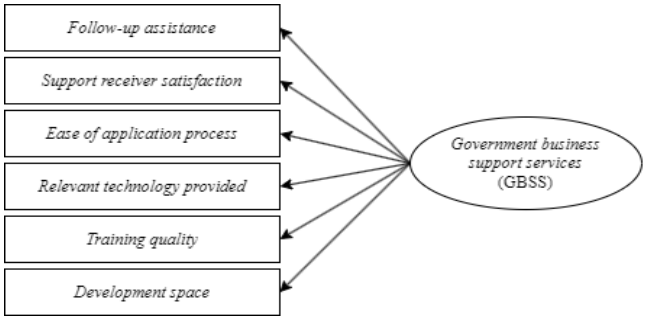

Figure 1. Indicators of Government Business Support Services

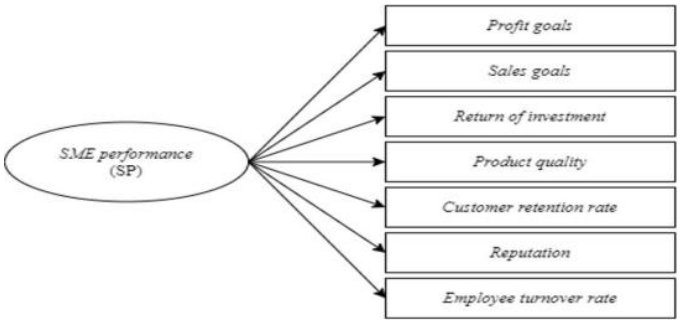

Figure 2. Indicators of SMES Performances

Company performance (performance) can be defined as the success of the organization in achieving its targets. It measures the ability of an enterprise to meet the goals and objectives of the organization to achieve the desired results. The performance of the company is identified as a comparison of the value created by the company with the value that the owner expects received from the company (Larcker, 1983). Therefore, for this study, performance refers to the ability of a company to achieve the desired result based on the company's goals and objectives (Figure 2). SME performance indicators based on previous research are (Nowak, 2013):

Absorptive capacity refers to the company's ability to recognize the value of new products of external knowledge, assimilate it, and apply it for commercial purposes. Research states that absorbency plays an integral part in achieving corporate competitiveness (Nowak, 2013). In previous studies, absorptive capacity was observed in many performance models, and most of it resulted as a significant relationship with company performance (Neely et al, 2001). Absorptive capacity indicators based on previous studies based on Flatten et al. (2011) (Figure 3):

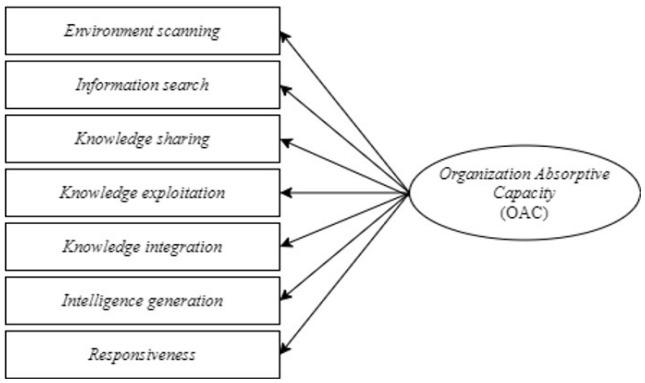

Figure 3. Indicators of Absorptive Capacity

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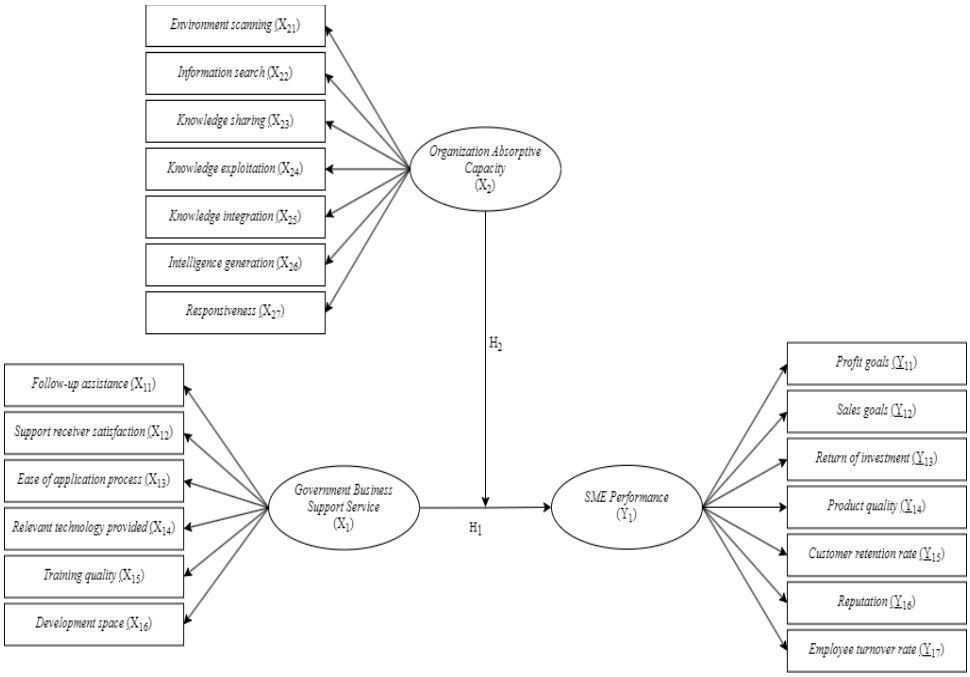

Figure 4. Conceptual Framework

There are studies that have shown the influence of government engagement through business support services on SMEs in driving higher business performance. A study has also shown a positive relationship between government business support services on the performance of SMEs in Malaysia (Jauriyah et al, 2017). There is a study which show that an organization's absorptive capacity has a strong effect on the performance of SMEs which can be correlated as a moderation factor in the relationship between government support and SME performance (Figure 4). There is research on SMEs in Malaysia that measures the effect of government business support services on the performance of SMEs there as well as the influence of the moderation effect of the absorptive capacity of SMEs themselves (Shamsuddin et al., 2017). Furthermore, similar study was conducted in Pakistan regarding the effect of government business support services and the effect of absorptive capacity moderation on the performance of SMEs (Ahmad et al, 2020)., which are the main foundations for the study structural and measurement model. Based on the theory in the reviewed literatures, the following is the conceptual framework used for this study:

3. Methods

This research uses quantitative research method. This research was conducted at one of the government's business support service places, namely the Science Technology and Industrial Park (STIP) NTB entrepreneurial incubator, as well as SMEs in NTB province. In this study, the total population of SMEs that were already under management of STIP was 140, but due to time constraints, a sample of 103 was used which was determined by the Slovin formula as follows:

$$n = \frac{N}{1 + Ne^2} = \frac{140}{1 + 140(0.05)^2} \approx 103$$

This data is data obtained from first-hand sources in the field. This data source was obtained from respondents from interviews, observations, and others. For this study, primary data were obtained through a structured questionnaire that will be given and filled in to SME owners, with a Likert measurement scale of 1-5 with the response: Strongly Agree (SS = 5), Agree (S = 4), Neutral (N = 3), Disagree (TS = 2), and Strongly Disagree (STS = 1).

There is also secondary data obtained from the SME database of the NTB Industry Office. The free variables in this study are the variables of government business support services as well as the absorptive capacity variable which also acts as a moderation variable. The dependent variable to this study is the SMEs performance variable. The

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questionnaire designed based on the indicators in the library reviewed and the notation that will be used in the discussion of the results of this study were presented in Table 1.

Table 1. Questionnaires and Research Notation

Latent Variables	Indicator Variables
Government Business Support Services (GBSS)	1. There is additional support after receiving support. (GBSS1) 2. The government has taken sufficient action to help entrepreneurs (GBSS2) 3. It is easy to deal with the attendant who takes care of the application process. (GBSS3) 4. The equipment and technology that has been provided usually meets the needs of our company. (GBSS4) 5. The quality of the mentorship programs provided helps the company become more sustainable. (GBSS5) 6. Companies can exchange ideas, experiences, and knowledge (GBSS6)
Organizational Absorptive Capacity (OAC)	1. Seeking relevant information regarding our industry is in our daily interest. (OAC1) 2. Management motivates employees to use information sources in our industry. (OAC2) 3. In the company information flows quickly (OAC3) 4. Our employees have the ability to compile and use the knowledge gained. (OAC4) 5. Our employees can connect the knowledge they already have with new insights. (OAC5) 6. Our company periodically considers the technologies used and adapts them to new knowledge. (OAC6) 7. Our company can work more effectively by adopting new technologies. (OAC7)
SMEs Performance (SP)	1. The profit target has been achieved. (SP1) 2. The sales target has been achieved. (SP2) 3. The target of return on investment has been achieved. (SP3) 4. The company's products have a higher quality than the company's competitors. (SP4) 5. The company has a higher customer retention rate than the company's competitors. (SP5) 6. The company has a better reputation among the main customer segments than the company's competitors. (SP6) 7. The company has a lower turnover rate of employees than the company's competitors. (SP7)

For the SEM-PLS methodology, the steps that are used to model, process and analyze the data are as follows:

1. Designing inner model (structural model)
2. Designing outer model (measurement model)
3. Constructing path diagram
4. Converting path diagram into the equations system
5. Estimating model parameters (weight, path coefficient, loading)
6. Conducting goodness of fit (GoF)
    a. Outer model (measurement model): convergent validity (loading factor, AVE), divergent validity (cross loading, Fornell-Larcker test), reliability test (Cronbach's alpha, composite reliability)
    b. Inner model (structural model): coefficient of determination (R^2), relevance of predictions (Q^2), quality index

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7. Perform hypothesis testing
   a. H1: The Government Business Support Service has a positive relationship with SME Performance.
   b. H2: Moderate effect of Absorptive Capacity that strengthens the relationship between Government Business Support Services has a positive relationship with SME Performance.

4. Results and Discussion

4.1. Construction of SEM Model

The exogenous latent variables in the SEM model used are government business support services (ξ1) and absorptive capacity (ξ2), while the endogenous latent variables used are SME performance (ζ1). In this SEM model, moderate effect of the exogenous latent variable absorptive capacity (ξ2) towards the relationship of the exogenous latent variable of government business support services (ξ1) with the performance of SMEs (η1), which was annotated with ξ1ξ2. The construction of the path diagram for the SEM model of the study was presented in Figure 5.

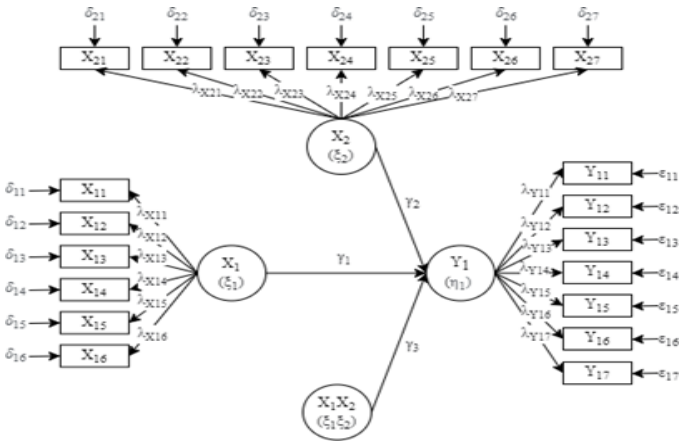

Figure 5. Construction of Path Diagram

Based on the SEM model construction, path diagram was constructed in a software that connects structural models with SmartPLS software. The path diagram that has been made above was represented with blocks from the SmartPLS software. The SEM-PLS construction model can be seen in Figure 6.

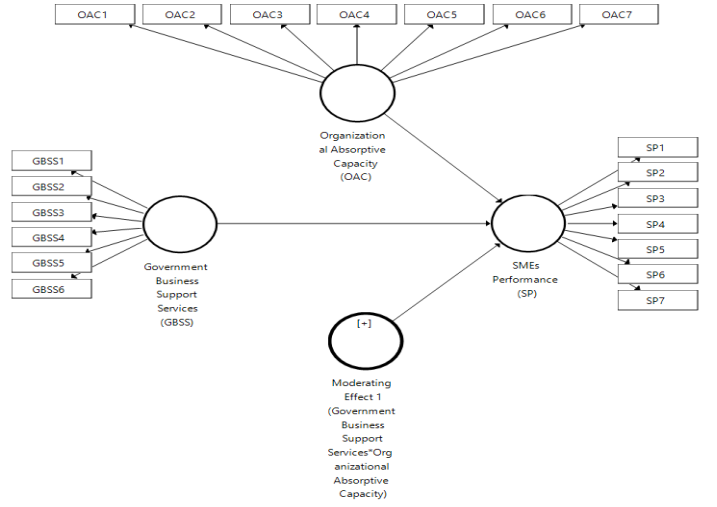

Figure 6. SEM-PLS Model Construction

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4.2 Estimated Model Parameters

After the construction of the SEM model, an estimation of the measurement and structural model was carried out using the SEM mathematical algorithm. Based on the converted structural model, estimation of model parameters can be utilized to measure the influence of latent variables. The estimation of the parameters of the model result will be a reference for SEM model measurement in correlation-modeling process. The complete estimation of model parameter and load factor from SmartPLS model path diagram were able to generate a comprehensive quantitative estimation of the SEM-PLS model.

Loading factor was a coefficient on the path between the latent variable and the indicator used for the measurement of the latent variable (outer model). Meanwhile, the model parameter was the coefficient on the path between the latent variable, both between the exogenous latent variable to the endogenous latent variable and the endogenous latent variable against other endogenous latent variables. Which were used for the measurement of the modeling structure (inner model). The estimation of the coefficient of model parameters generated by the SmartPLS software after a SEM- PLS algorithm run can be seen in Figure 7.

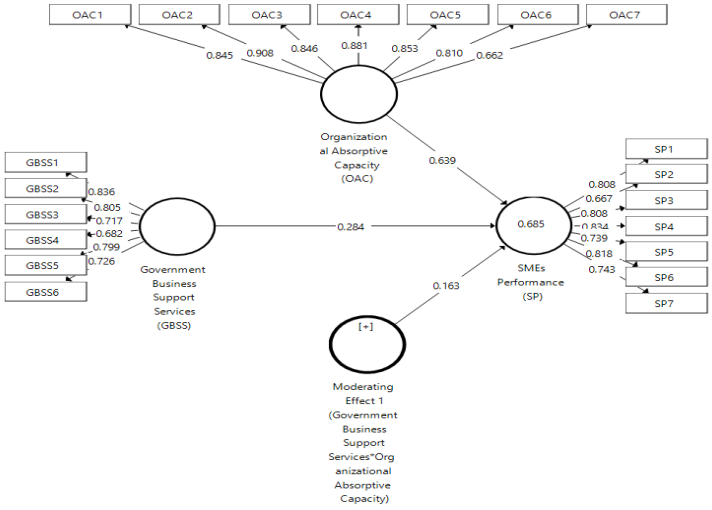

Figure 7. Estimated SEM-PLS Model

4.2 Outer Model Evaluation

Evaluation of the outer model or measurement model was carried out to evaluate the relationship between the indicators used and the latent variables. Convergent validity testing was performed to ensure that the indicators of different construct measures are not high-correlated. In convergent validity testing, two tests were carried out, namely loading factor score test and the average variance extracted (AVE) test. The first convergent validity test was conducted between loading loading factor and latent variable. The indicator can be declared valid convergently if the loading factor value was at least 0.5 – 0.7. Average variance extracted (AVE) value of each latent variable should be measured by the indicator, where the measurement of the latent variable can be declared valid convergently if the AVE value ≥ 0.50.

Table 2. Convergent Validity

Variable	Indicator	Loading Factor	Status	AVE	Status
Government Business Support Services	GBSS1	0.836	Valid	0.582	Valid
	GBSS2	0.805	Valid		
	GBSS3	0.717	Valid		
	GBSS4	0.682	Valid		
	GBSS5	0.799	Valid		
	GBSS6	0.726	Valid		
	OAC1	0.845	Valid		

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Variable	Indicator	Loading Factor	Status	AVE	Status
Absorptive Capacity	OAC2	0.908	Valid	0.693	Valid
	OAC3	0.846	Valid		
	OAC4	0.881	Valid		
	OAC5	0.853	Valid		
	OAC6	0.810	Valid		
	OAC7	0.662	Valid		
SMES Performance	SP1	0.808	Valid	0.602	Valid
	SP2	0.667	Valid		
	SP3	0.808	Valid		
	SP4	0.834	Valid		
	SP5	0.739	Valid		
	SP6	0.818	Valid		
	SP7	0.743	Valid		

Based on the loading factor value result in Table 2, all indicators have met the requirements of a minimum loading factor value of 0.5 – 0.7, and all latent variables have met the requirement of an AVE value of at least 0.50, therefore all indicators can be declared valid convergently. After all the indicators were declared valid convergently, divergent validity test was performed. Discriminant validity test was performed to ensure that two different indicators measured two non-correlated predicted latent variables produced uncorrelated values. In the discriminant validity test, two tests were carried out, the cross-loading value test and testing the comparison value between the square root of AVE of each construct with the correlation between other constructs in the model. First, the indicator can be declared as valid discriminately if the loading factor of each variable has a higher value than the loading factor between other variables and is very good if the loading factor is > 0.70.

Table 3. Cross Loading

	Government Business Support Services	Absorptive Capacity	SMES Performance	Status
GBSS1	**0.836**	0.318	0.479	Valid
GBSS2	**0.805**	0.409	0.385	Valid
GBSS3	**0.717**	0.281	0.280	Valid
GBSS4	**0.682**	0.271	0.272	Valid
GBSS5	**0.799**	0.339	0.516	Valid
GBSS6	**0.726**	0.324	0.311	Valid
OAC1	0.366	**0.845**	0.661	Valid
OAC2	0.403	**0.908**	0.700	Valid
OAC3	0.262	**0.846**	0.616	Valid
OAC4	0.406	**0.881**	0.732	Valid
OAC5	0.341	**0.853**	0.647	Valid
OAC6	0.251	**0.810**	0.640	Valid
OAC7	0.449	**0.662**	0.562	Valid
SP1	0.433	0.647	**0.808**	Valid
SP2	0.348	0.451	**0.667**	Valid
SP3	0.493	0.644	**0.808**	Valid
SP4	0.440	0.639	**0.834**	Valid
SP5	0.374	0.593	**0.739**	Valid
SP6	0.288	0.605	**0.818**	Valid
SP7	0.399	0.534	**0.743**	Valid

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Shown in Table 3, all indicators were discriminately valid because their loading factor values were higher in the latent variables compared to the latent variables, and almost all indicators have excellent validity except for the GBSS4, OAC7, and SP2 indicators. Cross-loading value test was followed by Fornell-Larcker test, where the measurement of the latent variable can be declared discriminately valid if the AVE root value > the correlation between the variables.

Table 4. Fornell-Larcker Testing

	Absorptive Capacity	**SMES Performance**	**Government Business Support Services**	**Root of AVE**	**Status**
Absorptive Capacity	**0.833**			0.833	Valid
SMES Performance	0.785	**0.776**		0.776	Valid
Government Business Support Services	0.425	0.515	**0.763**	0.763	Valid

The AVE root of each latent variable measured by the indicator is greater than the correlation between the other variables contained in the model, so all latent variables can be declared discriminately valid based on the Fornell-Larcker criteria (Table 4). The next test that needs to be conducted is the reliability test, where reliability test was carried ensure that the variables used were reliable and consistent. The reliability test performed with Cronbach's Alpha value test and composite reliability value, if the value of both ≥ 0.7 then the outer model can be declared reliable.

Table 5. Reliability Testing

Variable	**Cronbach's Alpha**	**Composite Reliability**	**Rule of Thumb**	**Status**
Government Business Support Services	0.860	0.893	≥ 0.70	Reliable
Absorption Capacity	0.924	0.940		Reliable
SMEs Performance	0.889	0.913		Reliable

The variable measurements have Cronbach's Alpha value and composite reliability ≥ 0.7, therefore all indicators of latent variable measurements can be declared reliable (Table 5). Therefore, the results of the outer model evaluation showed that the measurement model was in accordance with research needs because the measurement indicators were fully valid, both convergently and discriminantly were also reliable.

4.4 Inner Model Evaluation

Evaluation of the inner model or structural model was carried out to determine whether the structural model has reached the coefficient of determination and relevance value appropriate for the research model, so the model can estimate the structural relationships studied relevantly. Structural models are evaluated with the value of R2 for the coefficient of determination as well as the predictive significance of the coefficients of the structural path parameters, and finally to determine the degree of conformity of the model was determined by the quality index. The value of the coefficient of determinant is obtained by calculating the R2 value of each endogenous latent variable value as the predictive force of the structural model. Absorptive Capacity and Government Business Support Services of endogenous latent variables SME performance can be measured by looking at changes in R2 values, so that R2 values can be used to determine if the model is strong (0.75), moderate (0.50) and weak (0.25).

The relevance of the prediction then can be measured based on Q2 value, if the Q2 value > 0, it indicated that the prediction influences on the endogenous latent variable SME performance produced by the model. If Q2

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approximation was close to 1, the prediction became more relevant due to better observation value generated from the model and estimated parameters. Finally, a goodness of fit test was carried out by a quality index to identify the suitability of the overall model for prediction construction. Model conformity was based on the GoF index value criteria, where 0.10 means small model fit (GoF small), 0.25 means medium model fit (GoF medium), and 0.36 means large model fit (GoF large).

Table 6. Inner Model Evaluation

Variable	R2	Q2	GoF *index*	Status
SMES Performance	0.685	0.685	0.656	Coefficient of determination is moderate, prediction is relevant, GoF large

Based on Table 6, the R2 value obtained in the endogenous latent variable SME Performance of 0.685, which based on the criteria used indicated that with a range between 0.5 – 0.75, the strength of the model used was moderate. T Q2 value > 0, therefore the structural model used has relevant predictions. The relevance of the model's prediction was satisfactory, due to Q2 value proximity to 1. Finally, a GoF index value of 0.685 was obtained, therefore it can be stated that the model used for this study has a large model suitability (GoF large). As a result, the model can be utilized to test the hypothesis of the effect of government business support services on SME performance as well as the effect of SME capacity moderation towards the relationship of government business support services on the performance of SMEs in this study.

4.5 Hypothesis Testing

SEM-PLS hypothesis testing was performed by resampling bootstrapping to determine the level of parameter signification. Based on the recommendations of the literature reviewed, the hypothesis was tested by bootstrapping resampling procedure with a replication count of B = 5000 samples. The level of significance of the α used in the two-tailed t-test statistics for testing this hypothesis is 5% so that the value of T_{table} = 1.96 is used. As a result, all hypotheses to be tested can be stated in the theme if the statistical T value produced is smaller than T_{table}, so that $T \geq T_{table} = 1.96$. Hypotheses validity can also be determined from the p-value of t-test result. If the p-value was less than the significant level of 0.05, then the hypothesis can be accepted. The hypotheses tested were as follows:

1. Government Business Support Services (ξ1) to SME Performance (η1)
   $H_0 : \gamma_1 = 0$ government business support services have no significant relationship with SME performance
   $H_1 : \gamma_1 \neq 0$ government business support services have a significant relationship with SME performance
2. Government Business Support Service (ξ1) to SME Performance (η1) with Absorptive Capacity moderation (ξ2)
   $H_0 : \gamma_3 = 0$ absorptive capacity has no significant moderation influence on the relationship of government business support services to the performance of SMEs
   $H_1 : \gamma_3 \neq 0$ absorptive capacity has a significant moderation influence on the relationship of government business support services to the performance of SMEs.

The result of hypothesis test obtained were as follows:

Table 7. Model Hypothesis Test

Hypotheses Tested	Original Sample	T-Statistics	T-Table	P-Value	Status
Government Business Support Services => SME Performance	0.284	3.093	1.96	0.002	Accepted
Moderation Effect (Government Business Support Services *Absorptive Capacity) => SME Performance	0.163	2.547	1.96	0.011	Accepted

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Table 7 showed that the entire t-statistics value ≥ Ttable = 1.96, and the p- value < 0.05, therefore the hypothesis was accepted and it can be concluded that:

1. There was a positive and significant relationship between Government Business Support Services and SME Performance.
2. Absorptive Capacity exerts a positive and significant moderation influence between the relationship of Government Business Support Services to SME Performance.

Based on the coefficients obtained from the original sample in the bootstrapping hypothesis test in Table 7, the structural model of this study explains that the variables studied can be modeled as this mathematical equation:

$$\eta_1 = 0.284\xi_1 + 0.639\xi_2 + 0.163\xi_1\xi_2 + 0.249$$

From the equation, it can be interpreted that the SME Performance variable will increase by 0.284 if the Government Business Support Service variable increases by one unit and other variables are considered constant; 0.639 if the Absorptive Capacity variable increases by one unit and other variables are considered constant; and 0.163 if the moderation effect of the interaction of the Absorptive Capacity variable with the Government Business Support Service increases by one unit and other variables are considered constant. The effect of moderation can be seen more clearly in the slope diagram below, where the absorptive capacity of an SME strength increased if the influence of government business support services on the performance of these SMEs are strengthened. The diagram of the moderation effect of absorptive capacity can be seen in Figure 8.

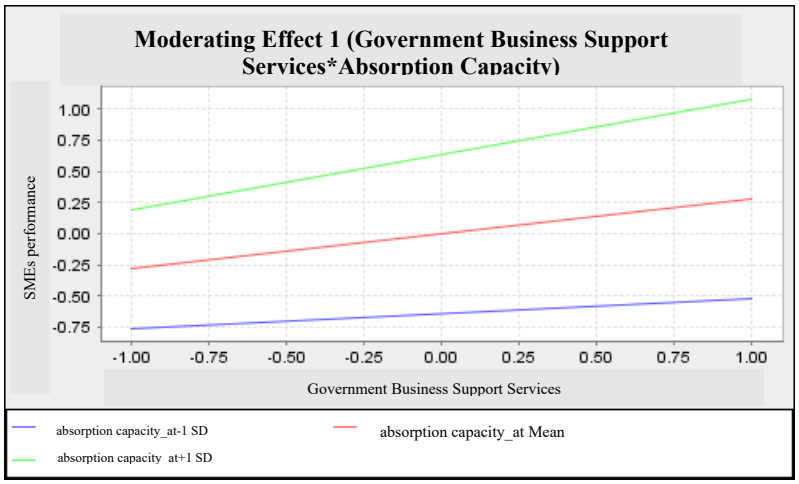

Figure 8. Moderating Effect of Absorptive Capacity on Government Business Support Service Relationships

4.6 Proposed Framework of Absorptive Capacity Building

Based on the results of the study, it would be good for the STIP entrepreneurial incubator to integrate the implementation of a framework that aims to increase the absorptive capacity of SMEs under their auspices, so that not only the entrepreneurial incubator program will be more successful in improving the performance of SMEs but will produce SMEs that are more independent and can compete in the free market. One of the frameworks that can be implemented was the absorptive capacity development framework which consists of five stages: preparation, analysis, planning, implementation, and evaluation, which aims to increase the absorptive capacity of an organization (Table 8).

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Table 8. Framework of Absorptive Capacity Development

Phase	Stages
Preparation	1. Identify the need for capacity development, this step has the main activity of recognizing the real reasons and needs to develop capacity. 2. Define goals. This work step has the main activity of consulting with key stakeholders to identify the main issues of capacity building. 3. Assigning responsibility. This work step has the main activity, which is to determine the person in charge of capacity building activities, for example forming a technical team or work unit. 4. Designing the capacity building process. This work step has the main activities, namely determining the mapping methodology according to the problems that arise and scheduling activities about the mapping process and the next stage of formulation of the capacity development action plan. 5. Allocation of resources. Its main activity is to identify the funding of capacity building activities and allocate resources by formulating resource needs according to the required budget and can be approved by the authorities.
Analysis	1. Identifying problems in this case is mainly in the form of conducting an examination of the problem for further investigation. 2. Analysis of processes in this case the main activity is in the form of connecting problems for capacity mapping with the performance processes of systems, organizations and individuals. 3. Organizational analysis in this case the main activity is in the form of choosing an organization to investigate more deeply (organizational mapping). 4. Mapping the gap in capacity in this case the main activity is in the form of mapping the gap between the ideal capacity and its reality. 5. Summarizing urgent capacity development needs in this case the main activity is to conclude findings and collect proposals for capacity building action plans.
Planning	1. Annual planning, the main activity of which is to formulate a draft of a capacity building action plan. 2. Make a medium-term plan, the main activity of which is in the form of consultative meetings. 3. Develop a priority scale, the main activity is to establish a priority scale for capacity development and the stages of its implementation.
Implementation	1. Programming, the main activity is in the form of allocating resources that are currently owned. 2. Capacity building project planning, the main activity is in the form of formulating a capacity development implementation policy. 3. Project implementation, the main activity of which is the implementation of the annual program of capacity building according to existing resources and available schedules 4. Process monitoring, the main activity is in the form of monitoring capacity building activities.
Evaluation	1. Impact evaluation, the main activity is to evaluate the achievement of capacity development, such as performance improvement. 2. Re-planning a capacity development action plan, the main activity is to analyze the findings of process monitoring and impact evaluation in the context of capacity development re-planning needs.

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5. Conclusion

The results of the outer model evaluation show that the model was valid in a convergent and discriminant manner, as well as reliable. Meanwhile, the inner model show that the coefficient of determination was moderate, the prediction is relevant, and the suitability of the model was large. There was a positive and significant relationship between Government Business Support Services and SME Performance. The Absorptive Capacity exerts a positive and significant moderation influence between the relationship of Government Business Support Services to SME Performance.The structural model obtained from SEM-PLS as follows: $\eta_1 = 0.284\xi_1 + 0.639\xi_2 + 0.163\xi_1\xi_2 + 0.24$. The SME performance will increase by 0.284 if the Government Business Support Services variable increases by one unit and other variables are considered constant, and will increase by 0.639 if the Absorptive Capacity variable increases by one unit and other variables are considered constant, and also will increase by 0.163 if the moderation effect of the interaction of the Absorptive Capacity variable with Government Business Support Services increases by one unit and other variables are considered constant. The proposed improvement obtained based on the results of the analysis was the implementation of an absorptive capacity development framework to increase the moderation effect of absorptive capacity on the relationship between government business support services on the performance of SMEs.

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