

Drivers Of Financial Performance for Microfinance Institutions in Indonesia: The Roles of Leadership, Business Models and Environmental Dynamism

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Abstract. This study investigates how ambidextrous leadership, innovative business models, and dynamic external environments influence the financial performance of microfinance institutions (MFIs) in Indonesia. Quantitative data was collected through a survey of 104 MFI leader respondents. Hypotheses were tested using partial least squares structural equation modeling (PLS-SEM). Ambidextrous leadership, business model innovation and environmental dynamism positively affect MFI's financial performance in Indonesia. The study explains 83.8% of the variance in financial performance. The findings suggest that MFIs should nurture ambidextrous leaders, frequently re-evaluate their business models, and build capabilities to exploit environmental changes to enhance financial sustainability. The research contributes by extending limited empirical evidence on strategic factors driving high MFI performance. The paper addresses an important topic of factors affecting microfinance institutions' (MFIs) financial performance.

Keywords: Ambidextrous Leadership, Business Model, Environmental Dynamism, Financial Performance, Micro Finance Institutions

1. Introduction

MFIs are financial institutions that aim to provide financial access for business actors who cannot access formal financial services. MFI helps people to start or develop businesses (Fianto et al., 2019). The growth of Microfinance Institutions (MFI) has a strategic impact that supports the growth of entrepreneurship in Indonesia. The existence of MFIs has been able to increase financial inclusion and even reduce poverty levels. MFIs are also growing because they are supported by the government through policies, programs and funding allocations to strengthen the role of MFIs in sustainable economic development. Several MFIs can empower communities and support the development of the micro, small and medium enterprise (MSME) sector. One of the activities at MFI is to provide financial assistance to low-income people to improve their living standards (Shkodra et al., 2021). The objectives of MFIs are very relevant to efforts to eradicate poverty and improve community welfare (Tamanni & Besar, 2019).

Around 23.94% of Microfinance Institutions (MFIs) have faced problems or terminated their business permits since February 2020, indicating challenges and risks in MFI operations that must be addressed. This may involve financial, management, regulatory issues, or other factors that affect the viability of the MFI. Nonetheless, it is important to remember that the microfinance industry is integral to poverty alleviation and economic development efforts. Like many countries, the financial industry has undergone major structural and innovative changes. The increase in the number of financial institutions from year to year resulted in an increase in funding by 40.5% and a decrease in interest rates by 63.8% from 2007 to 2016. This also resulted in an increase and improvement in the competitive environment (Shkodra, 2019).

An effective financial system plays an important role in channeling funds to economic sectors in need. Encouraging competition in the financial system is key to improving service quality. Competition can drive innovation, increase efficiency, and reduce the costs of financial services, ultimately benefiting consumers. Research shows that microcredit recipients not only increase their income but also experience improved levels of business management. This shows that access to financial services, including management, can have a broader positive impact.

In order to provide the best service to customers, MFIs must be encouraged to compete, namely by offering funding, high-quality services and smaller funding portfolios. A number of previous studies have shown that microcredit borrowers not only managed to increase their income but also improved their company management skills, thereby improving the quality of health and education services. MFIs benefit from this as microcredit clients become more confident in their commercial dealings. Therefore, it can be said that MFIs concentrate on creating businesses that generate income and reduce the risks and uncertainties that must be faced by the business world to improve their financial performance (Shkodra, 2019).

By conducting a comprehensive evaluation, especially of the financial performance of MFIs, it is hoped that MFIs can increase their effectiveness and better serve the community's needs. MFI financial performance is related to evaluation in a broader context to understand MFI financial performance comprehensively. Comparisons with similar institutions can provide a better view of the extent to which institutions successfully manage risk and achieve their financial goals. Financial performance refers to the efficiency and effectiveness of efforts made by an MFI to achieve its organizational goals related to data analysis and control (Zheng & Zhang, 2021). Regular monitoring and evaluation of MFI's financial performance must be carried out to identify areas requiring further improvement and measure progress over time.

The influence of MFIs on entrepreneurship and poverty alleviation is still a matter of discussion despite intensive promotion and wide adoption. Microfinance institutions have increasingly come under fire for meeting people's needs, encouraging unsustainable businesses, charging very high interest rates, and

making people more vulnerable and indebted (Bika et al., 2022). Therefore, MFIs must develop a strong strategic intervention paradigm in a rapidly changing business environment to gain and define competitive advantage. Several factors can help improve financial performance, including leadership and innovation in the business model. Ambidextrous Leadership is a leadership style that allows leaders to switch between focusing on exploration and exploitation quickly and effectively. This capacity enables leaders to handle changing contexts and situations by optimizing innovation and efficiency. Ambidextrous leaders can pursue and pursue new knowledge and experiences, as well as pursue and pursue better results and efficiency in different situations and contexts (Martínez-Climent et al., 2019).

Several previous studies found that innovation is needed for the business model to solve difficult market problems. Business model innovation in question is the ability of MFIs to create, develop and implement new ideas in the form of business models that are different from existing business models (Zott & Amit, 2010)

A study shows that innovative business models have a positive and significant effect on company performance. This finding is consistent with the general understanding of the importance of innovation in the business world. Innovative business models can create competitive advantages, open new opportunities and increase company value. More emphasis on sales growth, profits and market value as indicators of company performance is a commonly used and relevant approach. Sales growth reflects the company's expansion in the market, profits reflect operational efficiency and competitiveness, and market value reflects investors' perceptions of the company's long-term value. This kind of research provides valuable insights for MFI leaders and strategic decision-makers to evaluate currently used business models to improve long-term performance (Amit & Zott, 2012)

The complexity of the business model in one study had a negative influence on company performance. Because complexity is not balanced with the company's ability to manage resources and maintain flexibility when facing market changes, companies that focus too much on the complexity of the business model tend to have difficulty adapting to market changes so company performance can be hampered. Therefore, MFIs need to pay attention to market needs and available resources to develop an effective business model that can sustainably improve company performance, considering that MFIs are one of the institutions capable of strengthening the local economy (Karlan & Zinman, 2011). MFIs must overcome high interest rates, poor risk management, and weak regulatory compliance to ensure long-term success (Ledgerwood et al., 2013).

To support long-term success, MFIs must consider environmental dynamism factors as key situational elements in dynamism capability theory. The operational efficiency variance created by organizational capabilities depends on environmental dynamism (Dubey et al., 2020). An increasingly dynamic business environment raises complex challenges and requires a more collaborative approach, partnerships and strategic alliances (Tajeddini et al., 2020). Environmental dynamism is the speed and knowledge that makes the business environment possible to change. Some weaknesses that arise due to environmental dynamism are a weak legal environment, a lack of financial resources and a lack of skilled labor, which weakens business development (Rodríguez-Peña, 2021).

Environmental dynamism, the rate and extent of change, results from competitive pressures, changing customer desires, disruptive technical advances, and globalization. These factors make the business environment more dynamic and characterized by high speed and hyper turbulence. MFIs facing instability in the business environment must adapt to a changing and dynamic landscape. Because competition, demand, technology, and regulations change rapidly and sporadically in a dynamic environment, information is often unavailable, incorrect, or inaccessible. (Mohammed, 2019). Financial performance is very important for MFIs in determining their ability to provide quality and sustainable financial services (Armendariz & Morduch, 2010). MFIs with good financial performance have higher stability and growth

than MFIs with weak financial performance (Khandker, 2005).

2. Literature Review

2.1. Financial Performance

Company performance consists of operational and financial performance. The concept of performance includes achieving goals, acquiring resources, participating in appropriate activities, avoiding mistakes or internal stress, and achieving several other traits related to organizational functioning. Organizational effectiveness includes several additional characteristics related to organizational functioning, such as achieving goals, obtaining resources, engaging in legitimate activities and not making mistakes or internal pressure (Shah & Ahmad, 2019).

Financial performance usually includes growth rates and profitability levels. Financial performance is usually measured by return on assets (ROA), return on equity (ROE), revenue growth and return on sales. While financial metrics in financial performance focus on short-term financial goals, non-financial metrics relate to long-term goals and growth potential. Its non-financial Company Performance Metrics include employee growth rate, social responsibility, organizational learning capacity, and growth potential. Financial indicators are less subjective, reliable and easy to verify (Cho & Lee, 2018).

Performance is usually understood and measured in different ways. Financial performance is one of the most important things in business, both internally and externally. When discussing business performance evaluation, financial reporting is one of the important keys. A company's financial health provides a benchmark for how a business can survive in the future (Jiang et al., 2018). An organization is considered effective if it can achieve goals that involve assessing how to fulfill its strategic targets in the financial sector. Organizations need to be able to identify, assess and manage risks that may affect the achievement of their objectives. This may involve appropriate risk management strategies. (Ribeiro et al., 2021).

2.2. Ambidextrous Leadership

An ambidextrous leader can integrate exploration activities in innovation exp, experimentation, and exploitation activities to efficiently optimize current resources. Ambidextrous leaders can manage thoughts from innovative and creative to analytical thinking and focus on operational efficiency. Leaders also can adapt to change. The ever-changing business and technological environment is understood as a successful strategy that may no longer be relevant (Zacher & Rosing, 2015).

Leadership is an important factor in building an innovative environment in an organization. Leaders encourage a culture where new ideas are accepted and valued. They see innovation as the key to maintaining and increasing organizational competitiveness. A study conducted by a technology company found ambidextrous differences, namely ambidextrous entrepreneurship, where leaders focus on exploration behavior, and ambidextrous managers, who focus on exploitation behavior (Kassotaki, 2019). The Ambidextrous Leadership dimension consists of opening and closing behavior. Opening behavior is a leader's tendency to encourage exploration and taking risks while closing behavior focuses on improving, simplifying, and executing established plans and processes (Zacher & Rosing, 2015).

Ambidextrous leaders can also identify and optimize opportunities, maximizing results from existing resources. Ambidextrous leaders can inspire and motivate teams to participate in every exploration and exploitation activity. They understand the importance of both dimensions for organizational sustainability (Zacher & Rosing, 2015).

. Operational (non-financial) performance indicators related to the organization's goal to facilitate subjective assessments by employees and managers regarding some good working conditions of the

company based on some performance criteria, their perception of the company's performance, its growth, customer base, and the global growth of the business community or its international operations (Jiang et al., 2018). Non-currency metrics are subjective, unlike currency indicators. Meanwhile, precise information regarding products or services is available during the company's objective working hours. Non-financial indicators are subjective compared to financial indicators. Financial reports are usually difficult to obtain, although objective measures of company performance provide an accurate picture of how well or poorly a company is functioning. For some reason, this is especially true in developing countries. First, companies usually hide their Financial Performance from tax authorities, making this metric suspect (Ribeiro et al., 2021). Previous research involving key informants from 220 companies shows that marketing exploitation and exploration simultaneously have a significant and profitable impact on the company's market performance. Superior collaboration drives marketing discovery while reducing the impact of marketing exploitation on market performance (Ho et al., 2020).

Separate innovation units and ambidextrous behavior in business lead to increased exploration, exploitation, manufacturing, and services, according to other research (Blindenbach-Driessen & van den Ende, 2014). Manufacturing and service companies benefit more from this separation of innovation units than service companies. Another study found that separate innovation units and ambidextrous behavior in firms increased exploration, exploitation, manufacturing, and service, with the finding that manufacturing and service firms benefited from such separation of innovation units, with a more significant impact on manufacturing firms (Blindenbach- Driessen & van den Ende, 2014). Based on this description, it can be assumed that Ambidextrous Leadership influences financial performance in microfinance institutions in Indonesia, so this research hypothesis is

H1: Ambidextrous Leadership has a positive and significant effect on MFI's financial performance.

2.3. Business Model

A business model includes the strategy and operational structure used by an MFI to achieve organizational goals. Some key elements that must be considered in developing a business model are resources, added value provided to customers, risks, sustainability and regulations. Key elements in an MFI business model include identifying, assessing and managing risks, which involve controlling credit, market, operational, and compliance risks. The optimal combination of resources and inputs provides value to consumers and generates a competitive advantage for the company. A successful business model is a business model that considers all of the company's stakeholders, the impact of the company's operations on society and the environment, and a strategic approach that enables the creation of solid value and subsequent competitive advantage (Teece, 2018).

In developing a business model, you must understand and comply with applicable financial regulations. Among them are customer privacy, compliance with security standards, and disclosure requirements. The use of technology is also important because it can increase operational efficiency and provide better service to customers. Utilization of technology can involve the development of digital banking platforms, advanced security technology, and product innovation (Teece, 2010).

Because of the relevance of resources and inputs in producing and delivering products and services, it is critical to pay attention to all stakeholders affected by a company's operations. Additionally, the environmental impact of business operations must be considered, along with good waste management, to ensure that future resources are available. Incorporating innovation, especially the Internet of Things, can significantly improve business performance and efficiency, creating a robust, sustainable business model (Mattera et al., 2022).

MFI's can increase efficiency and profitability through good risk management, information technology,

and innovative marketing practices. The study concludes that by increasing efficiency and reducing costs, MFIs can increase profitability and provide better financial services to the poor. The business model implemented by an MFI can have a significant influence on the level of growth and quality of financial services provided. Business models that emphasize efficiency and risk management have a positive impact on the growth and quality of MFI services (Goddard, 2009).

Competitive strategy analysis integrated into business model design creates a value proposition for each segment to prevent the business model from being imitated by competitors or disintermediated by customers (Teece, 2010). Therefore, the business model facilitates several measurement dimensions: value creation innovation, value proposition innovation and value capture innovation (Clauss, 2016).

Innovation has been associated with various positive impacts, including adaptation to market uncertainty and improved stakeholder relationships. By focusing on the company's value capture process, a framework needs to be developed through a business model in accordance with the company's profitability (Christofi et al., 2020; Vrontis & Christofi, 2021). In recent years, researchers have also tried to investigate the impact of business models on business performance. A study focusing on corporate and public sector leaders found that companies with good financial performance placed twice as much emphasis on the business model as those less successful. The impact of business models on company performance: A study found that market leaders gave twice as much importance to BMI than less successful ones (Giesen et al., 2007). A study found that the business model implemented can be successful when it can pay attention to the interests of stakeholders, the impact of company operations on the environment, and a strategic approach that can strengthen sustainable competitive advantages (Teece, 2018). Most studies find that business models and business performance tend to be positively related. Business models can reduce costs and increase their customer base by making significant changes to existing strategic partnerships and adopting flexible processes and procedures. Therefore, taking into account the arguments above, the second hypothesis of this research is that business models have a positive relationship with business performance.

H2: Business Model has a positive and significant effect on MFI financial performance

2.4. Environmental Dynamics

Environmental Dynamism is the level of uncertainty experienced by an organization's external environment. Unpredictable conditions, opportunities and threats in the external environment continue to develop, thus having a significant impact on organizational strategy, decision-making processes and adaptability. Uncertain environmental dynamism implies that the external environment changes rapidly. Technological advances, regulatory changes, or shifts in market trends are identified as one of the most important environmental aspects for understanding contingency relationships. Environmental dynamics are also identified as low predictability, rapid change, shorter life cycles for market offerings, and uncertainty that countries can experience (Yu et al., 2019).

Environmental dynamics refers to the rate of change and uncertainty of technological change, differences in customer preferences, and product or market demand. Many factors, such as the development of an organization's technological capabilities and technical changes or the emergence of new competitors, can generate strong dynamism in the environment. The result is various threats and opportunities for organizations that implement this strategy. Businesses operating in a dynamic environment are more likely to thrive in an uncertain and ever-changing environment, so the costs and level of risk associated with novelty and novelty can be mitigated and offset by capturing niche markets for new products. In a dynamic and complex environment, companies must ensure high levels of product innovation and improvement, which requires large investments in research and development (Tajeddini & Mueller, 2018).

An ever-changing dynamic environment makes forecasting competitor behavior and customer preferences more difficult than in a stable environment. Consequently, the degree of environmental change—both in terms of strength and speed—an organization faces over time can be categorized as environmental dynamism. One characteristic of the business environment is its dynamism, which makes it difficult for organizations to predict how the environment will behave. Levels of innovation, increased research and design efforts, and technical uncertainty and change are characteristics of more dynamic ecosystems (Yin et al., 2021).

The degree of change, lack of pattern, and uncertainty of the external environment are called environmental dynamics. Changes in technology, variations in consumer preferences, and changes in demand or availability of materials for products are characteristics of a dynamic environment. Increased environmental uncertainty is referred to as higher environmental dynamism. Businesses do not have the flexibility to develop specialized skills that influence resource allocation decisions because of transaction costs. Companies must coordinate capability development to compete in dynamic markets where buyer-seller interactions, competitive actions, and consumer needs constantly change. Because the environment is dynamic and always changing, predicting competitor behavior and customer preferences in a dynamic environment is more difficult than in a stable environment (Yin et al., 2021).

There are many different aspects and complex relationships between environmental dynamism and financial performance. The degree of change and uncertainty in the external environment in which a company operates is referred to as environmental dynamism. Technology modifications, market shifts, regulatory changes, and other outside influences can be involved.

Environmental dynamics represent changes in technology, customer preference variations, and product demand or raw material supply fluctuations. Uncertainty arises from the external environment (Jansen et al., 2006). In a study, it was stated that although the moderating effect of environmental dynamics is not significant in the external environment of BUMN, the regulatory environment can also be intense and cause negative impacts, especially when there is a regulatory environment that does not encourage entrepreneurial activity (Uno et al., 2021). Other research finds that environmental dynamics do not have a moderating effect on the relationship between corporate entrepreneurship of subsidiaries of Colombian business groups and their performance (Rodríguez-Peña, 2021). The dynamics of an environment full of uncertainty are the basis that companies need to ensure a high level of innovation and product improvement so that they can adapt and continue to overcome the various potentials that may arise (Tajeddini & Mueller, 2018). Based on this description, it can be assumed that Environmental Dynamism influences financial performance in microfinance institutions in Indonesia, so this research hypothesis is

H3: Environmental Dynamism has a positive and significant effect on MFI's financial performance.

3. Method

The research approach used in this research is quantitative confirmatory. Quantitative research refers to information collected about objects that can be physically measured (Sekaran & Bougie, 2017). In this research, the population studied is all Microfinance Institutions in Indonesia, totaling 238 and registered with the Financial Services Authority. The sampling technique in this research is a simple random sampling method where respondents are selected randomly, and each respondent in the population has the same opportunity to become the research sample. In this study, the respondents were leaders at the level of main director, financial director, other directors or managers at microfinance institutions. The data collected by questionnaire or questionnaire is then given a number for the attribute using a Likert scale. The Likert scale

is designed to examine how strongly the subject agrees with a question (Sekaran & Bougie, 2017). On a five-point scale with anchors from Strongly Disagree to Strongly Agree. The technique for distributing questionnaires is to distribute questionnaires via email to respondents so that the level of response received is influenced by the respondent's activeness in filling out the questionnaire given.

In this research, the data collected will be analyzed statistically to test the truth of the hypothesis that has been made (Sekaran & Bougie, 2017). Data processing uses the Smart PLS (Partial Least Square) program. PLS-SEM was chosen because it is more tolerant of the assumptions of normality and linearity of data than CB-SEM, considering the limited population in this study. PLS-SEM can provide more stable and reliable results that are unaffected by data normality. Apart from that, PLS-SEM is also more flexible in testing research models with latent variables that are not observed too deeply.

In PLS-SEM, the focus is on predictive relationships between constructs to evaluate whether there is an influence or relationship between these constructs. In contrast to CB-SEM, PLS-SEM does not require a strong theoretical basis and can ignore several assumptions, so it is suitable for research to develop a theory. In its use, PLS-SEM looks at the accuracy parameters of the prediction model in terms of the coefficient of determination (R-square) and does not require parametric assumptions. Therefore, the PLS analysis technique is more recommended if researchers focus on data to theory, have a limited sample size, and cannot meet parametric assumptions. However, if the hypothesized structural and measurement models are correct and the data conditions or sample size can be met, CB-SEM provides more optimal model parameter estimates. In the Smart PLS analysis process, two evaluation models are carried out, namely the evaluation of the measurement model (outer model) and the structural model (inner model). The data analysis steps in this research used SmartPLS software. Outer model analysis (measurement model) was carried out to describe the relationship between the indicator blocks and the latent variables. To test the hypothesis between the Independent construct and the Dependent construct, as well as the Dependent construct and other Dependent constructs, the bootstrap or resampling method developed by Geisser (Ghozali & Latan, 2017) is used.

Variable	Indicator	Item	References
Ambidextrous Leadership	Leaders allow various efforts to complete work	AL-1	Oluwafemi et al., 2020; Bawono, 2022
	Support new ideas	AL-2	
	Dare to take risks	AL-3	
	Take corrective steps for every problem.	AL-4	
	Encourage compliance with applicable regulations.	AL-5	
MFI Business Model	Compared with our competitors, our technical equipment is very innovative.	BM-1	Clauss, 2016; Teece, 2010)
	We are constantly looking for new collaboration partners.	BM-2	
	Always take on new market segments that have not been served	BM-3	

	Always look for ways to save costs/expenses	BM-4	
Environmental Dynamism	Degree of market uncertainty	ED-1	(Zhang et al., 2019
	Evolving Technologies	ED-2	
	End consumer demand uncertainty	ED-3	
	Frequent changes in government environmental regulations	ED-4	
Financial Performance	Capital, Reserves and Profit	FP-1	Kamukama et al., 2011
	Liability Financing	FP-2	
	Long/Short-Term Debt Payments	FP-3	
	Loans that are late/arrears (non-performing loans) have increased in the last three years.	FP-4	

4. Result and Discussion

The respondents in this study were leaders or top management from microfinance institution (MFI) organizations, namely 104 respondents. Of the 104 respondents, it can be seen that each respondent has differences in the demographic characteristics of the respondents and the characteristics of the MFI.

Table 1. Demographic Data

Category	Amount	Percentage
MFI Legal Entity		
Cooperative	62	59,6%
PT	42	40,4%
Total	104	100%
Age		
<30 Years	16	15,4%
30-39 Years	24	23,1%
40-49 Years	41	39,4%
>50 Years	23	22,1%
Total	104	100%
Position at MFI		
Treasurer/Secretary	16	15,4 %
President director	31	29,8%
Manager	36	34,6%
Chairman of the Board	10	9,6%
Deputy Director/HR Director/Finance	11	10,6%

Director/Business Director/Director		
Total	104	100%
Education		
Junior High School	3	2,9%
Senior High School	22	21,2%
Diploma	7	6,7%
Bachelor	59	56,7%
Masters	13	12,5%
Total	104	100%
MFI experience		
<3 Years	18	17,3%
3-5 Years	41	39,4%
>5 Years	45	43,3%
Total	104	100%

This research was dominated by respondents aged 40-49 years, as many as 41 people (39.4%), followed by respondents aged 30-39 years, as many as 24 people (23.1%), then aged > 50 years, as many as 23 people (22.1 %), and the fewest respondents aged < 30 years were 16 people (15.4%). Respondents were dominated by those aged 30-49 years, and the most senior were aged 40-49 years. This age group can influence the significance of responses from respondents.

Most of the respondents who filled out the questionnaire were Bachelor (S1) graduates, namely 22 Senior High School graduates (21.2%), then 13 Masters graduates (12.5%), and 7 Diploma graduates (6.7%), and the fewest respondents were Junior High School graduates, namely, three people (2.9%). Educational background shows that most respondents have a relatively high level of education, which influences how they understand and respond to the questions given in the questionnaire. The demographic characteristics of age and education provide implications for adjusting communication strategies and program implementation that are more appropriate to the respondent's demographic profile.

Respondents who worked at MFIs for > 5 years were eight people (17.3%), then for 3-5 years, there were 41 people (39.4%), and the fewest respondents who worked at MFIs for < 3 years were 18 people (17.3%). Most respondents had significant work experience in MFIs; 39.4% worked for 3-5 years. This shows that respondents have a fairly strong understanding of the operational systems and dynamics in MFIs. This understanding provided valuable insight into this research.

The current position or position of respondents is mostly in the Manager position, namely 36 people (34.6%), followed by respondents in the Main Director position with 31 people (29.8%). Treasurer/Secretary with 16 people (15.4 %), followed by Deputy Director/HR Director/Financial Director/Business Director/Director as many as 11 people (10.6%), and the least in the position of Chairman of the Management is ten people (9.6%). Respondents were dominated by those in managerial positions, especially Managers (34.6%) and President Directors (29.8%). This means that the respondents studied have an important role in decision-making and operational management in MFIs. The implication is that the research results can describe the experiences and views of decision-makers in MFIs. Therefore, the implications of this research relate to developing strategies for managing leadership and decision-making in MFIs. This can have an impact on the design of policies or programs to improve the overall financial performance and sustainability of MFIs.

4.1. Outer Model

In this research, the method used to analyze data is Partial Least Square Structural Equation Modeling (PLS-

SEM) using SmartPLS Version 3 software. The data management process includes testing the measurement model (outer model) and testing the structural model (inner model). The research results show that all indicators have a loading factor of >0.6 , which is ideal for convergent validity values.

Table 2: Validity Result

Variable	Indikator	Loading Factor	Hasil
Ambidextrous Leadership	AL1	0.893	Valid
	AL2	0.870	Valid
	AL3	0.856	Valid
	AL4	0.880	Valid
	AL5	0.901	Valid
Business Model	BM1	0.824	Valid
	BM2	0.923	Valid
	BM3	0.865	Valid
	BM4	0.802	Valid
Environmental Dynamism	ED1	0.875	Valid
	ED2	0.896	Valid
	ED3	0.855	Valid
	ED4	0.881	Valid
Financial Performance	FP1	0.678	Valid
	FP2	0.883	Valid
	FP3	0.833	Valid

One way of testing discriminant validity is by looking at the AVE (Average Variance Extracted) value. It is declared that the construct meets discriminant validity if the construct's AVE value is more than 0.5 or 0.4-0.5, provided that the construct's Composite Reliability value is higher than 0.7.

Table 3: Discriminant Validity

	Average Variance Extracted (AVE)
Ambidextrous Leadership	0.775
Business Model	0.731
Environmental Dynamism	0.769
Financial Performance	0.644

The results of the discriminant validity test show that the variables ambidextrous leadership, business model, environmental dynamism, and financial performance have an AVE value greater than 0.5. These results show that all variables have met discriminant validity

Good reliability or a questionnaire used as a reliable and consistent research tool if the Cronbach's alpha and composite reliability values are more than 0.70. The statistical results of the reliability test can be seen in the following table

Table 4: Reliability Test

	Cronbach's Alpha	Rho_A	Composite Reliability	Result
Ambidextrous Leadership	0.927	0.932	0.945	Reliable
Business Model	0.876	0.882	0.915	Reliable
Environmental Dynamism	0.900	0.910	0.930	Reliable

Financial Performance	0.718	0.742	0.843	Reliable
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4.2. Inner Model

In this research, the method used to analyze data is Partial Least Square Structural Equation Modeling (PLS-SEM) using SmartPLS Version 3 software. Hypothesis testing was carried out using T-statistical analysis.

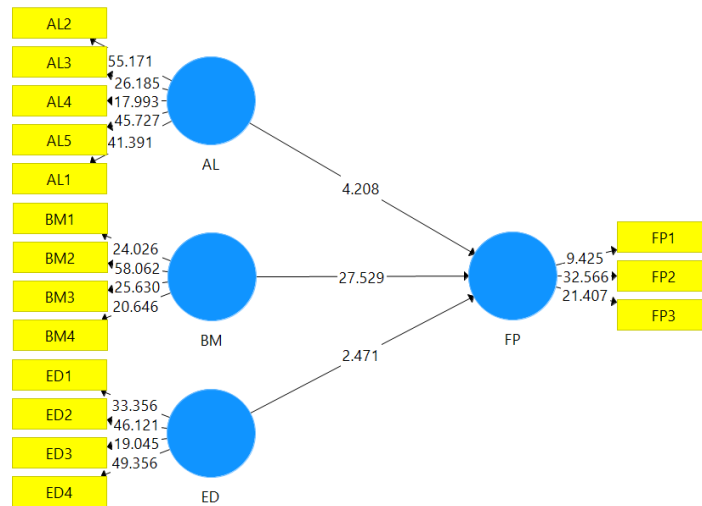


Fig. 1. Hypothesis Testing

In hypothesis testing, it can be said to be significant if the T-statistics value is greater than 1.96. In contrast, if the T-statistics value is less than 1.96, then it is considered not significant (Ghozali, 2016). T Statistics Ambidextrous Leadership on Financial Performance is 4,208, Business Model on Financial Performance is 27,529, and Environmental Dynamism on Financial Performance is 2,471. These results indicate that Ambidextrous Leadership, Business Model and Environmental Dynamism have a positive and significant effect on Financial Performance.

Table 5: Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic	P Values
AL to FP	0.176	0.172	0.042	4.208	0.000
BM to FP	0.741	0.745	0.027	27.529	0.000
ED to FP	0.120	0.122	0.048	2.471	0.014

The P-value provides information about how strong or weak the evidence the data has for the hypothesis. If p is smaller than 0.05, it means the hypothesis is accepted, and the latent variable relationship is significant. The analysis results show that the value of Ambidextrous Leadership, Business Model and Environmental Dynamism is positive, so it can be interpreted that the greater the Ambidextrous Leadership, Business Model and Environmental Dynamism, the higher the MFI Financial Performance.

Table 6: R Square

	R Square	R Square
Financial Performance	0.838	0.833

R-Square or Coefficient of Determination is a statistical measure used in regression analysis to evaluate the extent to which the regression model fits the data. R-Square ranges from 0 to 1, and the higher the value, the better the regression model can explain variations in the data. The R square in this research is 0.838, which means that all independent variables simultaneously affect 83.8% of Financial Performance. However, 16.2% was influenced by other variables not tested in this study.

Based on the result in Ambidextrous Leadership towards Financial Performance, the coefficient value (original sample) obtained is positive 0.125, with a t statistics value of 2.689 (>1.645) with a p-value of 0.004 (<0.05). So, according to decision-making using the 5% significance test, it can be concluded that ambidextrous leadership has a positive and significant effect on financial performance. Thus, the fourth research hypothesis, which suspects that ambidextrous leadership has a positive and significant effect on financial performance, is accepted, or the data supports the hypothesis.

This research is in line with a study that found that ambidextrous innovation (exploration and exploitation of innovation) and market orientation capabilities (the ability to sense the market and connect with customers) provide a positive and significant impact on service innovation and company performance (Tsai & Wang, 2017). Exploitation and exploration carried out in a balanced manner will result in collaboration thereby influencing marketing exploration and marketing exploitation on market performance (Ho et al., 2020). The results of testing hypothesis 4 are in accordance with the results of research conducted by (Luo et al., 2018) that ambidextrous leadership from the Chief Executive Officer can predict ambidextrous behavior from TMT in achieving company performance. These results are also in accordance with research (Tsai & Wang, 2017) that 170 service companies in Taiwan show that ambidextrous innovation (exploration and exploitation of innovation) and market orientation capabilities (the ability to sense the market and connect with customers) have a positive and significant impact on innovation company services and performance.

This research has strengthened previous research, which found that companies that recorded better financial performance actually placed more emphasis on their business model (IBM Global Business Services, 2006). The business model impacts company performance when leaders focus on efforts to improve the company's business model (Giesen et al., 2007). Significant changes to the business model will have an impact on existing strategic partnerships, thereby helping companies adopt flexible processes and procedures, businesses can reduce costs and increase their customer base (Pedersen et al., 2018). The research (H2) is accepted or the data supports the hypothesis. The results of testing hypothesis 2 are in accordance with the results of research conducted by Bouwman et al. (2018), an empirical study conducted which was positive and significant on 338 small European companies (SMEs) that actively use social media and big data for business model innovation.

Furthermore, the third research hypothesis (H3), which suspects that environmental dynamism significantly positively moderates (strengthens) the influence of the MFI business model on financial performance, is accepted, or the data supports the hypothesis. This research is in line with findings which state that companies that are able to remain competitive in a very dynamic environment will have a positive impact from entrepreneurial orientation on improving financial performance (Tajeddini & Mueller, 2018). This research also provides a different perspective on the moderating impact of environmental dynamics on company financial performance, even though there is research that finds that environmental dynamics

do not have a moderating effect on the relationship between entrepreneurial leadership and company performance (Rodríguez-Peña, 2021). Other findings highlight that uncertainty arises from the company's external environment (Jansen et al., 2006).

5. Conclusion

The results indicate that ambidextrous leadership involving a balance between innovation and efficiency-focused behaviors positively influences MFI's financial performance. Furthermore, frequently re-evaluating and reconfiguring business models to meet dynamic market needs enhances financial sustainability. The findings also underscore the need to build capabilities in Indonesian MFIs to effectively adapt strategies and operations according to rapid environmental changes and exploit emerging opportunities. By highlighting critical individual, organizational and environmental drivers, the study extends limited empirical evidence on improving microfinance outcomes in emerging Asian economies. However, constraints related to cross-sectional self-reported data implies that hypothesis testing was exploratory. Future studies can adopt longitudinal designs of this study in other geographic places.

The results of this research can enrich the literature on ambidextrous leadership and its impact on company financial performance. A leader's ability to integrate and balance opposing elements—such as efficiency and innovation, exploration and exploitation, or short- and long-term goals—is known as ambidextrous leadership. The premise behind this concept is that effective leadership requires a balance between the demands of stability and efficiency in ongoing operations (exploitation) with the need for creativity and adaptation (exploration). Organizational ambidexterity, or an organization's ability to manage exploration and exploitation activities well, is often associated with the idea of ambidextrous leadership. Practically, the results of this research help leaders in microfinance institutions (MFIs) develop themselves in terms of ambidextrous leadership, especially in combining exploration and exploitation in their leadership practices to improve the financial performance of MFIs.

This research also helps fill a gap in the literature on how certain business model characteristics can impact financial performance. It is also important to realize that the positive impact of an innovative business model can come from a variety of factors, including increased efficiency, mastery of new technologies, product differentiation, and changes in the way companies interact with customers. The importance of creating added value for consumers as a factor that increases company loyalty and competitiveness is also in line with modern business trends. Companies that are able to understand and meet customer needs in innovative ways tend to be more successful. Understanding that a business model that is too complex can hinder company performance is also an important finding. Excessive complexity can complicate implementation, increase operational costs, and make it difficult for companies to adapt to market changes. Therefore, practically, MFI management can improve and adjust the business model design so that companies can seek a balance between innovation and complexity, focusing on elements that provide added value without complicating the process. Depending on how effectively a business responds and adapts to changes in its environment, environmental dynamism can have varying impacts on financial performance. Research shows that environmental dynamics at a certain level have the potential to drive strategic innovation and adaptability, which ultimately results in improved financial performance. Businesses that are flexible and quick to adapt their strategies may be better positioned to deal with obstacles or take advantage of new possibilities in a fast-moving environment. Theoretically and practically, this research not only provides a strong foundation for understanding environmental dynamics but also the importance of adapting and responding to environmental dynamics that are full of uncertainty. Therefore, leaders must learn to increase adaptability and responsiveness which have an impact on the financial performance of MFIs.

However, not all businesses benefit equally from this partnership. Financial performance may

experience difficulties and uncertainty caused by an environment with a high level of dynamism. For example, rapidly changing business conditions may require large technological, research and development expenditures, or other areas. A company's ability to exploit environmental dynamism for financial gain depends on its internal capabilities, such as managerial skills, organizational flexibility, and the capacity to innovate. Companies with strong adaptive capabilities and effective strategic management are more likely to transform environmental dynamism into competitive advantage.

The results of this study highlight that ambidextrous leadership involving a balance between innovation and efficiency-focused behavior has a positive effect on MFI's financial performance. Additionally, regular re-evaluation and reconfiguration of business models to meet dynamic market needs will improve financial sustainability. These findings also underscore the need to build the capacity of MFIs in Indonesia to effectively adapt their strategies and operations.

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