

EXTERNAL AND INTERNAL FACTORS, HAS AN IMPACT ON MSME PERFORMANCE?

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Abstract

The objectives of this study are (1) to analyze external factors consisting of aspects of government policy, aspects of the role of relevant agencies, and social, cultural, and economic aspects of the performance of Micro, Small, and Medium Enterprises (MSMEs). ; (2) analyze internal factors consisting of aspects of Human Resources (HR), financial aspects, technical and operational aspects, as well as market and marketing aspects in the performance of Micro, Small and Medium Enterprises (MSMEs). The data collection method used a questionnaire, the research sample was 250 MSME entrepreneurs registered at the Trade Office of Sidoarjo Regency. Data analysis using SEM with smart PLS 3.0 application. The results of the study indicate that there is a significant and positive influence of external factors on the performance of MSMEs; there is a significant and positive influence of internal factors on the performance of SMEs.

Keywords: External factors, Internal factors, MSMEs performance

1. INTRODUCTION

MSMEs are the most important pillars in the Indonesian economy. The Indonesian MSME sector plays a strategic role in creating jobs, new businesses and contributing greatly to Gross Domestic Product (GDP) (Sarwono, 2015). Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs currently reaches 64.2 million with a contribution to GDP of 61.07% or worth 8,573.89 trillion rupiah (Hanggraeni et al., 2019). The contribution of MSMEs to the Indonesian economy includes the ability to absorb 97% of the total workforce and can collect up to 60.4% of the total investment (Kementerian Koordinator Bidang Perekonomian Republik Indonesia, 2021). Seeing the contribution of the MSME sector gives an illustration that Indonesia is still dependent on the growth of the MSME sector, and makes the MSME sector a key factor in national economic development (Hanggraeni et al., 2017; Sadalia et al., 2021).

The MSME sector is a vital aspect of economic growth, but development goals are hampered by external and internal factors

(Southiseng & Walsh, 2010). Situations and conditions that are always changing require resource strength which includes all material and non-material aspects of the company in carrying out its business activities and functions for commercial production (Lofian & Riyoko, 2014). Constraints from external and internal factors include financial sources, management, marketing, unskilled workers, information weaknesses, government regulations, inability to exploit new products because of limited organizational and marketing capabilities, reluctance to change, tendency to ignore procedure, focus on short-term requirements, lack of strategic vision, diffusion of a blame culture and scanty attention to innovation (Southiseng & Walsh, 2010; Tanabe, Koji; Watanabe, 2005).

Business performance is a management activity in managing a company that can be seen in the form of progress, success, or deficiencies that occur in the company, sales levels, margin rates, returns on capital, turnover rates and the extent of market share achieved (Lanang et al., 2014) (Munizu, 2010) (Yanti, 2020). Business performance is a business owner who invests

in the company by assuming two criteria to measure the company's performance: 1) the reward for their capital investment, and 2) the risk of their capital investment (Siagian et al., 2019)

MSME performance is influenced by sales growth, capital growth, labor growth, market growth and profit growth (Lofian & Riyoko, 2014)(Purwaningsih & Kusuma Damar, 2015)(Siagian et al., 2019) .

Several previous studies have tried to focus on only one variable such as internal factors or business characteristics on performance. These studies analyze internal variables such as innovation, technology, operational activities, strengthening human resources, marketing, and research and development (Brenes et al., 2016; Brustbauer, 2016; Kianto et al., 2017). Another study on the effect of market strategy on performance or called the *Resource-Based-View* (RBV) concept from Schumpeter where resources, management, and control become significant variables from internal companies in influencing the sustainability of business performance (Yu et al., 2017). Internal factors that affect the performance of Micro, Small and Medium Enterprises (MSMEs) are human resources factors, financial factors, production factors, and marketing factors (Munizu, 2010; subroto, setyowati, hapsari, ira maya, astutie, 2016).

According to (Robbins & Coulter, 2013) External factors are factors that are beyond control that affect the company's direction and actions, which in turn also affect the organizational structure and internal processes (Munizu, 2010). External factors are conditions outside the company that can affect the life of the company (Lofian & Riyoko, 2014). External factors of MSMEs are factors that come from outside MSMEs while these factors can hinder the development of MSEs,

these external factors include Aspects of government policy in the MSME sector, Socio-cultural and economic aspects, Aspects of the role of related institutions (subroto, setyowati, hapsari, ira maya, astutie, 2016). While research on the role of external factors on the performance of MSMEs or better known as the concept of market-based view which is associated with competition, industry, and government (Li et al., 2017; Meutia, & Ismail, 2015; Purnama & Subroto, 2016).

Research on the influence of external and internal factors on the performance of MSMEs which shows the results that external factors have a positive and significant effect on the performance of MSMEs (Hanggraeni et al., 2017, 2019; Munizu, 2010). Research conducted by (Lanang et al., 2014) found that external and internal factors significantly influence the performance of MSMEs, but the most dominant influence is internal factors. The results of research from (Purwaningsih & Kusuma Damar, 2015) state that external factors affect the performance of MSMEs. From the three studies, it can be concluded that there is an external influence on the performance of MSMEs. Meanwhile, research conducted by (Siagian et al., 2019) showed that external factors did not significantly affect the performance of MSMEs.

Covid19 is one of the external factors currently faced by MSMEs, various policies and regulations have been made by the government to stop its spread. One of the policies implemented is the existence of large-scale social restrictions so that MSME entrepreneurs temporarily stop their business or even cannot maintain their business. Based on data released by BPS, around 84.20% of MSMEs experienced a decrease in income (Badan Pusat Statistik, 2020). Based on the above phenomenon, the authors are interested in studying the influence of external factors

and internal factors that affect the decline in the performance of MSMEs.

- H1: external factors affect the performance of MSMEs?
- H2: internal factors affect the performance of MSMEs?

2. RESEARCH METHODE

This research was conducted on MSMEs registered in the Disperindag of Sidoarjo Regency. Research variables consist of exogenous variables and endogenous variables. Exogenous variables are external factors (X1) which are formed by aspects of government policy, socio-cultural and economic aspects, and aspects of the role of related institutions. Exogenous variable 2 (X2) is internal factors formed by the variables of human resource aspects, financial aspects, technical aspects of production and operations, and market and marketing aspects. The endogenous variable is the Performance variable (Y) with 5 indicators that make it up. Measurement of research variables is based on respondents' perceptions or responses to all variable indicators that

Based on the results that are still different from previous research studies, it raises the following problems:

have been constructed in the model. Respondents' answers to each statement were scored according to a Likert Scale, with a score of 1 for the lowest value and a score of 4 for the highest value.

The population in this study is Micro, Small and Medium Enterprises (MSMEs) registered in the Disperindag Sidoarjo Regency. Respondents used as samples are owners or business actors. The number of samples used as respondents is 250 business actors. Due to social restrictions and limited research time, the first step in distributing the questionnaire was using a google form through the WhatsApp group media. Furthermore, after the data is collected, it is analyzed using a structural equation model (SEM) based on partial least squares using Smart PLS 3.0 Software".

3. RESEARCH RESULT

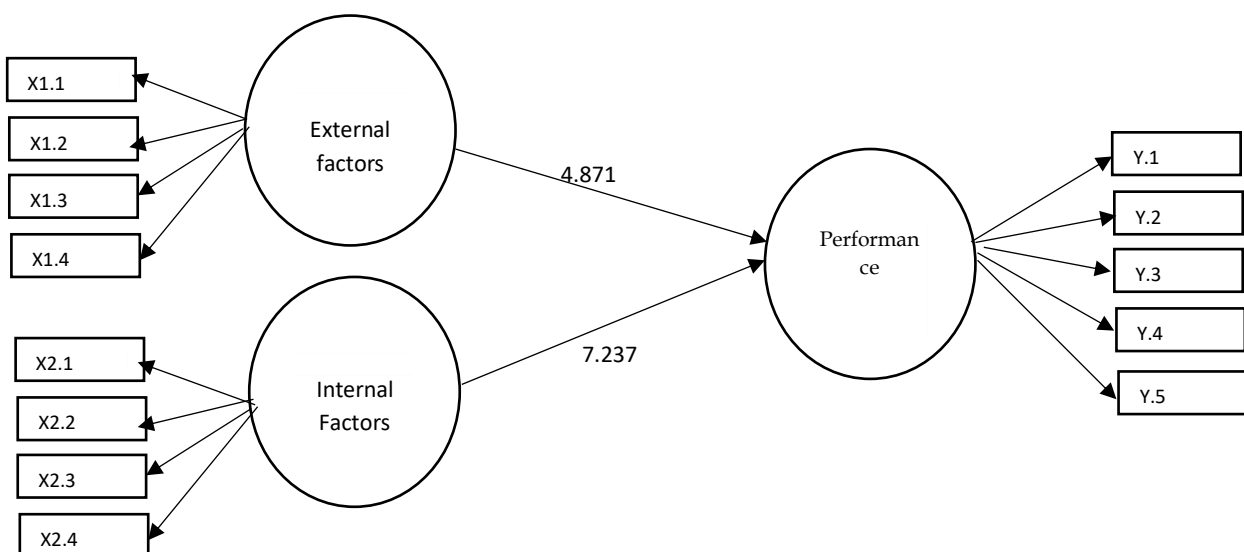


Figure 1: The results of testing the causal relationship of external factors and internal factors on MSME performance

The test of convergent validity is used to find out how the validity of each relationship between the indicators and the constructs and latent variables is". To test convergent validity, use the value of the outer loading or loading factor. An indicator can be said to meet convergent validity as a good group if the outer loading value is > 0.7 . The following is the result of the outer loading indicator forming external variables:

Table 1 Outer loading external factors

Variable	Indicator	Outer Loading
External factors	X1.12	0.739
	X1.14	0.726
	X1.16	0.794
	X1.6	0.799
	X1.7	0.892
	X1.8	0.760
	X1.9	0.708

Based on the data in table 1 above, it is known that each research variable indicator has an outer loading value of > 0.7 . The data above shows that there is no indicator variable whose outer loading value is below 0.7, so all

indicators are declared feasible or valid and meet convergent validity to be used as a measure of research variables. Thus, the analysis can be continued on the Discriminant Validity test.

Table 2 Outer loading Internal factors

Variable	Indicator	Outer Loading
Internal factors	X2.13	0.902
	X2.14	0.805
	X2.15	0.923

Based on the data in table 2, it is known that each "research variable indicator has an outer loading value of > 0.7 . The data above shows that there is no indicator variable whose outer loading value is below 0.7, so all

indicators are declared feasible or valid and meet convergent validity to be used as a measure of research variables. Thus, the analysis can be continued on the Discriminant Validity test.

Table 3 Outer Loading Performance

Variable	Indicator	Outer Loading
Performance	Y1	0.748
	Y2	0.900
	Y3	0.789

Based on the data in table 3 above, it is known that each research variable indicator has an outer loading value of > 0.7 . The data above shows that there is no indicator variable whose outer loading value is below 0.7, so all indicators are declared feasible or valid and meet convergent validity to be used as a measure of research variables. "Thus, the analysis can be continued on the Discriminant Validity test".

Table 4. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
External factors	0.603
Internal factors	0.771
Performance	0.664

Based on table 4 above, it is known that external factors, internal factors, and the performance of MSMEs have an average variant extracted > 0.5 . Thus, it can be said that each variable has good discriminant validity.

Reliability test is a test conducted to see whether the measuring instrument used is

reliable or effective to measure the variable. The reliability test assessment is by looking at composite reliability and Cronbach's alpha, where the composite reliability and Cronbach's alpha values are declared reliable if > 0.7 . Composite reliability and Cronbach's alpha values from this test are as shown in the following table:

Table 5 Composite Reliability

Variable	Composite Reliability
External factors	0.913
Internal factors	0.910
Performance	0.855

Based on the data presented in table 5 above, the composite reliability value of all research variables is > 0.7 . These results indicate that each variable has met composite reliability so that it can be concluded that all variables have a high level of reliability.

Table 6. Cronbach's alpha

Variable	Cronbach's Alpha
External Factors	0.890
Internal Factors	0.850
Performance	0.743

Based on the data presented above in table 6, the Cronbach alpha value of each research variable is > 0.7 . Thus, these results can indicate that each research variable has met the requirements of the Cronbach alpha value, so it can be concluded that all variables have a high level of reliability.

This study will explain the results of the path coefficient test, goodness of fit test and hypothesis testing.

R square is the value of the dependent variable/endogenous variable, or commonly called the Y variable, which is a variable that can be influenced by exogenous variables. The r square assessment is to see how much the value of the X variable (exogenous variable) affects the Y variable (endogenous). Chin said that the R result of 0.633 and above for endogenous latent variables in the structural model" indicates the effect of exogenous variables (which affect) on endogenous variables (which are influenced) is in the good category. Meanwhile, if the result is 0.33 - 0.67 then it is included in the medium category, and if the result is 0.19 - 0.33 then it is included in the weak category. Path coefficients are values to indicate the direction of the variable relationship. Analysis of path coefficients is to measure whether the influence of exogenous variables on endogenous variables has a positive or negative direction.

Based on the data processing that has been done using the smart PLS 3.0 program, the R-Square values are obtained as follows:

Table 7. R Square

	R Square	R Square Adjusted
MSMEs Performance	0.633	0.618

Table 7 above explains the value of r square from this study is 0.63 meaning it explains that the endogenous variable (Y) is influenced by 63 percent by exogenous variables (X1, X2), the remaining 37 percent of performance is influenced by variables outside of these exogenous variables.

Hypothesis testing in this study can be seen through the value of T-Statistics and the value of T-Table. The hypothesis in this study can be declared accepted if the T-Table value is > 1.96. To assess the significance of the model, it can be seen from the t-statistic value between the independent variables to the dependent variable in the Path Coefficient table at the Smart PLS output below:

Table 8 T-Statistic

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	Result
External Factors → MSMEs Performance	0.404	0.415	0.083	4.871	Significant
Internal Factors → MSMEs Performance	0.566	0.562	0.083	7.237	Significant

Based on the results of statistical calculations, it can be concluded that external factors have a positive and significant effect on the performance of MSMEs, as shown in table 8 where the t statistic is 4.871 > 1.96. The

original sample value shows a positive value of 0.404. Based on the test above, it can be explained that the H1 of this study is accepted. External factors, namely aspects of government policy, social, cultural, and

economic aspects, aspects of the role of related institutions affect the performance of MSMEs. The results of this study are in accordance with the results of research (Hanggraeni et al., 2017; Lanang et al., 2014; Meutia, & Ismail, 2015; Munizu, 2010; subroto, setyowati, hapsari, ira maya, astutie, 2016) saying that external factors affect the performance of MSMEs.

Based on the results of statistical calculations, it can be concluded that the internal factors have a positive and significant effect on the performance of MSMEs, as shown in table 8 where the t statistic value is $7.237 > 1.96$. The original sample value shows a positive value of 0.566. Based on the test above, it can be explained that the H2 of this study is accepted. The results of this study empirically indicate that the respondents in this study argue that good internal factors such as aspects of human resources, financial aspects, technical and operational aspects, as well as market and marketing aspects will help MSME owners to achieve sales growth, capital, profits, and the market. These results are in accordance with the results of research (Brenes et al., 2016; Brustbauer, 2016; Lofian & Riyoko, 2014; Munizu, 2010; Tanabe, Koji; Watanabe, 2005; Yu et al., 2017) that internal factors have a positive and significant influence on business performance.

4. CONCLUSION

1. External factors consisting of aspects of government policy, social, cultural, and economic aspects, and aspects of the role of related institutions have a significant and positive effect on the performance of MSMEs registered at the Industry and Trade Office of Sidoarjo City.

2. Internal factors consisting of aspects of human resources, financial aspects, technical and operational aspects, as well as market and marketing aspects have a significant and positive effect on the performance of MSMEs registered with the Industry and Trade Office of Sidoarjo Regency.

5. IMPLICATIONS

1. The internal and external strength factors of MSMEs are proven to have a positive effect on performance. This result can be an important note for MSMEs that owners should pay more attention to managing their organization's internal problems in terms of human resources (HR), marketing, operations, and technology. For example, in HR, owners need to pay attention to how businesses can provide a competitive advantage to retain their employees over competitors. Whereas in finance, the owner must first separate his personal and business assets and have a financial record of his business to track his profit and loss as the basis for his future business strategy. In operational matters, they can make several efforts such as developing production efficiency to get a more profitable business. On external factors, knowing how to compete with competitors also affects the performance of SMEs in capturing market share and high levels of profitability. If these factors are improved, it will improve their performance, their position in the market, and their ability to generate profits. Thus, MSMEs are expected to be able to maintain their sustainability in the long term.
2. Based on the results in this study, it is known that MSMEs lack the awareness

to develop their business. Therefore, organizations related to the introduction of this sector need to pay more attention to the practice of MSMEs and provide equitable assistance or assistance that can also reach disadvantaged areas; and build awareness of MSMEs to implement strategies that can help them grow their businesses. Then, giving the right treatment by grouping MSMEs – for example based on the size of their business – can have a better impact on MSME growth.

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41

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