

The Role of Internal and External Environment For The Sustainability of MSMEs

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Abstract: The existence of MSMEs has become a support for the recovery of the national economy after Indonesia was hit by a crisis during the pandemic. The role of MSMEs is very large in driving Indonesia's economic activities, both as primary and secondary sources of income. MSMEs in Indonesia have an important contribution as a support for the economy. The main driver of the economy in Indonesia so far has basically been the MSME sector. Apart from playing a role in national economic growth and employment, MSMEs also play a role in the distribution of development results and are a driving force for the growth of national economic activity. The existence of MSMEs is very helpful for people who have no income or who don't have a job (unemployed), where people can open small businesses in their surroundings so that they can earn income, even though this small one is very helpful for their daily needs. To support the survival of SMEs, it is necessary to provide support and facilities for their development, especially among poor families and/or in underdeveloped areas and pockets of poverty. This research is a literature review research that discusses the factors studied in research related to the analysis of the internal and external environment of an industry or business. The object of this research is a research article that identifies internal and external environmental factors in MSMEs/UKM in Indonesia in the year of publication 2016-2023. The process of searching for articles used as literature through the literature review method is a systematic, explicit, reproducible method for identifying, evaluating and synthesizing research works that have been produced by researchers. Every business is always faced with an ever-changing environment. This condition is not possible without an adjustment process to existing internal conditions. The external and internal environment is the key to the survival of MSMEs.

This paper discusses the role of the internal and external environment in ensuring the survival of MSMEs.

INTRODUCTION

Micro, Small and Medium Enterprises is one of the main pillars in the national economy. The existence of MSMEs has become a support for the recovery of the national economy after Indonesia was hit by a crisis during the pandemic. The role of MSMEs is very large in driving Indonesia's economic activities, both as primary and secondary sources of income. MSMEs in Indonesia have an important contribution as a support for the economy. The main driver of the economy in Indonesia so far has basically been the MSME sector. Apart from playing a role in national economic growth and employment, MSMEs also play a role in distributing development results and are the driving force behind the growth of national economic activity (Ulhaq et al, 2022). MSMEs are the business group that has the largest number. In addition, this group has proven to be resilient to various kinds of economic crisis shocks. So it is imperative to strengthen the Micro, Small and Medium Enterprises group which involves many groups (Beirne et al., 2020). MSMEs are business activities that are able to expand employment, become the backbone of the people's economic system in the process of equity and increase people's income which contributes a lot to accelerating regional economic development and the national economy (Mihani et al, 2020).

The existence of MSMEs is very helpful for people who have no income or who don't have a job (unemployed), where people can open small businesses in their surroundings so that they can earn income, even though this small one is very helpful for their daily needs. To support the survival of SMEs, it is necessary to provide support and facilities for their development, especially among poor families and/or in underdeveloped areas and pockets of poverty. The development of micro-scale businesses is aimed at increasing business capacity and business management skills, as well as at the same time increasing business certainty and protection, so that they become business units that are more independent, sustainable and ready to grow and compete.

The sustainability of MSMEs in facing a pandemic is inseparable from the firm's goals, namely consumer or customer satisfaction can be achieved through the formulation of a good strategy (Setioko et al, 2022). In facing competition, Micro, Small and Medium Enterprises (MSMEs) need an integrated strategy that can anticipate the impact of an incident and be innovative to maintain and improve their competitiveness (Mihani et al, 2020). Basically the performance of the Micro, Small and Medium Enterprises (MSMEs) sector is influenced by two main factors, namely external factors and internal factors. Internal factors are factors that originate from within the business and can usually be controlled. Meanwhile, external factors are factors originating from outside business activities that are difficult to control (Siswanti, 2020). To maintain a competitive advantage in the future, MSMEs need to pay attention to the business environment. The environment also has a very important role for MSMEs, especially in selecting directions and formulating strategies (Pereira et al, 2022).

LITERATURE REVIEW

Micro Small And Medium Enterprises

Law number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs) defines MSMEs as follows:

- a. Micro enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for Micro Enterprises as stipulated in this Law.
- b. Small Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or not branch companies that are owned, controlled, or become part either directly or indirectly of Medium Enterprises Large Enterprises that meet the criteria of Small Enterprises as referred to in this Law.
- c. Medium Business is a productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become part of either directly or indirectly with Small Businesses or Large Businesses with total net worth or annual sales proceeds as regulated in this Law.

Based on wealth and sales proceeds, according to Law Number 20 of 2008 article 6, the criteria for micro businesses are:

- a. Have a maximum net worth of Rp. 50,000,000.00 (fifty million rupiah) excluding land and buildings for business premises; or
- b. Have maximum annual sales proceeds of IDR 300,000,000.00 (three hundred million rupiahs).

Classification of Micro, Small and Medium Enterprises (Siswanti, 2020):

- a. Livelihood Activities, are MSMEs that are used as work opportunities to make a living, which are more commonly called the informal sector. For example street vendors.
- b. Micro Enterprise, is an MSME that has the nature of craftsmen but does not yet have entrepreneurial characteristics.
- c. Small Dynamic Enterprise, is an MSME that has an entrepreneurial spirit and is able to accept subcontracting and export work.
- d. Fast Moving Enterprise, is an MSME that already has an entrepreneurial spirit and will transform into a Big Business.

Internal And External Environment

The industrial environment is a combination of all conditions and events that affect a business. A business needs to understand the environmental factors that influence it. The business environment consists of factors which are classified as external and internal factors. The industrial environment is a series of threat factors from new business actors, suppliers, buyers, substitute products, and the intensity of competition among competitors that directly affect the firm and its competitive actions and responses.

Firm internal environment

Every business is always faced with an ever-changing environment. This condition is not possible without an adjustment process to existing internal conditions. The internal environment is a reflection of the strengths or weaknesses of a firm organization and can reflect management's ability to manage the firm (Lofian, 2014). This can show the strength of resources, including all material or non-material aspects owned by the firm in carrying out its business and functions for commercial production.

Internal factors are the situation within the firm which includes strengths and weaknesses both in terms of operations in the form of marketing functions, production, human resources and managerial aspects related to planning, coordination, supervision and all firm operating activities (Mihani, 2020). The internal environment is where managers work which includes organizational culture, technology and others. To find out the strengths and weaknesses of resources, a resource-based view (RBV) approach is needed. Proponents of the RBV review state that organizational performance will be largely determined by internal resources which can

be grouped into three all-encompassing categories (Pereira, 2022); 1) physical resources, 2) human resources, and 3) organizational resources. In addition, the internal environment can be analyzed by observing the firm's expertise and resources according to the firm's business functions such as: Management, Marketing, Finance and Accounting, Production and Operations, Research and Development (Research and Development), Management Information Systems.

Internal environment includes firm resources that determine weaknesses and strengths. These resources consist of human resources, namely the experience, abilities, knowledge, expertise of all employees of the firm. In addition, resources also consist of firm resources which include processes (firm systems), finance, marketing, information systems, culture, management and research. Other resources are physical resources such as factories, machines, locations, distribution networks, equipment and technology (Fitriani, 2020).

The firm's external environment

The firm's external environment (external business environment) are various factors outside the organization that must be taken into account by the firm's organization when making decisions. The firm's external environment is all events outside the firm that have the potential to affect the firm (Ulhaq et al, 2022). External factors are factors that are outside the firm which are opportunities and threats for the firm, which include the socio-economic sector, the technology sector, the supplier sector, the competitor sector and the government sector (Mihani and Hutaaruk, 2020). The external environment is an environmental influence that comes from outside the firm, both those that are very close to the firm and those that are quite far away, and will directly or indirectly affect the firm's activities as a whole (Siswanti, 2020). The external environment is known to have a large role in influencing managerial decision making, processes and organizational structures (Pereira et al, 2022).

The firm's external environment consists of (Dhamarani and Ghina, 2016):

- a. Customer (Customer) is the main component of every firm. Without customers running a business would be just an empty gesture. The most important task of any firm is to retain customers. Another major goal of every business organization is customer satisfaction. Without customer satisfaction, a business cannot grow and prosper.
- b. Competitors (competitors), greatly influence the business policies and strategies undertaken. In every product launch, a firm must pay attention to other companies. Without competition, the market can become a monopoly, so that competition in the market becomes imperfect.
- c. Regulatory Environment (Regulatory Environment), Government with regulations that have been formed, controls the functioning of the market in a country. government control of economic functions varies greatly from country to country. However, existing regulations and government economic activities in any country serve to enforce a country's regulatory environment. There is no room to deny the fact that the constitutional framework or economic policies of the government directly affect the operation of any business organization.

External environmental analysis identifies opportunities and threats for companies in running their business. The firm's external environment can be grouped into two parts, namely the general environment (distant environment) and the industrial environment (near environment). The general environment is an external environment that has no direct influence on the firm. While the industrial environment is an external environmental factor that directly affects the firm. The general environment of the firm includes economic, social, technological,

political and governmental factors. The firm's industrial environment includes customer, supplier and competitor factors (Javandira and Gama, 2018).

METHOD

This research is a literature review research that discusses the factors studied in research related to the analysis of the internal and external environment of an industry or business. The object of this research is a research article that identifies internal and external environmental factors in MSMEs/UKM in Indonesia in the year of publication 2016-2023. The process of searching for articles used as literature through the literature review method is a systematic, explicit, reproducible method for identifying, evaluating and synthesizing research works that have been produced by researchers. Research work in this study was obtained through search engines on Sinta Jurnal and Google Scholar, and obtained the work of a total of 49 articles. The article evaluation technique uses a descriptive method in the form of graphs and/or charts showing the number (in percent) of both internal and external environmental factors identified in the work or article. The sample distribution of the search results for works/articles based on MSME business fields is as follows:

Table 1. Sambal Distribution Based on MSME Sector

No.	Business fields	Number of SMEs
1	Food	28
2	Convection	5
3	Service	7
4	Furniture	5
5	Fishery	4
Number of SMEs		49

RESULT AND DISCUSSION

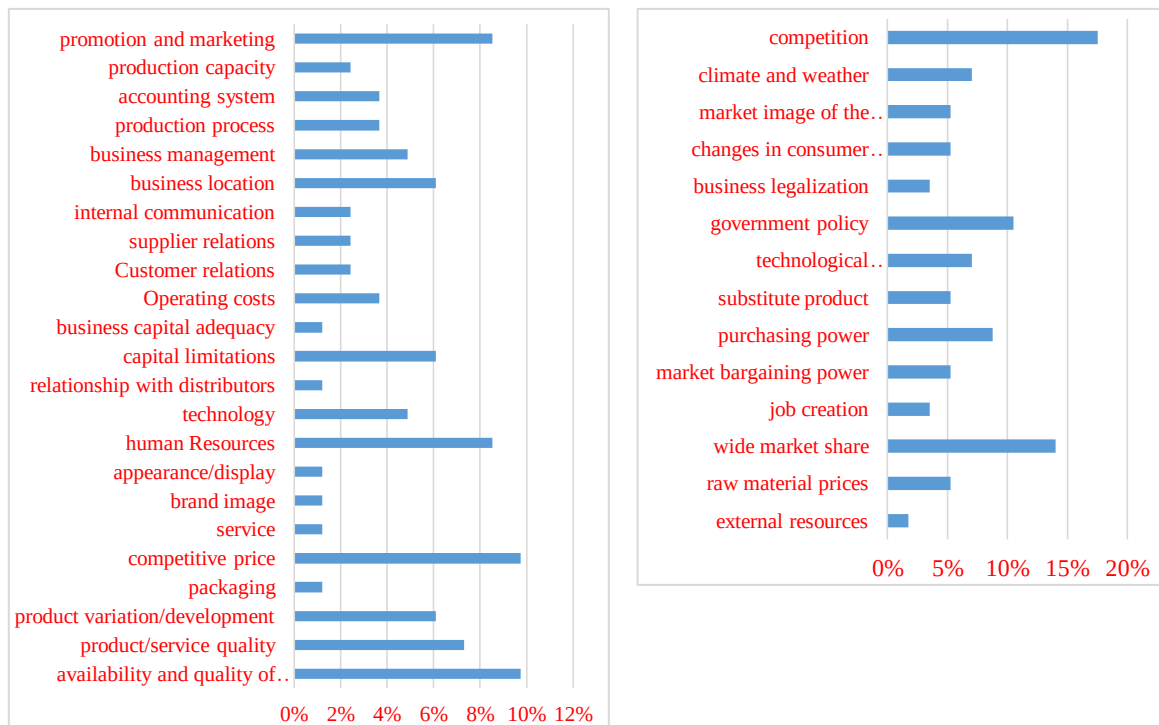
Based on the collection of research samples, the results of a descriptive analysis were obtained to describe what internal and external factors influence MSMEs in running their business. To be able to get an overview of the identification of business environmental factors in this study describe internal and external environmental factors based on business sector and the overall sample.

1. Internal and external environmental factors for MSMEs in the food business sector

The description of the internal and external factors of MSMEs in the food business sector is shown in graph 1 below.

Internal Factor

External Factor



Graph 1. Internal and External Factors of MSMEs in the Food Business Sector

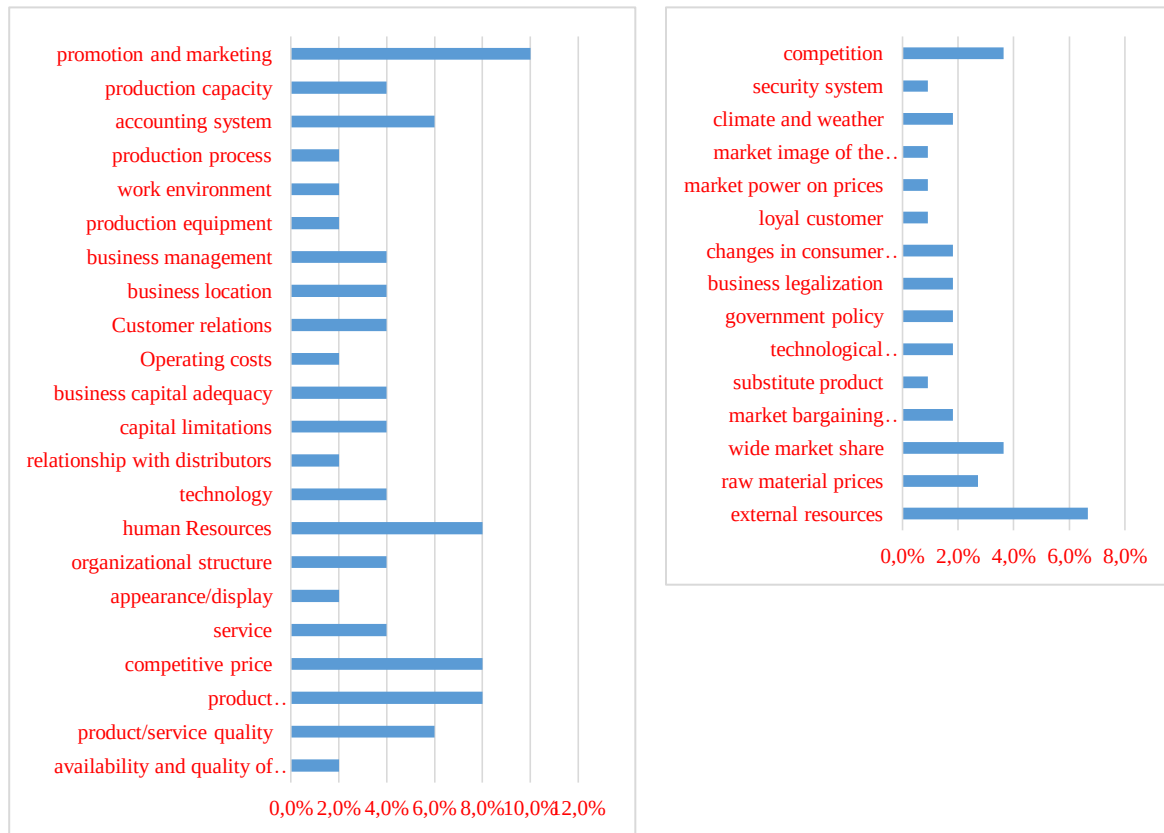
Graph 1 shows that the internal environmental trend factors that generally influence MSMEs in determining their business strategy in the food business sequentially are the availability and quality of food raw materials, prices are set competitively so that consumers can afford to buy them. MSMEs feel that labor/employees are a factor that must be a concern. Promotion and marketing activities are also important internal factors. Furthermore, product quality, product variety, business capital and business location are also factors that affect MSME operations. While external environmental factors, competition, market share, and government policies affect MSMEs in the food business sector.

2. Internal and external environmental factors for MSMEs in the convection business

The description of the internal and external factors of MSMEs in the convection business sector is shown in the following graph 2.

Internal Factor

External Factor



Graph 2. Internal and External Factors of MSMEs in the Convection Business Sector

Internal environmental factors that affect SMEs in the convection sector in general include promotions and marketing activities, human resource factors, price competitiveness with similar products and product variety. While the external factors that are dominant in the MSME convection business are external resources, competition and market share. Environmental factors in the convection business sector are slightly different from the environment that affects SMEs in the food sector. The difference lies in the strong influence of external resources on the convection business sector compared to the food sector. In the food sector it is stronger in its competitive position. Likewise on the internal factor that MSMEs in the food sector are more likely to be influenced by the availability of raw materials when compared to MSMEs in the less convection sector.

3. Internal and external environmental factors of SMEs in the service business sector

The description of the internal and external factors of MSMEs in the service business sector is shown in the following graph 3.

Internal Factor

External Factor



Graph 3. Internal and External Factors of MSMEs in the Service Business Sector

For SMEs in the service sector, in addition to promotion and marketing factors which generally dominate their influence on SMEs, the variety and development of service products needs to be a concern for service businesses. It is also interesting that MSMEs in the service sector are influenced by business location, employee expertise in serving consumers, price, and service quality. The external factors for MSMEs in the services sector are generally the same as those in the food and convection sectors, namely competition, technological developments, and market share.

Internal and external environmental factors for MSMEs in the furniture business

The description of the internal and external factors of MSMEs in the furniture business is shown in the following graph 4.

Internal Factor

External Factor



Graph 4. Internal and External Factors of MSMEs in the Furniture Business Sector

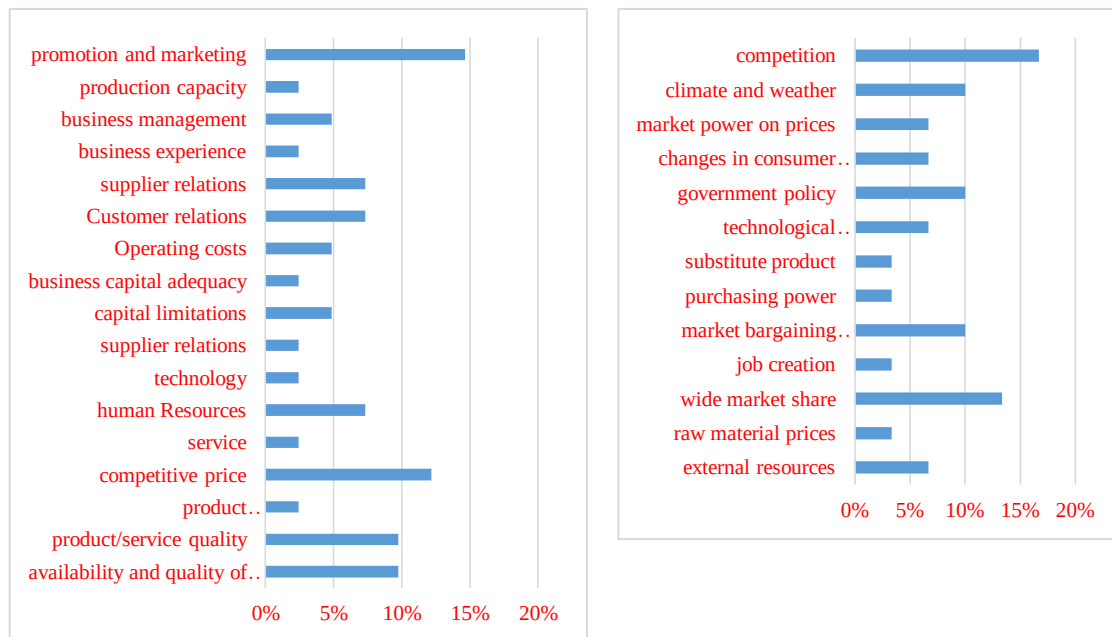
The internal and external environmental factors of MSMEs in the furniture business sector from all attributes obtained from the market are relatively the same. Only the quality of products and services generally influences the decision making of MSMEs. Consumers in buying furniture products are influenced by the quality of products and services as well as competitive prices. On external factors, MSMEs in the furniture sector pay more attention to competition, developments in information technology, changes in consumer attitudes and behavior and sluggish market share.

5. Internal and external environmental factors for UMKM in the fishery business

The description of the internal and external factors of MSMEs in the fisheries business sector is shown in the following graph 5.

Internal Factor

External Factor

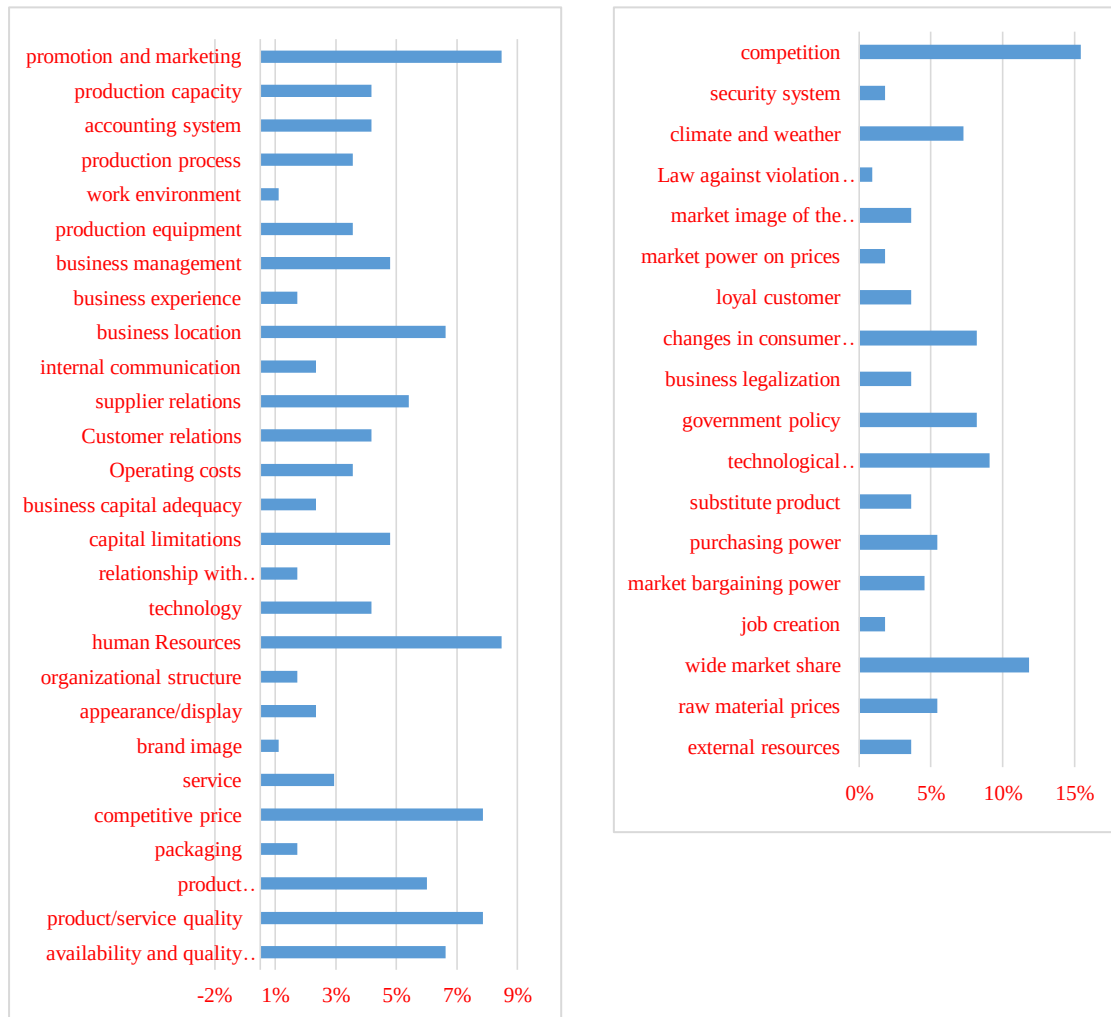


Graph 5. Internal and External Factors of MSMEs in the Fishery Business Sector

The internal and external environmental factors of MSMEs in the fishery business sector are generally relatively the same as those in the food, convection, service and furniture sectors. In addition to promotional and marketing activities, product prices, product/service quality, availability of raw materials, fisheries MSMEs are influenced by whether or not the relationship between suppliers and customers is strong. On the external factors, UMKM in the field of fisheries are also influenced by the market bargaining power of a product.

6. Overall internal and external environmental factors

The description of the internal and external factors of MSMEs as a whole is shown in the following graph 6.



Graph 6. Internal and External Factors of MSMEs in Overall Business Sector

Graph 6 shows the internal and external environmental factors of all samples in all MSME business fields. The environmental factors that affect the operation of MSMEs in running their business appear to have similarities in the factors experienced by MSMEs. The most experienced internal environmental factors that affect the operations of MSMEs are promotion and marketing factors, human resources, competitive product prices, product and service quality, availability and quality of raw materials, product variety and development, supplier relations, limited capital, and business management. . External environmental factors experienced by most MSMEs that affect MSME operations are competition, market share, developments in information technology, government policies, changes in people's behavior and lifestyle, and climate/weather.

CONCLUSION

The industrial environment has an influence on the running of the business/business. The industrial environment as a support in making business policies and providing direction and business goals. The industrial environment provides strengths, weaknesses, opportunities and threats for business and is used to determine business strategies that will be implemented in

winning business competition (Setiawan, and Feranita, Nungky, 2018). Every MSME has an internal and external environment that influences MSME operations. However, there are environmental factors that are commonly felt by MSMEs from all business fields. The same internal environmental factors experienced by MSMEs are promotion and marketing factors, human resources, business location, price, product variety and development, product and service quality, and availability and quality of raw materials. While external factors that are equally experienced by MSMEs are competition factors, market share, developments in information technology, people's behavior and lifestyle, as well as government policy factors. The results of this study provide an overview of the internal and external environmental factors experienced by MSMEs that affect MSME operations in Indonesia.

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