ENVIRONMENTAL IMPACT ANALYSIS OF EXTERNAL AND INTERNAL BUSINESSES AGAINST THE PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES

Firman Bachtiar [1), Agus Dwi Atmoko[2), Danis Imam Bachtiar[3)
Politeknik Sawunggalih Aji[1,2,3]
Email : firmanbach@polsa.ac.id[1], agus.ak@polsa.ac.id[2], danisbachtiar77@gmail.com[3]

Abstract: This study aims to obtain empirical evidence and find an explanation of the phenomenon of external and internal business environmental impacts on the performance of Small and Medium Enterprises (UKM) Tenant Business Incubators of the Sawunggalih Aji Polytechnic, Purworejo Regency. This type of research is a descriptive study of 60 respondents. Data is collected through notes or documents and in-depth interview techniques sourced from information from tenants in the Business Incubator. Data were analyzed using quantitative analysis and qualitative analysis. The results of research on the strategy of the Small and Medium Enterprises level in the Tenant Business Incubator in Strategic Planning in anticipating changes in the External and Internal Business Environment in the development of SMEs. It can also be explained by the political, security, and legal environment and the economic, technological, social, and cultural environment. Internal business environment variables can be explained by Product Development, Sales, and After Sales Services, and the target Performance Variables are Return On Assets, Return On Investment, and Return On Equity.

Keywords: *External, Internal, Performance and SME Business Environment*

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1. Introduction

Currently, Indonesia is the world's fourth most populous country, the world's tenth largest economy in terms of purchasing power parity, and a member of the G-20. In addition, Indonesia has achieved remarkable results in poverty reduction, whereby the poverty rate has decreased by more than half since 1999, to less than 10 percent by 2020. Indonesia's economic development planning follows a 20-year long-term development plan, from 2005 to 2025. The plan is divided into 5-year medium-term plans called RPJMN (National Medium-Term Development Plans), each with different development priorities. The current medium-term development plan is the last stage of the long-term development plan. This development plan aims to strengthen the Indonesian economy by increasing human capital and competitiveness in the global market.

However, there are still many development challenges faced by Indonesia. In addition, the global crisis caused by the COVID-19 pandemic has created challenges that have never been faced before in efforts to achieve Indonesia's various development goals. With the economic conditions affected by the pandemic, Indonesia's status changed from an upper middle-income country to a lower middle-income country starting in July 2021. The

pandemic has also hindered Indonesia's achievements in efforts to reduce poverty, from a record low of 9.2 percent in September 2019 to 10.4 percent in March 2021. Indonesia was able to record success in reducing the stunting rate from 37 percent in 2013 to below 28 percent in 2019. However, much work remains to be done to ensure Indonesia's strong human capital development and productivity. The World Bank's Human Capital Index reveals that the loss of learning caused by closing schools during the COVID-19 pandemic will impact Indonesia's next generation.

The External Business Environment, strategic planning, and performance theoretically have a relationship with one another. From a strategic management perspective, the environment is an important contextual factor that has an impact on company performance (Child, 1972; Hamel & Prahalad, 1994). Therefore, in the formulation of the strategy, it is first necessary to observe the environment, both the external and internal environment. Company performance is obtained from a series of processes starting from each function within the company and analysis of the marketing situation (customers, competitors, and other market information) which is used as a basis for consideration in preparing a marketing program that is implemented through cross-functional collaboration within the company.

Brown also added that a company that is market-oriented and has carried out customer analysis, competitor analysis, and other markets then implemented in collaboration between functions within the company will produce a better "outcome" for the company. Competition and Competition Analysis can be seen in Figure 1 below:

Figure 1. The Forces Affecting Industrial Competition
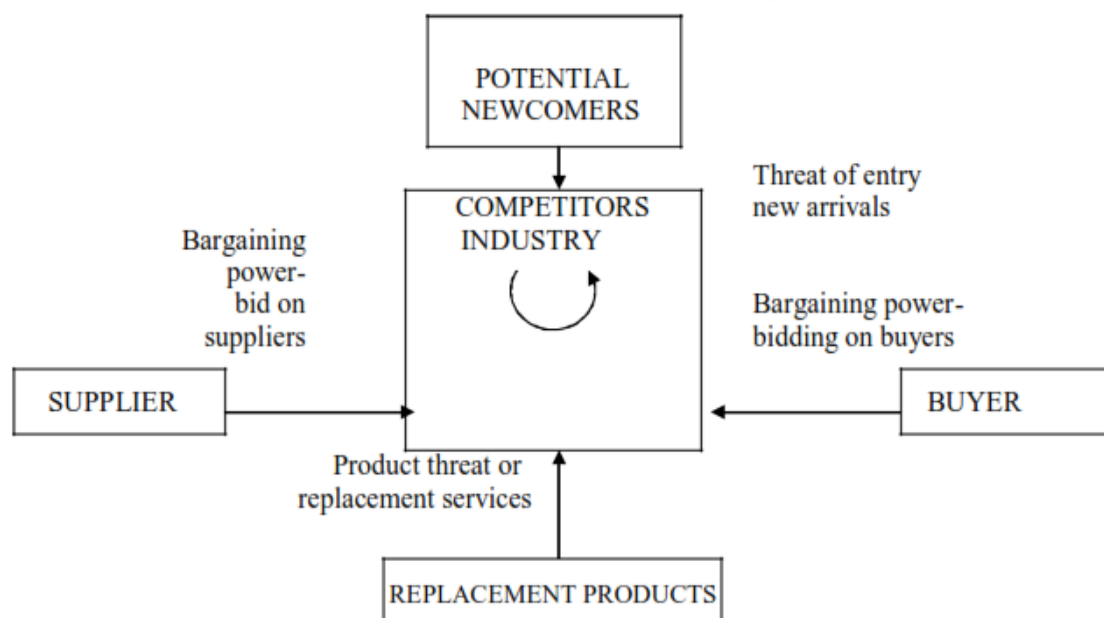
The organizational environment can be divided into the internal environment and external environment (Wright et al., 1996: 4; Wheelen and Hunger, 2000: 8; Hitt, 1995: 6). The internal environment consists of structure, culture, resources (Wheelen & Hunger, 2000; 10). The internal environment needs to be analyzed to determine the strengths and weaknesses that exist within the company. The structure is how the company is organized concerning communication, authority, and work flow. The structure is often also called the chain of command and is depicted graphically using an organizational chart. Culture is the pattern of beliefs, expectations, and values that are shared by members of an organization.

Organizational norms specifically elicit and define acceptable behavior for members from top management to operative employees. Resources are assets that are raw materials for the production of goods and services of the organization. These assets can include a person's skills, abilities, and managerial talents such as financial assets and manufacturing facilities within a functional area. Peter et al.

The external environment is the environment that is outside the organization and needs to be analyzed to determine the opportunities and threats that the company will face. There are two perspectives for conceptualizing the external environment. First, the perspective that views the external environment as a vehicle that provides resources (Clark et al., 1994: Tan & Litschert, 1994). Both perspectives view the external environment as a source of information. The first perspective is based on the premise that the external environment is a vehicle that provides critical resources for the survival of the company (Tan & Litschert, 1994). This perspective also implies external potential in threatening the company's internal resources. Strikes, deregulation, and changes in laws, for example, have the potential to damage the company's internal resources (Clark et al., 1994). The second perspective relates information to environmental uncertainty (environmental uncertainty). Environmental uncertainty refers to external environmental conditions whose changes are difficult to predict (Clark et al., 1994). This relates to the ability of organizational members in decision-making (Clark et al., 1994).

2. Research Method

The research descriptive method was conducted using a descriptive method, namely presenting and interpreting data, both secondary data and primary data. Secondary data were obtained from literature studies, the BPS Center, the Purworejo Regency Office of Cooperatives and UKM, business actors, and other parties who have a relationship with the data requirements needed by the author. Primary data were obtained through interviews with various parties who had links with the interests of this research and distributing questionnaires to respondents who had been determined by the researcher.

The method used in this research is a verification research method, namely research that seeks to test answers to problems or test answers to the results of thoughts whose truth is provisional (hypothesis). Likewise, data regarding the influence of variables in this study will also be analyzed using verification analysis with the help of statistical measures that are relevant to the data. Respondents in this study were business actors in Purworejo Regency as many as 60 respondents.

In this study, it was analyzed to what extent the influence of the independent variables; external business environment, and internal business environment on the performance of SMEs. The analysis tool used is Structural Equation Modeling (SEM). Calculation results from SEM analysis. Based on the established hypothesis, the structural equation model for this study can be seen in Figure 1. The model explains that the SME Performance variable is influenced by the External Business Environment variable and the Internal Business Environment variable. While the External Business Environment variable is an unobservable exogenous variable, it means that the External Business Environment variable is an independent variable, which cannot be directly observed. This external business environment variable can be explained by sub-variables political, security, and legal environment (X1.1) and economic, technological, social, and cultural environment (X1.2). Internal business environment variables can be explained by Product Development (X2.1), Sales (X2.2), After Sales Service (X2.3), and targets (Y3). The SME performance variable is an unobservable

endogenous variable, that is, a dependent variable that cannot be directly observed. This variable can be explained by the sub-variables Return On Assets (Y1), Return On Investment (Y2), and Return On Equity (Y3).

The complete structure of the causal relationship between the independent variables and the dependent variable can be described in the path diagram as shown in Figure 2 as follows:

Figure 2. Model specification diagram for the influence of the external business environment and the internal business environment on SME performance
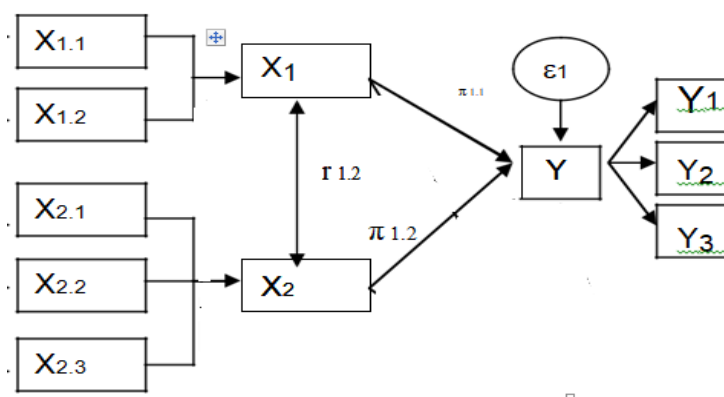
The type of research in this research is descriptive research. In this study, a description of the position of SME business actors, internal and external conditions, and an overview of the established marketing mix strategy were carried out. The data collection technique used is the interview, namely data collection techniques by conducting a question and answer with respondents, and documentation techniques, namely data collection techniques by recording documents owned by the object of research. The data collected is in the form of employee conditions, marketing, promotion, and financial conditions owned. While the data collection tool used is a questionnaire. The questionnaire in this study was used to obtain data regarding the company's internal and external conditions (especially regarding consumers or students) (Cooper & Emory, 1996).

The data analysis used in this study is the SWOT analysis, which is an analysis that provides an overview of the strengths, weaknesses, opportunities, and threats of SMEs. With SWOT analysis, it is expected to be able to translate and identify internal and external aspects as follows:

1. Analysis of the internal environment, focusing more on identifying strengths and weaknesses. The internal environment that will be analyzed in this case is the condition of human resources, financial condition, production process condition, marketing condition, administration, and accounting.

2. Analysis of the external environment, analysis of the external environment, means exploring and identifying all the developing opportunities and threats from competitors and potential competitors. The external environment includes the macro external and micro external environment. Macro external, such as economic growth, employment opportunities, social, culture, religion, and government. Meanwhile, on the external micro in the form of competitors and relationships with input sources and job providers

The SPACE matrix contains the identification of internal and external factors in the form of strengths and weaknesses as well as opportunities and obstacles, where each has been given a score according to its criteria. Through the difference in the average scores of

strengths and weaknesses and the difference between the average scores of opportunities and obstacles, the general condition of internal and external factors can be identified. Through this analysis, the company's position in each quadrant can be identified from the SWOT diagram concerned (Tjiptono & Chandra, 2012)

3.   Results and Discussion
3.1. Results

The research was carried out by distributing questionnaires to 60 UKM Tenant Business Incubators in Purworejo Regency. Respondents were asked to provide an assessment of the condition of SMEs according to the list of questions on the questionnaire that had been provided. From the questionnaire all returned complete answers which were then used in data analysis.

Descriptive Statistical Analysis
External Business Environment

Table 1. shows that the respondents' answers to the statements on the External Business Environment variable tend to be towards the neutral and agree group, which means that the implementation of the External Business Environment is high and moderate. From the high group, the largest percentage for the question of the First Dimension of the External Business Environment (the dimensions of the Political, Security and Legal Environment) is equal to 32.4% for low answers, 24.60% for moderate and 43.00% for high answers.

Table 1. External Business Environment (X_1)

Dimensions	Respondents Answer		
The political, security and legal environment	32,4%	24,6%	43,0%
Economic, technological, social and cultural environment.	32,8%	34,8%	32,4%
Criteria for group level of External Business Environment	Low	Intermediate	Hight

While the largest percentage for questions on the second dimension of the External Business Environment (economic, technological, social, and cultural environment) is 32.8% Low, 34.8% Medium, and 32.4% High. The application of the External Business Environment to SMEs is quite high, especially in response to developments and demands from the External Business Environment.

Internal Business Environment

The description of the results of the questionnaire describes the tendency of respondents' answers to questions in the Company's Internal Business Environment variable which consists of 3 (three) dimensions, namely: Production Development, Sales, and After-sales Service, question items as shown in Table 2.

Table 2. External Business Environment (X_2)

Dimensions	Respondents Answer		
Production development	23%	34%	43%
Sales	20%	45%	35%
After sales service	30%	36%	34%
Criteria for group level of External Business Environment	Low	Intermediate	Hight

Of the 60 respondents, it was shown that the respondents' answers to the statement on the Internal Business Environment variable tended to be neutral and agree with the group, which means that the implementation of the Internal Business Environment was high and moderate. From the high group, the largest percentage for questions on the first dimension of the Internal Business Environment, namely Production Development is 23% in the low group, 34% Moderate, and 43% High, while the largest percentage for questions on the second dimension Internal Business Environment, namely Sales is 20%, 45%, and 35%, as well as the largest percentages for the question of the third dimension Internal Business Environment, namely After-Sales Service are: 30%, 36%, and 34%. The implementation of the Internal Business Environment for MSMEs in Purworejo Regency is quite high, especially in responding to various problems that occur in the Internal Business Environment.

Tabel 5. Performance (Y)

Dimensions	Respondents Answer		
Return On Assets	0,27	0,18	0, 53
Return On Investment	0,30	0,19	0,51
Return On Equity	0,33	0,18	0,49
Kriteria kelompok tingkatan Kinerja Industri Semen	Low	Intermediate	Hight

Table 5 shows that the assessment of the SME Performance variable is high and moderate. From the high group, the largest percentage for questions on the first dimension of performance, namely: Return On Assets, namely 27% Low, 18% Moderate, and 53% High, while the largest percentage for questions on the second dimension, namely Return On Investment is 30% Low, 19% Moderate and 51% High as well as the largest percentage for the third dimension questions, namely: Return On Equity is 33% Low, 18 Moderate and 49% High.

3.2. Discussion

Based on the results of the research analysis and discussion, it can be concluded as follows:

1. External Business Environment and Internal Business Environment have a significant influence at the 5% significance level. In detail it can be explained as follows:
   External Business Environment Variables, have the greatest influence on Performance variables. These results indicate that the External Environment and Internal Business Environment variables have an important role in improving SME Performance. The relatively high influence of these variables simultaneously on SME Performance, because the variables of the External Business Environment, Internal Business Environment, have a close relationship with the SME Performance variable, which is indicated by the value of the correlation coefficient between these variables, with a correlation coefficient of 0.90. Simultaneous statistical test results, according to the researchers' expectations that the level of implementation of the External Business Environment and the Internal Business Environment, will result in high or low or good or bad SME performance.Internal Business Environment Variable, has the smallest influence, which is equal to 37% while the rest is influenced by other variables outside the model.

2. Partial influence of variables
   External Business Environment, Internal Business Environment, and Competition Characteristics on SME Performance. This shows that the External Business Environment variable has a significant influence on Cement Industry Performance (KIS), with an influence size of 34% (R^2), while the close relationship between the Environment of External Business with Cement Industry Performance is categorized as moderate (R=0.583). This means that any increase in the potential of the External Business Environment will increase the Performance of the Cement Industry.
3. The Internal Business Environment variable has a significant influence on SME Performance, with an influence size of 30% (R^2), while the close relationship between the Internal Business Environment and SME Performance is categorized as moderate (R=0.5477). This means that any increase in the potential of the internal environment increases the performance of SMEs.
4. Simultaneous testing of the External Business Environment and Internal Business Environment, on SME Performance, provides information that simultaneously has a significant effect at the 5% significance level. The magnitude of the concurrent effect is 75%, the rest is influenced by other variables outside the model.

Previous Research
1. Analysis Of The Influence Of External And Internal Environmental Factors On Business Performance: A Study On Micro Small And Medium Enterprises (MSMES) Of Food And Beverage.
2. Literature Review the Effect of Technology, Environment and Organizational Strategy on Organizational Structure.
3. Analysis Of Internal And External Environmental Influence On Competitive Advantages And Performance Of Small Medium Enterprises (SMES) In Madiun

4. Conclusion
This conclusion was made based on the results of the research which will answer the objectives of the research, as follows:
1) The internal environment has a significant influence on the competitive advantage of Small and Medium Enterprises (SMEs) in Business Incubator tenants in Purworejo Regency.
2) The internal environment has a significant influence on the performance of Small and Medium Enterprises (SMEs) in Business Incubator tenants in Purworejo Regency.
3) The external environment has a significant influence on the performance of Small and Medium Enterprises (SMEs) in Business Incubator tenants in Purworejo Regency

Competitive advantage has a significant influence on the performance of Small and Medium Enterprises (SMEs) in Business Incubator tenants in Purworejo Regency.

Suggestion
Based on the conclusion, the suggestion in this article is that there are many other factors that can affect the Organizational Structure, apart from Technology, Environment and Organizational Strategy at all types and levels of an organization or company, therefore further studies are needed to look for these factors. anything else that can affect the Organizational Structure other than the variables studied in this article. Other factors such as Organizational Scale, Leadership Ability and Organizational Culture.

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