



(MUDIMA)



## Analysis of External Factors on MSME Performance Through Internal Factors (Case Study on Embroidery MSMEs in Mojokerto District)

Eny Rachmawati<sup>1\*</sup>, Nidya Rizkawati<sup>2</sup>, Adil Abdillah<sup>3</sup>

Universitas Mayjen Sungkono Mojokerto

**Corresponding Author:** Eny Rachmawati [enyrachmawati96@gmail.com](mailto:enyrachmawati96@gmail.com)

### ARTICLE INFO

*Keywords:* MSME Performance, External Factors, Internal Factors, Embroidery MSMEs

*Received* : 2 November

*Revised* : 17 November

*Accepted* : 18 December

©2023 Rachmawati, Rizkawati, Abdillah: This is an open-access article distributed under the terms of the [Creative Commons Atribusi 4.0 Internasional](https://creativecommons.org/licenses/by/4.0/).



### ABSTRACT

This research was conducted to test the influence of external factors on the performance of MSMEs through internal factors with a case study carried out on embroidery MSMEs in Mojokerto Regency. This research uses external factor variables consisting of aspects of government policy and aspects of the role of related institutions as exogenous variables. The mediating variables in this research are internal factors which include capital aspects, market and marketing aspects and human resource aspects. Meanwhile, the endogenous variable in this research is the Performance of Embroidery MSMEs in Mojokerto Regency. The research population used was embroidery MSMEs in Mojokerto Regency which are members of the Mojokerto Regency Embroidery Entrepreneurs Association (ASPEN DIR) totaling 60 embroidery MSMEs in Pasuruan Regency with the sampling method used was the census method. External factors also have a significant influence and are positively related to the internal factors of embroidery MSMEs in Pasuruan Regency. Internal factors have a significant influence and are negatively related to the performance of Embroidery MSMEs in Mojokerto Regency. Meanwhile, the influence of external factors on the performance of MSMEs through Internal Factors is significant but has a negative relationship

## **INTRODUCTION**

Central Bureau of Statistics (2010) of the total workforce of small businesses and large businesses in 2010 was 102.2 million people, approximately 99.4 million people (97.22%) were in the (micro small and medium enterprises) MSME sector. This data shows that the MSME sector contributes to absorbing labor. Apart from contributing to absorbing labor, the MSME sector also plays a role in the national economy. Throughout 2010, the contribution of MSMEs was approximately 57.4% to GDP. Furthermore, the many business units that can be created through investment in the small and medium business sector also illustrate the many new job opportunities that can be created if these business units are encouraged to grow and develop.

This data shows that MSMEs are one of a number of important components in developing the community's economy. This fact shows the role of MSMEs as the largest part of all national business units which are a real picture of the economic life of the Indonesian people. It is this existence that positions the role of MSMEs as one of a number of pillars of development of the people's economic system as an image of the national economic building.

Apart from absorbing labor, MSMEs also contribute to National, Provincial and Regional GDP values. According to data from the Ministry of Cooperatives and SMEs, the total number of MSMEs to date is 64.2 million, where their contribution to GDP is 61.07% or approximately 8 trillion rupiah. The contribution of MSMEs to the Indonesian economy includes the ability to absorb 97% of the existing workforce and can collect up to 60.4% of total investment. However, the high total number of MSMEs in Indonesia cannot be separated from existing obstacles (Limanseto, 2021). Furthermore, Khofifah Indar Parawansa as Governor of East Java stated that the MSME sector plays an important role in the East Java economy. The contribution of MSMEs to East Java's GRDP is up to 57.25% (Widhi, 2021).

One of the cities/regencies in East Java that is innovating in developing MSMEs is Mojokerto Regency. Mojokerto Regency is known as one of a number of industrial areas, fishing and agricultural areas, and tourist areas that have a variety of business potential that is quite promising for its residents, and also has a diversity of natural resources that have potential. The following is the development of the number of MSMEs in Pasuruan Regency according to data from the Mojokerto Regency Cooperative Service.

Based on research by Sularsih and Nasir (2020), it was stated that in Mojokerto Regency there were 211,856 MSME units in 2019 which were divided into 9 types of business including culinary, agribusiness, tourism, creative products, fashion, beauty, automotive, education and household, of which there are nine types. These MSMEs are divided into 24 sub-districts in Mojokerto Regency. Based on these data, MSMEs in Mojokerto Regency can be one of a number of potential contributors to Regional Original Income considering their development from year to year.

To support the development of embroidery MSMEs in Mojokerto Regency, the Pasuruan Regency government is building an embroidery center in Bangil District. The aim of establishing this embroidery center is as a medium for embroidery MSMEs to promote and market their products by entrusting their products to embroidery centers which is expected to increase sales of embroidery MSMEs in Mojokerto Regency. This embroidery center is also used as the secretariat office of the Mojokerto Embroidery Entrepreneurs Association (ASPENDIR) Mojokerto Regency.

Mojokerto Regency is known for embroidery MSMEs as its superior product. The inauguration of the BANGKODIR (Bangil Kota Embroidery) program on September 11 2005 by the Mayor of Mojokerto Regency further strengthened the branding of Mojokerto Regency as an Embroidery City. In 2013, the total small embroidery industry experienced growth to 236 business fields and was able to absorb 1248 workers and produce 1,148,160 pieces per piece (Disperindag, 2006-2013). With the

establishment of the BANGKODIR program, the number of embroidery business units in Mojokerto Regency increased in 2013. 2011-2014 continued to increase every year, with an average increase of 10-20 business units.

To support the development of embroidery MSMEs in Mojokerto Regency, the Mojokerto Regency government is building an embroidery center in Bangil District. The aim of establishing this embroidery center is as a medium for embroidery MSMEs to promote and market their products by entrusting their products to embroidery centers which is expected to increase sales of embroidery MSMEs in Mojokerto Regency. This embroidery center is also used as the secretariat office of the Mojokerto Embroidery Entrepreneurs Association (ASPENDIR) Mojokerto Regency.

According to research by Mayor and Zakaria (2019), the embroidery business is a hereditary business and does not require higher education, so the regeneration of embroidery craftsmen is increasingly decreasing and they are doing other work. Apart from that, the wage or salary factor for embroidery entrepreneurs' workers is one of the drivers of many embroidery businesses in Bangil sub-district to close and go out of business. Apart from that, it is what causes embroidery MSMEs in Mojokerto Regency to eventually go out of business due to low profit levels. In fact, since March 19 2020, the embroidery center in Pogar has been closed as an effort to carry out health procedures and prevent the transmission of the virus, and requires entrepreneurs to do this work at home (Ma'ruf and Hardiyanti, 2021)

Pearce and Robinson (2011) stated that a number of factors that influence the performance of MSMEs can be grouped into 2 categories, namely external factors and internal factors. External factors are situations that exist outside the business but also have the potential to influence the business, while internal factors are factors within the organization and generally have direct and specific implications for the business.

Based on the results of a number of preliminary studies and studies in the Mojokerto Regency

regional government, internal and external problems were found in developing the embroidery business in Mojokerto Regency. According to the Mojokerto Regency Cooperatives and MSMEs Service (2018), in terms of internal factors, Embroidery MSMEs in Mojokerto Regency still experience various main obstacles in several aspects, namely: capital aspects, market aspects and marketing and HR aspects.

### **Contribution of MSMEs to the Economy**

The definition of MSMEs in Indonesia is stipulated in Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs. According to the law, MSMEs are defined according to several criteria in accordance with the total asset ownership and turnover of the business.

According to Law No. 20 of 2008 concerning MSMEs, in article 3, it is explained that MSMEs play an important role in developing the national economy. The points in article 3 are explained in detail in article 5, namely the role of MSMEs in national economic development is through regional development, income distribution, job creation, economic growth and alleviating people from poverty.

### **MSME Problems in Indonesia**

The 2012 Central Statistics Agency survey for micro small and medium enterprises (MSMEs) in Indonesia found that up to 79.29% of MSMEs had difficulties in their business, due to difficulties in marketing, employment, capital, raw materials, transportation distribution, and other difficulties. In developing MSMEs, there are still obstacles in managing businesses that still use old methods, low quality human resources, scale and production techniques, low innovation capabilities, as well as limited access to financial institutions, especially banking.

## **METHODS**

This research aims to analyze the factors that influence the performance of Embroidery MSMEs in Mojokerto Regency. So the approach used in this research is a descriptive quantitative research approach with data collection techniques through surveys.

The research location is the place where the research will be carried out. This research was conducted at Embroidery MSMEs in Mojokerto Regency, East Java, Indonesia. One of the author's considerations for making embroidery MSMEs in Mojokerto Regency as a research object is because embroidery MSMEs are one of the small industries that are a superior product in Mojokerto Regency. This is reinforced by the establishment of Bangil City as the center of the embroidery industry in Mojokerto Regency or commonly known as "Bangil Embroidery City".

### **Operational Definition and Measurement of Research Variables**

#### 1. Dependent variable (Endogenous variable)

The dependent variable is a variable whose value variations are influenced by other variables. The dependent variable used in this research is the performance of Mojokerto Regency Embroidery MSMEs.

#### 2. Mediating Variables

Mediating variables are variables that can be influenced and can influence other variables. The independent variable in this research is Internal Factor (Z)

#### 3. Independent Variable (Exogenous Variable)

An independent variable is a variable whose value variations are not influenced by variations in the values of other variables, but will influence other variables. The independent variable in this research is External Factors (X)

### **Population and Sample Determination**

The population in this study were embroidery MSME owners in Mojokerto Regency who were members of ASPENDIR, a total of 60 embroidery entrepreneurs. This is related to the external factors raised by researchers in this research, namely aspects of the role of related institutions.

Where in the aspect of the role of related institutions, researchers appointed ASPENDIR as a related institution.

Based on this research, because the population is not greater than 100 respondents, the author took 100% of the population who are embroidery MSME owners who are members of the Embroidery Entrepreneurs Association (ASPENDIR), namely 60 embroidery entrepreneurs. Thus, the use of the entire population without having to draw a research sample as a unit of observation is called a census technique.

### **Data Collection Technique**

Data collection techniques in this research used two methods, namely:

#### 1) Documentation Method

The documentation method is one of the methods used to obtain data and information in the form of books, archives, documents, written numbers and images in the form of reports and information that can support research. Documentation is used to collect data and then review it.

#### 2) Questionnaire method (questionnaire).

A questionnaire is a series of lists of questions that are prepared systematically, then sent to be filled in by respondents. After being filled in, the questionnaire is sent back or returned to the officer or researcher.

In the questionnaire there is a question design that is logically related to the research problem and each question is an answer that has meaning to test the hypothesis.

The research instrument used in this research was a questionnaire made by the researcher himself. Thus, the use of research instruments is to search for complete information about a problem, natural or social phenomenon. The instrument used in this research is intended to produce accurate data, namely by using a Likert scale. The Likert scale is a method of measuring attitudes and perceptions by calculating responses of agreement or disagreement.

### **Research Framework**

This research uses independent variables (X), mediating variables (Z) and dependent variables (Y), where external factors include aspects of

government policy (X1), aspects of the role of related institutions (X2). The mediating variable is internal factors (Z) which include capital aspects (Z1), market and marketing aspects (Z2) and Human

Resources Aspects (Z3). Meanwhile, the dependent variable is SME Performance (Y). Which is described in the following framework model:

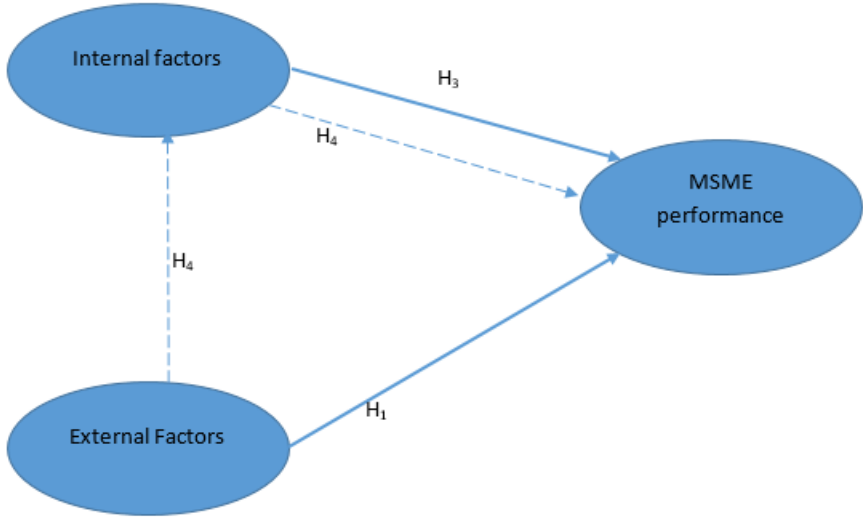


Figure 1. Research Framework

**RESULTS AND DISCUSSION**

The results of processing using SmartPLS can be seen in the table above where the outer loadings value of the variable indicators for the variables External Factors, Internal Factors and MSME Performance has a value of less than 0.6 and shows

that the outer model value or correlation with the variables as a whole does not meet Convergent Validity . Next, dropping (reduction) is carried out on question items that have an outer loading value of less than 0.6.

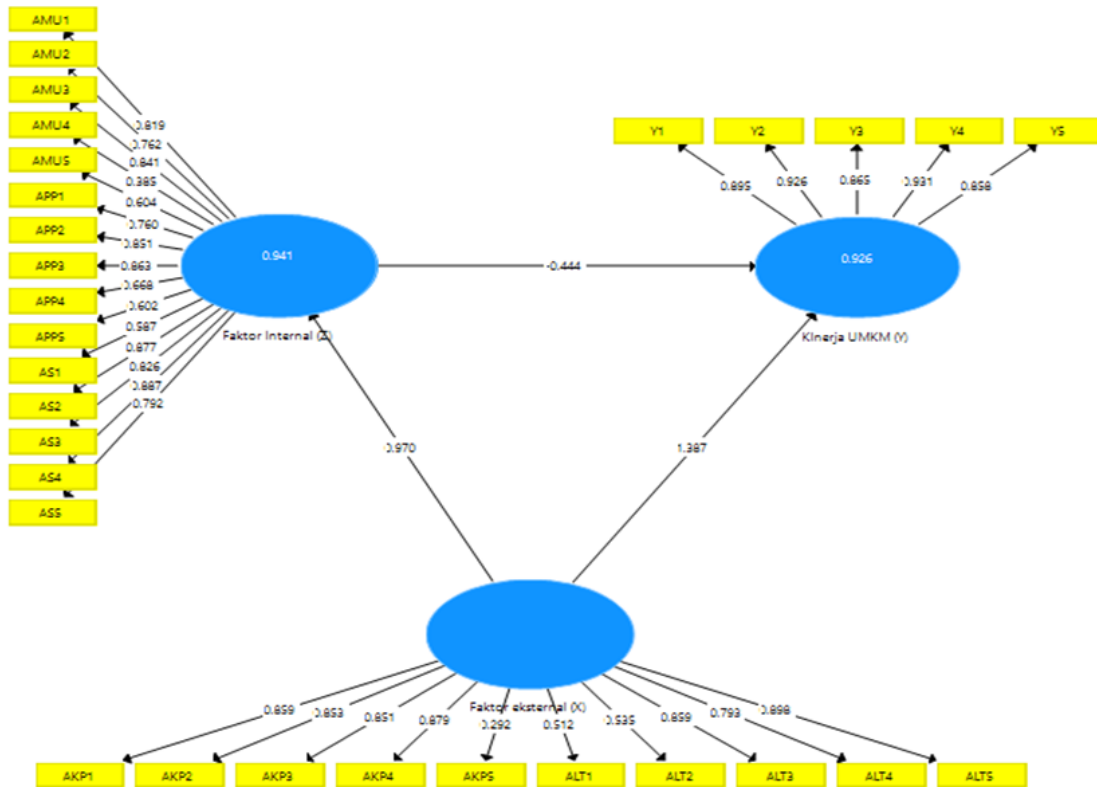


Figure 2. Partial Least Square (PLS) Model Scheme

The results of validity testing for the independent variable have a value of  $> 6$ , it can be concluded that the variables External Factors,

Internal Factors and MSME Performance have met the requirements for model adequacy, so this research data can be used for further analysis.

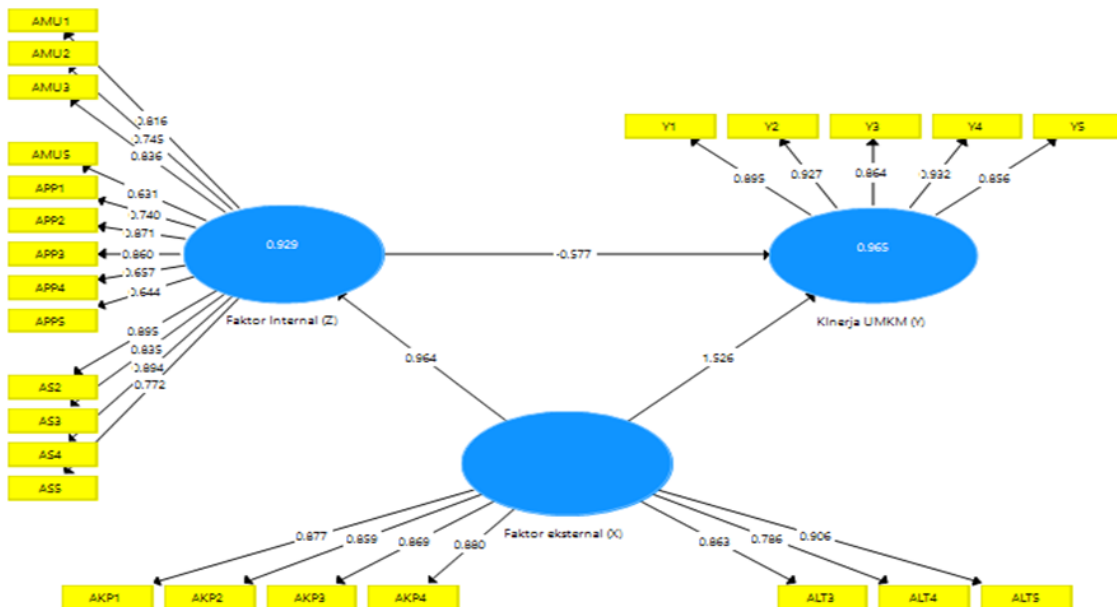


Figure 3. Partial Least Square (PLS) Model Scheme (Reduction)

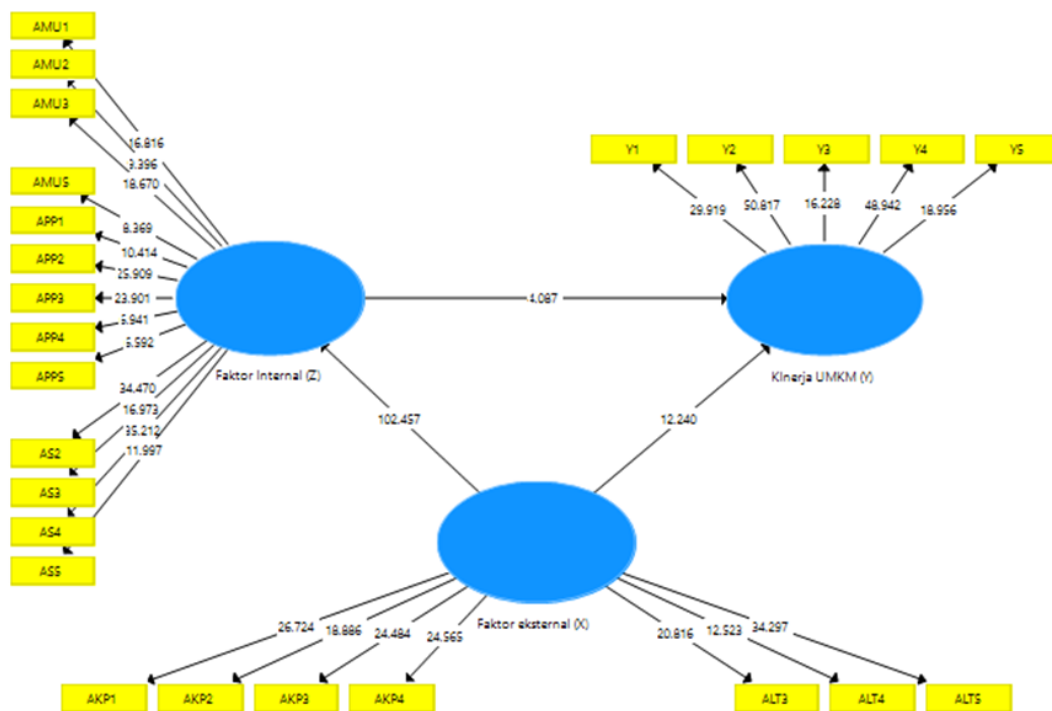


Figure 4. Full Model Structural Partial Least Square

The estimated output for structural model testing is by looking at the t-statistic values and p values. The research hypothesis can be declared accepted if the p value is <0.005

#### The Influence of External Factors on the Performance of Embroidery MSMEs in Mojokerto Regency

Empirically, this research has proven that external factor variables have a significant influence on the performance of embroidery MSMEs in Mojokerto Regency. This is shown by the Original Sample value of 1.526, a t-statistic of 12.240 (p-value = 0.000). The direction of the relationship between external factors and internal control is positive, meaning that changes in external factor variables have an impact on increasing MSME performance. It can be interpreted that if external factors are increased by one unit, the performance of MSMEs will increase by 1,526.

These results illustrate the importance of external factors in improving the performance of MSMEs through government policies by making it easier for embroidery MSMEs to obtain additional capital. and by providing guidance through related

agencies/SKPD, it can increase insight into developing embroidery businesses. As well as implementing Government Regulation no. 7 of 2021 concerning convenience, protection, empowerment of corporations and MSMEs. And it is hoped that there will also be a special place so that actors can easily market their results. Meanwhile, improving the performance of MSMEs is also supported by aspects of the role of related institutions, which provide assistance to embroidery MSME actors so that assistance will improve the performance of MSMEs. Apart from that, the relevant institutions are also monitoring so that embroidery MSMEs can improve their performance.

#### The Influence of External Factors on Internal Factors of Embroidery in Mojokerto Regency

Empirically, this research has proven that external factor variables have a significant influence on internal embroidery in Mojokerto Regency. This is shown by the Original Sample value of 0.964 t-statistic of 102.457 (p-value = 0.000). The direction of the relationship between external factors and internal factors is positive, meaning that changes in external factor variables have an impact on

increasing internal factors. It can be interpreted that if the external factor is increased by one unit, the internal factor will increase by 0.964.

This illustrates the importance of external factors in improving internal factors. In order to increase internal factors, a policy of convenience and conditions for applying for additional capital is needed. And with a policy that favors MSMEs, it is hoped that it can help with easy distribution outside the city. And with activities organized by the government to increase knowledge, it can also increase the abilities of the actors and increase their experience in running their businesses.

The government's policy to encourage the development of MSMEs is quite large, this can be seen from the high budget allocated for increasing capacity building through training. However, these programs have not been effective in increasing MSMEs' competitive advantage. At a global level. The number of MSMEs is currently able to reach 88% - 99% of the total existing business, with a contribution to Gross Domestic Product (GDP) of 30 - 53%. However, if we look at their position in exports, the role of MSMEs is still very small compared to other countries in ASEAN, namely below 29%. The government must concretely support MSMEs by providing ease of licensing not only in big cities but also in remote areas because MSMEs are spread across 77,707 villages.

The Influence of Internal Factors on the Performance of Embroidery MSMEs in Mojokerto Regency

Empirically, this research has proven that Internal Factor variables have a significant influence on the Performance of Embroidery MSMEs in Mojokerto Regency. This is shown by the Original Sample value of -0.577 t statistic of 4.087 (p-value = 0.000). The direction of the relationship between external factors and internal factors is negative, meaning that changes in external factor variables have an impact on decreasing MSME performance. It can be interpreted that if the Internal factor is increased by one unit, the performance of MSMEs will decrease by 0.577.

This illustrates that internal factors have an influence or have a negative relationship on MSME performance. The condition of embroidery MSMEs in Mojokerto district is classified as small businesses that do not have too much capital, but they have access to capital loans, for example from KUR or credit from competent financial institutions. With additional capital from KUR or financial institutions, it will later become a burden on the performance of embroidery MSMEs themselves because these businesses will have to bear more costs to review the credit that the MSMEs have taken. Likewise with the resource aspect, both in terms of quality and quantity. With a large number of employees, it does not affect the performance of MSMEs because embroidery is not an item that is always in demand and has its own market. If a large number of employees are encouraged to produce a lot, it will cause a buildup of goods and ultimately disrupt capital turnover and become a burden for MSMEs.

The Influence of External Factors on the Performance of Embroidery MSMEs in Mojokerto Regency through Internal Factors

Empirically, this research has proven that external factor variables have a significant influence on the performance of embroidery MSMEs in Mojokerto Regency through internal factors. This is shown by the Original Sample value of -0.556 t statistic of 4.152 (p value = 0.000). The direction of the relationship between external factors and internal factors is negative.

The results of this research show that external factors have an influence on MSME performance through internal factors. This means that the performance of MSMEs is indirectly influenced by external factors. However, the performance of MSMEs is decreasing due to internal factors. This can be explained by the fact that not all government policies regarding regulations related to facilitating capital can help the need for additional business capital. In this case, it will increase the burden so that it will have an impact on reducing the performance of MSMEs. Likewise, the existence of capital assistance from related parties also causes obstacles in using business capital. Likewise, there is a role of

related institutions in providing Bimtek (technical guidance) and mentoring, but if the internal embroidery MSMEs do not support it, it will not affect the performance of the embroidery MSMEs in their performance, because the guidance is not effective because they have already carried out the management of the embroidery MSMEs. for a long time and most of them have been hereditary businesses so changes to management with a new system will make things difficult for them and will affect the performance of the embroidery MSMEs. for a long time and most of them have been hereditary businesses so changes to management with a new system will make things difficult for them and will affect the performance of the embroidery MSMEs.

## CONCLUSION

Based on the results of data processing and analysis in this research, it can be concluded as follows:

- 1) Government policies and the role of related institutions can influence the performance of embroidery MSMEs in Mojokerto Regency. Where, through policies, the regional government of Mojokerto Regency can support improving the performance of embroidery MSMEs in Mojokerto Regency. Likewise, the role of related institutions, such as ASPENDIR, NGOs, academics (schools and campuses) also helps in improving the performance of embroidery MSMEs in Mojokerto Regency.
- 2) The policies of the Mojokerto Regency Government and related institutions have an impact on aspects of capital, human resources and marketing of embroidery MSMEs. The existence of government policies and the role of related institutions will facilitate capital acquisition, market development and regulation of human resources, for example regarding worker age regulations, wage standards and so on, so as to increase the strength of institutions or embroidery businesses in Mojokerto Regency.
- 3) Capital aspects, marketing aspects and human resource aspects can influence the performance of embroidery MSMEs in Mojokerto Regency. However, in this study the relationship between internal factors and performance has an inverse relationship. Where there is an increase in capital (KUR and other credits) it will cause expenses in the form of interest for the embroidered MSMEs. This also applies to the marketing aspect, if it is expanded or increased it will also cause burdens, because marketing costs will arise but embroidery cannot be turned over as quickly as consumer goods. Likewise with the resource aspect, both in terms of quality and quantity. In terms of quantity, it will cause a large salary burden and quality will also have a small impact on improving the performance of MSMEs.
- 4) Government policies and related institutional aspects will influence aspects of ease of capital, regulation of human resources and policies in marketing embroidery SMEs so that they will have an impact on the performance of embroidery SMEs in Mojokerto Regency. However, not all additional capital will be able to support internal embroidery SMEs and will subsequently have an impact on performance. There is a role for related institutions, by providing technical guidance and training which is expected to have an impact on human resource capabilities, but this does not have a general effect, because they have been running the embroidery business for years.

## REFERENCES

- Jaya, W. K. (2021). *Ekonomi Kelembagaan dan Desentralisasi*. UGM PRESS.
- Limanseto, Haryo. (2021). *UMKM Menjadi Pilar Penting dalam Perekonomian Indonesia*. Jakarta: Kementerian Koordinator Bidang Perekonomian Republik Indonesia.
- Ontoraël, Rizal, Suhadak, Mawardi Mukhammad Kholid. (2017). *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*, RJOAS, 6 (66), June 2017.
- Pearce, John A. dan Richard B. Robinson. 2011. *Strategic Management Formulation, Implementation, and Control*, Twelfth Edition, McGrawHill, New York.
- Pamungkas, H. A., & Hidayatulloh, A. 2019. *Faktor Penentu Perkembangan Umkm Gerabah Kasongan Bantul Yogyakarta*. *Inovasi Jurnal Ekonomi, Keuangan Dan Manajemen*, 15(1), 65–71.
- Purwaningsih, Ratna dan Pajar Damar Kusuma. 2015. *Analisis Faktor-Faktor Yang Mempengaruhi Kinerja Usaha Kecil Dan Menengah (UKM) Dengan Metode Structural Equation Modeling (Studi Kasus UKM berbasis Industri Kreatif Kota Semarang)*. Semarang: Porsiding SNST ke-6 Fakultas Teknik Universitas Wahid Hasyim.
- Rokhayati, Isnaeni dan Lestari, Herwick Diyah. (2016). *Analisis Faktor-Faktor yang Mempengaruhi Kinerja UMKM Gula Kelapa di Kabupaten Banyumas, Jawa Tengah*. *Jaringan Penelitian dan Pengembangan*.
- SW, Hati & R, Irawati. 2017. *Faktor-faktor yang Mempengaruhi Kinerja Usaha Mikro Kecil Menengah (UMKM) di Kota Batam*. *Prosiding ABEC 2017*, 545 558.
- Sularsih, Hermi & Nasir, Akhamad. (2020). *Strategi UMKM dalam meningkatkan pendapatan dimasa pandemi Covid-19 guna mempertahankan kelangsungan usaha di era revolusi industri 4.0 (studi pada UMKM makanan dan minuman di Kabupaten Pasuruan)*. *Jurnal Paradigma Ekonomika Vol 16 No 4*.
- Wirastuti, Yusni, Agustine Eva M.S, Widuri Kurniasari. (2009). *Produktivitas Usaha Kecil Menengah di Bidang Manufaktur di Semarang : Tinjauan dari Sisi Gender*. *Dinamika Sosial Ekonomi Vol.3 No. 1*.
- Zimmerer, Thomas W Dkk. (2008). *Kewirausahaan Dan Manajemen Usaha Kecil Edisi 5 Buku 1*. Jakarta: Salemba Empat.