

Analysis of the Influence of the Internal and External Environment on the Competitive Advantage of MSMEs in West Jakarta

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Analysis of the Influence of the Internal and External Environment on the Competitive Advantage of MSMEs in West Jakarta

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Abstract. In general, whether large, medium, or minor, business fields will all interact with the environment in which the organization is located. This study uses a quantitative method with a descriptive analysis approach. The research sample is MSMEs located in West Jakarta, which was selected by purposive random sampling method. The selected MSMEs are MSMEs that focus on moving in the production sector. The total sample used in this study was 51 MSMEs, with a total of 153 respondents. This study uses a one-shot time horizon with the cross-sectional data type. The data used are primary and secondary. The research variables used consisted of independent variables (Internal Environment and External Environment) and dependent variable (Competitive Advantage). Data analysis was carried out through SEM Test, Hypothesis Testing, and MSME Internal and External Environmental factors analysis. From the research and data analysis results, it can be concluded that: a) The internal environment has a significant influence on the competitive advantage of MSMEs in West Jakarta, and b) The external environment has a significant influence on the competitive advantages of MSMEs in West Jakarta.

Keywords: Influence, Work Environment, Competitive Advantage, UMKM.

1. Introduction

A work environment is a place where SMEs perform their daily activities [1]. A conducive work environment provides a sense of security and allows MSME actors to work optimally [2]. Suppose the entrepreneur likes the work environment in which he works. In that case, the employee will feel at home at work, carrying out his activities so that work time is used effectively to increase the competitive advantage with other MSMEs; from this, the income of MSME actors will increase significantly [3].

Competitive strategy is one of the strategies that business actors in facing competition can use [4]. This strategy can generally be interpreted as a process by which companies build and develop various strategic resources that can generate competitive advantage [5]. These advantages have two roles: a tool to generate performance and to neutralize assets and competitive competencies owned by competitors.

The environment itself changes so that a business that can survive is a business that can adapt to changes in the environment [6]. The changes in the human resource environment today require playing an ever more critical role in business. The business environment consists of the internal environment and the external environment [7]. The internal environment can provide strengths and weaknesses depending on human business resources in viewing, responding, and following up on every phenomenon, every information, and event [8].

MSMEs can increase economic growth in West Jakarta; this can be seen from the global economic crisis; MSMEs in West Jakarta can continue to run, or no one goes bankrupt [9]. In 2021, the number of MSMEs in West Jakarta is 4.2 million. About 85% of them are micro-enterprises, 10% are small enterprises, 3% are medium enterprises, and 2% are large enterprises. This shows that micro-enterprises dominate the movement of MSMEs. However, in 2020-2021 MSMEs experienced a decline in income, which affected the rate of Gross Regional Domestic Product (GRDP) Growth in 2019-2020. In 2016, the GDP growth rate reached 6.06%, in the following year, the growth rate was at 6.48%, then grew 6.35% in 2018, in 2019 the growth rate reached 6.49%, but in 2020 the graph shows a drastic decline at -0.84%. This is undoubtedly influenced a lot by socio-economic conditions due to the impact of the pandemic [10].

The development of MSMEs in West Jakarta is expected to continue so that the government and related parties have explicit references about the factors that influence business performance improvement [11]. The performance of the small and medium enterprise (MSME) sector is influenced by two main factors, namely the external environment and the internal environment. The internal environment includes aspects of HR (owners, managers, and employees), financial aspects, technical aspects of production, and marketing [12]. At the same time, the external environment consists of government policies, socio-cultural and economic aspects, and related institutions such as the Government, Universities, the Private Sector, and NGOs [13]. The competitiveness of MSMEs is also caused by many factors, including marketing, finance, management, technology, location, human resources, and economic structure [14]. These factors can be grouped into internal and external environmental factors, which are generally used as the basis for entrepreneurs to determine their business strategies and performance.

2. Literature Review

The business environment faced by the company needs to be analyzed, the intention is to try to identify business opportunities that need immediate response and executive attention, and at the same time be directed to identify business threats that need to be anticipated [15]. For this reason, in the analysis of the business environment, management tries to identify a number of key variables that are beyond the control of the company which are estimated to have a real influence [16]. The analysis of the business environment seeks to find out the managerial implications caused either directly or indirectly from various external factors that have been identified as having an effect on the company's prospects [17]. It is hoped that management will have a clear picture in preparing the necessary business strategies to anticipate the managerial implications caused by the business environment [18].

Accurate identification of the external environment is increasingly important because: a) The number of influencing factors is never constant but is always changing; b) The intensity of the impact varies; c) There are external factors that are "surprises" that cannot be predicted in advance no matter how carefully the "SWOT" analysis is carried out; d) External conditions are beyond the organization's ability to control. Management theory says that the analysis of the business environment consists of two main components, namely the analysis of the macro-environment and the industrial environment [19]. The macro environment consists of economic forces, political and legal forces, technological forces and social and cultural forces. All the forces that exist in this macro environment have a direct influence on the company's prospects, but at the same time also have an indirect influence through the industry environment [20]. From the literature review above, the following hypotheses can be drawn:

- H1:** Internal environment has a significant effect on the competitive advantage of SMEs in West Jakarta.
H2: External environment has a significant effect on the competitive advantage of SMEs in West Jakarta.

3. Methodology

This study uses a quantitative method with a descriptive analysis approach. The research sample is MSMEs located in West Jakarta, which was selected by purposive random sampling method. The

selected MSMEs are MSMEs that focus on moving in the production sector. The total sample used in this study was 51 MSMEs, with a total of 153 respondents.

This study uses a one-shot time horizon with the cross-sectional data type. The data used are primary and secondary. The research variables used consisted of independent variables (Internal Environment and External Environment) and dependent variable (Competitive Advantage). Data analysis was carried out through SEM Test, Hypothesis Testing, and MSME Internal and External Environmental factors analysis.

4. Result and Discussion

Respondent Demographics

Questionnaires were distributed to 51 handicraft businesses (MSMEs) in West Jakarta and 1953 respondents consisting of business actors. The complete demographics of respondents can be seen in table 1.

Table 1. Demographics of Respondents

Category	Frequency	Percentage (%)
Gender		
Man	57	37
Woman	96	63
Age		
20-35 years old	81	53
36-50 years	51	33
51-65 years old	21	14
Last education		
High School/Equivalent	42	27
Diploma	18	12
Bachelor degree	87	57
Master/Doctoral	6	4
Number of employees		
1-5 people	93	60
6-10 people	42	27
11-20 people	18	13
Turnover per Year		
IDR 50-300 million	81	53
IDR 300-500 million	63	41
IDR 500-700 million	9	6

Source: Primary Data Processed

From the table data above, it can be seen that the number of MSME turnover in the research sample, most of them is in the range of 50-300 million per year with a percentage of 53%. Most of the respondents in this study have received higher education, so that it can be said that the human resources in this study are good, with a frequency of 57% of the total respondents. The age of the respondents is also considered very productive; the average age is in the range of 25-33 years, with the number of respondents being 81 people or 53% of the total respondents. And the highest number of employees with a percentage of 60% is MSMEs with 1-5 employees with a total number of 93 people.

At the stage of testing this hypothesis, the coefficient value of each relationship between variables can also be seen. The value of the coefficient of this relationship is to determine the direction of the positive or negative relationship and the magnitude of the effect of the endogenous variable if the exogenous variable changes or changes in the endogenous (dependent) variable if the endogenous

variable (intervening) changes. The following are the results of the SEM test with the path coefficient value or standardized for each variable:

Table 2. SEM Coefficient Value Direct Effect Between Variables

Relationship between variables			Standardized coefficient value
Internal environment (X1)	→	Competitive advantage (Z)	0.416
External environment (X2)	→	Competitive advantage (Z)	0.656

Source: Data processed

The table above can be explained as follows: a) If the internal environmental variables change, it will cause changes in competitive advantage with a positive direction of change. The positive sign indicates that if the internal environment increases, the competitive advantage will also increase and vice versa if the internal environment decreases, the competitive advantage will decrease with a coefficient value of 0.416; and b) If the external environment variable changes, it will cause a change in competitive advantage with a positive direction of change. The positive sign indicates that if the external environment is increased, the competitive advantage will also increase, and vice versa. If the external environment is lowered, the competitive advantage will decrease with a coefficient value of 0.656.

Table 3. Hypothesis Testing of Direct Effects Between Variables

Relationship between variables			CR count	Sig	Information
Internal environment (X1)	→	Competitive advantage (Z)	2.658	.009	Significant
External environment (X2)	→	Competitive advantage (Z)	3.266	.002	Significant

Source: Data processed

Based on the table above, it can be explained to find out the truth of each hypothesis: a) The first hypothesis: The internal environment has a significant effect on the competitive advantage of SMEs in West Jakarta. The estimation of the parameters of the internal environmental variables on the performance of MSMEs based on the indicators shows significant results with a CR value of 2.658. This value is greater than 1.96 with a significant value of 0.009 less than 0.05 ($p < 0.05$). This means that the first hypothesis, which states: The internal environment has a significant effect on the competitive advantage of Small and Medium Enterprises (MSME) in West Jakarta, is accepted; b) The second hypothesis: The external environment has a significant effect on the competitive advantage of SMEs in West Jakarta. The results of the estimation of the parameters of the external environmental variables on the performance of MSMEs based on the indicators show significant results with a CR value of 3.266. This value is greater than 1.96 with a significant value of 0.002 greater than 0.05 ($p > 0.05$). This means that the second hypothesis, which states: The external environment has a significant effect on the competitive advantage of Small and Medium Enterprises (MSMEs) in West Jakarta, is accepted.

Data analysis

MSME External Environment

Some of the things that affect the external factors of SMEs include: a) Economy. This is because MSME entrepreneurs perceive that improving economic conditions and the level of public consumption will encourage better trading conditions, namely the increase in people's purchasing power for a product. In addition, a conducive market situation has also contributed to increasing the optimism of MSME entrepreneurs to increase their business; b) Technology. The use of machine technology such as

computer machines can create a shorter production process, which used to take a long time to make a product. Still, since using a computer machine can be done faster and even more, not all product manufacturing can use high-tech machines; and c) Consumer. By knowing consumer behavior, such as what consumers usually buy goods, when they buy, and where they buy them, MSME entrepreneurs can make decisions regarding making products that are following their wishes and know more deeply in terms of where they should market their products.

MSME Internal Environment

Some of the things that affect the internal factors of SMEs include: a) Marketing. Based on the results of data processing in the field, the internal environment in the marketing aspect, it turns out that the ability to provide services to consumers is considered very strong with an index of 3.78, where 0.71% stated very unsatisfactory, 0.71% stated unsatisfactory, 32.1 % said it was pretty satisfactory, 52.86% said it was satisfactory, and 13.57% said it was very satisfactory. This indicates that MSME entrepreneurs have provided satisfactory services to their consumers; b) Production. Based on the results of data processing in the field, the internal environment on the production aspect, it turns out that the ability to produce efficiently is considered very strong with an index of 3.39, where 1.43% said it was fragile, 3.57% said it was weak, 55.71% said it was pretty intense, 32.86% said it was strong, and 6.43% said it was powerful. This indicates that overall, MSME entrepreneurs have implemented efficiency/savings seen from more than 50% of respondents answered well; and c) Human Resources. From the results of data processing in the field, the internal environment in the HR aspect of MSMEs, it turns out that the entrepreneurial spirit possessed by MSME entrepreneurs is considered very strong with an index of 3.91, this can be seen from more than 50% of respondents stating that they have an entrepreneurial spirit.

5. Conclusion

From the results of research and data analysis, it can be concluded that: a) The internal environment has a significant influence on the competitive advantage of SMEs in West Jakarta with a significance value of 0.009, and b) The external environment has a significant influence on the competitive advantage of SMEs in West Jakarta with a significance value of 0.002. The influencing external environmental factors consist of economic factors, technology, and consumers. While the internal environmental factors that influence consist of marketing, production, and human resources.

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