JOURNAL OF WORLD SCIENCE
https://jws.rivierapublishing.id/index.php/jws
Volume 2 No. 11 November 2023
P-ISSN: 2828-8726
E-ISSN: 2828-9307

INTERNAL FACTORS DETERMINING MSME BUSINESS PERFORMANCE: A LITERATURE STUDY

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ABSTRACT
This research aims to examine the internal factors that determine MSME business performance. This research uses a literature review approach. The data collection technique in this research uses the literature study method. The data that has been collected is then analyzed using three stages, namely data reduction, data presentation, and conclusion. The research results show that the internal factor determining MSME business performance is that MSMEs are essential in developing the national economy. Hence, MSMEs require more attention regarding their business performance. Performance is a result of efforts made both in quality and quantity. The measurement of MSME business performance can be seen from the increase in sales, which is the increase in the number of purchases made by customers for the goods sold. In a business, performance always rises and falls, as does MSME business performance because several internal factors determine it: finance, customers, internal business processes, learning, and growth.

Keywords: internal factors, business performance, micro, small and medium enterprises.

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INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a vital foundation in the Indonesian economy. The strategic role of MSMEs is reflected in their contribution to creating jobs, advancing the economy, and reducing poverty levels (Supatmin, 2023). MSMEs are the primary support in providing employment opportunities and are a source of significant economic growth. Through the presence of MSMEs, people's incomes are raised, increasing the standard of living and purchasing power of society. Apart from that, the active involvement of MSMEs in this sector also helps reduce poverty levels by providing economic opportunities to community groups that previously may not have been reached by the formal sector (Utami, 2019).

MSMEs also often experience obstacles that become obstacles to optimizing business performance. For example, limited access to financial resources can limit MSMEs' ability to develop businesses, increase production capacity, or face unexpected financial challenges. Then, limited access to modern technology and innovation can make MSMEs lag in adopting new technology that can increase efficiency and competitiveness. Furthermore, limitations in business management can affect the process of managing resources, planning, marketing, and overall business strategy (Indiworo, 2016). Therefore, procuring financial resources technology and improving management capabilities is crucial for MSMEs to overcome these obstacles and optimize MSME business performance.

Various factors influence the performance of Micro, Small, and Medium Enterprises (MSMEs), which can be grouped into two main categories: internal and external factors. Internal factors refer

to variables from within the company or business itself. These include human resource management, internal policies, marketing strategies, product innovation, operational efficiency, and employee skill levels. On the other hand, external factors come from outside the business environment, such as economic conditions, government regulations, market conditions, industrial competition, technology, and political and social factors that influence business sustainability (Kore & Septarini, 2018). These two factors have an essential role in determining the performance of MSMEs and often interact with each other, both directly and indirectly. However, in this research, internal factors will be the focus of this research.

Previous research by (Diana et al., 2022) shows that Business Actor Competence has a positive and significant influence on Marketing Strategy Creativity, Access to Capital has a positive and significant influence on Marketing Strategy Creativity, and Marketing Strategy Creativity has a positive and significant influence on MSME Performance. However, Access to Capital has a positive but insignificant influence on MSME Performance, and Business Actor Competence has a positive but not significant influence on SME Performance. These results can be used as a reference for the government in supporting the improvement of the performance of MSME players by paying attention to the factors of Competence and marketing Creativity but not ignoring the factor of access to capital so that it can help increase regional income.

Other research by (Sandra & Purwanto, 2017) shows (1) External factors consisting of aspects of government policy, socio-cultural and economic aspects, and aspects of the role of related institutions have a positive and significant influence on the internal factors of SMEs (2)External factors have a positive but not significant influence on SME performance (3) Internal factors consisting of human resource aspects, financial aspects, technical and operational aspects, as well as market and marketing aspects have a positive and significant influence on SME performance.

Similar research by (Purwaningsih and Kusuma, 2015) shows that internal and external factors influence the performance of SMEs. External factors consist of government policies, socio-economic and cultural conditions, and the role of related institutions, which significantly influence the conditions of internal factors, which consist of aspects of human resources, finance, technical production, and marketing. The influence of external factors on SME performance is more significant than internal factors. In creative industry-based SMEs, internal factors in the form of technology have a negligible influence because the production process technology is still superficial; most of the production process is handmade crafts.

Based on this background description, the purpose of this study is to know and analyze the Internal Factors Determining MSME Business Performance. This research can help MSMEs in understanding the internal factors that affect their business performance. The implication is that MSMEs can adjust and improve certain aspects such as financial management, marketing strategy, operations, or other internal aspects identified in the research.

METHOD

Micro, Small, and Medium Enterprises (MSMEs) are a vital foundation in the Indonesian economy. The strategic role of MSMEs is reflected in their contribution to creating jobs, advancing the economy, and reducing poverty levels (Supatmin, 2023). MSMEs are the primary support in providing employment opportunities and are a source of significant economic growth. Through the

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MSMEs also often experience obstacles that become obstacles to optimizing business performance. For example, limited access to financial resources can limit MSMEs' ability to develop businesses, increase production capacity, or face unexpected financial challenges. Then, limited access to modern technology and innovation can make MSMEs lag in adopting new technology that can increase efficiency and competitiveness. Furthermore, limitations in business management can affect the process of managing resources, planning, marketing, and overall business strategy (Indiworo, 2016). Therefore, procuring financial resources and technology and improving management capabilities is crucial for MSMEs to overcome these obstacles and optimize MSME business performance.

Various factors influence the performance of Micro, Small, and Medium Enterprises (MSMEs), which can be grouped into two main categories: internal and external factors. Internal factors refer to variables from within the company or business itself. These include human resource management, internal policies, marketing strategies, product innovation, operational efficiency, and employee skill levels. On the other hand, external factors come from outside the business environment, such as economic conditions, government regulations, market conditions, industrial competition, technology, and political and social factors that influence business sustainability (Kore & Septarini, 2018). These two factors have an essential role in determining the performance of MSMEs and often interact with each other, both directly and indirectly. However, in this research, internal factors will be the focus of this research.

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production, and marketing. The influence of external factors on SME performance is more significant than internal factors. In creative industry-based SMEs, internal factors in the form of technology have a negligible influence because the production process technology is still superficial; most of the production process is handmade crafts.

Based on this background description, researchers are interested in conducting research titled "Internal Factors Determining MSME Business Performance: Literature Review." This research can help MSMEs understand the internal factors influencing their business performance. The implication is that MSMEs can adjust and improve certain aspects, such as financial management, marketing strategy, operations, or other internal aspects identified in the research. This research aims to examine the internal factors that determine MSME business performance.

RESULTS AND DISCUSSION

MSME business performance concept (definition, dimensions, and indicators)

The definition of MSMEs in Indonesia is regulated in the Law of the Republic of Indonesia Number 20 of 2008 concerning MSMEs. Chapter I (General Provisions), Article 1 of the Law, states that micro-businesses are productive businesses owned by individuals and individual business entities that meet the criteria for micro-businesses as regulated in the Law. Small businesses are productive economic businesses that stand alone, carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of medium or large businesses that meet the criteria for small businesses as intended in the Law. Meanwhile, medium businesses are productive economic businesses that stand alone and are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or are part, either directly or indirectly, of micro-businesses, small businesses, or large businesses that meet the criteria for medium-sized businesses as intended in the Law (Destiana & Jubaedah, 2016).

Micro, small, and medium enterprise (MSME) activities are one way for regional creative products to be known and provide business opportunities for regional business actors (Halim, 2020). There are three division criteria for MSMEs; the first is micro businesses; this business category has maximum assets of 50 million rupiahs and a maximum turnover of 300 million rupiahs. The second is a small business. Namely, this business category has maximum assets of 50 million rupiahs to 100 million rupiahs and a turnover of 300 million rupiahs to 2.5 billion rupiahs. The third is medium business. Namely, this business category has maximum assets of 500 million rupiahs to 10 billion rupiahs and a turnover of 2.5 billion rupiahs to 50 billion rupiahs (Maulana, 2021). The four dimensions, namely proactiveness, resource leveraging, value creation, and customer intensity, positively affect business performance (Setiyaningrum & Ramawati, 2020).

The contribution of MSMEs to the economy cannot be separated from the performance of MSMEs themselves; whether or not MSMEs are successful depends on their (Alansori & Listyaningsih, 2022). Performance is the output or result of work produced in terms of quality and quantity of work. It can be accounted for by the role in the organization or company, ability, work skills, proficiency, and completion (Wibowo, 2018).

Performance (business performance) refers to the level of performance or performance of a company or individual during a specific period. According to Rahayu (Ahmatang & Sari, 2022), there

are three business performance indicators: Increased sales is an increase in the number of purchases made by customers of company goods. Sales growth shows how much a product's sales have increased over time. Increased profit is an increase in client purchases for company goods. Product sales will continue to increase in order to meet the targets that have been set. Satisfactory growth is defined as an increase in consumer purchases measured by average consumption levels and sales volume referred to as customer growth.

However, there are also internal factors that do not have a significant effect on the performance of MSMEs because there is no selection and distribution of tasks for employees, lack of availability of machines and equipment, and analysis of the business's ability to obtain the desired profit cannot be optimal. Meanwhile, external factors significantly influence the performance of MSMEs due to the coaching and training activities provided through related agencies or institutions and the ease of accessing business permits (Mokodompit et al., 2019). The following indicators are used to measure the performance of MSMEs: 1. Sales growth 2. Capital growth 3. Addition of workforce every year 4. Market and marketing growth 5. Profit/business profit growth (Kurniawan et al., 2020).

Determinants of MSME business performance

MSMEs differ from large companies because of limited human and financial resources, narrow markets, and parallel and flexible structures. Limited resources in MSMEs make the dimensions of quality and processing time important so that the level of wasted materials remains low. In addition, because they operate in a narrow market, consumer satisfaction must be maintained. Apart from that, the number of employees and flexible organizational structure allows someone to be responsible in many domains, so the quality and motivation of employees must also be considered (Islami et al., 2017). So, performance assessment is critical for MSMEs to carry out. MSME performance assessment can be carried out in four ways (Suryani & FoEh, 2018) namely: 1) measuring the level of performance achievement of stakeholders in meeting their needs, such as the needs of customers and employees; 2) measuring effectiveness, namely the level of success of MSMEs in achieving the set goals; 3) measuring efficiency, namely how the resources owned by MSMEs are managed, and 4) measuring financial performance, namely how MSMEs can finance long-term and short-term needs in terms of profit levels, investment and so on.

Performance measurement that balances financial and non-financial aspects is known as the Balance Score Card (BSC). BSC has advantages over conventional performance measurement because it measures company performance from four perspectives: finance, customers, internal business processes, learning, and growth (Latifah & Syam, 2020). Thus, BSC can also be used as a benchmark in determining MSME business performance.

Future research agenda

The research that will be carried out next is still related to the business performance of MSMEs. However, it is not limited to aspects of internal factors of MSME business performance but also focuses on financial ratios in measuring financial health. Meanwhile, the contribution of technology in MSME financial management is currently known as Financial Technology (fintech).

Financial Technology is also defined as technological innovation in financial services that can produce business models, applications, processes, or products with material effects related to the provision of financial services; with creative ideas and technological innovation, Financial Technology

offers new choices for consumers in carry out payment activities, money transfers, fund intermediation and investment (Kusuma & Asmoro, 2020). As a new financing model which is the result of a combination of financial services and FinTech technology, it has changed the business model from conventional to moderate, where initially you had to meet face to face to pay and bring a certain amount of cash, now you can make long-distance transactions by making payments that can be made in person. Just a matter of seconds. FinTech emerged along with changes in people's lifestyles, which users of information technology currently dominate, and the demands of a fast-paced life (Rizal et al., 2018).

Apart from its contribution to financial management, technology also creates various innovations that can support MSME business performance. The use of e-commerce platforms as a new technological innovation is becoming popular with the general public, so MSMEs need to take advantage of opportunities for branding through digital marketing. In the current era of the industrial revolution, all business actors must adapt to a rapidly changing business environment by relying on digital technology. This digital marketing is one of the efforts to realize MSMEs' move towards digitalization to achieve marketing effectiveness and increase MSME performance (Arumsari et al., 2022).

Ali Hasan (Febriyantoro & Arisandi, 2018) describes that digital marketing has several characteristics as follows:

1. Efforts to increase business interactivity with customers who depend on technology.
2. An electronic dialogue (interactive technology) to provide access to information to customers (communities, individuals), and vice versa.
3. Efforts to conduct all business activities via the Internet for research, analysis, and planning to find, attract, and retain customers.
4. Efforts to increase the acceleration of buying and selling (specific) goods and services, information, and ideas via the Internet.

The digital era is impossible to avoid. Marketing expert Yuswohadi said that if they want to survive, MSMEs must be able to maximize the benefits of digital development (Maulana in Syukri & Sunrawali, 2022). Thus, further research can be carried out on utilizing technological innovation to improve and develop MSME business performance.

CONCLUSION

Based on the research results, MSMEs have an essential position in developing the national economy, so they require more attention regarding their business performance. Performance is a result of efforts made both in quality and quantity. The measurement of MSME business performance can be seen from the increase in sales, which is the increase in the number of purchases made by customers for the goods sold. In a business, performance always rises and falls, as does MSME business performance because several internal factors determine it: finance, customers, internal business processes, learning, and growth. Thus, management must regulate and improve the performance of MSME businesses.

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