The Role of Internal and External Factors that Influence to Business Development on Entrepreneurs of Local Superior Products in Malang Regency

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Abstract. The existence of small business enterprises has a strategic role in the national economy, especially for small business based on local superior products that can contribute to increasing income and growing economic activity in the region. This study aims to determine the influence of internal and external factors toward business development on small business in Malang. This research uses a survey approach, where the primary quantitative data through questionnaire was taken directly from 30 sample respondents of small business. This study also uses multiple linear regression analysis method supported by instrument testing, classic assumption testing, and individual hypothesis testing. The results show that internal factors which include enterprise capital, quality of human resources, technology and equipment, marketing strategy, production system and financial management have significant effect to the business development. The external factors which include licensing, the policy of empowerment and loan submission procedures have significant effect to the business development.
Keywords: Internal factors; External factors; Business Development; Small Enterprise.

I. Introduction

The sector of Micro, Small and Medium Enterprises (MSMEs) is one of the enterprise sectors that plays a role in public economy mainly in increasing the income and broadening the job field to decrease the unemployment. MSMEs is the main driver of the economic growth, because it provides the entrepreneurial resource and the opportunity of job field. The local resource potency developed by the micro, small and medium entrepreneur is surely able to contribute in growing the local economic activities. The development of micro, small and medium enterprises becomes one of the considered aspects, because those enterprises are base of the public economy system that has a strategically meaning in the development as well as functions as means of distribution of the achieved development results (Lubanraja and Lubis, 2017). Montaseb (2018) stated that there many factors that affect the development of micro, small and medium enterprises.

Although the potency of micro, small and medium enterprises is enormous, however, it sometimes cannot fully anticipate enterprise challenges that move dynamically. The challenges faced by micro, small and medium enterprises are internal and external factors. Purwaningsih and Kusuma (2015) found that external factors such as government policy aspects, social cultures and economy aspects, the related institution roles aspects and the internal factors such as Human Resources aspects, financial aspects, production and operation technical aspects, market and marketing aspects could impact the performance improvement that is measured by the sale volume, the development of workers and marketing in the SMEs. Rokhayati and Lestari (2016) detailed that MSMEs work is measured by many aspects based on the enterprise achievement for example sale growth, workers growth, profit growth and market growth. Enterprise performance is influenced by the internal factors such as human resources aspects, financial, production and marketing, and external factors such as technological aspects, government policies, social economy and the role of related institution. The research about micro, small and medium enterprises performance was also done by Sandra and Purwanto (2015) that found external and internal factors affected the performance of the small and medium enterprises. In the other hand, the research conducted by Sentiago and Hidayatullah (2019) found the different result that the internal factors did not affect the performance of the SMEs, while external factors such as the involvement of government office and other institutions could affect the SMEs' performance. Another result was also found by Purwidianti and Rahayu (2015). Their research found that the internal factors, entrepreneurship value and technical aspect and operation, did not affect the performance of SMEs, while the business strategies affect it. External factors such as economy aspects, government policy aspects, and the role of the related institution aspects, also did not affect the SME's performance.

Based on the various previous research findings which are not consistent, it is still interesting to conduct a further study about the development of the micro, small and medium enterprises. Therefore this research aims at finding out the influence of the internal and external factors in the business development of the local pride products in Malang Regency.

II. Literature Review

Micro Small and Medium Enterprises

Micro, Small and Medium Enterprises (MSMEs) is a business sector that has different scales and criteria. The regulation about MSMEs is in Law No. 20 of 2008 defining an enterprise which is categorized as MSMEs is a small enterprise owned and managed by an individual or a small group of people who own a certain amount of wealth and income. According to LPPI/IBDI and Bank Indonesia (2015), MSMEs are categorized as 1) Non formal MSMEs such as street vendors, 2) Micro Enterprise is an entrepreneur acting as the craftsman but lacks in entrepreneurship so he/she finds difficulties in managing his/her enterprise, 3) Dynamic Small Enterprise is a group of an entrepreneurs cooperating with other parties to export goods, 4) Fast Moving Enterprise is a MSMEs businessman/woman who is competent to create the changes process from a small and medium enterprise to be a big enterprise (Febrian and Kristanti, 2020).

Business Development

Business Development is every efforts in setting the work implementation by improving the business expansion as well as the quality and the quantity of the production to acquire a certain goals. As said by Madura (2001), business development could be measured by work performance of return indicator and the risk of capital investment to the enterprise. An additional opinion by Shanmugam and Bhaduri (2002), business development could be seen from the growth of the production, the growth of the sales, the growth of the income and the growth of the profit. Kristiningsih and Trimarjono (2014) stated that business development can be seen from the success of the business in its work performance. Indriyatni (2013) showed that work capital factors, skill, and enterprise location affect positively and significantly to the success of the micro, small enterprise. Performance refers to the achievement level of the company in a certain period of time. Performance of the company can be seen from the company sales level, margin level, capital return level, turnover level and the achieved target market (Sulistyowati & Lestari, 2016). Several factors that become indicators of the MSMEs business development, as opted by Purwaningsih & Kusuma (2016), are sales growth, capital growth, workers growth, market growth and profit growth.

Internal Factors

Internal factors reflect the strength or weakness of a cooperation and also the managerial ability to manage the company. They are business functional area, including management, marketing, financial or accounting, production, operation, and management information system. Internal factors is a base for building the goals and strategies in creating the power and overcoming the weakness of an organization (David, 2009). Internal factors represent the human resources field, production, marketing and product development that gives an overview about the company condition (Fibriyani and Mufidah, 2018). Internal factor dimensions are: (1) a human resources aspect; (2) a financial aspect; (3) a technical and operational aspect; (4) a market and a marketing aspect (Sandra and Purwanto, 2015). In the other words, Subroto, Hapsari, & Astutie (2016) argue that internal factors which are influenced MSMEs' performance are: a. Human Resources Factor b. Financial Factor c. Production Factor d. Marketing Factor.

External Factors

External Factors are factors coming from the outside of MSMEs that support or hinder the development. They are factors beyond the control which affect the company's direction and action, in which eventually affect the organizational structures and the internal processes (Robbins & Coulter, 2013). An external environment is a condition outside the company that affects the company's life (Lofian and Riyoko,2014). Various external dynamics would affect the MSMEs' development (Budiarto, 2015). External factors according to Subroto *et. al.* (2016) are government policy aspect on the MSMEs sector, social aspect, cultural and economy and institution role aspect. Munizu (2010) specified that MSMEs' performance is influenced by external factors that give significant and positive influence. In line with that, Lofian and Riyoko (2014) explained that external factor governs the SMEs' performance.

III. Methods

This research conducted the causal research design to understand the cause-and-effect relationship of the internal factors and external factors to the business development of embroidery craftsmen in Malang Regency. Quantitative data were collected by analyzing the result of the questionnaire distributed to the 30 respondents in a time limit in which the research conducted. The research variables measurement was based on the respondents' perception or feedback to the overall variable indicators that has been constructed to the model (Sugiyono, 2003). Respondents' answers to the statements were scored according to the Likert Scale, which is by point 1 for the lowest value and point 5 for the highest value. The used scales in this

research were likert scale by answering to a statement. They are strongly agree, agree, neutral, disagree, and strongly disagree.

Variables in this research were internal factors consist of 6 (six) indicators, they are business capital, HR quality, technology and tools, marketing strategy, production system and financial management. External factors were measured by 3 (three) indicators, they are license, empowerment policy, and loan application procedure. The business development were measured by 4 (four) indicators, they are the increase of the business income, the increase of the customer number, the increase of the product quality and the increase of the HR. The result of the validity checking could be compared to the r table value, which is 0.3610. The r table value was obtained from the r table statistic by the reference of n value n = 30, df = n-2 = 28 by α value = 0.05. The validity check is presented in Table 1 below:

Table 1. The Validity Checking Result of External Factor Items

No. Item	r test	Result
1. X.1.1	0.846	Valid
2. X 1.2	0.563	Valid
3. X 1.3	0.383	Valid
4. X 1.4	0.475	Valid
5. X 1.5	0.393	Valid
6. X 1.6	0.816	Valid
7. X 1.7	0.545	Valid

Source : primary data processed, 2020

From the data in table 1, it shows that all items which are in external factor indicators have value > 0.3610. Thus it can be stated that all the measurement instrument of the external factors are valid.

Table 2. The Validity Checking Result of Internal Factor Items

No. Item	r test	result
1. X2.1	0.434	Valid
2. X2.2	0.485	Valid
3. X2.3	0.515	Valid
4. X2.4	0.671	Valid
5. X2.5	0.390	Valid
6. X2.6	0.471	Valid
7. X2.7	0.629	Valid
8. X2.8	0.636	Valid
9. X2.9	0.629	Valid
10. X2.10	0.602	Valid
11. X2.11	0.671	Valid

Source : primary data processed, 2020

From the data in table 2, it shows that all items which are in internal factor indicators have value of r test > r table, in which r table = 0.3610. Thus it can be stated that all the measurement instrument of the internal factors are valid.

Table 3. The Validity Checking Result of Business Development Items

No. Item	r test	Result
1. Y1.1	0.845	Valid
2. Y1.2	0.757	Valid
3. Y1.3	0.461	Valid
4. Y1.4	0.814	Valid

Source : primary data processed, 2020

From the data in table 3, it shows that all items or indicators of business development have value > 0.3610. Thus, it can be stated that all the measurement instruments are valid. Reliability checking used an index that shows how far the measurement instrument is reliable or not by using *Cronbach's Alpha* model reference ≥ 0.6 (Arikunto, 2006).

Table 4. The Result of Research Instruments Reliability Checking

No. Instrument	Cronbach's	Result

	Alpha	
1. External Factors	0.676	Reliable
2. Internal Factors	0.775	Reliable
3. Business Development	0.696	Reliable

Source : primary data processed, 2020

Based on table 4, the Cronbach's Alpha points of the research instruments on overall variables are more than 0.60. It can be concluded that the research instrument of the external factor variables, internal factor variables and the business development variables are reliable to be used as the measurement tools.

On the figure 1 below, it is clear that the research model conceptual framework are using 2 (two) independent variables. They are External Factors (X1) and Internal Factors (X2) as well as 1 (one) Y variable, Business Development.
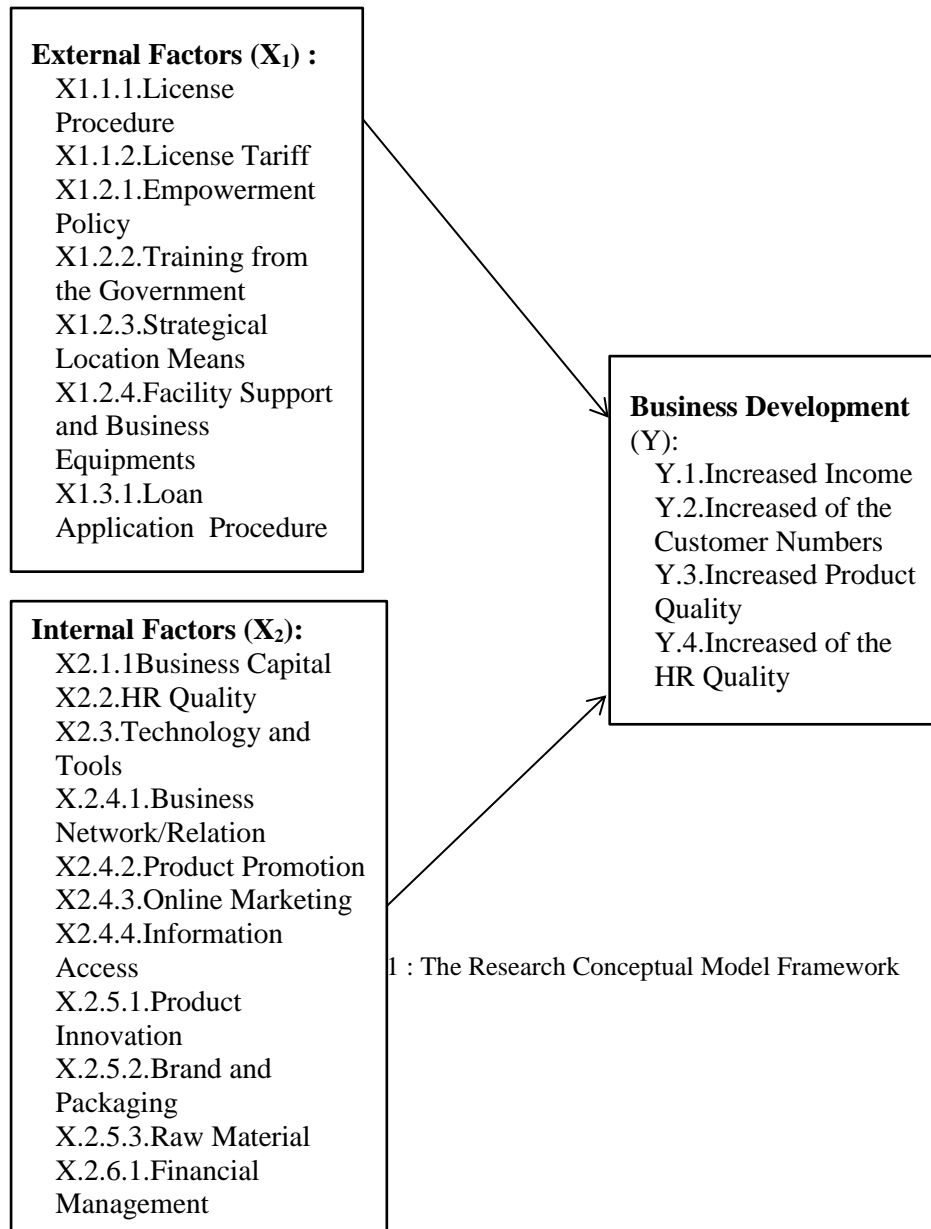
External Factors (X₁) :
X1.1.1.License Procedure
X1.1.2.License Tariff
X1.2.1.Empowerment Policy
X1.2.2.Training from the Government
X1.2.3.Strategical Location Means
X1.2.4.Facility Support and Business Equipments
X1.3.1.Loan Application Procedure

Business Development (Y):
Y.1.Increased Income
Y.2.Increased of the Customer Numbers
Y.3.Increased Product Quality
Y.4.Increased of the HR Quality

Internal Factors (X₂):
X2.1.1Business Capital
X2.2.HR Quality
X2.3.Technology and Tools
X.2.4.1.Business Network/Relation
X2.4.2.Product Promotion
X2.4.3.Online Marketing
X2.4.4.Information Access
X.2.5.1.Product Innovation
X.2.5.2.Brand and Packaging
X.2.5.3.Raw Material
X.2.6.1.Financial Management

1 : The Research Conceptual Model Framework

IV.   Result and Discussion

In this research, all 30 respondents are female. It is understandable because most of the respondents are housewives that run this business to support the welfare of the household but there are also those who run this business as a hobby to spend their spare time. Dominantly the education level of the respondents are Junior High School graduates, there are 10 women (33%), the rest are 8 women (27%) of Senior High

School graduates, 6 women (20%) of Diploma graduates, 5 women (17%) of Bachelor/S1 graduates and 1 woman (3%) of Elementary School graduates.

As for the age range, the research respondents are dominantly in the productive age, they are >30-40 years old (40%) and >40-50 years old (33%), the rest are in the age of >50-60 years old (17%), ≤ 20 years old (7%) and >20-30 years old (3%). Then it is also found out that commonly respondents are not long enough in running the business, by range of the >2-4 years business experience are 15 women (50%), the 1-2 years business experience are 8 women (27%). The rest respondents are 4 women (13%) with more than 4-6 years business experience and 3 women (10%) are less than 1 year business experience.

This research used the statistics analysis of multiple linier regression analysis to test the Hypotheses. Before conducting the regression analysis, it is required to conduct the classical assumption test. By this testing it is anticipated that the achieved regression models could be reliable and did not bias. It is called as BLUE (*Best, Linier, Unbiased, and Estimator*). The result of the classical assumption test showed that the data used in this research were distributed normally shown by the normality test using *Kosmologorof Smirnof* by significant value 0.200 more than the α value = 0.05. The result of the classical assumption test also did not show the multicollinearity symptom because the VIF value < 10 and the tolerance value > 0.10. VIF = 0.516 and Tolerance 0.660. On the *scatter plots* graphic showed that the dots did not form a certain regular pattern and the dots spread irregularly, thus it can be concluded that it did not show the heteroscedasticity symptom.

After the classical assumption test, the next step is hypotheses testing by multiple regression that can be shown in Table 5 as follows:

Table 5. The Result of the Multiple Regression Testing

No. Variable	β	t	Sign.
Constant		0.051	
1. External Factors	0.542	2.898	0.007
2. Internal Factors	0.453	2.441	0.021

Source : primary data processed, 2020

From the result of the data processing, the regression coefficient in Table 5 can be interpreted as follows:

The independent variable regression coefficient of the external factor is 0.542 by the t test point 2.898 (sign. 0.007) shows that external factors significantly affect to the business development. This is explained by the t test point > t table and sign. > 0.05. From the t table, it can be found out that t table value = 2.05183 (on df= n-k, 30-3= 27). This research finding supported the research findings of Sandra and Purwanto (2015), Budiarto (2015), Lofian and Riyoko (2014), and Munizu (2010). However, it is different from the research findings of Purwidianti and Rahayu (2015).

External factors in this research are license procedure, license tariff, empowerment policy, training from the government, strategic location means support, facility and equipment support, and a loan application procedure. In the effort of accelerating the business growth for the entrepreneurs of micro small and medium scale, it is strongly needed for the easiness in running their business. One of the regulations in the requirement of the loan or credit application in the banking system is the business certificate. It needs the easy procedure and low cost in this license management, so the businessmen are not difficult in completing the requirements for the loan. The easy and low cost license affect much on the business development of the craftsmen, because by the license they could borrow to add the business capital. The craftsmen who has not managed the license probably they did not know about the license.

Empowerment policy also determines the success of MSMEs in developing the business. Various empowerment forms and government supports on many empowerment programs is aimed to increase the MSMEs' growth mainly programs which could add the value in business development so it can be established. These empowerment programs could educate the public to take part in building the village economy by their potencies. Empowerment Policy in Malang Regency is in the form of trainings for the craftsmen has been conducted. It is based on the interview done by the researcher. There are 17 craftswomen (57%) joined the embroidery workshop focusing on the trend of design, embroidery, pattern making technique, how to embroider, the technique of selecting and matching the yarns oriented to the production. There are 12 craftswomen (40%) who has joined the sewing workshop, 4 craftswomen (13%) who has joined the embroidery workshop and besides that there are batik workshop, painting, knitting,

marriage gift packs which are followed by 7 craftswomen (23%) and marketing and packaging workshop followed by 3 craftswomen (1%). However, there are 5 craftswomen (17%) who has not join any training or workshop.

The aid on the Business Facility and Equipment also strongly affects business development of the craftswomen, some of the craftswomen has ever got the equipment support, such as sewing machine, production tools like solder to make a hole in the finishing process, ram, needle, and embroidery scissor. An easy and simple loan or credit application procedure is also one factor that could help the business development. From the result of the interview to the respondents, in majority respondents have not understood how is the procedure in applying the loan for adding the business capital. They mostly did not understand the required documents to complete the task and how to compose the application in order their credit application to the bank for example KUR (Micro Credit Program) from BRI could be well executed.

As for the regression coefficient of internal factors 0.453 with the t test = 2.441 (sign 0.021) showed that internal factors affected to the business development. It can be explained by t test point > t table. Internal factors in this research were capital instrument, HR quality, technology and tools, marketing strategy (business network, product promotion, online marketing, and information access), financial management, and production system (product innovation, brand, packaging, and raw material). This research findings was in line with Sandra and Purwanto (2015) research findings and Subroto, Hapsari, & Astutie (2016), however it was different form Sentiago and Hidayatulloh (2019) research findings.

Capital matter often becomes the MSMEs businessman/woman's obstacle in the business development. This happened because commonly a micro, small and medium enterprise is an individual businessman/woman who more counts on his/her own limited capital. By this research, it is revealed that 16 craftswomen (53%) earned the business capital from their own money, 8 craftswomen (27%) used loans, and 6 craftswomen (20%) earned it by combining their own money and loans. The loans are either from the bank or from the other financial institutions. The capital earned from the loans affected craftswomen's business especially in the increase of the business capacity, even for developing the product to be more able to enter the competition. Half of the respondents had not been got the capital from the formal financial institution like a bank, they got it from the traditional micro financial institution with the heavy burden and risk for the sake of keeping their business.

HR quality is one of the internal factors which supports the MSMEs business development. It can be determined by the education, knowledge, and skill of the HR that strongly affected the HR's work performance. Embroidery products are crafts product which need the high patience and creativity to produce the innovative products to fulfill the development of up-to-date design. Technology and tools in the production also determine the crafts product. In doing the marketing activities, the craftswomen need a location to easily introduce the product to the public in order to increase and broaden the business network. The current marketing strategy is only through exhibition or event. Aid and support of location to display the product are needed by the craftswomen to have the area of product marketing. MSMEs business network usually is very limited because that business often is a family business in which the resulted products are limited and unstandardized quality. Promotion and product introduction to the public using online method currently are not difficult to be done. Social media such as Facebook and Instagram can be used as a promotional media. To access the information, it needs the ability in information technology especially in promoting the product. Currently the craftswomen utilize events or exhibition as informed by The Department of Industry and Commerce or by Cooperation Department of MSMEs in order to exhibit the superior products. It needs the brand, packaging, and also easy-get as well as affordable raw material to run the business well and sustainable.

Business financial management is also one of the MSMEs problems. It is often being mixed-up both of private money and business money. Thus it still needs the managerial knowledge of entrepreneurship .The assistance in order to help the craftswomen in the financial records and financial management.

V.   Conclusion

Based on the analysis result, it can be concluded that:
1. External Factors, which cover license, empowerment policy, and loan application procedure, affect positively and significantly to the business development. External factors affect more dominantly to the business development of local pride product in Malang Regency.
2. Internal Factors consisting business capital, HR quality, technology and tools, marketing strategy, financial management, and production system take effect positively and significantly to the business development

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