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The Impact of Entrepreneurial Competence and Internal Environment on Small and Medium Business Performance in North Maluku Province, Indonesia

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Abstract

This study aims to analyze the influence of entrepreneurial competence, internal environment and business performance through competitiveness on MSMEs businesses in North Maluku province. This research is a type of survey with a quantitative descriptive approach. The research data obtained through a questionnaire with the Likers scale. The number of research samples was 240 SMIs or MSME owners with 4 (four) locations, namely Ternate City, Tidore Islands City, Morotai Island Regency and West Halmahera Regency in Maluku Province, Indonesia. By using quantitative analysis with SEM (Structural Equation Modeling) through AMOS application, this research found and revealed that entrepreneurial competence directly has a negative and insignificant influence on competitiveness, the internal environment has a positive and significant influence on competitiveness, entrepreneurial competence has a positive and significant influence on business performance, the internal environment has a positive and insignificant effect on business performance through competitiveness.

Keywords: Entrepreneurial Competence; Internal Environment; MSMEs; Business Performance; North Maluku Province, Indonesia

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are businesses that have the potential to create jobs, provide widespread economic services to the public, and contribute to income equality, economic growth, and national stability, as outlined in Law Number 20 of 2008 in Indonesia. The performance of MSMEs in Indonesia requires significant effort, as they often struggle to translate their creative ideas into competitive products within the business world. This is mainly due to their lack of competence. In this context the underperformance of MSMEs in Indonesia is primarily attributed to the low quality of Human Resources (HR) or entrepreneurial competence (Dipta, 2012). This deficiency is further illustrated by the limited development and mastery of management, organization, technology, marketing, and other essential competencies required to run a business.

Moreover, the lack of professionalism within the MSME culture poses a challenge to enhancing HR quality. The educational background of most MSME operators is low, making it difficult

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for them to comprehend and master the means of improving product quality, standardization, and expanding access to business financing, strengthening technological resources, promoting products in both domestic and global markets, and building global business networks. Entrepreneurial competence is necessary to tackle national and global competition. Entrepreneurial competence takes precedence in taking proactive steps to address the challenges of the business environment, as business owners in the MSME sector usually act as managers, organizers, administrators, and communicators, necessitating managerial competencies to enhance their business performance

The potential role and contribution of MSMEs go beyond strengthening the national macroeconomic structure. These economic institutions must also serve as the primary pillars for fostering people-oriented, grassroots-based economic development. They should provide an environment for business practitioners at the micro, small, and medium scale to grow and eventually transform into larger businesses. Many healthy MSMEs exhibit resistance to growth and development, with a reluctance to upscale and evolve. This attitude must be supported by the capacity to transform and respond to the demands of the business world in the era of Industry 4.0. This is evident in the rapid growth of start-ups, unicorns, and various online businesses that leverage digital technology.

Competitive advantage is understood by viewing a company as a whole, stemming from various distinct activities undertaken by the company in designing, producing, marketing, delivering, and supporting sales (Porter, 1979b). Furthermore, to maintain a competitive advantage in the future, MSMEs need to consider the business environment. The business environment plays a critical role in determining the direction and strategy formulation. The business environment encompasses everything that influences the business activities within an organization or company, including both internal and external factors. According to Wheelen & Hunger (2008), the business environment can be divided into two categories: the external environment and the internal environment. The external environment consists of elements outside the organization and must be analyzed to identify opportunities and threats. David (2011) suggests that opportunities and threats can be identified through the analysis of Porter's Five Forces, including industry competitors, new entrants, buyers, suppliers, and product substitutions. Wheelen & Hunger (2008) define the internal environment as the strengths and weaknesses within the organization itself, which are typically controllable in the short term. David (2012) identifies and evaluates weaknesses and strengths in company functions, including management, marketing, finance and accounting, production, and operations.

Entrepreneurial competence is required to face competition both locally and globally. Entrepreneurial competence becomes increasingly essential for taking proactive steps in response to the challenges of the business environment. This is because small business owners typically act as managers, administrators, and business leaders who lead both the business and its people. Therefore, competencies such as planning, organization, administration, and communication are necessary to enhance business performance.

Based on those phenomena as the research problem, this study aims to explore the relationship between entrepreneurial competence, internal organizational environment, competitiveness, and business performance. In general, this research aims to identify the impact of entrepreneurial competence and the internal environment on competitiveness and the subsequent impact of competitiveness on an organization's business performance. Furthermore, this study will investigate whether entrepreneurial competence influences business performance through competitiveness and whether the internal environment affects

business performance through competitiveness.

Literature Review

Munizu (2010) conducted a study titled "The Influence of External and Internal Factors on the Performance of Micro and Small Enterprises (MSEs) in South Sulawesi." The research involved 300 entrepreneurs, with 150 respondents in Makassar and 150 in Pare-pare. Simple random sampling was employed to select the samples, and data were analyzed descriptively using Structural Equation Modeling (SEM). The findings indicated that (1) external factors, such as government policies, socio-economic and cultural aspects, and the roles of relevant institutions, significantly and positively influenced internal factors in Micro and Small Enterprises (MSEs) with a contribution of 98%, (2) external factors had a significant positive impact on the performance of MSEs (25.4%), and (3) internal factors, including human resources, finances, production and operational techniques, and market and marketing aspects, significantly and positively influenced the performance of MSEs (79.2%).

Lofian and Riyoko (2014) conducted research titled "Identification of External and Internal Factors Affecting the Performance of Rattan Furniture SMEs in Jepara." The study aimed to identify the external and internal factors that impact rattan furniture SMEs in Jepara. The research revealed that external factors, such as government policies, socio-economic aspects, and the roles of related institutions, had a significant and positive influence. Internal factors, including human resources, financial aspects, operational techniques, and market aspects, also had a positive and significant impact on the performance of rattan furniture SMEs in Jepara.

Bouazza et al. (2015) conducted a study titled "Establishing the Factors Affecting the Growth of Small and Medium-sized Enterprises in Algeria." This research analyzed the factors influencing the growth of Small and Medium-sized Enterprises (SMEs) in Algeria and explored the extent of success or failure of SMEs. The study used survey methods. The results indicated that SME growth in Algeria is hindered by interrelated factors, including external business environment factors beyond SME control and internal SME factors. External factors included legal frameworks and regulations, access to external funding, and human resource capacity. Internal factors consisted of entrepreneurial characteristics, management capacity, marketing skills, and technological capacity.

Abolaji and Oni (2015) conducted a study titled "The Effect of the Internal Environment on the Performance of Small and Medium-scale Enterprises in Kano Metropolis." The research aimed to determine the impact of the internal environment on small and medium-scale enterprises in Kano Metropolis. The study involved 108 SMEs in Kano Metropolis, with a selected sample of 85 SMEs. The research employed descriptive analysis and the SPSS data analysis tool. The findings indicated a positive and significant influence of the internal environment on the performance of SMEs in Kano Metropolis.

Research Methodology

This research adopts an explanatory research approach with a quantitative descriptive method and utilizes random sampling. The research design is causal, aiming to study cause-and-effect relationships. The study will be conducted in the North Maluku Province, with a focus on micro, small, and medium-sized enterprises (MSMEs) in the Morotai Island Regency, Ternate City, and Tidore Islands City. These locations were selected due to the diversity of MSMEs in

these areas, reflecting varying entrepreneurial competencies in alignment with the potential human and natural resources. The selection of these research locations considers the author's expertise and the importance of monitoring and evaluating micro, small, and medium-sized business development programs in the North Maluku Province.

The population for this research consists of micro, small, and medium-sized industrial entrepreneurs. A sample size of 240 companies is selected using purposive sampling, where informants are chosen based on their knowledge of manufacturing industry management. The data then is gathered through a combination of methods, including primary data collected via questionnaire distribution to business operators and in-depth interviews with key informants and supporting informants. Additionally, secondary data is sourced from the Cooperative and SME Agency of the North Maluku Province. A mixed-method approach is applied for data analysis, where interactive qualitative analysis is used to address the first research objective, while the second and third objectives are analyzed through Structural Equation Modeling (SEM) using the AMOS software.

Result of Analysis

Based on the empirical model proposed in this research, hypothesis testing can be conducted through the examination of path coefficients in the structural equation model. Hypothesis testing criteria involve evaluating the p-value, with a significance level of < 0.05 indicating a significant relationship between variables. From the seven analyzed paths, shows that there are three paths have a significant positive impact, one has a significant negative impact, two have a non-significant negative impact, and one has a non-significant positive impact. The results of hypothesis testing can be found in the following table:

Hip	Variables			Direct	Indirect	Total	P-Value	Description
	Independent	Intervening	Dependent					
1	Entrepreneurship Competency (X1)	-	Competency (Y)	-0,188	-	-0,188	0,388	(-) Non-Significant
2	Internal Environment (X2)	-	Competency (Y)	0,794	-	0,794	0,000	(+) Significant
3	Entrepreneurship Competency (X1)	-	Business performance (Z)	0,825	-	0,825	0,023	(+) Significant
4	Internal Environment (X2)	-	Business performance (Z)	-0,736	-	-0,736	0,049	(-) Significant
5	Competency (Y)	-	Business performance (Z)	0,254	-	0,254	0,049	(+) Significant
6	Entrepreneurship Competency (X1)	Competency (Y)	Business performance (Z)	-0,188	-0,048	-0,236	0,428	(-) Non-Significant

	Internal Environment (X2)	Competency (Y)	Business performance (Z)	0,794	0,202	0,996	0,090	(+) Non- Significant
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The interpretation of these hypothesis results can be explained as follows:

- Entrepreneurial Competence (X1) has a non-significant negative impact on competitiveness (Y) with a p-value = $0.388 > 0.05$. This coefficient indicates that an increase in Entrepreneurial Competence (X1) will decrease competitiveness (Y). Thus, the first hypothesis is rejected.
- Internal Environment (X2) has a significant positive impact on competitiveness (Y) with a p-value = $0.000 < 0.05$. This coefficient indicates that a favorable internal environment will enhance competitiveness (Y). Therefore, the second hypothesis is accepted.
- Entrepreneurial Competence (X1) has a significant positive impact on business performance (Z) with a p-value = $0.023 < 0.05$. This coefficient shows that good Entrepreneurial Competence will improve business performance. Thus, the third hypothesis is accepted.
- Internal Environment (X2) has a significant negative impact on business performance (Z) with a p-value = $-0.049 > 0.05$. This coefficient suggests that a favorable internal environment (X2) will lower business performance. Hence, the fourth hypothesis is rejected.
- Competitiveness (Y) has a significant positive impact on business performance (Z) with a p-value = $0.049 < 0.05$. This coefficient indicates that high competitiveness (Y) can enhance business performance (Z). Therefore, the fifth hypothesis is accepted.
- Entrepreneurial Competence (X1) has a non-significant negative impact on business performance (Z) through competitiveness (Y) with a p-value = $-0.428 > 0.05$. This means that with high Entrepreneurial Competence, it cannot improve competitiveness and subsequently leads to a decline in business performance. Thus, the sixth hypothesis is rejected.
- Internal Environment (X2) has a non-significant positive impact on business performance (Z) through competitiveness (Y) with a p-value = $0.090 > 0.05$. This means that a favorable internal environment cannot enhance competitiveness and, in turn, cannot improve business performance. Hence, the seventh hypothesis is rejected.

Result Discussion

As this study have established, the research paints a nuanced picture of the relationships between these key factors. Notably, it reveals that entrepreneurial competence, which encompasses knowledge, skills, attitudes, and technological proficiency, might not have a direct and significant impact on the business performance of SMEs. Instead, a company's internal environment, which includes factors like human resources, finances, technical operations, and marketing, plays a crucial role in indirectly shaping business performance through its influence on competitiveness. More discussion from the result as follow:

The Influence of Entrepreneurial Competence on Competitiveness

Competitive advantage can be achieved when a company's success highly depends on its internal capabilities. The phenomenon observed in small and medium-sized industries shows that subpar products and services can lead to customer dissatisfaction, such as the lack of

information provided to customers about the purchasing process.

Entrepreneurial competence in this study comprises four indicators: knowledge, skills, behavioral attitudes, and technological proficiency. Based on the research findings, it was discovered that entrepreneurial competence (X1) has a direct, negative, and non-significant impact on the competitiveness (Y) of small and medium-sized industries (SMIs) in North Maluku. This suggests that increasing Entrepreneurial Competence (X1) will decrease competitiveness (Y). The results of this research reveals that individuals with a creative and innovative ability can create something new and different, start-up businesses, generate novel ideas, seek opportunities, take risks, and develop ideas and resources.

Influence of Internal Environment on Competitiveness

The internal environment consists of all forces close to the business organization, and these factors have short-term impacts on the organization. The role of the internal business environment is crucial for improving a company's business. Descriptive analysis results from Munizu (2010) indicate that internal factors, comprising human resources, financial aspects, technical production or operational aspects, and marketing aspects, significantly and positively influence the performance of micro and small businesses with a contribution of 79.2%. Therefore, the third hypothesis of this study is that the internal environment has a positive impact on SME performance.

Tambunan (2009) reveals that the competitiveness and weaknesses of SMEs in Indonesia are due to factors such as inadequate working capital, marketing difficulties, limited access to financial resources, low skills and technology management, low productivity, limited productive resources, especially capital, technology, information, and markets, as well as low-quality cooperative institutions and a lack of business networks.

Based on the research results, the internal environment (X2), consisting of four indicators: human resources, financial aspects, technical and operational aspects, and technological proficiency, has a positive influence. These findings show that a good internal environment can enhance competitiveness (Y) in small and medium-sized industries in North Maluku. The company's internal environment constitutes the firm's resources that determine its strengths and weaknesses.

The research findings align with the study by Becherer, R.C., Halstead, D. and Haynes, P. (2001) that indicating the internal environment significantly affects competitive advantage in coffee shop industries in Bandung. Gupta, P.D., Guha, S., Subramanian, K.S. (2013) states that the internal environment has a significant impact on the competitive advantage

The Influence of Entrepreneurial Competence on Business Performance

Entrepreneurial competence is of great importance in running a business because the abilities of SME operators are expected to enable them to develop their businesses innovatively, outperforming their competitors. A business operator must be capable of seizing every opportunity while backed by their knowledge. Utilizing technology for business development, entrepreneurs innovate by conducting sales and purchases through internet networks, commonly referred to as e-commerce.

Furthermore, the use of e-commerce technology by SME operators can offer significant benefits, such as expanding their businesses, increasing their customer base, and providing consumers with transactional convenience, ultimately enhancing business competitiveness.

Therefore, entrepreneurial competence can foster business development, particularly by leveraging technological advancements as a medium for their operations.

The research shows that Entrepreneurial Competence (X1) has a positive and significant impact on the business performance (Z), indicating that strong entrepreneurial competence enhances the business performance of small and medium-sized industries in North Maluku. This is consistent with Tehseen, S. and Ramayah, T. (2015) which demonstrated that entrepreneurial competence has a significant influence on business performance. These results also are in line with Endang and Fauzan (2017) research, which concluded that entrepreneurial competence significantly and positively affects the performance of SMEs. This suggests that the entrepreneurial competence possessed by business operators will enhance the performance of SMEs.

The Influence of Internal Environment on Business Performance

Based on the research findings, it is revealed that the internal environment (X2) has a negative and significant impact on business performance (Z). This suggests that a favorable internal environment (X2) actually diminishes business performance. This outcome differs from the perspectives of Ward et al. (1995) and the findings of Max (1980); Tan and Litschert (1994); Lee and Miler (1996). Nevertheless, based on the respondents' average responses, it is evident that medium and small contractors in Indonesia are not yet proficient enough in improving company performance through the internal environment, especially in enhancing the organizational resource and physical resource capabilities.

Man & Lau's research (2008) indicates that the competence of 153 owners/managers of service sector SMEs in Hong Kong directly and indirectly affects the long-term performance of SMEs through competitive scope and organizational capabilities. Competence represents a set of success factors contributing to achieving high performance and tangible outcomes (Wu, 2009). Furthermore, another study supporting the idea that entrepreneurial competence contributes to SME performance is Karami's (2006) research involving 132 SMEs in the electronics industry in the UK, revealing that an improvement in competence, particularly in human resource capacity, is positively related to organizational performance. The study by Barazandeh et al. (2015) states that entrepreneurial competence has a positive impact on business performance among 125 novice entrepreneurs selected from Global Entrepreneurship Monitor (GEM) data from 59 countries. Sarwoko et al. (2013) found in their research that competence acts as a mediating variable between entrepreneurial characteristics and SME performance. Their study proved that entrepreneurial competence impacts the business performance of 147 SMEs in Malang, East Java.

Munizu's study (2010) demonstrated that internal factors consisting of human resources, financial aspects, production/operational aspects, and market and marketing aspects have a significant and positive influence on micro and small business performance. Ontorael (2017) showed that the internal environment has a positive and significant impact on business performance. These results indicate that the internal environment factors have a significant positive influence on business performance.

In other words, the better the internal environment factors managed by SMEs, the better the business performance they achieve. This research outcome aligns with earlier studies that found internal environmental factors influence business performance (Munizu, 2010; Gyanwali, M., 2020). The research findings confirm that internal environmental factors can enhance business performance. From this finding also concluded that internal factors encompassing human

resources, financial aspects, technical and operational aspects, as well as market and marketing aspects have a positive and significant impact on SME performance.

The Influence of Competitiveness on Business Performance

Competitiveness is an entrepreneur's ability to adapt, closely related to the willingness and desire for change, to produce goods and services that meet international standards while maintaining high- and sustainable-income levels. This also includes a region's capacity to generate high income levels and employment opportunities while remaining open to external competition.

Competitive advantage is an entrepreneur's ability to outperform their competitors in the same industry environment. Competitive advantage is viewed as a whole, originating from various activities performed by small and medium-sized enterprises (SMEs) in designing, producing, and marketing, delivering, and supporting sales. SMEs are said to have a competitive advantage over their competitors when they successfully design and implement a value creation strategy that their current competitors cannot emulate or apply. This is emphasized by Barney (1991), who argues that sustainable competitive advantage comes from valuable, difficult-to-imitate, and non-substitutable resources.

In this research, competitiveness employs nine indicators. Based on the research results, it is shown that competitiveness (Y) has a positive and significant impact on business performance (Z) in small and medium-sized industries in North Maluku. This means that high competitiveness (Y) can enhance business performance (Z).

The Influence of Entrepreneurial Competence on Business Performance through Competitiveness

Competitiveness refers to a commodity's ability to enter foreign markets and survive within them. A competitive product is attractive to consumers. Hitt et al (2001), assert that the competitiveness of small businesses is the extent to which a company can meet market demands, both domestically and internationally, in producing goods and services while maintaining or increasing the company's revenue and employment. A company is considered to have good competitiveness when it generates high income levels even in less favorable industry situations and structures. This perspective is further supported by Elfahmi & Jatmika (2017: 447), who state that an industry can be deemed competitive if its overall factor productivity is equal to or higher than its competitors.

Entrepreneurial competence in this study comprises dimensions of knowledge, skills, attitudes, and technological proficiency among small business owners in North Maluku. Based on the SEM analysis, it is revealed that entrepreneurial competence (X1) has a negative and insignificant impact on business performance (Z) through Competitiveness (Y). This means that high entrepreneurial competence does not lead to improved competitiveness and, subsequently, results in reduced business performance.

Basically, someone's understanding of entrepreneurship involves various positive characteristics, creativity, and innovation in developing business opportunities that benefit themselves and their community or consumers (Chell, Haworth and Brearley, 1991; Gartner, Bird and Starr, 1992). Meanwhile, Nurbaya and Moerdiyanto (2012) describe it as thinking of something new (creativity) and acting to do something new (innovation) to create added value with the goal of competing and creating prosperity for individuals and society. Entrepreneurial efforts are designed to be sustainable and institutionalized to be effectively managed by others.

Dipta (2012) states that the low performance of SMEs in Indonesia is caused by the low quality of human resources or low level of entrepreneurial competences, and this is evident through the insufficient development and mastery of knowledge by SME operators in areas such as management, organization, technology, marketing, and other competencies required for business management.

In general, the conditions faced by SMEs in Maluku, with educational backgrounds mostly at the high school level, make it challenging to understand or master ways to enhance product quality and standardization, expand and improve access to financing, strengthen and enhance access to technology for SME development, increase promotional opportunities both domestically and internationally, and build a global business network. Entrepreneurial competence is crucial for facing competition locally and globally. Entrepreneurial competence becomes especially important for proactively addressing business environmental challenges. This is because SME owners typically serve as managers, organizers, administrators, and communicators within their businesses, and managerial competencies that encompass planning, organizing, administration, and communication are necessary to enhance their business performance (Gyanwali, M., 2020)

The Influence of Internal Environment on Business Performance through Competitiveness

In this study, the internal environment of a company consists of aspects related to human resources, finances, technical and operational aspects, as well as market and marketing aspects. Based on the SEM analysis, it is shown that the internal environment (X2) has a positive impact on business performance (Z) through competitiveness (Y). This means that a favorable internal environment does not enhance competitiveness and, consequently, does not lead to improved business performance. The research findings confirm that the internal environment, both directly and indirectly through competitiveness, significantly affects the business performance of SMEs in North Maluku.

As suggested by Hitt et al. (2001), a company's internal environment represents the firm's resources, which determine the strengths and weaknesses of the company. These resources encompass human resources, such as experience, skills, knowledge, expertise, and insights. Barney (1991) indicates that tangible resources within a company include financial resources, organizational resources, physical resources, and technological resources. Intangible resources include human resources, innovation resources, and reputation resources.

These findings highlight the lack of product innovation in terms of design, color diversity, and product variety, as well as a limited response to market needs and preferences within the internal environment of SMEs. This hinders the internal environment of SMEs from becoming a source of competitive advantage. This situation can be attributed to the limited business knowledge and insights of SME entrepreneurs. It is evident in the products created by SMEs, which do not meet consumer preferences in terms of design, color, and product variety. Additionally, very few SME entrepreneurs leverage information technology advancements (the internet) in marketing their products.

Conclusion

Based on the analysis and discussion, the following conclusions can be drawn:

- **Competence and Business Performance:** The research suggests that entrepreneurial

competence, consisting of knowledge, skills, attitudes, and technological proficiency, does not significantly and directly impact business performance. In this context, higher entrepreneurial competence does not lead to improved business performance.

- **Internal Environment and Business Performance:** The internal environment of a company, encompassing human resources, financial, technical, and operational aspects, as well as market and marketing aspects, positively influences business performance through competitiveness. A favorable internal environment does not directly enhance competitiveness, but it indirectly contributes to improved business performance via enhanced competitiveness.
- **Competitiveness and Business Performance:** Competitiveness is found to have a positive and significant impact on business performance. Higher competitiveness leads to improved business performance, as it reflects a company's ability to adapt, create products and services that meet international standards, and sustain high income levels.

In summary, these research findings underline the complex interplay between entrepreneurial competence, the internal environment, competitiveness, and business performance within small and medium-sized enterprises. While entrepreneurial competence alone might not directly lead to better business performance, a positive internal environment indirectly contributes to business performance through improved competitiveness. Competitiveness, in turn, significantly influences business performance, indicating the importance of adapting, innovating, and responding to market needs to achieve higher income and long-term success.

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