INTERNAL FACTOR EFFECTS IN FORMING THE SUCCESS OF SMALL BUSINESSES

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ABSTRACT

This research aims to look at the effects of entrepreneurial competence, marketing ability, financial resources, technological usage, knowledge sharing to business success on Small-Micro Enterprises established by Surabaya Industrial and Trade Agency. This study employs explanatory study type. Technique of collection data that used is Model Structural Equation (SEM) with Smart Least Square (PLS) aided tools. The results of this research indicate that: (1) Entrepreneurial Competency does have significant effect to Business Success, (2) Marketing capacity has a major impact on business success; (3) Financial Resources has not significant to Business Success; (4) Technology Usage has enormous effect on business success; (5) Knowledge sharing has a huge impact on business performance.

Keywords: Entrepreneurial abilities, communication capacity, financial resources, use of technology, knowledge sharing

I. INTRODUCTION

Community-based Micro, Small and Medium Enterprises (MSMEs) economic activities that are autonomous and small scale and managed by community groups or families. MSMEs greatly affect national economy, because it able to absorb a grossly number of unemployment and make too much contribution to Gross Domestic Product (GDP). MSMEs are the economy backbone in East Java as evidenced by the processing industry performance during the nation's share has risen over the last five years, from 19.91 percent in 2013 to 21.70 percent in 2017 [12].

MSME development has also been seen in Surabaya, with the number of MSMEs growing rapidly each year. Based on data from the Cooperative and Micro Business Office in Surabaya, the number of MSMEs has now reached more than 4,800 companies [37]. The number is predicted to continue to grow, but along with this, the MSME sector Continues to face challenges as MSMEs are adapting changes in environmental factors, such as increased competition and global demands for higher product quality, faster delivery times and stronger business partnerships [30]. Therefore, MSME actors need to understand these challenges. In understanding various challenges that exist, each MSME needs to pay attention to its internal factors.

Internal factors can be considered as unique factors that include the company's resources and capabilities that can be controlled [7]. On the other side Internal factors, demonstrate how the goals of management and characteristics of enterprise effect kind of decision needed to be made the resolution of the company's problems or expansion plans for the company's goods and/or services [15].

This research is intended to analyze the internal factors that consist of entrepreneurial skills, marketing power, financial resources, technology use and knowledge-sharing on
business success in UMKM guided by the Surabaya Ministry of Industry and Trade.

A. Entrepreneurial Competency

Successful entrepreneurship is someone with know-how, expertise and values of individuals which includes attitudes, values, and behaviors needed for the process of completing work and assignments. According to [33] competence is the intelligence, skills and abilities of individuals who can directly influence performance; entrepreneurial success is the aim they want to achieve. Entrepreneurial competence refers to knowledge, the skills and competencies of small business owners (bought through schooling, training and experience), success of interpersonal relations, impacts on the network and communication skills [22].

Entrepreneurial competency is identified as the context features of specific knowledge, motivations, characteristics, self-image, personal positions and know-how stimulate conception, survival and/or business development. [17]. Commonly, [14] clarify the characteristics which give rise to competence can be in the form of motives, traits, aspects of self-image, or the role, ability or body in society of information that it uses. Specifically with respect to entrepreneurial skills, business experience, employment, schooling, family background and other demographic variables that influence entrepreneurial competence. There are several factors that influence the competencies possessed by entrepreneurs [33]:

1. Managerial skill

Managerial skills are provisions that entrepreneurs must have. An entrepreneur must be able to take on the planning, organization, mobilization and control functions so that the business he runs can achieve the desired goals. In order to become a successful entrepreneur, the ability to analyze and grow markets, the ability to manage human capital, inventory, assets, resources and all business resources is an absolute must.

2. Conceptual skill

Ability to formulate goals, policies and management plans is the main foundation for successful entrepreneurship. It’s not easy to get this ability. We must learn extra hard from various sources and continue to learn from our own experiences and experiences of others in entrepreneurship.

3. Human skills (skills of understanding, understanding, communicating and relating)

Easy, sociable, sympathetic and empathetic to others is a skill capital that strongly supports us towards business success. With skills like this, we will have many opportunities in pioneering and developing businesses. Efforts can be made to improve this ability, for example that we teach ourselves in various organizations, joining hobby clubs and training our personalities so that they behave appropriately for others.

4. Decision making skills (skills to formulate problems and make decisions)

As an entrepreneur, we are often faced with conditions of uncertainty. Various problems usually arise in situations like this. Entrepreneurship is required to be able to analyze the situation and formulate various problems to find various alternative solutions.

5. Time managerial skill (skill set and use time)

Psychologists say that one of the causes or sources of stress is a person’s inability to regulate time and work. The inability to manage time makes the work pile up or never finish so it makes his soul upset and not calm. An entrepreneur must continue to learn to manage time. Time management skills can facilitate the implementation of the work and plans outlined.

B. Marketing Capability

Marketing capabilities are a company’s marketing aspect that deals with managing client relationships and managing their expectations. The marketing capability criteria must be met to produce superior performance from the resources owned [2]. Marketing capability refers to skill of the organization use of tangible and intangible instruments complex needs understanding of customers and eventually attain a better brand recognition [18].

Marketing capability also includes skills in the business and competencies related to market information collection, sharing, and distribution to all organizations; starting new products and customer relationships effectively, and
establishing supplier’s relationships to achieve business success (26). Increased marketing capability by using customers and relevant business intelligence, better consumer research and/or market analysis and increased marketing and procedures for lead distribution to the company's innovation performance in the market [26]. [24] He added that a strong marketing capability would allow companies to make themselves more productive use of limited resources and can also enhance customer collaboration. Market-oriented companies align their processes, capability performance metrics, and customer-related programs aimed at engaging consumers and establishing to closer ties with the consumers a sort of global market success [20].

**C. Financial Resources**

For businesses to operate profitably, the financial resources are very necessary. SMEs have relatively limited capital and more difficulties accessing sources of finance, are more dependent on one product, lack budgetary control systems and less economies of scale. According to [34] financial resources, namely resources in the form of funds/financial capital owned.

**D. Technology Usage**

Technology is the creation and application of instruments, devices, materials and processes that enable people to solve their problems. Assets in technology, in any business success is one of the most important elements. Organizations use cutting-edge technology to attract more consumers than their rivals. Though technology does have its costs, essentially businesses do usually recover these costs when they operate [11]. Technology plays an important part in MSME growth. Technology has a close relationship with increasing production processes [11].

**E. Knowledge Sharing**

Collection of processes from knowledge transfer, manufacture, incorporation, composite and use activities [27]. Knowledge sharing refers to assigning tasks and knowledge information by helping others and work solve problems with others, formulate new concepts or implement policies or procedures [5].

Knowledge sharing knowledge is an intentional action which makes information reusable by others by passing information [10]. Then Lumbantobing in [3] explains that knowledge sharing is a systematic process in sending, distributing, and disseminating knowledge and multidimensional contexts between individuals or organizations through various methods or media. Knowledge sharing according to Dyer and Nobeoka in [16] is an activity that facilitates the exchange of knowledge, helps people work together, increases the ability to achieve organizational goals, and others. Whereas according to Hoof & Hendrix in [16] suggested that the sharing of information is a mechanism in which the individuals involved share knowledge in implicit and clear forms and awareness formation. Knowledge sharing is more than just sharing, and is also "working together".

**F. Business Success**

Business success is about achieving business targets and objectives that are not clearly set [22]. This could also be defined as the willingness of the company to achieve acceptable results and actions.

According to Islam, [9], there are at least two facets of business success: (1) finance versus non-financial, and (2) short-term outcomes versus long-term success. There are different ways of measuring business success in this context including profitability, revenues, return on investment, growth in revenue, staff numbers, productivity, renowned of the company and others [20].

Different factors affect small business success stories. The business success of the company is one of the goals of every entrepreneur. Small business success industry could be interpreted as the success level in achieving the intended goals/objectives. An organization's effectiveness check can be seen from different aspects such as: financial performance, corporate image and others [21].
II. METHODOLOGY

Every research has an explanatory aspect to it. Explanatory research is used in conjunction with the hypothesis test to assess the relation between variables [31]. Tools used are quantitative. According to [32] Quantitative methods are methods which use a variety of samples and percentages or as numbers.

**Operational Variables**
1. Entrepreneurial Competency (X₁)
2. Marketing Capability (X₂)
3. Financial Resources (X₃)
4. Technology Usage (X₄)
5. Knowledge Sharing (X₅)
6. Business Success (Y)

**Data analysis technique**

The research methodology chosen in this analysis use The Structural Equation Model (SEM) for analyzing the data and checking the assumption. To answer the question of the Partial Least Square (PLS). According to [8] the calculation is carried out using the Smart Partial Least Square (PLS) process, since it is multi-lane and the model used is a Reflective. The calculation model is carried out using Smart PLS methods, since it has a multilayered partnership, and this work is formative and reflective.

III. RESULTS AND DISCUSSION

**Inner Model Evaluation**

**Inner Model Test or Structural Model Test**

The evaluation of internal model is used to assess the relationship between the latent buildings on the basis of PLS results as expected in the study:

\[
Y = 0.160 X_1 + 0.206 X_2 + 0.025 X_3 + 0.343 X_4 + 0.290 X_5
\]

**Hypothesis checking**

See T-statistics in Table 1 below for a response to the study hypothesis:

<table>
<thead>
<tr>
<th></th>
<th>Original Sample Estimate</th>
<th>Mean of Subsamples</th>
<th>Standard Deviation</th>
<th>T-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Success (Y)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial Competency (X₁)</td>
<td>0.160</td>
<td></td>
<td></td>
<td>2.332</td>
</tr>
<tr>
<td>Marketing Capability (X₂)</td>
<td>0.206</td>
<td></td>
<td></td>
<td>2.576</td>
</tr>
<tr>
<td>Financial Resources (X₃)</td>
<td>0.025</td>
<td></td>
<td></td>
<td>0.330</td>
</tr>
<tr>
<td>Technology Usage (X₄)</td>
<td>0.343</td>
<td></td>
<td></td>
<td>3.839</td>
</tr>
<tr>
<td>Knowledge Sharing (X₅)</td>
<td>0.290</td>
<td></td>
<td></td>
<td>3.026</td>
</tr>
</tbody>
</table>
Test results:

a. Entrepreneurial Competency has considerable influence on business successes declared to be acceptable.

b. Marketing Capability has an important influence on business success, has been declared acceptable.

c. Financial resources influence business success significantly, declared unacceptable.

d. Technology Usage has an important influence on business success, has been declared acceptable.

e. Knowledge Sharing has considerable influence on business success, has been declared acceptable.

Testing of Structural Models (Inner Model)

Taking a look at the R-square in evaluating PLS model for every latent dependent variable. You can use the R-square shift value to evaluate whether certain independent latent variables impact major on dependent latent variables. In a configuration with a defined structure R2 value of 0,67 that the "strong" model, R2 of 0.33 specifies the "bad" model is 0.19 indicates that the model is "poor" [8]. As explained below, the PLS output is:

<table>
<thead>
<tr>
<th>Entrepreneurial Competency (X1) -&gt; Business Success (Y)</th>
<th>0.160Z</th>
<th>0.151</th>
<th>0.069</th>
<th>2.332</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marketing Capability (X2) -&gt; Business Success (Y)</td>
<td>0.206</td>
<td>0.201</td>
<td>0.080</td>
<td>2.576</td>
</tr>
<tr>
<td>Financial Resources (X3) -&gt; Business Success (Y)</td>
<td>0.025</td>
<td>0.029</td>
<td>0.076</td>
<td>0.330</td>
</tr>
<tr>
<td>Technology Usage (X4) -&gt; Business Success (Y)</td>
<td>0.343</td>
<td>0.340</td>
<td>0.089</td>
<td>3.839</td>
</tr>
<tr>
<td>Knowledge Sharing (X5) -&gt; Business Success (Y)</td>
<td>0.290</td>
<td>0.302</td>
<td>0.096</td>
<td>3.026</td>
</tr>
</tbody>
</table>

| Business Success (Y) | 0.980 |

The independent variables include industry experience, marketing skills, financial resources, using technology and sharing of knowledge that affects the structural model's business success variable R^2 value of 0.980 that indicates "Good" model.

Discussion

The effect of Entrepreneurial Competency on Business Success in MSMEs Guided by Surabaya Ministry of Industry and Trade

Based on results from partial testing of hypotheses that Entrepreneurial Competency has an effect on Business Success in MSMEs guided by the Surabaya Ministry of Industry and Trade. This is evident from the t-statistical value of 2.332, meaning it is larger than 1.96. The effect of both variables is positive, shown by the estimation or the vector of regression 0.160, it ensures that the business success will also increase if the Entrepreneurial Competence increases. This shows that MSME entrepreneurs' greater entrepreneurial capacities are increasingly capable of shaping business success.

The presence of impact of entrepreneurial skills relevant and positive on business success and proves in MSMEs guided by Ministry of Industry and Commerce of Surabaya can be improved through an increase in good entrepreneurial competencies. Therefore, if the MSMEs assisted by the Surabaya Ministry of Industry and Trade want to improve their Business Success, it is crucial to pay attention to the Entrepreneurial Competency they have. Some researchers have linked entrepreneurial competence with business success [6]. So it can be explained that business owners act as business leaders, in particular in relation to small businesses. This business owner enables optimization of external capital of the company
to achieve commercial success [1], through its enterprise competencies.

Findings from this review indicate that Entrepreneurship has had an important and positive effects on company performance, in accordance with research findings undertaken by [22] with regard to Federal Agency for Land Development (FELDA), which examined small businesses, information the entrepreneurial skills affected business success. This shows the prominent role of entrepreneurial competence in forming a successful business. This entrepreneurial competency can help companies become proactive in terms of gaining profits as the first movers that may enable companies to obtain premium market segments and forecast markets to rivals. This is especially important with an increasingly competitive global market, thus improving business success.

The Influence of Marketing Capability on Business Success in MSMEs Guided by Surabaya Industry and Trade Ministry

The analysis results show that Marketing Capability the impact on client success is immense. The statistical significance can be seen from of 2.576 t which means more than 1.96. Marketing Impact on Business Success is positive, shown by the 0.206 estimate or regression coefficient, indicating that when there is an increase in marketing capacity will also increase business performance. This point out that the higher the Marketing Capability, the more Business Success will be. In other words, the better the marketing capabilities possessed by entrepreneurs in MSMEs guided by the Surabaya Industry and Trade Ministry, the more they will be able to shape business success in these MSMEs.

Marketing capability influences significantly and positively on Business Success denote that Business Success in MSMEs guided by the Surabaya Industry and Trade Ministry can be established through good Marketing Capability. Therefore, if the MSMEs assisted by the Surabaya Industry and Trade Ministry want to form Business Success, it is very important to consider the magnitude of their marketing capabilities. The findings of this study comply with the results of the report from [11] examining small and medium-sized enterprises (SMEs) in Pakistan, it was found that marketing strategies have big impact on business performance.

These proceeds also support the research findings [25] which prove the necessity influence of competence in strategy for business success. Therefore, demonstrate the effect of marketing skills on client success in attracting more companies to speed up its internationalization cycle. Marketing capability contributes to the expansion of new international businesses by influencing corporate decisions to choose modes of entry, including greater involvement of resources in foreign markets [23].

The Influence of Financial Resources on Business Success in MSMEs Guided by the Surabaya Ministry of Industry and Trade

Based on the study outcome, it is understood that Business Success does not affect financial resources. The statistical value of 0.330 t can be seen from, that is, it is less than 1.96. The findings that Business Success in MSMEs led by Surabaya City's Ministry of Industry and Trade cannot be formed through the Financial Resources. The finding is correspond to the results of the report [22] Small businesses was investigated Federal Land Development Authority (FELDA) scheme to ensure that financial resources have no impact on business success. It shows that business success cannot be shaped automatically by the help of sufficient financial resources.

The findings do not match the research findings of the [11] In Pakistan, which analyzed small and medium-sized enterprises (SMEs) found that financial resources had a significant impact on the performance of companies. This study found financial resources to be the critical factors influencing SME success. Financial resources are key factors underpinning the entire enterprise. They face many problems due to the lack of government financial support to the entrepreneurs. Because of a lack of financial capital, businessmen are not satisfied with their product’s marketing activities.

The Influence of Technology Usage on Business Success in MSMEs Guided by Surabaya Ministry of Industry and Trade

It is known that technology use has an effect on business success based on the study's
output. It can be seen from the t-statistical value of 3.839, which means it is greater than 1.96. It means that better use of technology would allow business success to be increased. Those two factors have a positive influence, which means the stronger the use of technology, the higher the Business Success. In other words, the better utilization and use of technology in MSMEs guided by Surabaya Ministry of Industry and Trade, the higher the possibility of shaping business success in these MSMEs.

The essence of the important and positive effect of technology use on business success indicates that business success can be shaped by the use and use of improving technology, so that if the MSMEs led by Surabaya Ministry of Industry and Trade wishes to shape business success, very important to beware of the degree to which technology use reflects technological resources as one of the most important elements for the performance of any firm. Enterprises take advanced technology tend to attract consumers than their rivals. Although technology has costs, companies eventually recover those costs when they are running. The findings are consistent with research conducted by [11] which examined small and medium enterprises (SMEs) in Pakistan found that technology usage has a major influence on progress. The findings of this study also support research performed by [22] which examined small businesses under the Federal Land Development Authority (FELDA) schedule proving that technology usage the impact on business success is important and optimistic.

The Effect of Knowledge Sharing on Business Success in MSMEs Guided by the Surabaya Ministry of Industry and Trade

Posit from the study finding it is known that knowledge sharing affects the Business Success. It can be seen from the statistical value of 3,026 t, meaning it is more than 1.96. The influence of these two variables is positive, indicated by the coefficient of estimation or regression of 0.290, which means that, if there is an increase in knowledge sharing, business success will increase as well. This shows that the higher the knowledge sharing activities carried out within the MSMEs guided by the Ministry of Industry and Trade of Surabaya, the greater the potential to shape the business success.

The existence of considerable and positive effects of entrepreneurship skills on business success indicates success in MSMEs led by Ministry of Industry and Commerce of Surabaya can be strengthened by good entrepreneurial skills. Therefore, if the MSMEs assisted the Ministry of Industry and Trade of Surabaya wants to improve its Business Success, the entrepreneurial skills they possess are really important.

Company Management, for the financial company’s management report it is useful to measures the owners or shareholders responsible for the business as follows (Zuhroh, Daengs, 2018:399).

IV. CONCLUSION

Entrepreneurial Competence, Advertising Capability, Software Usage, Knowledge Sharing, guided by the Ministry of Industry and Trade in Surabaya, has a major impact on the business success of MSMEs. The impact of both variables is positive, indicating the greater the entrepreneurial skills, the more it will be able to increase business success in MSMEs, so that the first hypothesis is accepted. Financial resources have no any major impact on the success of MSMEs under the guidance of the Ministry of Industry and Trade in Surabaya, so that the third hypothesis is not accepted.

REFERENCES


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