



Factor Affecting Business Sustainability of MSMEs in Gresik Regency

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ABSTRACT

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The study aims to explain the factors that influence business sustainability of MSMEs using external environment, entrepreneurial characteristics, technological sophistication, and business performance as variables in Gresik regency. The study uses a quantitative approach. The sample on this study was MSMEs perpetrators in Gresik regency. Non-sampling sampling with technical compulsions is used to acquire samples from as many as one hundred respondents. While the technique for data analysis is PLS (Partial Least Square), validity tests, reliability tests, and hypothesis testing are also conducted. According to the findings of the study, the external environment, entrepreneurial characteristics, technological sophistication, and business performance all have a positive impact on the business sustainability of MSMEs in Gresik Regency.

Keywords:

External Environment, Entrepreneurial characteristics, Technological Sophistication, Business Performance, sustainability

1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) is a business activity run by individuals, households, or small business entities. Micro small and medium Enterprises (MSMEs) play a role as a strategic force and have an important position, both in employment absorption, community welfare, and stabilizing the problem of social inequality (Kustini and Yuniningsih, 2019). MSMEs have a very large role in Indonesia's economic growth. MSMEs contribute 56-59% of GDP and 97% of national employment (BPS in 2020).

The Minister of Cooperatives and SMEs stated that until May 2022, the number of MSMEs in Indonesia has increased and is growing. However, the condition of local MSMEs had experienced a decline in 2020-2021 due to the Covid-19 pandemic. Quoting data from the data from the Gresik Regency Cooperative and SME Office, the number of MSMEs in Gresik Regency had decreased due to the Covid-19 pandemic that occurred starting in 2020. The data was obtained through a survey conducted by BPS 2016.

Based on the data for the last 4 years in 2017-2020, it can be concluded that the number of MSMEs in Gresik has continued to increase in 2017-2019. Where in 2017 MSMEs in Gresik amounted to 94,880, in 2018 there were 130,562,

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and in 2019 there were 225,242. However, in 2020 the number of MSMEs has decreased to 171,000 (BPS 2020). Based on the Covid-19 phenomenon, the number of MSMEs in the Regency which decreased when the Covid-19 pandemic began to hit reflects that business sustainability in MSMEs in Gresik Regency is not going well. Business sustainability is a form of consistency about the state of the company, where sustainable development is a sustainable good business process that includes strategies to grow, develop and maintain business continuity and development where it is important Business sustainability and existence. This is because only some MSMEs pay attention to several factors of MSME sustainability.

However, in fact, when MSME players in Gresik Regency feel that sales have decreased in a few months, they will close their businesses for some time. This happens because income generation is very influential for business sustainability. By optimizing the ability to adapt to the external environment, strengthening entrepreneurial characteristics, and utilizing technological sophistication, and improving business performance can narrow the space for decreasing the sustainability of MSMEs.

The Covid-19 pandemic that occurred in Indonesia is one of the threats from external environmental factors. The external environment refers to the environment that exists outside of the business and has to be evaluated in order to identify the opportunities and risks that the firm will face in the future. (Dwiastanti and Mustapa, 2020). With the conditions described above, MSMEs that are able to survive cannot be separated from the role of MSME actors. MSME

actors are true entrepreneurs who are able to struggle and have resilience in various conditions and pressures. They have high goals and work ethic in facing economic difficulties. Independence and courage to take risks are part of the personality of MSME actors. Entrepreneurial traits are those that, taken as a whole, may characterize an individual's values, attitudes, and requirements, giving insight into their approach to business and the world.

The successful performance of actors or individuals is also influenced by aspects of technological sophistication to support businesses in obtaining accurate data for decision making (Ismail, 2009). Micro, small and medium enterprises must adapt to technological advances so that their businesses can develop and be able to compete and survive, especially in the digital era at this time (Jatmiko et al., 2022). By utilizing existing technology, it can provide opportunities for MSMEs to improve MSME business efficiency, which can be the most important driver of business productivity and reliability, as well as revenue growth that can make business continuity sustainable. Furthermore, business continuity also does not escape the role of business performance. Business performance of MSMEs.

The rapid development of the number of MSMEs and the level of resistance to current environmental conditions require MSME players to be able to survive and be ready to compete with other MSME players. MSMEs need to look at their business performance to compete and develop. Financial performance assessment is carried out to serve as a guide in taking the right steps and making important decisions in managing a business (Yuningsih et al., 2018), (Yuningsih, 2018). Financial performance is a report on the financial condition of a company. It reflects the company's performance in achieving the company's goals, namely creating profits and increasing company value, and is used to control and evaluate its business (Ratnaningtyas and Suwaidi, 2021). However, the performance of MSMEs in Indonesia still does not show good results, this happens because the management system is still family-based. Where business management is still traditional and prioritizes family relationships over professional relationships Alimudin *et al.* (2019).

II. LITERATURE REVIEW

Contingency Theory

Contingency Theory proposed by Fiedler (1967) argues that, the performance of leaders is determined by their understanding of the situation in which they lead. With this statement, it can be interpreted that contingency theory emphasizes the leadership style and understanding of the right situation by the leader.

Resource-based Theory (RBT)

According to Wernerfelt (1984 According to a theory devised to characterize a company's competitive advantage, a company will have a competitive advantage if it has

professional resources that are unavailable to other companies.

Capacity Building Theory

According to Grindle (1997), capacity building theory is an effort made with the aim of developing a variety of strategies in an effort to improve high, effective and efficient performance.

MSME

Micro, Small, and Medium Enterprises are business activities that can increase employment and can increase people's income which plays a role in the country's economic growth to realize national stability.

Business Sustainability

According to the Big Indonesian Dictionary (KBBI) sustainability can be interpreted as a verb that describes an event, continuation, durability and openness of a situation. Business continuity is reflected by the company's innovation success, leadership talent, customers and initial capital return. and being able to see opportunities in carrying out sustainable business development (Dari et al., 2022).

External Environment and Business Sustainability

According to Dwiastanti and Mustapa (2020) The external environment is the world beyond the company's walls, and it must be evaluated in order to ascertain what kind of chances and dangers the business will encounter. Adeoye & Eelegunde (2012) explain that the demographic environment, culture and lifestyle are also dimensions of the business environment that greatly affect the business environment.

Good external environmental conditions can support businesses in encouraging business productivity so that business continuity will continue. The existence of opportunities and threats originating from the external environment makes MSME actors must understand environmental conditions to be able to make strategic decisions in carrying out business sustainability. In research conducted by Dari et al. (2022), Dwiastanti and Mustapa (2020) state that the external environment has a positive effect on business sustainability.

H1 : The External Environment (X1) has a positive effect on Business Sustainability (Y) in MSMEs in Gresik Regency.

Entrepreneurial Characteristics and Business Sustainability

According to Apriliani and Widiyanto (2018) entrepreneurial characteristics are the attitude or behavior of a person who is able to use resources such as finance, raw materials, and labor with creative and innovative efforts and dare to take risks to find business opportunities so that new businesses are created. The internal factors of entrepreneurial characteristics that can determine the success of their business refer to characters such as having a high level of enthusiasm, willingness to continue to innovate, always carry out tasks with full responsibility, desire for achievement and courage to take risks. Therefore, MSME actors must have an entrepreneurial mindset or characteristics inherent in them so

that they can face the threats and challenges that occur in sustaining their business. Dwiastanti and Musatapa (2020), Maulana et al. (2022), Abubakar and Palisuri (2018) in their research state that entrepreneurial character has a positive effect on business success.

H2 : Entrepreneurial Characteristics (X2) have a positive effect on Business Sustainability (Y) in MSMEs in Gresik Regency.

Technology Sophistication

The development of technology in today's rapidly growing and diverse world is designed to be able to help produce good quality information for human needs. Technological sophistication is growing rapidly, not to mention the ability to help humans develop rapidly (Alannita, 2014).

The sophistication of existing information technology, if utilized effectively in business, can be one way out of existing business threats so that business sustainability can continue to run well. By following the development of existing sophistication, it can help MSME players to be able to market their products more easily so as to increase sales. Increased sales can indirectly support business sustainability. According to Trihastuti and Rachmawati (2021), Yanti et al. (2018) The longevity of micro, small, and medium-sized enterprises (MSMEs) is greatly aided by the spread of information technology.

H3 : Technological Sophistication (X3) has a positive effect on Business Sustainability (Y) in MSMEs in Gresik Regency.

Business Performance

According to Anjaningrum and Sidi (2018) Business performance is a measure of the success of a business for small industries, usually measured by production volume and sales results. Micro, Small and Medium Enterprises (MSMEs) performance is a perception in managing, measuring performance and sales growth, increasing the number of customers or consumers, and increasing profits from a Micro, Small and Medium Enterprises (MSMEs) (Amri and Faishal. 2018). Business performance is important for business sustainability. Good business performance can determine business sustainability in MSMEs, because MSME business performance can measure the success or achievements that have been achieved in a certain period of time. According to Maulana et al. (2022), Naufal and Puwanto (2022) business performance has a positive effect on business sustainability.

H4 : Business Performance (X4) has a positive effect on Business Sustainability (Y) in MSMEs in Gresik Regency.

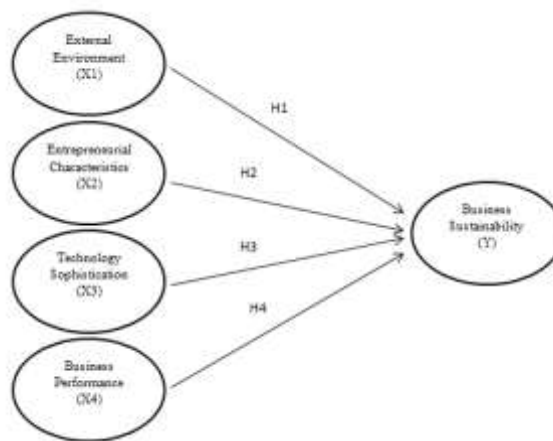


Figure 1. Conceptual Framework

III. RESEARCH METHODS

This research is classified as quantitative research. The sample of this research is MSME players in Gresik Regency who are still running their businesses today. Using a total of 100 respondents, this research method employs purposive sampling. In this investigation, a questionnaire was used to collect data. The data analysis technique in this study used the PLS (Partial Least Square) analysis method with model outel test, inner model test, and hypothesis testing.

IV. RESULTS AND DISCUSSION

Respondent Characteristics

There were 100 respondents in this study. Of the 100 respondents, the influence of the external environment, entrepreneurial characteristics, technological sophistication and business performance on business sustainability in MSMEs in Gresik Regency is the most: based on age 15-24 at 31 percent, based on more than 5 years of business at 54 percent, and based on the type of culinary business at 53%.

Validity and Reliability Test

Average Variance Extracted (AVE), which is a value that shows the amount of indicator variance found in latent variables. Convergent AVE acquisition must be higher than 0.5, this means that it has acceptable validity.

Composite reliability must be above 0.7, then the indicator is considered consistent in measuring latent variables.

Table 1. Avarage Extracted (AVE) and Composite Reliability

	Average Variance Extracted (AVE)	Composite Reliability
External Environment (X1)	0.648	0.880
Entrepreneurial Characteristics (X2)	0.576	0.844
Technological Sophistication (X3 (X3))	0.747	0.898
Business Performance (X4)	0.725	0.888
Business Sustainability (Y)	0.681	0.927

Source: Data Processed 2023

The variables in this study have been declared valid as a whole. With AVE results including the External Environment

(X1) of 0.648, the Entrepreneurial Characteristics variable (X2) of 0.576, the Technology Sophistication variable (X3) of 0.747, the Business Performance variable (X4) of 0.725, and the Business Sustainability variable (Y) of 0.681. The five variables are considered valid because they exceed 0.5. Composite reliability in this study, namely the External Environment (X1) of 0.880, the Entrepreneurial Characteristics variable (X2) of 0.844, the Technological

Sophistication variable (X3) of 0.898, the Business Performance variable (X4) of 0.888, and the Business Sustainability variable (Y) of 0.927. The five variables are considered reliable because they exceed 0.7.

Inner Model (Structural Model Testing)

The objective of this test is to determine the R-Square value, which is a measure of model fit. The test can be determined by examining the R-square value in the latent variable equation. R2 = 0.808 was the result of this study's R-Square analysis. It can be interpreted that the model is able to explain the phenomenon of Business Sustainability which is influenced by independent variables including the External Environment, Technological Sophistication, Entrepreneurial Characteristics, Business Performance and Business Sustainability with a variance of 80.8%. While the remaining 19.2% has no clear explanation within the scope of this investigation. (other than External Environment, Entrepreneurial Characteristics, Technological Sophistication, Business Performance).

Hypothesis Test

The significance of the results of the Bootstrapping T-Statistic value can be seen in the following figure 2:

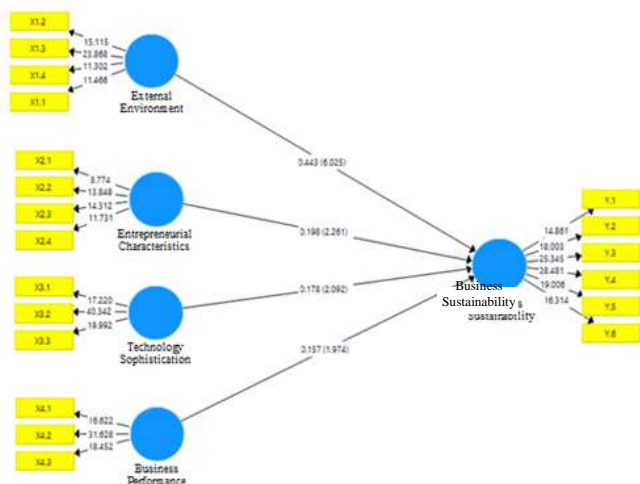


Figure 2. T-Statistic Bootstrapping
Source : Processed Data (2023)

Furthermore, for hypothesis testing, the coefficient results and T-statistic values of the inner model can be seen in the following table. If the T-statistic value is larger than the T table and the p-value is less than the 5% significant threshold, then the value of the influence of exogenous (independent) factors on exogenous (dependent) variables is

significant. The following hypothesis testing results can be seen from the table 2.

Table 2. Path Coefficients (Mean, STDEV, T-Values, P-Values)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (O/STDEV)	P Values
External Environment (X1)-> Business Sustainability (Y)	0,443	0,449	0,073	6,025	0,000
Entrepreneurial Characteristics (X2)-> Business Sustainability (Y)	0,198	0,204	0,088	2,261	0,024
Technological Sophistication (X3)-> Business Sustainability (Y)	0,178	0,172	0,085	2,092	0,037
Business Performance (X4)-> Business Sustainability (Y)	0,157	0,152	0,079	1,974	0,049

Source: Processed Data (2023)

IV. DISCUSSION

The Effect of the External Environment (X1) on Business Sustainability (Y) in MSMEs in Gresik Regency

The results of data processing using PLS demonstrate that the external environment has a positive influence on business sustainability, so hypothesis 1 can be accepted. This means that MSMEs that run with good external environmental conditions can run their businesses well. To determine the opportunities and hazards that will be encountered, it is necessary to analyze the external environment. External environmental conditions greatly affect business sustainability in MSMEs in Gresik Regency. Good external environmental conditions can support businesses in encouraging business productivity so that business sustainability will continue.

In this study, The majority of respondents concurred with the statements contained in the external environment variable stating that the provision of excellent information access can assist MSME actors in running their enterprises effectively. The availability of access to information supports MSME actors to analyze the opportunities and threats that occur in the environment. Access to information can also help MSME actors to be able to make sales through e-commerce which can help maintain business sustainability.

According to Dari et al.'s (2022) research, the external environment has a positive and considerable impact on the sustainability of businesses. The findings of this study support this conclusion. Similarly, Dwiastanti and Mustapa (2020) found that the external environment has a positive impact on the sustainability of businesses.

The Effect of Entrepreneurial Characteristics (X2) on Business Sustainability (Y) in MSMEs in Gresik Regency

The results of data processing using PLS show that entrepreneurial characteristics have a positive effect on business sustainability, so hypothesis 2 can be accepted. This means that someone who has good entrepreneurial

characteristics will run a better business. The greater the inherent entrepreneurial qualities of an entrepreneur, the greater the business's ability to operate sustainably.

In this study, the majority of respondents agreed with the statements on the entrepreneurial characteristics variable where respondents have a level of creativity towards their creative ideas. An entrepreneur will always innovate the products produced. So it takes creativity, responsibility, discipline, self-confidence, and the courage to try new things and always feel uncomfortable in a safe zone. New ideas that continue to exist in the soul of an entrepreneur in creating and introducing new products because in the soul of an entrepreneur actually wants his business to grow and be sustainable. With new systems and technology, it can motivate entrepreneurs to continue their business even though more and more competitors are growing around their business.

This study's findings concur with Dwiastanti and Mustapa's (2020) conclusion that entrepreneurial characteristics are the most influential variable that can impact the long-term viability of micro, small, and medium-sized enterprises (MSME). According to research conducted by Maulana et al. (2022), entrepreneurial traits have a positive impact on the sustainability of businesses. Likewise, Abubakar and Palisuri (2018) prove that entrepreneurial characteristics contribute to the long-term success of a company.

The Effect of Technological Sophistication (X3) on Business Sustainability (Y) in MSMEs in Gresik Regency

The results of data processing using PLS show that entrepreneurial characteristics have a positive effect on business sustainability, so hypothesis 3 can be accepted. This means that technological sophistication if utilized properly will be able to help business sustainability to run well.

In this study, the majority of respondents agreed with the statements contained in the technological sophistication variable where respondents felt that the use of sophisticated technology could make it easier to find important information in developing a business. Information technology sophistication, if utilized effectively, can be a way out of business threats so that business continuity can continue to run well.

The results of this study are in line with research conducted by Yanti et al. (2018) which states that the use of ICT facilities directly affects business sustainability. This is similar to research conducted by Trihastuti and Rachmawati (2022) which demonstrates the benefits of technology to MSMEs' long-term viability in their studies.

Effect of Business Performance (X4) on Business Sustainability (Y) in MSMEs in Gresik Regency

The results of data processing using PLS show that entrepreneurial characteristics have a positive effect on business sustainability, so hypothesis 4 can be accepted.

Which means that MSMEs with good business performance can support business continuity in MSMEs in Gresik Regency. The better the business performance, the better the business sustainability to continue operating.

In this study, the majority of respondents agreed with the statement on the business performance variable where respondents felt that they had increased customers from time to time. This means that business actors can continue their business until now, one of the factors that influence is the increase in customers from time to time.

The results of this study are in line with research conducted by Maulana et al. (2022) that business performance affects business sustainability. This is similar to Naufal and Puwanto (2022) who also stated in their research that business performance shows a positive influence on business sustainability.

V. CONCLUSION

On the basis of the findings of the investigation carried out, it can be concluded that:

1. External environmental conditions affect business sustainability in MSMEs in Gresik Regency. To determine the opportunities and hazards that will be encountered, it is necessary to analyze the external environment. Good external environmental conditions can encourage business productivity so that business sustainability will continue.
2. MSME actors will be able to continue to maintain their business sustainability if they are supported by strong entrepreneurial characteristics to be able to take advantage of opportunities and overcome obstacles so that they are able to survive in continuing their business.
3. Optimal utilization of technological sophistication will be able to help business sustainability to run well. the use of modern technology can facilitate the work of MSME actors both in the production and management processes and even to obtain information about the right market share for MSMEs.
4. Business performance is a measure of the success of a business that can be measured by production volume and sales results. So that a business with good performance can support business continuity and business success.

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