**THE INLFUENCE OF EXTERNAL ENVIRONMENT ON BALANCE SCORE CARD-BASED BUSINESS PERFORMANCE ON HANDYCRAFT MSMEs IN BANDUNG CITY**

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**Abstract :** This study aims to determine the effect of the external environment on business performance based on a balance score card. The factors tested in this study are the independent variable is the external environment, while the dependent variable is business performance based on a balance score card. The research method used is the verification method. The population in this research is handycraft MSMEs in the city of Bandung, amounting to 392 MSMEs. The sampling technique used is a probability sampling technique with a simple random sampling technique, while to calculate the sample size using the Slovin formula so that the number of samples is 80 MSMEs. The analytical method used is simple linear regression analysis using the SPSS Version 25.00 program. The results showed that the external environment and business performance based on the balance score card were included in the fairly good category. In addition, the results of hypothesis testing show that the external environment has an effect on business performance based on a balance score card on handycraft MSMEs in the city of Bandung. The magnitude of the influence of the external environment in contributing to business performance based on a balance score card is 38.3%.

**Keywords:** External Environment, Business Performance Based on Balance Score Card.



**INTRODUCTION**

Along with the times, competition in the increasingly competitive business world encourages every business person to be able to improve their business performance. One of the fairly competitive competitions is also shown by Micro, Small and Medium Enterprises (MSMEs). Micro-enterprises are productive businesses owned by individuals and/or individual business entities that meet the criteria for micro-enterprises. Small business is a productive business that stands alone, which is carried out by individuals or business entities that are not subsidiaries of companies that are owned, controlled, or become part either directly or indirectly of a medium or large business that meets the criteria of a small business. Medium-sized businesses are productive economic businesses that stand alone, which are carried out by individuals or business entities that are not subsidiaries or branches of companies that are owned, controlled, or become a part either directly or indirectly with small businesses or large businesses with total net assets or annual sales results Undang-Undang Nomor 20 Tahun 2008).

icro, Small and Medium Enterprises (MSMEs) play an important role in economic development and growth, not only in developing countries, but also in developed countries. Based on data from the Asian Development Bank (ADB) in 2018, on average, it contributed up to 62% of employment with a population of around 96% of total companies in 20 countries in the Asia Pacific region. In addition, the contribution of MSMEs to exports in various countries in the Asia Pacific region is fairly high. The figure reaches 40% in China and India. Then 26% in Thailand and 19% in South Korea. In Indonesia, the contribution of MSMEs reaches 16%. In developed countries such as Japan, MSMEs contribute 70% to employment, 50 gdp, and constitute 99% of the total company population in this country (Primus, 2018). Below will be presented data on the contribution of MSMEs to the national GDP, as follows:

**Figure 1. Data on the Contribution of MSMEs to National GDP in 2013**

Source:(Bank Indonesia, 2015)

Based on diagram 1. above, it shows that the contribution of MSMEs to the national GDP in 2013 was 57.6 percent (based on constant prices). This comes from micro enterprises by 30.3%, small enterprises by 12.8%, medium enterprises by 14.5%, and large enterprises by 42.4%. In total, MSMEs make the largest contribution to national GDP when compared to large businesses. The contribution of MSMEs in Indonesia to the national GDP continues to increase.

Based on information quoted from the 2018 ww.liputan6.com article, it is stated that the role of MSMEs in the national economy is quite large. The number reached 99.9 percent and employment reached 97 percent. In 2018, MSMEs in Indonesia contributed to the national GDP by 60.34%. According to the Coordinating Ministry for Economic Affairs, the largest contributor to GDP is micro, small and medium enterprises when compared to large enterprises (Putra, 2018). Meanwhile, information quoted from the 2019 www.ekonomi.bisnis.com article that the Chairman of the Indonesian Micro, Small and Medium Enterprises Association (Akumindo), Ikhsan Ingratubun, stated that the contribution of the micro, small and medium enterprise (MSME) sector to the national gross domestic product is projected to grow. 5% throughout 2019. Ikhsan Ingratubun explained, with the estimated growth, the total contribution of MSMEs to the national gross domestic product (GDP) in 2019 could reach 65% or around IDR 2,394.5 trillion. Meanwhile, the realization of the contribution of MSMEs to the national GDP last year reached around 60.34% (Herlinda, 2019).

Empowerment of Micro, Small and Medium Enterprises (MSMEs) is very important and strategic in anticipating the future economy, especially in strengthening the structure of the national economy. Therefore, it is important for business people, especially MSMEs to increase their business performance (Tambunan 2012:12). Basically, performance is the result of a process that refers to and is measured over a certain period of time based on pre-determined provisions or agreements. Business performance is a description of the work results of an organization's business activities in achieving its goals which are influenced by the resources owned by the organization (Edison et al., 2016:190). One way that can be done by business people in improving performance can be by using a business performance method based on the balanced score card. The balanced score card is a management system (not just a measurement tool) by which organizations can define their vision and strategy and translate them into action. The Balanced Score Card provides feedback on both internal business processes and external results to continuously improve performance (Sumarsan, 2017:220).

Business performance based on a balanced score card has various advantages, one of which can be easily adapted to the business environment, can be applied in large and small organizations, and has been proven to be a valid global management practice to improve organizational performance excellence (Vincent Gaspersz, 2011:6). Business performance based on the balanced score card is based on four perspectives including financial perspective, customer perspective, internal business process perspective, and growth and learning perspective (Rufaidah, 2014:310). However, in practice, not all business people apply the balanced score card method in improving their business performance. This can be seen from the competitiveness, especially for MSMEs in Indonesia, which is still low. Based on information quoted from the article www.warta Ekonomi.co.id, it was stated that in 2017 the competitiveness of Indonesian MSMEs was relatively low. Deputy for Business Restructuring at the Ministry of Cooperatives and MSMEs, Yuana Sutyowati, based on BPS data in 2016 stated that the quality of productivity and competitiveness of Indonesian MSMEs is still relatively low compared to MSMEs in ASEAN countries. This condition is a challenge to be able to improve the productivity and competitiveness of MSMEs at the national or global level (Rahayu, 2017). Based on data obtained from the Bandung City KUMKM Service regarding the growth of MSMEs in Bandung City in 2012-2017, they are as follows:

**Table 1. Growth of MSMEs in Bandung City for the 2012-2017 Period**

|  |  |  |
| --- | --- | --- |
| **Number** | **Information** | **Year** |
| **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| 1 | Micro | 3.921 | 4.115 | 4.301 | 4.578 | 4.689 | 4.753 |
| 2 | Small | 337 | 357 | 372 | 392 | 395 | 411 |
| 3 | Intermediate | 273 | 274 | 276 | 281 | 281 | 282 |
| **Amount** | **4.531** | **4.746** | **4.949** | **5.251** | **5.365** | **5.446** |
| **Growth (%)** | - | **4,75%** | **4,28%** | **6,10%** | **2,17%** | **1,51%** |

Source: Bandung City KUMKM Office (2018)

From table 1. above shows that the growth in the number of MSMEs in the city of Bandung under the guidance of the Department of Cooperatives for Micro, Small and Medium Enterprises in the City of Bandung tends to decline from 2015-2017. The decline in the growth of the number of MSMEs in Bandung can be caused by the low competitiveness of MSMEs with the increasing business development at the local level. In addition, this can also be influenced by the level of global competition after the MEA which makes competition at the local level affected. One of the MSMEs in the city of Bandung whose number has decreased in recent years is experienced by MSMEs engaged in the handycraft sector. In 2018 the final number of MSMEs handycrafts recorded by the Bandung City KUMKM Service was 392 MSMEs. Based on data obtained from the Bandung City KUMKM Service regarding the increase in the number of MSME handycrafts in Bandung City in 2012-2017, they are as follows:

**Figure 2. Graph of the Increase in the Number of MSMEs in Bandung City for the 2012-2017 Period**

Source: Bandung City KUMKM Office (2018)

From graph 1.1 above, it shows that MSMEs engaged in handycraft (handycrafts) in 2015-2017 in the last few years tend to experience a decrease in the number of MSMEs handycraft business people every year. The low increase in the number of MSMEs handycraft in Bandung can also be triggered by the low creativity and innovation of handycraft business actors in Bandung. This is supported by information quoted from the Indonesian Innovation Index which states that the Indonesian innovation index tends to experience a decline in the business world in producing a product from 2013-2016. This illustrates that the lack of competitiveness of business people in Indonesia is partly due to the low level of innovation in producing products. One of the businesses that emphasizes creativity and innovation in producing a product is in the handycraft sector (The Global Economy, 2018).

Business performance can be influenced by factors in the internal environment, but also factors in the external environment. Analysis of the external environment is a step that needs to be considered by business people. The environment is an important contextual factor that has an influence on the company's performance. Environmental uncertainty is an external environmental condition that can affect the organization's operations, which for an organic organization is appropriate in an unstable environment, whereas a mechanical organization is appropriate in a stable environment. The external environment consists of the macro environment and the micro environment. The macro-environmental component is often abbreviated as PEST (politics, economics, social & cultural, and technology), while the microenvironment component is often abbreviated as C4 (customers, competitors, collaborators, and creditors) (Rufaidah, 2014:77). External environmental analysis needs to be carried out to identify major opportunities and threats faced by an organization against changes in the company's external environment so that managers can formulate strategies to take advantage of these opportunities and avoid or minimize the impact of potential threats that arise (Gunawan et al., 2015).

The external environment is the company's external strategic factors that become opportunities and threats that must be faced by the company (Rufaidah, 2014:109). According to (Rufaidah, 2014:77), the external environmental indicators are as follows:

1. Macro Environment
	1. Political environment
	2. Economic environment
	3. Social and cultural environment
	4. Technology environment
2. Micro Environment
	1. Customer
	2. Competitor
	3. Supplier
	4. Lender

Business performance is a description of the work results of an organization's business activities in achieving its goals which are influenced by the resources owned by the organization (Edison et al., 2016:190). One way that can be done by business people in improving performance can be by using a business performance method based on the balanced score card. The balanced score card is a management system (not just a measurement tool) by which organizations can define their vision and strategy and translate them into action. The Balanced Score Card provides feedback on both internal business processes and external results to continuously improve performance (Sumarsan, 2017:220). According to Rufaidah (2014:310) states that business performance indicators based on the balanced score card are as follows:

* + 1. Financial Perspective
		2. Customer Perspective
		3. Internal Business Process Perspective
		4. Growth and Learning Perspective

External environmental analysis aims to find opportunities and or threats from the external environment (Rufaidah, 2014:109). External environmental analysis needs to be carried out to identify major opportunities and threats faced by an organization against changes in the company's external environment so that managers can formulate strategies to take advantage of these opportunities and avoid or minimize the impact of potential threats that arise (Gunawan et al., 2015). Changes in the external environment are a threat to Small and Medium Industries (SMI). This is due to the lack of knowledge of SMI entrepreneurs on external environmental factors, especially the macro environment, considering that the majority of SMI entrepreneurs have low formal education, lack of knowledge in the use of technology, and lack of business insight. This has an impact on the lack of product innovation both in terms of design/model, color diversity, and the variety of types of products produced and less responsive to market needs and desires, so that the external environment of SMEs does not become a source of competitive advantage (Setyowati, 2015). The high uncertainty factor in the external environment that is not considered in carrying out business activities will have an impact on the organization's business performance. One way that business people can do to maintain organizational business performance is by applying the balanced score card method (Sumarsan, 2017:220).

Ho: The external environment has no effect on business performance based on the balanced score card.

Ha: The external environment affects business performance based on the balanced score card.

**METHODS**

The research methodology used in this research is verification. The population in this research is handycraft MSMEs in the city of Bandung, amounting to 392 MSMEs. The sampling technique used is a probability sampling technique with a simple random sampling technique, while to calculate the sample size using the Slovin formula so that the number of samples is 80 MSMEs. The types and sources of data used were primary data, while the data collection technique used a questionnaire. The independent variable is the external environment, while the dependent variable is business performance based on a balance score card. Analysis of the data used is simple linear regression analysis using SPSS Version 25.00 program.

**RESULTS AND DISCUSSION**

**Table 2. Recapitulation of Respondents' Responses Regarding External Environmental Variables**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Indicator** | **Actual Score** | **Ideal Score** | **%** | **Mean Score** | **Category** |
| 1 | Macro Environment | 1436 | 2000 | 71,80 | 3,59 | Good |
| 2 | Micro Environment | 919 | 1600 | 57,44 | 2,87 | Fairly Good |
| **Total** | **2.355** | **3.600** | **65,42** | **3,27** | **Fairly Good** |

Source: Data processed (2018)

Based on table 2. above, the external environment variable shows that the total value of the actual score is 2,355, the ideal score is 3,600, the percentage value is 65.427%, and the mean score of 3.27 is included in the pretty good category. This shows that the analysis of external environmental factors shown by the Handycraft MSMEs in the city of Bandung is in the fairly good category.

**Table 3. Recapitulation of Respondents' Responses Regarding Business Performance Variables Based on Balance Score Card**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Number** | **Indicator** | **Actual Score** | **Ideal Score** | **%** | **Mean Score** | **Category** |
| 1 | Financial Perspective | 906 | 1600 | 56,63 | 2,83 | Fairly Good |
| 2 | Customer Perspective | 644 | 800 | 80,50 | 4,03 | Good |
| 3 | Internal Business Process Perspective | 533 | 800 | 66,63 | 3,33 | Fairly Good |
| 4 | Growth and Learning Perspective | 879 | 1200 | 73,25 | 3,66 | Good |
| **Total** | **2.962** | **4.400** | **67,32** | **3,37** | **Fairly Good** |

Source: Data processed (2018)

Based on table 3. above, the business performance variable based on the balance score card shows that the actual total score is 2,962, the ideal score is 4,400, the percentage value is 67.32%, and the mean score of 3.37 is included in the pretty good category. . This shows that the business performance based on the balance score card shown by the Handycraft MSMEs in Bandung is in the fairly good category.

**Table 4. Simple Linear Regression Analysis**

|  |  |
| --- | --- |
| **Variabel** | **Koefesien** |
| C | 0,823 |
| External Environment | 0,650 |

Source: SPSS Output Results (2018)

Based on table 4. above shows that the regression equation model formed is:

**Y = 0,823 + 0,650 X**

 Based on the regression equation above, it shows that the external environment variable has a positive influence on the business performance variable based on the balance score card.

**Table 5. Hypothesis Testing**

| **Variable** | **t-Value** | **P-Value** | **Results** |
| --- | --- | --- | --- |
| External Environment | 6,962>1,991 | 0,001<0,10 | Ha Accepted |

Source: SPSS Output Results (2018)

 Based on table 5. above, it shows that the external environment variable has an effect on the business performance variable based on the balance score card.

**Table 6. Testing the Coefficient of Determination**

|  |  |  |
| --- | --- | --- |
| **Description** | **Value** | **Percentage** |
| R-squared | 0,315 | 31,5% |

Source: SPSS Output Results (2018)

 Based on table 6. above, it shows that the magnitude of the influence of external environmental variables on business performance variables based on the balance score card is 38.3%.

**The Influence of External Environment on Business Performance Based on Balance Score Card**

The results show that the external environment has an effect business performance based on a balance score card. The external business environment within a company is one of the key factors that will determine the success or failure of a company in achieving the goals that have been set. The external business environment can touch various aspects of mobilization within the company. Therefore, conscious efforts to further explore various aspects of an effective external business environment need to be carried out continuously. This is because the success of a company is highly dependent on the quality of the external business environment. So it is reasonable to say that the external business environment within the company plays a very important role in the company's success (Nuhung, 2012). The external business environment has an impact on organizational performance in terms of achieving company goals. Thus, organizations must pay more attention to the external environment by conducting regular management (Adeoye & Olarewaju, 2012).

External environmental analysis aims to find opportunities and or threats from the external environment (Rufaidah, 2014:109). External environmental analysis needs to be carried out to identify major opportunities and threats faced by an organization against changes in the company's external environment so that managers can formulate strategies to take advantage of these opportunities and avoid or minimize the impact of potential threats that arise (Gunawan et al., 2015). Changes in the external environment are a threat to Small and Medium Industries (SMI). This is due to the lack of knowledge of SMI entrepreneurs on external environmental factors, especially the macro environment, considering that the majority of SMI entrepreneurs have low formal education, lack of knowledge in the use of technology, and lack of business insight. This has an impact on the lack of product innovation both in terms of design/model, color diversity, and the variety of types of products produced and less responsive to market needs and desires, so that the external environment of SMEs does not become a source of competitive advantage (Setyowati, 2015). The high uncertainty factor in the external environment that is not considered in carrying out business activities will have an impact on the organization's business performance. One way that business people can do to maintain organizational business performance is by applying the balanced score card method (Sumarsan, 2017:220). The results of this study are supported by research conducted by Nuhung (2012), Setyowati (2015), and Jankovic et al., (2016). The results show that the external environment influences business performance.

**CONCLUSIONS**

 Based on the results of the study, it can be concluded that the analysis of external environmental factors and business performance based on the balance score card shown by the Handycraft MSMEs in the city of Bandung is in the fairly good category. In addition, the results of the study show that the external environment has an effect on business performance based on the balance score card.

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