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The Impact of Internal, External and Enterprise Risk Management on the Performance of Micro, Small and Medium Enterprises

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Abstract: This paper aims to develop the role of internal factors, external factors, and risk management variables on MSMEs' business performance. This research was conducted in underdeveloped regions of five provinces, which includes 14 cities in Indonesia—East Java, West Sumatra, North Sumatra, West Nusa Tenggara, and East Nusa Tenggara. The Resource-based view and Market-based view methods were chosen to measure 1401 data of MSMEs. The data was collected using offline questionnaires then processed using SPSS. This paper demonstrates a remarkable outcome for MSMEs, showing the significant result of risk management factors that includes risk assessment of marketing and financial management. Other independent variables of internal, external, and risk management factors also show important outcomes on MSMEs performance. This paper offers additional value of the implementation of ERM in MSMEs, which are spread in underdeveloped regions in Indonesia. The findings shown that the activity of the enterprises in identifying and managing risk would bring up the significant effect on operational business performances.

Keywords: risk management; internal factor; external factor; performance; MSME

1. Introduction

The Micro, Small, and Medium Enterprises (MSMEs) sector becomes a key factor in the development of the national economy in the world since it has a strategic role in opening employment, new business and contributing greatly to encourage the increase of gross domestic products [1]. However, the result of some research shows that the sustainability and resilience of MSMEs are continuously vulnerable to risk [2,3]. The sustainability itself is defined by a core process of a business which needs the continuous innovation and will affect to the long-standing success of business performance. The previous studies provide cases that occur in small and medium-sized businesses in Laos, which face obstacles on growth performance due to the lack of technological mastery, lack of human resources, no focus on business, and impartial government policies for small entrepreneurs in the country. These factors will affect the performance of MSMEs and will have an impact on the sustainability and resilience of small and medium businesses [3]. Therefore, the problem of risk vulnerability in affecting the sustainability and resilience of MSME should be addressed.

Most entrepreneurs try to identify risks, but they do not relate it to their business process in order to manage and mitigate such risks. Most of the findings in prior studies show that every entrepreneur has an interpretation and evaluation of the risk that relevant to their risk management activities

and business performance [4]. This explains that perception and ability to manage risks tend to be influenced by the adopted risk management approach [5–7]. In the context of SMEs in several nations, MSMEs are often perceived as high-risk entities in the context of channeling access to finance [8]. This perception is considered very harmful and can hamper the performance of SMEs as in many cases, MSMEs require loans to expand their business.

Based on prior research, most of the study shows the use of risk management by applying financial variables such as the number of board meetings in a year and percentage of board members and rating maturity of ERM [9,10]. Beside using financial variables to identify the risk management, there are several researches exploring risk management by applying risk assessment and management [11,12], risk identification [13], and market response of ERM [14]. However, they strive to estimate the risk but not to quantify the risk measurement based on the individual's perspective. Therefore, most of the findings unable to precisely analyze the measurement of risk assessment based on specific issues and holistic perspective from the entrepreneurs' perspective. The holistic context is needed and crucial to identify, assess, and monitor all risks (weakness and threats) and opportunities to support firms' management decision related to the operation and strategic activities [15]. Offering the details of quantifying the measurement of ERM of MSMEs, this paper applies questionnaires to quantify the entrepreneur's perspective as the first value added from the prior contributions to develop the risk management and ways to mitigate such risks. The contribution of this paper is remarkable important to prior research of ERM. This study aims at addressing the knowledge gap by answering the research questions: how is the relationship between ERM and the performance of MSMEs based on the entrepreneur's perspective? how is the internal and external factors influence the entrepreneur's business performance? Moreover, there are several papers that found the significant relationship between risk management quantified in financial variables and performance such as Callahan and Soileau [11,13,16], but there is no paper analyzing the relationship between the entrepreneur's perspective of risk identification and assessment, based on more specific fields such as operational, strategic, financial, and marketing management. Using primary data for its independent and dependent variables, this study analyses the relationship between risk management and performance in case of MSME in Indonesia. The use of additional internal factors such as organization, marketing, and technical as the second independent variables and the competitiveness within the industry as the external variables are important to study their influence on the company's business performance, profitability, and market share variables.

2. Literature Review

2.1. Resource-Based View

Resource-Based View (RBV) concerns about the internal factors which become the fundamental variable of the company and its performance. This theory states that the heterogeneity of firms in the industry is an essential factor forming a competitive advantage among firms. This theory also reveals that whether all firms in the industry have the same resources, they will not have varied competitive advantage to diversify their strategies among firms. Peteraf [17] also added that the different varieties of firms performance is due to the different level of efficiency in intrinsic resources. Furthermore, Barney [18] in his study describes that enterprises ought to have value and scarcity, which is unable to imitate and substitute with other entities to possess competitive advantages. Those researches define the internal resources of the firm, which are an asset, skill, organizational process, attributes, information, knowledge, and anything controlled by the firm and can implement the strategy. Additionally, those internal factors can improve the efficiency and effectiveness of the entities to influence the performance. Therefore, the RBV approach made a crucial and complementary value added to the strategic management perspective to construct the durable competitive advantage of the enterprises.

2.2. Market-Based View

Porter [19] is concerned more with the firm's strategy to influence the industry performance, while the structure of the industry still becomes the critical role of the enterprise's performance. He also focuses more on the strategy of the company to have a competitive advantage and positioning strategy in the competitive market [19]. Acknowledging the market structure is constant, the market winner is more attractive firm compare to others. Based on this theory, low cost and differentiation are two main features to construct a better position of the entities compare to the others. Either the better position comes from, the lower cost of the firm or the firm's ability to distinguish its value-added compared to the others. Therefore, under this background, the strategy of the enterprises comprises a comprehensive understanding of its industry to be able to compete with others to improve the performance.

2.3. Enterprise Risk Management (ERM)

ERM support the awareness of risk management to sharpen the management decision of strategic and operational field [15] and give the competitive value to the enterprises. This happens because the ERM offers the entities to manage their risks by reducing potential losses and providing guidance to be adopted by firms. Even though the ERM provides the theoretical guidance of risk management for enterprises, the implementation of ERM is difficult to be applied due to little guidance of concrete practices at the instrumental and operational strategies. As a result, there are various ERM to be applied in different enterprises because of little guideline of the detail ERM standard. While there is variation in ERM practices, several papers rely on data of risk stakeholder of the firm [14,20] and ordinal scales to measure the existence of ERM practices [21]. However, those researches do not solve the particularities of the ERM practices to be applied as the broad standardization of the firm.

Nocco and Stulz [15] stated that ERM should improve business success and competitiveness since it supports the opportunities during expansions and protects the firm from the risk during bad business condition [22]. Moreover, the enterprises which implement the ERM will obtain the benefits of efficiency, gain strategic positioning, and the increasing return due to applying the firm's strategic orientation [23].

Small and medium business performance becomes an important instrument in maintaining the sustainability of operational activities. It needs to be done to boost the growth of MSMEs. Faltejskova [24] states that enterprise performance can be an indicator in measuring the success, ability to compete, and a chance to ensure the sustainability of a business in a specific industry. Goncharuk [25] also defines enterprise performance management as a system that combines all actions and interactions that occurs in an organizational structure with the goal to gain sustainability. Many studies are discussing the MSMEs; nevertheless, little research focuses on the performance of MSMEs in Indonesia. It states, in previous research [26], that the performance factor is needed as a tool or media for an integrated business. The use of performance variables, which are profitability and market share are two important factors for performance measurement—financial and non-financial, in reflecting the sustainability of MSMEs operational activities. Both the resource-based view and market-based view approaches will then use in the decision-making process on MSMEs' performance.

2.3.1. The Relationship between Internal Factors and Performance

Prior studies analyze internal factors using several variables such as innovation, technology, operational activities, human resource strengthening, marketing, research, and development [27–36]. Another variable that can take into account is the marketing strategy. It will affect business performance through the formation of market position, marketing differentiation, product development, and efficiency [37]. This is in line with the Schumpeter's resource-based view (RBV) concept that resources, management, and control are significant variables of the company's internal influence on business performance [38]. The resource-based view recognizes the striking strategic values of the entities as the strategic practices of the firm. Therefore, either the competitive advantage of the differentiated product

or the lower cost can be measured as the better positioning of the success criterion of the enterprises to meet market needs. More specifically, Spanous and Lioukas [26] also found that strategic position determined by unique resources and competencies of the firm influences its performance. The efficiency, which is the output of distinctive resources and capabilities (organizational, marketing, and technical assets) at the firm level, may affect the performance of firms. Therefore, these internal factors are important in determining the comparative advantage of the business by offering efficiency. It provides value-added products that become a champion in achieving market share and high profitability. Thus, internal factors have a significant positive effect in determining the whole performance of an enterprise. We hypothesize the following:

Hypothesis 1. *Internal factors have a positive effect on MSMEs' performance.*

2.3.2. The Relationship between External Factors and Performance

On the other hand, several studies explain the role of external factors on business performance associated with competition, industry, and government [34,39–41]. The research framework is referred as a market-based view associated with five forces analysis, such as barriers to entry, supplier power, buyer power, the threat of products or services substitution, and competitive rivalry [42]. Porter [43] also explains the importance of competition for an enterprise, which is very significant in determining the enterprise's position in a market: Win or loss. Industry forces may influence the performance sustainability above the average against indirect and direct competition among firms. The interesting fact is competition will affect the internal of an enterprise by enabling the organization to understand the pertinence of every activity and determine which activities that have a huge contribution to the organization [43]. It will be beneficial for an enterprise to develop its competitive advantage to win the market [44]. Furthermore, the research framework is conducted to find out how the influence of market structure and the industry will have an impact on business performance. Additionally, the external factors will explore more deeply how the competition perspectives influence the MSMEs' performance. Therefore, the hypothesis of this variable is as follows:

Hypothesis 2. *External factors have a positive influence on MSMEs' performance.*

2.3.3. The Relationship between Risk Management and Performance

Furthermore, several studies [45,46] reveals that some employers do not treat risk as an important factor affecting the company's performance. Others try to identify risks, but most entrepreneurs do not understand risk management and ways to mitigate such risks. Based on the findings, it is known that every entrepreneur has an interpretation and evaluation of each risk that were considered relevant to their risk management activities and business performance. It explains that perception and ability to manage risks tend to be influenced by the adopted risk management approach [5–7]. In the context of SMEs in Indonesia, MSMEs are often perceived as high-risk entities in the context of channeling access to finance. This perception is considered very harmful and can hamper the performance of SMEs in many cases, MSMEs requires loans to expand their business. Whereas, Lam [47] explains some benefits for a company if they implement enterprise risk management (ERM). The main advantages are to decrease the possibility and the number of loss, improve return on capital and increase the shareholder value. Tonello [12] also mentions that the ERM enables the company to reduce the costs through better integration of risk assessment and management by balancing the threats and opportunities from external factors. Moreover, Callahan and Soileau [13] found that the failure of a company in identifying and managing risk will bring up a significant effect on their business. Their result showed the importance of ERM in giving a positive impact on operational performance. They also argued that the damaging effect would not appear to the firm unless they do not try to do risk identification and

management. Therefore, we hypothesize the influence of risk management on MSMEs' performance as follow:

Hypothesis 3. *Risk management has a positive impact on MSMEs' performance.*

3. Methodology

3.1. Participants

The sample firms studied in this research was MSMEs in five underdeveloped provinces that include 14 cities in Indonesia, namely East Java, West Sumatra, North Sumatra, West Nusa Tenggara, and East Nusa Tenggara. These areas have been considered based on the lists mention on Indonesian' Government Strategic Plan of the Directorate General for Development of Disadvantaged Regions during the period 2015–2019 [48]. These areas have been selected as our sample since we want to analyze the sustainability and resilience of SME in risk vulnerable areas, especially in underdeveloped areas. In addition, the author followed the business size classification criteria, according to the Constitution of Republic Indonesia No.20/2008 in chapter IV, Article 6 (1) about MSMEs [49], which mention that a business considered as micro-sized enterprise when it has the maximum net worth of 50 million rupiahs—excluding the land and building of business premises, with the maximum annual sales of 300 million rupiahs. Whereas a small enterprise has a net worth more than 50 million rupiahs to the maximum of 500 million rupiahs—excluding the land and building of business premises, with the annual sales more than 300 million rupiahs to a maximum of 2.5 billion rupiahs. Lastly, the medium-sized enterprise is a business which has a net worth more than 500 million rupiahs to the maximum of 10 billion rupiahs—excluding the land and building of business premises, with the annual sales more than 2.5 billion rupiahs to the maximum of 50 billion rupiahs.

We focused on delve deep the information from the owner participants, who well aware and running the day-to-day business, to gather more detail information and track its historical business performance. These samples were processed by using the probability sampling method with a purposive sampling technique to obtain the desired sample according to the performance of MSMEs for several years.

3.2. Measures

The method used to measure the data in this study were conducted using an offline survey. The survey was carried out from April until July 2018 with an offline survey method. It was done by a face-to-face meeting or direct approach, by using the Indonesian language, which is the main language in Indonesia. However, in some areas, we need to interpret the questionnaires to the local languages for the respondents convenient.

The number of questionnaires distributed from the main-test questionnaire was 1401 MSMEs with no invalid responses need to be excluded. Then, the SPSS processing tool used in this study to find out about the integrated relationship between internal, external, and risk management factors to the performance of MSMEs.

3.3. Procedures

This research begins with two filter questions before the respondent can fill out any further response: "Do you have a business that has been running for at least one year?", and "Do you have a paid employee in your business?". Inclusion screening questions are intended to filter respondents to fit the criteria of the research sample that has been determined.

The second sections of the questionnaire were asking about the respondents' business profile: "name of the business", "aged of the business", "industry/business sector" which are classified into three categories, which are manufactured, service and trading; and "the business sub-sectors" namely

fashion, crafting, culinary, and others. Then, we focus on the owner's profile: "contact person, gender, level of education, and aged" to see the characteristic of the MSMEs owner.

In the main section of the questionnaire, the participants answered several questions based on three variables used in this research that related to their actual business performance (see Appendix A). The internal variable questions demonstrate how their management, marketing, technical, and technology performs; while in the external variable, the questionnaire demonstrates how the MSMEs' react to the industry that associated with the MSMEs' product, strategy and distribution channels compare to their competitors in running the business. Additionally, performance variables were group into two indicators, which are market share and profitability. All questions were given in five-point Likert scales representing totally weak, 1 to totally strong, 5. Additionally, the questions that related to risk variable were given to demonstrate the current MSMEs' actions of their business operational, financial and marketing to prevent business risks. Five Likert scales were also being asked with the ranging from strongly disagree, 1 to strongly agree, 5.

4. Data Analysis

Quantitative data analysis begins by performing descriptive analysis and graphical representation. This descriptive analysis is designed to collect information about real situations and describe the nature or current state at the time of the research. The results of the descriptive analysis are presented in the form of statistical summary tabulations based on the group of selected variables. In this study, the descriptive analysis presented is the profile of respondents, the character of entrepreneur, demographics, and business strategy and risk management of MSMEs.

The analysis was continued by performing the reliability and validity analysis using SPSS. It is beneficial in ensuring that the questions are the correct indicators to measure our variables and have consistency when it is being measured several times. The validity test was performed twice since we use some dimensions for our research: dimension internal factor, external factor, and enterprise risk management. Then, we conduct correlation and multiple regression test by using SPSS also [50]. The correlation test was performed to find out the relationship between two determinants, while the regression test was done to know the significance and influence of the dependent and independent factors. The use of multiple regression is based on three independent variables and one dependent variable [51]. SPSS considered appropriate to test the research question about the influence of the free factor on the bound factor. The correlation test can be used to test the relationship between two determinants, measure the strength of the relationship between the two variables, and see the reliability between them [52,53], then the results can show how big the relationship between two variables is.

However, the correlation test has the limitation as it cannot distinguish between the dependent and independent variables which are being tested. Consequently, a more detailed analysis of the regression test is needed to know the direction, significance, and the influence of independent variables in explaining the dependent variable.

In the regression test, the significance value from the influence of the free factor on the dependent factor can be stated significant if it has a probability value or significance <0.05 [54]. Then, the value of the beta coefficient shows the direction of the influence of the independent factor on the dependent factor. The values of R-square shows how much the free factor can explain the factors bound together. The research model framework can be seen in Figure 1.

In the research model above, Spanos and Lioukas [26] have combined the external factors of the company derived from the Five Forces Porter theory and then synergized to the company's performance. Resource based-view is an internal factor theory that explains its influence on business performance [55]. Furthermore, the value of competitive advantages (internal factors) and external factors are capable of providing a differentiation strategy from one company to another in affecting the business performance. Based on the research model and explanation, this research objective is to see the impact of internal and external factors on the performance of MSMEs in underdeveloped regions in Indonesia.

As for the formulation of the performance of micro, small and medium enterprises, this research has two independent variables supporting indicators. They are internal variable with the variable proxy of operational, marketing, and technical management; while the external variable is the covering industry. The formulation of the formula exists in the following equations:

$$Performance_{it} = \alpha_{it} + internal_{it} + eksternal_{it} + riskmanagement + \varepsilon_{it}$$

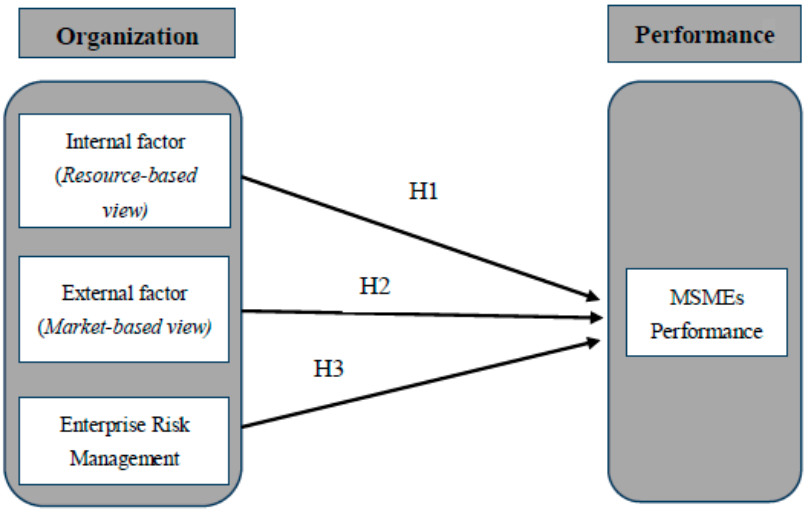

Figure 1. Research Model.

5. Results

This research was conducted in two stages namely pre-test and main test. This study uses pre-tests to get the validity and reliability of the question's indicator contained in the questionnaire. The main-test stage has the purpose of collecting actual data that will be processed to test the relationship between the determinant factors in the model. Data through pre-test results show the results of valid and reliable research indicators and significant correlation test between variables so that it can be continued with the main-test. Main-Test data processing uses as many as 1401 responses that have been collected and validated.

The demographic characteristics of respondents are shown in Table 1 below that includes gender, last education level, the age of respondent, and duration of the respondent's business establishment.

Table 1. Descriptive Statistics.

Respondent	Category	N	%
Gender	Male	607	43.32
	Female	794	56.68
Education	Primary School	268	19.13
	Junior High School	223	15.91
	Senior High School	636	45.39
	Diploma	36	2.57
	Undergraduate	133	9.49
	Master/Doctoral	8	0.58
	No education	97	6.93
Age (year)	<20	15	1.08
	21–30	247	17.63
	31–39	392	27.98
	>40	747	53.31
Business age (year)	1–3	289	20.6
	3–5	190	13.56
	>5	922	65.81

Notes: N = 1401.

The number of MSMEs entities is 1401 samples. Characteristics of the sample can be described in several categories among others based on gender. It shows female respondents hold 57% among all respondents with the remaining 43% of male respondents. The composition is aligned with the result from Survey Entrepreneurs and MSMEs In Indonesia (Asia Pacific Foundation of Canada, 2018) which is 51% female and 49% male [56]. This result shows women are the majority of samples who manage their home economy and become enterpreneur. Then, based on the last education, respondents with recent education Senior High School, primary school-degree, and junior high school dominates with a percentage of 45%, 19%, and 16%, respectively. This shows the low level of education degree possessed by most enterpreneurs in underdeveloped areas in Indonesia and in consequence discourage the development of MSME sector in this area in terms of human resources. Furthermore, the MSMEs that became the object of the average research has stood for more than one year. The percentage for each long-standing category is 20% for business age of one to three years, 14% for four to five years, and 66% for business age of more than five years. Based on duration of business life, most of MSME samples sustain more than 5 years which means the long-standing business experience has main role to keep the sustainability of their business. Finally, the sample of respondents in this study had an average age above 40 years with a percentage above 53%, followed by an age range 31 to 39, 21 to 30, and under 20 years with a percentage of 27%, 18%, and 1%, respectively. Therefore, by conducting this offline research in fourteen underdeveloped areas, it can be described that the business samples in this study are dominated by female enterpreneurs, low level of education and age over 40 years old, and business continuity has last-long enough but growth stagnation.

Table 2 is a table showing the results of validity and reliability test on data processing of each indicator and research variables. The dimensions we use in this research are internal management dimension, internal marketing, internal technical, external industry, market share performance, profitability performance, financial, and marketing risks.

Table 2. Validity and Reliability Test.

Dimension		Mean	Factor Loading	Validity	Reliability
Internal–Organization (IOM)	IOM1	3.38	0.749	0.731	0.775
	IOM2	3.37	0.792		
	IOM3	3.28	0.790		
	IOM4	3.22	0.761		
Internal–Marketing (IPE)	IPE2	3.45	0.757	0.767	0.755
	IPE3	3.52	0.777		
	IPE4	3.20	0.807		
	IPE5	3.44	0.698		
Internal–Technical (ITS)	ITS1	3.28	0.806	0.785	0.816
	ITS2	3.23	0.772		
	ITS3	3.17	0.842		
	ITS4	3.15	0.794		
Internal–Technology (ITG)	ITG2	2.37	0.894	0.811	0.932
	ITG3	2.20	0.920		
	ITG4	2.30	0.928		
	ITG5	2.30	0.905		
External–Industry (EIN)	EIN1	3.48	0.794	0.690	0.776
	E1N2	3.24	0.857		
	EIN3	3.27	0.842		
ERM–Financial Risk (RKE)	RKE1	3.34	0.732	0.633	0.662
	RKE2	3.74	0.819		
	RKE3	3.91	0.710		
	RKE4	3.89	0.555		

Table 2. *Cont.*

Dimension		Mean	Factor Loading	Validity	Reliability
ERM–Marketing Risk (RP)	RP1	3.54	0.780	0.660	0.702
	RP2	3.82	0.833		
	RP3	3.72	0.765		
Performance–Market Share (EPP)	EPP1	3.37	0.920	0.743	0.904
	EPP2	3.38	0.933		
	EPP3	3.39	0.896		
Performance–Profitability (EPF)	EPF1	3.39	0.887	0.742	0.887
	EPF2	3.47	0.915		
	EPF3	3.43	0.909		

Validity: Kaiser-Meyer-Olkin (KMO) > 0.50; Reliability: Cronbach Alpha (Alpha) > 0.60.

5.1. Validity and Reliability Test

Table 2 showing the test results of validity and reliability test. Based on the summary of the data results, it can be seen that all indicators, measurable dimensions, and variables have good validity (loading factor > 0.50 and KMO > 0.50), and the good level of reliability as well (Cronbach Alpha > 0.60).

We also made the validity and reliability in each variable to ensure specific results. Based on the summary of the data results in Table 3, all variables – internal, external, risk management, and performance- have good validity (loading factor > 0.40 and KMO > 0.50), and the good level of reliability as well (Cronbach Alpha > 0.60). Previously, we also reduced the operational risk indicator from the risk management variable due to the insufficient value (factor loading = 0.276).

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Table 3. Validity and Reliability in each variable.

No.	Variable	Validity	Reliability	*Factor Loading*
1	**Internal**	0.768	0.782	IOM = 0.853 IP E = 0.820 ITS = 0.879 ITG = 0.609
2	**External**	0.69	0.776	EIN1 = 0.794 EIN2 = 0.857 EIN3 = 0.842
3	**Risk Management**	0.5	0.711	RKE = 0.882 RPE = 0.882
4	**Performance**	0.5	0.891	EPP = 0.950 EP = 0.950

Validity: Kaiser-Meyer-Olkin (KMO) > 0.50; Reliability: Cronbach Aplha (Alpha) > 0.60.

5.2. Correlation Test

The correlation test was performed on the results with the aim to predict the influence of independent and dependent variable. Here are the results of correlation test between variables that have been processed using SPSS.

Table 4. Correlation Test.

Hypothesis	Correlation	Coefficient	Significance (1-Tailed)
1	Internal–Performance	0.506 **	0.000
2	External–Performance	0.512 **	0.000
3	Risk–Performance	0.449 **	0.000

** Pearson Correlation significant at 0.01(1-tailed).

Based on Table 4 above, it can be seen that the relationship between independent variables with the dependent variable (two way) is significant because it has a coefficient correlation value above 0.5 and the significance value of 1-tailed below 0.05. The results of the correlation test on the main test prove that the questionnaire changes made give improvements to the results of the data.

The test results of RBV variables on the MSMEs performance (see Table 5), shows that internal strength has a significant influence on performance, with the positive influence of beta at 0.378. The strength of Independent variables can explain the performance quite well with R-Square and t-value of 0.452 and 12.012, respectively. Therefore, the hypothesis in this study is not rejected.

Table 5. Regression Result.

Variable	R Square	Unstandardized Coefficient		Standardized Coefficient Beta	t	Sig
		Beta	Std. Error			
(Constant)			0.112			0.000
Internal	0.452	0.378	0.031	0.310	12.012	0.000
External		0.254	0.027	0.247	9.494	0.000
Risk		0.450	0.024	0.374	18.586	0.000

Besides, external strength also has a significant influence on performance which indicates the positive influence of beta at 0.254. External power factor can explain performance equal to 45,2% with R-Square of 0.452 and t-value of 9.494. Thus, the second hypothesis in this study is not rejected.

The result of the risk factor variable consists of finance and marketing risks has a significant influence on MSMEs performance. Table 5. shows that the risk factor has the trust level of 45.2 percent with its positive beta of 0.450. The risk factor strength can significantly explain the good performance with t-value equal to 18.586. Hence, the third hypotheses in this study are also not rejected.

6. Discussion

In this aforementioned study, all independents' variables show a significant influence on the dependent variables of the MSME's business performance. It is aligned with some earlier researchers' findings associated with each variable mentioned. Regarding internal factors, the results generated from this study provide a similar result conducted by several researchers [21,26,57,58]. It shows that internal factors influence business performance. Based on Table 2, the variable of Internal Organization 2 (IOM2) has the highest factor loading of 0.792, followed by IOM3 with a factor loading of 0.790. It represents the efficient organizational structure of managing employees coordination as well as the production and marketing plan of the business in the past year. It can be inferred that efficiency becomes the most crucial factor in the internal variables of MSMEs in Indonesia. Besides, this argument supported by the second proof that shows the highest factor loading of Internal-Technical (ITS) component is 0.842 (ITS3)

that represents the capability of the firm to conduct low-cost mass production. Thus, this second factor also represents the impact of efficiency and corporate strategy as the main variable to influence the MSME performance. Two things that explain the reason behind this result: Firstly, the implementation of efficiency can be seen from a superior asset base against its competitors. It is essential for a business to reach the top position in the market by optimizing the company resources; secondly, the business' strategy of MSMEs is of secondary importance in how an entity can formulate its strategy by providing a competitive advantage on its superior product, non-immigrant, and non-substitutable [21].

In external factors, the framework by Porter in previous research also demonstrates the same result with this study [11,59]. It states that the viewpoint of external factors—particularly the industry, has a significant effect on market share, and profitability performance. The influence of industry on business performance gives an idea of how MSMEs can maintain its performance compared to its competitors [23,26]. More explanation is given through Table 2, in which EIN2 has the highest factor loading among other external components with a score of 0.857. This component comes from better competitiveness through promotion strategy compare to other firms. This also shows the entity's ability to negotiate with suppliers, buyers and compete against competitors. In line with Porter's theory, business competition can directly affect market performance, while suppliers' power affects profitability directly and indirectly.

At last, the risk management factor has a positive influence on MSMEs' performance. This result aligns with Lam [47] who explain some benefits for enterprises if they conduct ERM. Based on Table 2, the highest factor loading of ERM component comes from Financial Risk (RKE2) and Marketing Risk (RP2) for 0.819 and 0.833, respectively. It means that MSMEs should focus more on the number of loss and only a few customers. Therefore, the MSME should decrease the number of loss and enlarge their market to reach new customers to improve performance and its market share. Tonello [12] also mentions in his research that the ERM enables the company to reduce the costs through better integration of risk assessment and management by balancing the threats and opportunities from external factors. Furthermore, Callahan and Soileau [13] found that the failure of a company in identifying and managing risk will bring up a significant effect on their business.

To sum up, our results indicate that both factors of internal and external can together contribute to the success of MSMEs performance as well as ERM, which shows its importance in giving a positive impact to the operational performance.

7. Conclusions

7.1. Summary, Implications and Contribution of This Study

To help MSMEs achieving profitable performance and creates sustainable growth, this research examines the impact of internal, external and risk management on the performance of MSMEs. The results reveal that this study in line with previous researches [16,29,30,36,37,60]. First, the internal factors have a positive influence on MSMEs performance, which is caused by the impact of efficiency and comparative advantage of companies' strategy. As for external factors, the positive effects of external variables on performance, have several causes between the competition, efficiency, and alliances [26,61]. Finally, as for the third variable, the risk management also has a positive impact on MSMEs' performance that aligns with previous studies [12,13,47] and explains some benefits for the enterprises if they conduct Enterprises Risk Management (ERM). ERM itself enables the company to reduce the costs through better integration of risk assessment and management by balancing the threats and opportunities from external factors.

This paper also offers added-value to includes the microbusiness, especially in underdeveloped regions, which are rarely disclosed by the most researcher. The implementation of ERM in MSMEs is a relatively under-research topic and most of the MSMEs have not considered this practice yet. Thus, the inclusion of risk management on this research is considered as an important value because the activity of the enterprises in identifying and managing risk will bring up the significant effect on

operational business performances. Then, the other main advantages are the decrease in the possibility and the number of lost and improve performance such as return on capital. Research conducted by Tonello [12] also mentions the same result, where he mentions that the risk management allows companies to reduce costs through better integration of risk assessment and management. He also found that the failure of companies to identify and manage risks will have a significant effect on their business operation. In short, our results show that the MSMEs could be more competitive and sustainable not only to focus on the internal and external factor of the business, but also by reinforcing risk management to their business that can make a positive impact on operational performance.

There are several implications from the findings of this research that can be adopted by the MSMEs as well as organization related to it, which are as follows:

(1) Internal and external strength factors of MSMEs has been proved to affect performance positively. These results can be important notes for MSMEs that the owner should pay more attention to manage their internal organizational issues in term of their human resources (HR), marketing, operation, and technology. For instance, in the HR area, the owner needs to put their concern on how the business can provide competitive benefit for retaining their employees' than the competitors. Additionally, as 53.31% of MSMEs' owners are aged more than 40 years old, they should think about the succession plan to sustain their business operation. Whereas in finance, the owner firstly should separate their personal and business asset as well as having a financial record of their business, to track their profit and loss as a basis of their future business strategy. In operational issues, they can undertake some efforts such as develop production efficiency to gain more profitable business. In the external factor, knowing how to compete with competitors also affects the performance of SMEs in seizing market share and a high level of profitability. If these factors are improved, this will enhance their performance, position in the market so as their ability to generate profits. In this manner, MSMEs is expected to maintain its long-term sustainability.

(2) Based on the result of several underdeveloped areas in this research, it is known that the MSMEs are lack of awareness of their business development. Thus, the organizations related to this sector' acquaintance need to give more attention of the MSMEs practice and give an evenly accompaniment or assistance that can also reach to the underdeveloped regions; and build the MSMEs awareness to apply the strategies that can help them grow their business. Then, providing appropriate treatment by clustering the MSMEs—e.g., based on their business size may create a better impact on the MSMEs growth.

7.2. Limitations and Future Research Direction

There were several obstacles faced during the process of conducting this research. First, there are numbers of MSMEs entity that are reluctant to fill out the questionnaire even though individual direct approach has been done to the MSMEs. It is caused by the low level of awareness on the purpose of this research. Second, many entities of MSMEs are less accustomed to filling in their responses directly into the questionnaire sheets and some of them prefer to give the response by using the local languages. Thus, data retrieval from some respondents has to be done through the help of the research coordinator. Besides, some of the participants are hesitant to complete the data related to financial and operational issues and caused the financial and operational ratios of MSMEs' data are not fully accomplished.

On top of it, some points are worth addressing future research:

(1) The results of this study are restricted to the MSMEs in Indonesia's underdeveloped area with the one who has the offline store. As the advancement of technology, many MSMEs start their business with the use of an online basis. Thus, it may differ if the same research conducted in other respondents' target groups and areas. Moreover, the selection of specific industry and the peculiar level of business such as micro or medium business—though it may only provide useful business acumen to specific MSME's size and sectors.

(2) The questionnaires that are used in this research delimitate the respondents to fill out the answer based on the available choices. Hence, conducting additional method as in-depth interview or Focus Group Discussion (FGD) will be beneficial for future research to draw a depth insight and valuable feedback from the potential respondents to give significant managerial impact and enhance their business' performance.

(3) This research used the variable of risk management by involving sub-variables of business' operational, financial, and marketing. However, future research can include other risks sub-variables to make the research more comprehensive in analyzing the risk to influence business' performance.

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Appendix A

Table A1. Questionnaire items.

Dimension		Constructs
Internal–Organization (IOM)	IOM1	How is your employees' level of business knowledge and expertise, compared to the competitors?
	IOM2	How efficient is the work schedules division in your business, compared to the competitors?
	IOM3	How was your business's production and marketing plan in the past year, compared to the competitors?
	IOM4	How is your business ability (related to bonuses & incentives) in retaining employees, compared to the competitors?
Internal–Marketing (IPE)	IPE2	How is your effort in response to consumer complaints, compared to the competitors?
	IPE3	How is your effort to attract more buyers and loyal customers, compared to the competitors?
	IPE4	How is your effort in performing promotion, compared to the competitors?
	IPE5	How is your effort in the price-setting, compared to the competitors?
Internal–Technical (ITS)	ITS1	How was your production performance in achieving sales targets for the past year, compared to the competitors?
	ITS2	How is your business in employing the experienced workers who is expert in production process compared to the competitors?
	ITS3	How is your business' ability to produce large quantities of goods at a low cost compared to the competitors?
	ITS4	How is your ability of distribution management compared to the competitors?

Table A1. *Cont.*

Dimension		Constructs
Internal–Technology (ITG)	ITG2	How is the use of technology – especially social media such as Facebook and Instagram, in your business' marketing activities?
	ITG3	How is the use of online marketplaces, such as *Tokopedia, Bukalapak, Lazada*, in marketing your products?
	ITG4	How is you and your employees' participation in joining trainings related to mastering technology related to your business?
	ITG5	How is your participation in joining mentorship related to the application of technology held by the government institution and/or large companies, compared to the competitors?
External–Industry (EIN)	EIN1	How do you rate the superiority of your products compared to the competitors?
	E1N2	How do you assess the competitive advantages of your business' promotion strategy (discount), compared to the competitors?
	EIN3	How do you rate the superiority of your business's competitiveness in terms of product distribution, compared to the competitors?
Performance–Market Share (EPP)	EPP1	Compared to the competitors, how was your sales performance in the past year?
	EPP2	Compared to the competitors, how was your sales growth performance?
	EPP3	Compared to the competitors, how was your market share's growth?
Performance–Profitability (EPF)	EPF1	Compared to the competitors, how was the performance of your business' profit for the previous year?
	EPF2	Compared to the competitors, how was your business' ability to achieve payback period/break-even-point?
	EPF3	Compared to the competitors, how was your business' net profit performance?
ERM–Financial Risk (RKE)	RKE1	Our business' sales have declined in the past two years.
	RKE2	Our company often experiences losses.
	RKE3	Our company has a very large amount of loan/debt.
	RKE4	Our customers are often to not pay their debts.
ERM–Marketing Risk (RP)	RP1	Our company sales have declined in the past year.
	RP2	Our company only relies on a few customers.
	RP3	Our company fails to promote our products continuously.

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