

INTERNAL FACTOR OF MSMEs IN THE POST-PANDEMIC COVID-19: OBSTACLES OR DETERMINANTS FOR BUSINESS SUSTAINABILITY

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Abstract: The purpose of this research is to show that these internal factors are obstacles or determinants of the sustainability of MSMEs post-pandemic Covid-19. The sampling technique in this research used stratified random sampling by classifying the number of MSMEs in 5 regions in Surabaya. The data collection technique uses survey via questionnaire with 200 respondents who are divided according to the proportion of the number of MSMEs in each region. Data analysis using SEM-PLS. The findings of this research show that capital, quality of human resources, business networks are determining factors in the sustainability of MSMEs with dominance in the capital factor, while transparency is a determining factor in the decline of MSMEs. The next findings show that the mentality of business actors is an obstacles factor in the sustainability of MSMEs.

Keywords: entrepreneurship, access to capital, human resources, transparency, business networks

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1. Introduction

Business continuity during a pandemic and after a pandemic certainly makes a difference in terms of its contribution to the national economy. Micro, Small and Medium Enterprises (MSMEs) are one measure to see the contribution of the national economy, so helping economic recovery after the Covid-19 pandemic is very important (Dwiputra & Barus, 2022). Of course, there are several things that influence the sustainability of MSMEs, especially two factors, namely internal factors and external factors. In fact, during Covid-19, online business was considered a profitable business opportunity, so more MSMEs switched to this business (Rahim et al., 2022) It can be seen at a glance that the internal factors of MSME actors are capital strength, quality of human resources, business networks, mentality of business actors, and transparency at that time experiencing difficulties, so that business actors who are able to seize these opportunities can survive in the conditions of Covid-19.

It is not easy to recover from the economic conditions that are currently in decline during the Covid-19 pandemic, but for some MSMEs who can seize this opportunity they can survive. Many real sectors such as food and beverage have been affected, making it difficult to maintain their businesses, as have the financial sectors such as cooperatives, insurance and banking. There are also systematic risks that impact price changes resulting in low income levels post-pandemic

(Koutoupis et al., 2022). It shows that MSMEs were affected during the pandemic (Pakpahan, 2020). Moreover, at that time the private business sector had difficulty getting opportunities due to restrictions on economic activity so that income decreased (Rohmah, 2020).

The impact of Covid-19 on the Indonesian economy can result in people suffering from poverty, where it is predicted that 1.2 million will be infected and then job opportunities will decrease, resulting in a decline in economic growth of 1% - 4% (Suryahadi et al., 2020). So many MSMEs actors experience internal problems in developing due to capital difficulties, low quality of human resources, lack of business networks, the mentality of MSMEs actors, and the absence of transparency for business sustainability (Sulaeman, 2010). It condition ultimately has an impact on MSMEs actors having difficulty in meeting their needs (Hanoatubun, 2020). As done (Ariani & Utomo, 2017) in their research explains that the development of MSMEs is seen from SWOT, meaning looking at internal and external factors through strengths-weaknesses, opportunities-challenges.

MSMEs certainly need capital to run and develop their business. When there are difficulties in capital and difficulty in gaining access to capital or credit, it can cause problems, but capital problems are not always the most important (Rosmadi, 2019). Therefore, capital issues are not significant in influencing the development of MSMEs (Zaenuri et al., 2022). It is different from (Febriani & Harmain, 2023) and (Prasasti, 2016) which explain that capital is a factor that can hinder the development of MSMEs when capital difficulties occur.

Research (Afkar, Purwanto, et al., 2021) can prove that capital schemes through *mudharaba* and *musharaka* financing can develop MSMEs by means of partnerships (*musharaka*). The results of this research are seen from a sharia economic perspective. Apart from that, difficulties in capital, labor and production costs can make it difficult for MSMEs to develop, which will hinder the sustainability of their business (Hartono & Hartomo, 2014). However (Diana et al., 2022) explains that there is a difference that the performance of MSMEs can be influenced by access to capital but not significantly, thus the main thing in the sustainability of MSMEs is not access to capital. It is difference in capital makes for an interesting discussion, that capital problems for MSMEs determine or hinder business sustainability.

MSMEs actors are of course the human resources who manage their business operations. Human resources can be an important factor in business sustainability. Sustainability or obstacles to business could be the quality of human resources (Handayani & Apriyani, 2019) and (Hamdani & Awatara, 2015). Apart from quality, the small number of human resources results in a lack of support in the development of MSMEs which can hinder business sustainability (Prasasti, 2016). Human resources are still low in terms of business understanding. Apart from that, compiling and reporting finances and taxation is one measure of the level of awareness in managing a business that needs attention (Rachmawati et al., 2021).

The awareness of MSMEs actors in managing their business needs to be given support through training, learning and expertise in improving their skills so they can develop their business (Cardon & Stevens, 2004). Creativity is also able to mediate the performance of MSMEs in implementing marketing strategies when viewed from the perspective of business actors (Diana et al., 2022). It means that skills and creativity are able to contribute to the development of MSMEs so that they can influence their sustainability. Apart from creativity and skills in managing MSMEs, people are also needed who are able to master a good control management system (Curado et al., 2022).

However, it turns out that the quality of human resources is not always the main factor in the sustainability of MSMEs (Siswati & Pudjowati, 2021). When viewed from the Technology Acceptance Model and Connectivity Theory, employees have contributed to using social media during the pandemic to make work easier so that it can help business development (Kamdjou, 2023). The differences in research results regarding the quality of human resources in the development of MSMEs are interesting to prove whether they determine or hinder.

Business networking is an effort to form a market through collaboration. Business networks will open up business opportunities and make it easier to supply, produce, market and so on. Business networking does not influence business development even though it is carried out with strong market penetration through promotions (Handayani & Apriyani, 2019). However, good product quality, maintaining promotional strategies, and expanding cooperation with businesses in the surrounding environment can increase business development (Mihani & Hutaaruk, 2020). However, designing the right marketing strategy is not easy, especially since the limited space for MSMEs is an obstacle in developing their business (Febriani & Harmain, 2023). The differences in research results are interesting to ensure that business networks are a factor that determines or hinders the development of MSMEs.

Type of business, whether small or large, must of course be managed with full dedication to maintain business continuity. Dedication in managing this business is a form of the mentality of MSMEs actors who are able to work hard, be innovative and dare to take risks. It is the entrepreneurial spirit of an MSMEs actors that must be instilled in managing a business. It should be noted that creative and innovative individual character is an internal factor that influences the performance of MSMEs so that it can determine their sustainability (Hendratmoko, 2021). On the other hand (Zaenuri et al., 2022) explains that the entrepreneurial spirit of an entrepreneur is able to influence the development of his business because his business mentality has been formed. It shows that a strong mentality to always try to be better in various ways will make a significant contribution in managing the business until it grows bigger. On the other hand, when business actors do not have business management skills, they do not contribute to business sustainability even though they are tenacious, persistent and have even innovated (Rachman et al., 2017). Apart from that (Rosmadi, 2019) explains that creative MSMEs can help in developing businesses. Thus, the mentality of a dedicated business actor will be a determinant or an obstacle in the development of MSMEs.

Managing a business that is run certainly requires transparency and planning in its operational activities. Good financial planning in managing a business is also something that needs to be considered (Afkar, et al., 2021). Transparency in business is not only related to finances, but can also be related to transparency for business sustainability, such as in terms of management information and business information. Of course, this is related to business development for the next generation, so it is necessary to provide clear information for business continuity, as well as provide transparent business network information. Apart from that (Cahyanti & Anjaningrum, 2018) explained that good and transparent financial system management influences business development. Another point of view explains that literacy, ownership of financial reports, marketing, and access to capital, coaching and performance are factors in developing a business (Wahyuni, 2020). Thus, transparency will contribute as an obstacle or a determining factor in the development of MSMEs.

The problem of different research results raises uncertainty that internal factors such as capital, quality of human resources, business networks, mentality of business actors, and transparency can be determinants or obstacles in maintaining the continuity of MSMEs. Therefore, this research tries to provide a statement that these internal factors are determinants or obstacles in the sustainability of MSMEs after the Covid-19 pandemic, because economic recovery for MSMEs requires the right thinking and strategy and is carried out together (Afkar & Fauziyah, 2023).

Hypothesis Development

The Covid-19 pandemic situation has had an impact on the national economy which is dominated by the real sector, namely MSMEs (Arianto, 2021). This situation will continue until post-pandemic around mid-2022. This will certainly have an impact on economic recovery from the pandemic downturn for MSMEs actors (Afkar & Fauziyah, 2023). Of course, this influences internal factors such as capital, quality of human resources, business networks, the mentality of business people, and transparency which are determining factors in maintaining business continuity. Apart from that, capital is also a major problem in business (Siswanto & Kirwani, 2016). However, the main problem is not actually capital but the quality of human resources (Rosmadi, 2019). Apart from that, business networks were developed to help with marketing by establishing collaboration (Mihani & Hutaaruk, 2020). On the other hand, the mentality of business people who dare to take risks, are tenacious, persistent, continue to innovate, are willing to make sacrifices, will contribute to business sustainability (Zaenuri et al., 2022). Ultimately, transparent business management can help business sustainability that (Cahyanti & Anjaningrum, 2018).

Hypothesis: Capital, quality of human resources, business networks, mentality of business actors, and transparency can be factors that determine the sustainability of MSMEs.

2. Research Method

This research uses a quantitative approach. The population of MSMEs actors in the Surabaya area was sampled using stratified random sampling by dividing 5 MSMEs areas in Surabaya taking into account the number of businesses in each area. The data collection technique uses a survey via questionnaire with 200 respondents who are divided according to the proportion of the number of MSMEs in each region in Surabaya. The data analysis technique used is SEM PLS because it avoids abnormal data but still has statistical data accuracy as used in small samples (Nejati et al., 2014). It technique is used to determine the variables that determine or hinder the business sustainability of MSMEs.

Tabel 1. Numbers of Samples

No	Area	Numbers
1	Center of Surabaya	50
2	South of Surabaya	40
3	North of Surabaya	40
4	East of Surabaya	30
5	West of Surabaya	40

The variables in this research are taken from factors that are problems for MSMEs in the context of business sustainability. These variables are divided into 2, namely endogenous and exogenous variables. There are 5 exogenous variables in this research, namely Capital (X_1), Quality of Human Resources (X_2), Business Network (X_3), Mentality of Business Actors (X_4), and Business Transparency (X_5). Meanwhile, the Endogenous Variable is the Sustainability of MSMEs (Y).

An explanation of the indicators for each variable in this research can be seen in Capitalization (X_1) using the indicators Capital Limitations ($X_{1.1}$), Access to Capital ($X_{1.2}$), and Administrative Requirements ($X_{1.3}$). Quality of Human Resources (X_2) uses indicators of business knowledge ($X_{2.1}$), Business Skills ($X_{2.2}$), and Formal Education ($X_{2.3}$). Business Network (X_3) uses indicators of business network limitations ($X_{3.1}$), low market penetration ($X_{3.2}$), less competitive products ($X_{3.3}$). Businessman Mentality (X_4) uses the indicators Entrepreneurial Spirit ($X_{4.1}$), Continuously Innovating ($X_{4.2}$), tenacious ($X_{4.3}$), Dare to make sacrifices ($X_{4.4}$), Dare to take risks ($X_{4.5}$). Business Transparency (X_5) uses indicators: Lack of transparency in carrying out business for the next generation ($X_{5.1}$), Limited clear information for business continuity ($X_{5.2}$), Lack of transparency in providing business networks ($X_{5.3}$). MSME Sustainability (Y) uses the indicators Increase in Income (Y_1), Business Scale (Y_2) and Business Diversification (Y_3).

3. Results and Discussion

3.1. Results

Goodness of Fit Outer Model

Table 2. Outer Loadings

	X1	X2	X3	X4	X5	Y
X1.1	0.938					
X1.2	0.909					
X1.3	0.972					
X2.1		0.916				
X2.2		0.712				
X2.3		0.914				
X3.1			0.953			
X3.2			0.965			
X3.3			0.984			
X4.1				0.959		
X4.2				0.806		
X4.3				0.933		
X4.4				0.975		
X4.5				0.935		
X5.1					0.954	
X5.2					0.942	
X5.3					0.862	
Y1						0.744
Y2						0.963
Y3						0.925

Table 2 shows the fit model of this research which can be seen from the results of each variable indicator. Acceptance criteria for model fit are when the outer loadings value is > 0.700 or can be said to meet the validity level. That table shows the value of all outer loadings > 0.700 , thus it can be said to be an indicator of capital (X_1), quality of human resources (X_2), business network (X_3), mentality of business actors (X_4), and transparency (X_5), and business sustainability (Y) has met the fit or valid criteria. This shows that the indicators used in this research are right on target because overall they are valid. So the results of this calculation show that all the indicators used in this research can be said to meet the requirements to continue with data analysis.

Table 3. Reliability

	Cronbach's Alpha	Composite Reliability
X1	0.934	0.958
X2	0.809	0.887
X3	0.966	0.978
X4	0.956	0.967
X5	0.909	0.943
Y	0.855	0.913

Reliability can be seen from the consistency of the research instrument. Reliability is a measure to see the constancy or consistency of the research instruments used. Reliability acceptance criteria are if the Cronbach's Alpha value is > 0.700 or Composite Reliability > 0.700 . Table 3 shows the value of Cronbach's Alpha > 0.700 or Composite Reliability > 0.700 for the variables capital (X_1), quality of human resources (X_2), business network (X_3), mentality of business actors (X_4), and transparency (X_5), and business sustainability (Y). The results of this calculation show that all variables in this study are reliable and can be used in data analysis.

Goodness of Fit Inner Model

Table 4. Direct Effect

	Path Coefficient	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1 -> Y	0.919	0.050	18.300	0.000
X2 -> Y	0.191	0.049	3.860	0.000
X3 -> Y	0.084	0.024	3.444	0.001
X4 -> Y	0.099	0.068	1.441	0.150
X5 -> Y	-0.246	0.082	3.005	0.003

Table 4 shows the results of calculating the direct influence of each research variable. To find out whether each research variable is determining or hindering, it is necessary to look at the path coefficient, T Statistics, and P-Values. Meanwhile, to find out the size of the contribution of each exogenous variable to the endogenous one, use the path coefficient. Apart from that, to determine the influence of each exogenous variable on endogenous ones, use the criteria T Statistics > 1.960 with a significance level of P values < 0.05 .

Capital on MSMEs Development shows a statistical T value of $18,300 > 1,960$ and a P-value of $0.000 < 0.05$, meaning that capital factors have significant effect on Sustainability of MSMEs.

Meanwhile, the Path Coefficient shows value of 0.919, meaning that the sustainability of MSMEs will increase by this coefficient unit because it has a positive value. Thus, capital factors can determine the sustainability of MSMEs.

Human Resources Quality towards MSMEs sustainability shows statistical T value of 3,860 > 1,960 and a P-value of 0.000 < 0.05, meaning that human resource quality factors have a significant influence on MSMEs sustainability. Meanwhile, the Path Coefficient shows a value of 0.191, meaning that the development of MSMEs will increase by this coefficient unit because it has a positive value. Thus, the quality of human resources can be determinant of MSMEs sustainability.

Business Network on sustainability of MSMEs shows a statistical T value of 3,444 > 1,960 and a P-value of 0.026 < 0.05, meaning that the Business Network factor has a significant influence on MSME sustainability. Meanwhile, the Path Coefficient shows a value of 0.084, meaning that the sustainability of MSMEs will increase by this coefficient unit because it has a positive value. Thus, business network factors can determine the sustainability of MSMEs.

Business Mentality towards sustainability of MSMEs shows a statistical T value of 1,441 < 1,960 and a P-value of 0.150 > 0.05, meaning that the Business Mentality factor has no influence on sustainability of MSME. Meanwhile, the Path Coefficient shows a value of 0.099, meaning that Business Mentality has a contribution of this coefficient unit but is not significant. Thus, the Business Mentality factor can determine the sustainability of MSMEs.

Transparency towards sustainability of MSMEs shows a statistical T value of 3,005 > 1.960 and a P-value of -0.246 < 0.05, meaning that the Transparency factor has significant effect on sustainability of MSMEs. Meanwhile, the Path Coefficient shows a value of -0.246, meaning that the development of MSMEs will experience a decrease of one coefficient because it is negative. Thus, the Transparency factor can be a determinant of the decline of MSMEs.

Table 1. Total Effect

	R Square	R Square Adjusted
MSMEs Development	0,944	0,943

Table 4 shows the total value of the influence or overall contribution of exogenous variables to endogenous variables. The R Square value of 0.944 shows that capital, quality of human resources, business networks, mentality of business actors, and transparency contribute to the development of MSMEs by 94.40%. While the remaining 5.60% is influenced by other variables not discussed in this research.

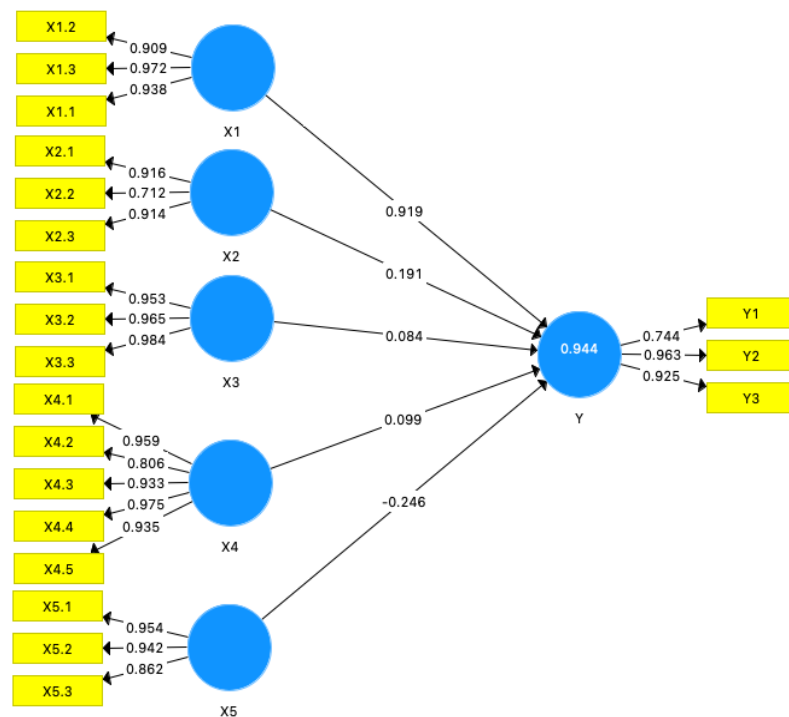


Figure 1. Design of MSMEs Sustainability

3.2. Discussion

Sustainability of MSMEs in terms of capital

Capital is an important part of making a business bigger because the presence of large enough capital can provide wider room for movement in maintaining the sustainability of a business. The sustainability of MSME businesses usually requires capital because it is one of the strengths to be able to survive financially. It research shows the results that the sustainability of MSME businesses is determined by internal factors in the form of capital. When MSMEs have sufficient capital, easy access to capital, and good administration can contribute to business sustainability seen from indicators of income, type of business, and business diversification. As stated by (Siswanto & Kirwani, 2016) that the development of MSMEs in the context of business sustainability can be influenced by capital. However, the fact is different from (Lailiyah & Wahyuningsih, 2019) that access to capital does not have a significant contribution. Other research also explains that capital actually has no effect on the growth of a business (Siswati & Pudjowati, 2021). Apart from that, business sustainability does not only lie in capital, but also needs to be considered in terms of the quality of human resources (Rosmadi, 2019).

Many research shows that capital is one of the factors that contribute to MSMEs, although there are several studies that show the quality of human resources is the main problem. However, this research still shows that capital remains one of the factors that contributes to the sustainability of MSMEs. Therefore, capital is still one of the main factors in MSMEs (Siswanto & Kirwani, 2016). Research developed by (Afkar et al., 2020) shows a model that the development of MSMEs can be carried out with financing from sharia financial institutions using *mudharaba* through the principle of profit sharing distribution. In the post-pandemic era, capital is still the main thing for

MSME actors, so this research provides an illustration that capital factors are the most dominant compared to other internal factors.

Sustainability of MSMEs in terms of Human Resource Quality

Human resources are the benchmark when managing a business with the aim of improving and maintaining business sustainability. MSMEs are a type of business that ranges from home-based businesses that are managed independently to medium-sized businesses that have human resources in the form of employees. The quality of human resources in this research contributes to the sustainability of MSMEs after the Covid-19 pandemic. Its contribution can be seen in indicators such as education, literacy or knowledge, and business management skills. As explained by (Rosmadi, 2019), the quality of human resources is the main problem in the sustainability of MSMEs. Meanwhile (Ariani & Utomo, 2017) explained that increasing human resources is one of the strategies for developing MSMEs in order to maintain business sustainability.

The human resources of an enterprise or business are something that needs to be considered in its development and sustainability. One of the factors that contributes to the sustainability of MSMEs is the human factor, apart from that there is the planet and planning (Istikhoroh et al., 2018). Good quality human resources, mastering the business management system, having skills, extensive knowledge and sufficient education will contribute to the sustainability of a business. Extensive knowledge can be seen from the understanding of finances of MSME actors so they can improve their performance (Gunawan et al., 2023). Even though they have extensive knowledge, the quality of human resources is still vulnerable to developments over time because technological developments are increasingly sophisticated, so they must be smart in adapting. Therefore, educational background also plays a role in the sustainability of MSMEs in mastering business situations (Farida et al., 2019). However, this is different from (Siswati & Pudjowati, 2021) who explains that the quality of human resources is not able to influence business growth.

Sustainability of MSMEs from a Business Network perspective

Business sustainability is usually not just about setting up a business and then managing it, but running a business also requires a stable and easily accessible business network. Business networking in entrepreneurship is a form of business development by opening opportunities for cooperation related to raw materials, production, supplies, marketing, etc. as well as integration of business actors through various mechanisms. The use of e-commerce can improve the performance of MSMEs, while also being able to obtain feedback from customers (Farida et al., 2019). The results of this research show that the business networking carried out is able to develop MSMEs in order to maintain their sustainability by expanding the network, carrying out intense market penetration, and providing quality products and services. This research is in line with (Mihani & Hutaaruk, 2020) which explains that product quality, maintaining promotional strategies, and expanding cooperation with businesses in the surrounding area can improve MSMEs. However, this is different from (Handayani & Apriyani, 2019) who say that business networking does not affect the sustainability of MSMEs even though it is carried out with strong market penetration.

MSMEs sustainability can be achieved by aligning appropriate resources and strategies for business sustainability (Budiarto et al., 2022). Thus, when you are able to create a strategy in a good business network, it will have an impact on the development of MSMEs. However, the

difficulty of designing marketing strategies and limited space for movement are obstacles to the sustainability of MSMEs (Febriani & Harmain, 2023). As in this research which explains that the ability to penetrate the market and expand the network will help in its development. However, business networks are not the main problem, but rather the quality of human resources that must be considered (Rosmadi, 2019). However, business networking factors still contribute to the sustainability of MSMEs businesses.

Sustainability of MSMEs from the Mentality of Business Actors

Business people certainly have different behavior when faced with good or bad business situations, so this will be reflected in their ability to maintain the business they manage. Business sustainability is certainly something that business actors want to continue running and even have to grow bigger. In principle, business actors who have the will, determination, tenacity and hard work will contribute to the development of their business. This research shows different results, namely that the mentality of MSMEs actors does not contribute to business sustainability seen from their entrepreneurial spirit, continuing to innovate, being tenacious, willing to make sacrifices and daring to take risks. This shows that when MSMEs actors are unable to manage with their skills, even though they are tenacious and persistent, they still make no contribution (Rachman et al., 2017). Thus, the potential shown by the mentality of MSME actors does not contribute to the sustainability of their business. Although in fact the individual character of resilience is an internal factor that influences the performance of MSMEs (Hendratmoko, 2021).

Becoming an MSMEs entrepreneur requires courage to face all possible risks. You need a strong mentality to build a sustainable business, so that the mentality of entrepreneurs who have an entrepreneurial spirit can influence their business (Zaenuri et al., 2022). A person's mental strength is something that can contribute to business sustainability. However, this research provides a different picture in practical terms, namely that the mentality formed by business actors is not capable of being a determining factor in business sustainability. In fact, having motivation to move forward will have a good impact on business development (Suminah et al., 2022). In contrast to (Rosmadi, 2019) the mentality of entrepreneurs who think creatively and innovatively is able to contribute to business sustainability. Therefore, the mentality of dedicated MSMEs actors should be able to contribute to the sustainability of their business, but in reality in this research this was not the case.

Business Sustainability in terms of Transparency

Every business that is founded certainly tries to be maintained in a sustainable manner. There is a need for good financial planning in managing a business (Afkar, Widodo, et al., 2021). Transparency in carrying out business for the next generation, providing clear information for business continuity, and transparency in providing business networks are supporting factors in developing business. Meanwhile, the results of this research show that transparency through business information, management transparency, financial transparency contribute to the development of MSMEs but with a negative coefficient.

When a business is not managed transparently, it can cause difficulties when you want to stop the business due to a lack of clear information. This means that if a business is not managed transparently, its performance will decline or it will not run well. In line with research (Cahyanti

& Anjaningrum, 2018) that good and transparent financial system management has an effect on business development, and vice versa, it will decrease when it is not managed well. As (Wahyuni, 2020) explains that literacy, ownership of financial reports, marketing, access to capital, coaching and performance are factors in developing MSMEs. Thus, transparency is a determining factor in the decline of MSMEs if it is not done well and planned.

4. Conclusion

Internal factors that are problems for MSMEs in terms of business sustainability include capital, quality of human resources, business networks, mentality of business actors, and transparency. The factors that determine the sustainability of MSMEs after the Covid-19 pandemic are capital, quality of human resources, business networks and transparency. The most dominant capital factor considering that the Covid-19 pandemic has had an economic impact on MSMEs. Meanwhile, the transparency factor determines the decline in MSMEs. Meanwhile, the mentality factor of business actors hinders the sustainability of MSMEs because they do not contribute even though they have done so with an entrepreneurial spirit, continue to innovate, are tenacious, willing to make sacrifices and dare to take risks. Thus, the internal factors of MSMEs after the Covid-19 pandemic are more factors that determine the sustainability of MSMEs rather than being inhibiting factors.

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