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SECOND ORDER MODEL STRUCTURAL EQUATION MODELING FOR ANALYZING EXTERNAL ENVIRONMENTAL AND CAPABILITY ON COMPANY PERFORMANCE OF SMALL AND MEDIUM ENTERPRISE (SME) IN INDONESIA

Nurul Hermina¹, Taufan Muhamad Syahvianto², Budi Yansa³

^{1,2,3}Widyatama University

¹Nurul.hermina@widyatama.ac.id

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ABSTRACT

This study aims to explain the influence of the external environment on capability and their impact on the performance of small and medium enterprise (SME). The research method used is descriptive verification with a survey approach. Through online survey, 52 SMEs obtained data with their observation unit being the owner of the enterprise or their supervisor. The second order structural equation modeling model is used to prove the research hypothesis that there is an influence from the external environment on capability and the impact on the performance of SMEs. The second order approach is able to provide information on the level of importance of each dimension not only research indicators. The results of the analysis found that there is an influence of the external environment variable on capability but did not have a direct effect on the performance of SME businesses. Capability variable gives a significant influence on the performance of SME enterprise, so that the external environment variable gives an indirect effect on the performance of SME.

INTRODUCTION

Small and Medium Enterprises, abbreviated as SMEs is a term that refers to the type of small business that has the most net worth of Rp. 200,000,000 excluding land and buildings where the business is located. And a stand-alone business. According to Presidential Decree no. 99 of 1998 the definition of Small Business is: "Small-scale people's economic activities with business sectors which are predominantly small business activities and need to be protected to prevent unfair business competition." Currently Indonesia is

ranked 4th with the largest population in the world. This, makes Indonesia as a country that has abundant human resources. One form of empowerment in Indonesia is the empowerment of Small and Medium Enterprises (SMEs) which directly affect the growth of the national economy. At present the SME business is facing global free trade, so competition is not only domestically but also globally for that SME business actors need to be empowered as an integral part of the people's economy that has a position, role and strategic potential to realize the structure of the national economy that is more balanced. Business Small and Medium Enterprises are still an important pillar of the Indonesian economy. Referring to the data of the Ministry of Cooperatives and SMEs in 2018, the contribution of SMEs to GDP was 60.34 percent. The sector has also absorbed workforce of 97.02 percent, both of which will have a positive impact on national economic growth, "Measuring global competitiveness is carried out by the World Economic Forum (WEF) using several indicators, where some indicators are triggered from the macro environment and the ability of enterprises in a country, including the relevant state institutions, infrastructure, macroeconomic stability, health and basic education, higher education and intensity of training, efficiency in trade, labor markets, financial market excellence, availability of technology, affordability the market, the sophistication of doing business.(Global Competitiveness Report 2018) In addition to the political and economic environment, things that need to be considered in running a business is the technological environment. Now with the advent of digital technology, the business global is developing rapidly.

A common problem, many business people are still reluctant to know about technology to develop their business. Though the use of technology, information, and internet networks are increasingly easy to reach and use even for ordinary people. Indonesian society has diverse creativity, it has the potential to build SMEs that have high competitiveness. It's just that some people do not know how to build a product to be known and have a wide market potential with the use of internet technology.

The small and medium businesses must also face capacity building by taking decisions and strategic steps to develop all capabilities or capabilities at the organizational level that involve all the resources and management functions they have. The role of SMEs is very dominant in improving Indonesia's economic growth. , so as to be able to drive towards a better SME business in terms of economy and its empowerment. SMEs are also the embryo of the growth of large businesses "almost all large businesses start from SMEs". SMEs must continue to be improved and active in order to stay ahead and compete with large companies.Changes in the external environment can be an obstacle for business people, this is due to a lack of knowledge from entrepreneurs about external environmental factors, especially the macro environment, lack of knowledge in the use of technology (information technology), and lack of business insight. This has an impact on the lack of product innovation both in terms of design / model, and the diversity of the types of products produced and less responsive to market needs and desires

THEORETICAL FRAMEWORK

Fred R. David (2003) stated that Firm should be able to respond either offensively or defensively to the factors by formulating strategies that take advantage of external opportunities or that minimize the impact of potential threats. External factors can be divided into five broad categories: Economic forces, social, cultural, demographic, and environmental forces, political, government, and legal forces, technological forces, and competitive forces. Meanwhile, according to Hill & Jones (2013) to determine the environmental strength factors that must be immediately responded by the company, there are six macro environmental factors including; economic, demographic, social, technological, political and legal and globalization. This is confirmed by previous research from Said Elbana et al (2017) which states that positive politics significantly influenced decision creativity and propitiousness. Also, macro-economic uncertainty moderates this relationship. The findings serve to further the understanding of complexities involved in the relationships between political behavior and its consequences.

While research from Nguyen Dinh Tho (2018), using MRA (Multiple Regression Analysis), results reveal that except for responsiveness to the macro environment, other components of marketing capability and innovativeness capability have positive effects on firm performance. Further, firm size affects performance but industry types do not.

In determining the company's competitive advantage in addition to having to respond to its business environment, it must also be able to adjust its capabilities to the needs of its business environment. According to J. Davis Hunger, Thomas L. Wheelen (2011) states that company capability is the ability to evaluate resources and capabilities based on the company's business functions including: marketing, finance, research and development, human resources, and information systems. This is confirmed by previous researchers from Costantinos Vasilios priporas et al (2019) who stated that respondents hold a strong scepticism towards Customer relationship Management (CRM) campaigns and they are more negative towards the CRM campaigns initiated by foreign enterprises as compared to the domestic ones. This can be attributed to ethnocentrism, or even antipathy or animosity towards foreign companies due to crisis. Furthermore, results reveal that the political and legal elements of the macro-environment have an impact on consumer scepticism towards CRM campaigns, while the impact of the economic crisis itself does not seem to be

equally significant. Value this work contributes to the existing literature of CRM as it is the first study that explores the impact of macro-environmental elements on consumer scepticism towards CRM within an economic turbulence setting. The research result of R. adjeng Mariana et al (2018) who conducted a study on 200 respondents on Batik SMSEs in Jogjakarta showed that product quality and price affect customer satisfaction through service quality.

Kaplan & Norton (2014) states that a good company must have a comprehensive and systematic performance measurement system with four measurement perspectives including: financial perspective, customer perspective, internal business process perspective and learning and growth perspective. Agree with Ron Person (2009: 33) states that the measurement of

company performance must be preceded by the determination of the foundation of the company's strategy, but both agree with four measurement perspectives. This was confirmed by the previous researcher Njoroge.J.K et al (2016) which states that external environment (Political factors ,Economic factors ,Technological factors ,Socio-Cultural factors ,Regulatory factors ,Ecological factors)had a significant influence on all the indicators of performance (Financial, Customer focus, internal processes, learning & Growth, social Focus).

METHODOLOGY

The research method used in this research is descriptive research and verification through a survey approach. This method was chosen to explain the causality of external environmental research on capabilities and their impact on the performance of SME businesses.

Variable Operation

To answer the hypothesis in this study, the first step carried out is to define the research variables through the operationalization of the research variables as presented in Table 1 below.

Table 1 Variable Operation

Variable	Dimension	Indicator
External Environment	Political Factors	Government stability
		Taxation Policy
		Foreign trade regulations
		Social welfare policy
	Economic Factors	Product Domestic Bruto
		Inflation rate
		Interest Rates
		Industrial supplier substitution products
		wage rate policy
		Foreign currency market
		Unemployment Rate
	Social Factors	Lifestyle changes
		Consumptive consumer
		Populatiom growth rate
		Education level
		Social mobility
		Leisure behavior
		Income distribution
	Technology Factors	New Technology/Digital technology
		Government technology effort
		Government spending on researc
		Fast technology transfer
	Legal Factors	Monopoly legality
Labor law		

		Health and safety
		Product safety
Company Capability	Marketing function	Pricing strategy
		Integrated Marketing Communication .
		Product leadership
	Financial function	Cash flow management
		Operational cost control management
		Financial analysis understanding
	Human resources function	Human resources proqurement
		Managing employee remuneration
		Employee Development
		Employee training
Company perfomance	financial perspective	Revenue growth
		Profit growth
	Customer perspective	Acquiring Customers
		Retaining customer
	Business process perspective	Product quality and reliability improvement
		Fast service
		Operational excellence
	Learning and growth perspective	Employee competence enhancement
		Enhance capabilities with rapid technological change

REASEARCH RESPONDENTS

The total respondents collected in this research are 52 SMEs in Indonesia .Survey was conducted,through online surveys over a six month period, from 2018 to 2019.

Characteristics Responden

The respondent characteristics of this research are presented in table 2

Table 2: Sample characteristics

Demography	Categori	Frequency	Percent age (%)
Asset growth	Less than one year	2	3.85
	below 10%	4	7.69
	10 up to 30%	41	78.85
	above 30%	5	9.62
Education	Master’s degree	15	28.85
	Doctorate;s degree	3	5.77
	Bachelor’s degree	34	65.38
Position			

	General Manajer	4	7.69
	Manager	16	30.77
	Owner	28	53.85
	Senior Manager	4	7.69

N=52

Partial Least Square-Path Modeling

To analyze the research hypothesis whether there is an influence from the external environment on the capabilities of SMEs and their impact on the performance of SMEs using Partial least square path modeling (PLS-PM) (Henseler, Ringle, & Sinkovics, 2009).

Latent variables are variables that are measured using various indicators. PLS path modeling examines the relationship between latent variables, and between latent variables and indicators, by trying to minimize the error variance between exogenous and endogenous variables (Mezner & Nigh, 1995).

Several reasons use PLS path modeling to test the hypotheses in this study. First, modeling the PLS pathway is a suitable method for prediction-oriented research that focuses on explaining endogenous constructs that are intended to build theories rather than testing theories. The PLS method is more aimed at looking at the relationship between variables at the exploration level. Unlike the verification-based modeling which aims to see the suitability of the majority and empirical models. The model developed in this study about the influence of the external environment on the capabilities of SMEs and their impact on SME performance is a preliminary study that can be understood as an exploratory model so that more theoretical development is certainly needed. Therefore, PLS's orientation towards theory formation sounds appropriate.

Second, the PLS path modeling method is less demanding in terms of sample size. Indeed, in PLS analysis, the recommended minimum sample size is ten times the number of scale indicators with the largest number of indicators (Chin & Newsted, 1999).

In the first step, we assessed the measurement model using the PLS algorithm. In the second step, the structural model is estimated using the bootampap resampling procedure (Chin, 1998). Meaning, standard errors and t-statistics for each parameter are estimated using the bootstrap procedure for a total of 1,000 samples. PLS-PM is a suitable method used in second order modeling because of the ease of obtaining a solution from the estimated parameters without requiring complex assumptions.

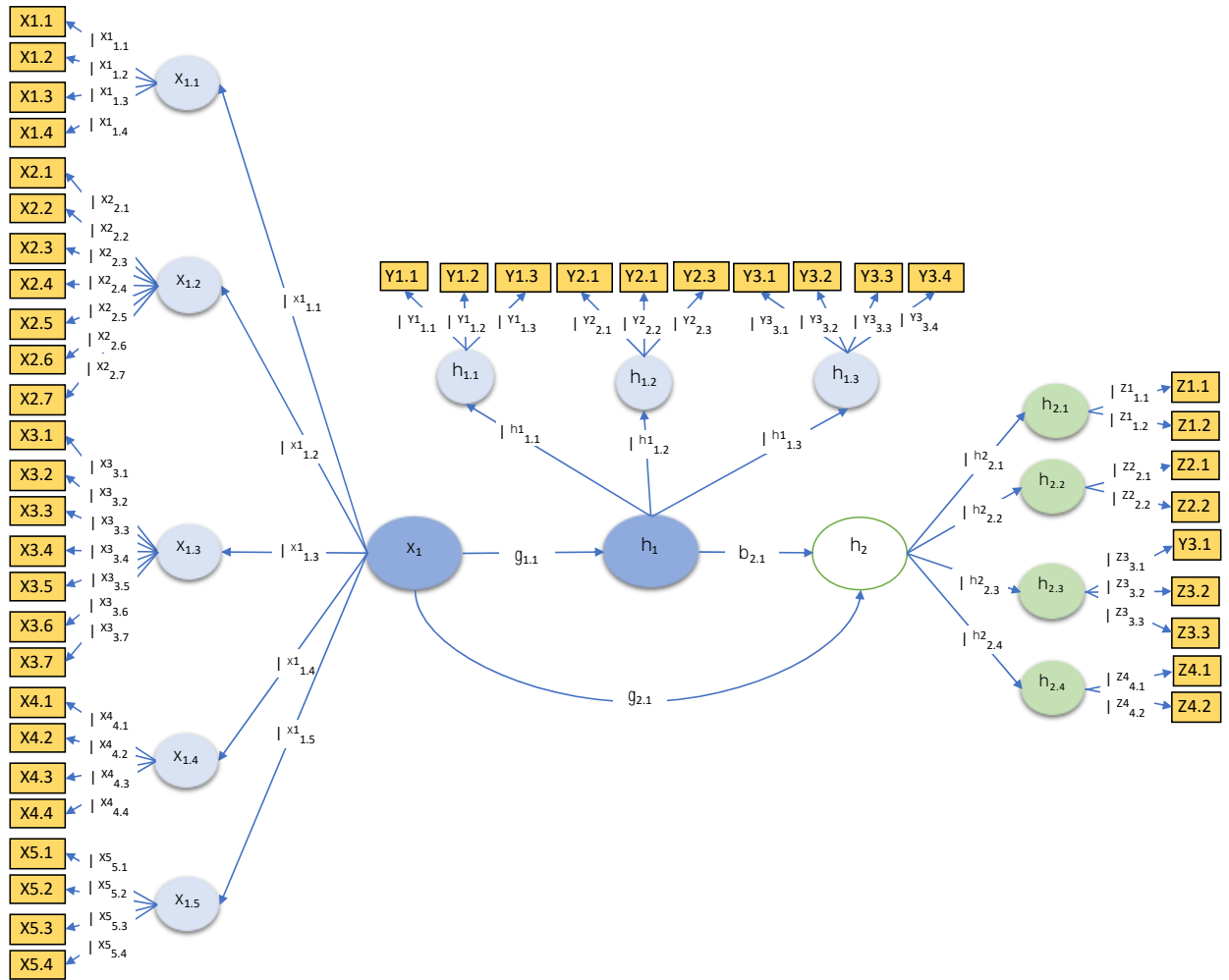


Figure 1. Second Order Model

Figure 1 above promises the second order modeling of structural equations that explain the influence of the external environment on the capability of SMEs and their impact on the performance of SMEs in Indonesia. Each research variable is measured in two stages: the first measurement is the dimension level and the second measurement is the variable level. The approach used in the second order modeling using PLS is to use the iterative measurement approach. Modeling using second order is considered able to explain the relationship between variables more clearly and in detail. For our analysis, we use R software with the package PSPM.

RESULTS AND DISCUSSION

Measurement models evaluation

Before assessing the quality of structural models and examining the relationships between research variables, it is important to establish internal reliability and validity of the research instrument. But the evaluation of the suitability of the model is first performed using the Goodness of Fit (GoF)

criteria. Table 1 presents the absolute GoF values. Values greater than 0.50 indicate the model is very compatible with the data.

Table 3. Goodness of fit index

	GoF
Absolute	0.617

Then the reflective measurement model analysis is performed. In this section two approaches are used to evaluate the reflective model. First, calculate the reliability of the composite (Fornell & Larcker, 1981), which must be higher than 0.70 (or at least not less than 0.60). In addition we also present another measure of reliability, which is Average Variance Extracted (AVE). AVE value must be greater than 0.500. AVE is also often used in evaluating discriminant validity. Second, analyze the standardized factor loading to assess the reliability of each item for each indicator. It must be above 0.70 (or at least not smaller than 0.40, Henseler, Ringle, & Sinkovics, 2009: 299). If one or several items are found that have a factor of standardized loading less than 0.4 then an evaluation of composite reliability is first performed. If the composite reliability value is less than 0.600 then the item is appropriate to be excluded from the analysis.

But if the composite reliability value is still greater, items whose value is less than 0.400 can still be maintained.

As shown in table 3, reflective construction shows relatively good internal reliability with composite reliability values ranging from .700 to .980 and loading standardized loading factors from .618 to .935, all of which are very significant. Table 3 also displays measurements of all variables, including standardized load loading and composite reliability (CR) for the reflective indicators as well as the extracted average variance (AVE) for each study variable.

Table 4. Statistics Measurement Model

Code	Indicator	Standarized Loading Factor	Communality	Composite Reliability	AVE
External Environment				0.962	0.494
Political factors		0.801	0.641	0.921	0.744
X1.1	Government stability	0.891	0.794		
X1.2	Taxation policy	0.861	0.742		
X1.3	Foreign trade regulatiom	0.856	0.732		
X1.4	Social welfare policy	0.841	0.708		

Economic factors		0.924	0.854	0.889	0.534
X2.1	Product Domestic Bruto	0.786	0.617		
X2.2	Inflation rate	0.740	0.547		
X2.3	Interest rate	0.719	0.517		
X2.4	Industrial supplier substitution product	0.732	0.536		
X2.5	Pengaturan tingkat upah	0.767	0.588		
X2.6	Foreign current market	0.748	0.559		
X2.7	Unemployment rate	0.614	0.377		
Social Factors		0.835	0.698	0.914	0.603
X3.1	Lifestyle change	0.831	0.690		
X3.2	Consumptive consumer	0.820	0.673		
X3.3	Population growth rate	0.815	0.664		
X3.4	Education level	0.723	0.523		
X3.5	Social mobility	0.785	0.616		
X3.6	Leisure behavior	0.703	0.494		
X3.7	Income distribution	0.751	0.564		
Technology factors		0.876	0.767	0.921	0.744
X4.1	New Technology/Digital technology	0.809	0.655		
X4.2	Government technology effort	0.896	0.802		
X4.3	Government spending on research	0.853	0.727		
X4.4	Fast technology transfer	0.889	0.790		
Legal Factors		0.903	0.816	0.934	0.781
X5.1	Monopoly legality	0.781	0.609		
X5.2	Labor law	0.916	0.838		
X5.3	Health and safety	0.918	0.842		
X5.4	Product safety	0.914	0.835		
Company capability				0.911	0.511
Marketing function		0.799	0.639	0.822	0.607
Y1.1	Pricing strategy	0.855	0.730		
Y1.2	Integrated Marketing Communication	0.723	0.523		
Y1.3	Product leadership	0.753	0.567		
Financial function		0.928	0.861	0.870	0.692

Y2.1	Cash flow management	0.882	0.778		
Y2.2	Operation cost control management	0.870	0.757		
Y2.3	Financial analysis understanding	0.735	0.540		
Human resources function		0.899	0.808	0.892	0.679
Y3.1	Human resources proqurement	0.866	0.751		
Y3.2	Managing employee remuneration	0.935	0.874		
Y3.4	Employee development	0.844	0.712		
Y3.5	Employee training	0.615	0.378		
Company Perfomance				0.931	0.599
Financial perspective		0.851	0.724	0.891	0.803
Z1.1	Revenue growth	0.881	0.776		
Z1.2	Profit growth	0.911	0.829		
Customer perspective		0.895	0.801	0.849	0.738
Z2.1	Acquiring customer	0.845	0.714		
Z2.2	Retaining customer	0.873	0.763		
Business process perspective		0.939	0.882	0.880	0.711
Z3.1	Product quality and reliability improvement	0.892	0.795		
Z3.2	Fast service	0.907	0.822		
Z3.3	Operational excellence	0.719	0.517		
Leraning and growth perspective		0.840	0.705	0.908	0.832
Z4.1	Employee competence enhancement	0.908	0.825		
Z4.2	Enhance capabilities with rapid technological change	0.916	0.838		

In addition to carrying out internal reliability from the measurement model, it is also necessary to conduct a research into construct validity and validity. The method used to evaluate bias and construct validity is to discriminate validity. The Fornell-Larcker (1981) criterion generally uses the simple thought that indicators must be able to explain the dimensions or variables of the research compared to explaining the dimensions or other research

variables. This criterion is verified if the square root of AVE for each research variable is much greater than the Pearson correlation of variables and / or dimensions. To ensure the convergent validity of a construct, the AVE must also be superior to, 50, which shows that the research variables explain at least 50% of the indicator variants (Götz, Liehr-Gobbers, & Krafft, 2009; see Table 2). As reported in Tables 2 and 3, the results support the convergent and discriminant validity of each reflective indicator

The advantage of using the second order method is that we can find the most dominant dimension in measuring each research variable so that the right strategy can be formulated.

The most dominant dimension in measuring external environmental variables is the legal law dimension followed by the political and technological dimensions.

The legal law dimension is the dimension that is currently the main problem of SMEs.

because it is not yet clear which regulations are being implemented, particularly in relation to occupational health and safety. Furthermore, for the capability variable, the most dominant dimension is the dimension of the human resource management function. As for the performance variable the most dominant dimension is the Learning and growth dimension

Table 5. Discriminant Validity

	LE	KB	KIN	LE1	LE2	LE3	LE4	LE5	KB1	KB2	KB3	KIN1	KIN2	KIN3	KIN4	AVE ^{0.5}
LE	1															0.703
KB	0.443	1														0.714
KIN	0.346	0.658	1													0.896
LE1	0.805	0.305	0.298	1												0.863
LE2	0.924	0.348	0.301	0.768	1											0.731
LE3	0.834	0.373	0.336	0.475	0.668	1										0.777
LE4	0.875	0.470	0.302	0.657	0.763	0.680	1									0.863
LE5	0.903	0.414	0.244	0.676	0.811	0.714	0.722	1								0.884
KB1	0.485	0.805	0.560	0.431	0.394	0.332	0.546	0.424	1							0.779
KB2	0.374	0.927	0.496	0.256	0.264	0.342	0.392	0.360	0.700	1						0.832
KB3	0.320	0.894	0.626	0.149	0.263	0.306	0.322	0.319	0.506	0.764	1					0.823
KIN1	0.345	0.660	1.000	0.299	0.301	0.333	0.302	0.243	0.561	0.498	0.628	1				0.896
KIN2	0.341	0.581	0.721	0.164	0.288	0.387	0.305	0.300	0.489	0.388	0.603	0.719	1			0.859
KIN3	0.267	0.642	0.723	0.095	0.225	0.318	0.281	0.203	0.430	0.492	0.697	0.721	0.815	1		0.842
KIN4	0.231	0.615	0.600	-0.017	0.210	0.245	0.277	0.247	0.444	0.472	0.650	0.599	0.640	0.702	1	0.910

The results of the analysis found that all correlation values between constructs were smaller than the square root AVE which indicated that the measurement model had good discriminant validity.

Descriptive analysis

Table6. Decriptive Analysis

Code	Indicator	Mean	Sd	Min	Median	Max
External environment		3.336	0.995	1	3	5
Politicalf actors		3.159	1.085	1	3	5
X1.1	Government stability	3.346	1.008	1	3	5
X1.2	Taxation policy	3.250	1.153	1	3	5
X1.3	Foreign trade regulation	2.942	1.110	1	3	5
X1.4	Social welfare policy	3.096	1.071	1	3	5
Economic factors		3.321	0.963	1	3	5
X2.1	Product Domestic Bruto	3.500	0.804	2	3	5
X2.2	Inflation rate	3.327	0.944	1	3	5
X2.3	Interest rate	3.327	0.944	1	3	5
X2.4	Industrial supplier substitution products	3.327	0.964	1	3	5
X2.5	Wage rate policy	3.173	0.923	1	3	5
X2.6	Foreign currency market	3.231	1.078	1	3	5
X2.7	Unemployment rate	3.365	1.085	1	3	5
Social Factors		3.456	0.874	1	3	5
X3.1	Lifestyle change	3.577	0.825	2	3	5
X3.2	Consumptive consumer	3.904	0.891	2	4	5
X3.3	Population growth rate	3.404	0.869	2	3	5
X3.4	Education level	3.365	0.908	2	3	5
X3.5	Social mobility	3.365	0.864	2	3	5
X3.6	Leisure behavior	3.308	0.897	2	3	5
X3.7	Income distribution	3.269	0.866	1	3	5
Technology Factors		3.418	1.059	1	3.25	5
X4.1	New technology/Digital technology	3.962	0.949	2	4	5
X4.2	Government technology effort	3.385	1.087	1	3	5
X4.3	Government spending on research	2.846	1.036	1	3	5
X4.4	Fast technology transfer	3.481	1.163	1	3.5	5
Legal Factors		3.264	1.087	1	3	5
X5.1	Monopoly legality	3.385	1.105	1	3	5
X5.2	Labor law	3.115	1.022	1	3	5
X5.3	Health and safety	3.192	1.030	1	3	5
X5.4	Product safety	3.365	1.189	1	3	5
Company capability		3.139	0.925	1	3	5
Marketing function		3.314	0.948	1	3	5

Y1.1	Pricing strategy	3.365	0.950	1	3	5
Y1.2	Integrated Marketing Communication.	3.558	0.895	2	4	5
Y1.3	Product leadership	3.019	1.000	1	3	5
Financial function		3.109	0.945	1	3	5
Y2.1	Cash flow management	3.231	0.962	1	3	5
Y2.2	Operational cost control management	2.942	0.978	1	3	5
Y2.3	Financial analysis understanding	3.154	0.894	2	3	5
Human resources function		3.024	0.890	1	3	5
Y3.1	Human resources proqurement	2.865	0.886	1	3	5
Y3.2	Managing employee remuneration	3.000	0.886	1	3	5
Y3.4	Employee development	2.865	0.971	1	3	5
Y3.5	Employee training	3.365	0.817	2	3	5
Company Perfomance		3.437	0.832	2	3	5
Financial perspective		3.356	0.836	2	3	5
Z1.1	Revenue growth	3.308	0.781	2	3	5
Z1.2	Profit growth	3.404	0.891	2	3	5
Customer perspective		3.481	0.798	2	3.5	5
Z2.1	Acquiring customer	3.577	0.825	2	4	5
Z2.2	Retaining customer	3.385	0.771	2	3	5
Business process perspective		3.474	0.805	2	3	5
Z3.1	Product quality and reliability improvement	3.442	0.802	2	3	5
Z3.2	Fast service	3.615	0.771	2	4	5
Z3.3	Operational excellence	3.365	0.841	2	3	5
Learning and growth perspective		3.423	0.897	2	3	5
Z4.1	Employee competence enhancement	3.346	0.814	2	3	5
Z4.2	Enhance capabilities with rapid technological change	3.500	0.980	2	3	5

Each indicator, dimension and variable has an average value ranging from 2.846 - 3.96 with the median in general being 3 so that it can be concluded that the majority of respondents gave a fairly good response to each item in the research variable.

Structural models

To determine the percentage of variance that can be explained by exogenous latent variables that predict endogenous latent variables, the coefficient of determination (R²) is calculated. As a measure of predictive power, the value of R² can be interpreted in the same way as obtained in multiple regression analysis. A value of 0.437 for the full model indicates a "strong" model (Chin, 1998: 323).

The next step is to verify the ability of the model to predict endogenous variables by calculating Q2 Stone-Geisser. The positive value of Q2 provides evidence that the observed value is reconstructed properly and that the model has predictive relevance (Henseler, Ringle, & Sinkovics, 2009). A value of 0.02 indicates a small predictive ability; a value of 0.15 indicates moderate predictive ability while a value of 0.35 indicates large predictive ability. So it can be concluded that the model developed has a strong predictive ability.

Table 7 Predictability

Endogenous Variable	R ²	Stone-Geisser's Q ²
Company capability	0.196	0.196
Company performance	0.437	0.547

Referring to the results of the predictability test according to table 7 above it can be concluded that, all endogenous latent variables can be predicted well through the developed research model, all endogenous variables produce a positive value of Q2, which provides evidence that the model has at least some predictive relevance. To determine the extent to which each predictive variable contributes to the variance explained about endogenous variables, an evaluation of the significance, magnitude and markings of individual path coefficients β can be interpreted in the same way as standardized beta of ordinary least squares regression. The evaluation results are listed in table 8 below

Table 8. Path Significance of Inner Model Relationships.

Hypothesis	From	To	Coefficient β	t-statistics (2 tailed)	Hypothesis supported ? Y (yes) / N (no)
H1a	External environment	→ Company capability	0.443	0.001	Y
H2a	External environment	→ Company performance	0.068	0.573	Y
H2b	Company capability		0.628	0.000	Y

Referring to the results of the analysis it was found that the external environment research variables had a positive and significant effect on the capability of SMEs. The most influential variable is the external environment. For the second set of hypotheses it was found that all variables of the external environment, company capability and the external environment had a positive and significant effect on the performance of SMEs

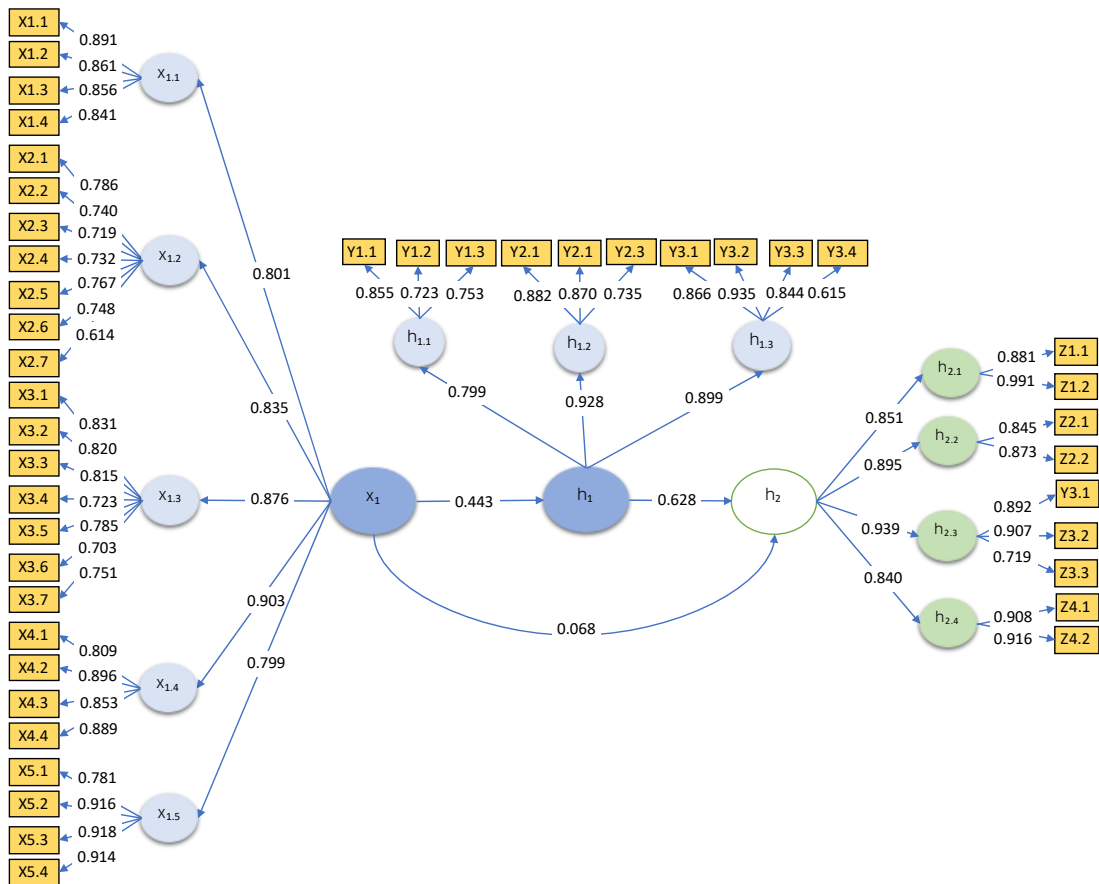


Figure 2. Model Partial Least Squares

Test of intervening

To find out whether the SME capability variable is full intervening or partial intervening, a sobel test is performed with the following conditions (a) if there is no significant direct effect of the external environment variable on the performance of SMEs and there is an indirect effect of the external environment on the performance of SMEs through SME capability, the intervening variable SME capability as a full intervening variable, (b) If there is a significant direct influence of the external environment variable on SME performance and there is an indirect influence of the external environment on SME performance through SME capability, then the SME capability intervening variable is a partial intervening variable. The results of the indirect test with the sobel test are shown in the following table:

Table 9. Intervening influence

Influence	Number of influence	p-value
External environment → Company capability → Company performance	0.278	0.0055

The indirect test results found that the p value of the test is less than 0.05 so it can be concluded that there is an indirect significant effect of the external environment variable on the performance of SMEs through capability.

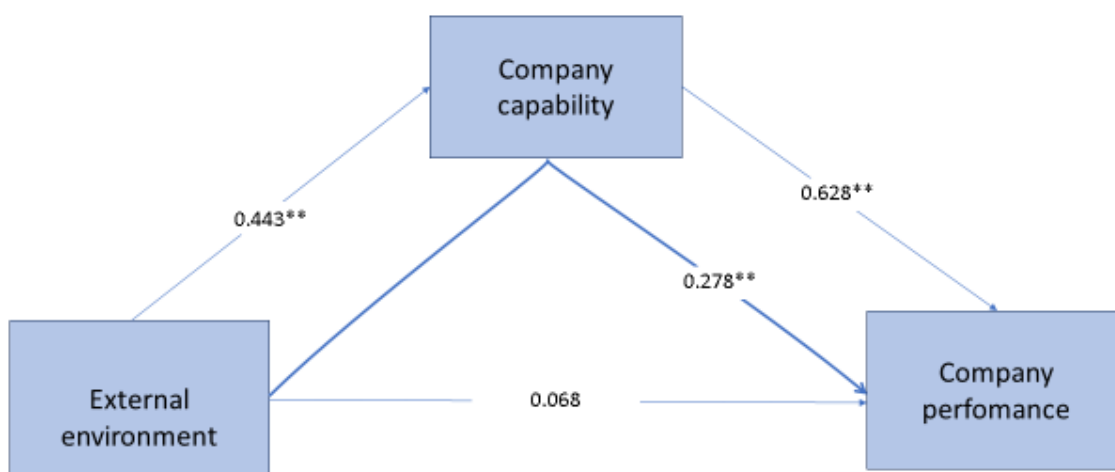


Figure 3 Direct and Indirect influence of External Environmental Variables on company Performance through company capability

Referring to the figure above, it can be concluded that the external environment variable has a direct influence on the performance and the capability as a partial intervening variable.

Furthermore, below is a recapitulation of the direct, indirect and total influence of external environment variables and company capability on company performance.

Table10 Direct, Indirect and total influence of the External Environment and the company capability on company Performance

Variable	Direct	Indirect	Total
External environment	0.068	0.278	0.346
Company capability	0.628		0.628

The results of the analysis found that the variable with the greatest influence on total company performance was capability with a total effect of 0.628

standard deviations. While the external environment variable does not have a direct influence on company performance because the effect is very low at only 0.068 standard deviations. However, through capabilities, the external environment has a significant total effect on company performance. The total effect of 0.346 was contributed by the indirect effect of 0.278 standard deviations

CONCLUSION

second order structural equation modeling using the least least square method allows research to easily obtain model solutions with accurate prediction results. Through second order modeling, it is possible for us to understand and understand research variables better and more accurately. Through PLS analysis we can find strong support for the proposed research hypothesis. The first finding is that we confirm that the external environment variable has a positive and significant influence on the capability of SMEs. The second finding of this study is that the capability of SMEs gives a positive and significant influence on the performance and the third finding of this research is that the capability of SMEs is a full intervening variable because the external environment variable does not have a significant direct effect on the performance of SMEs but influences through the capability. This research can be used as a basis for developing SMEs performance in Indonesia. The SME capability variable is a variable that has an important role supported by a conducive external environment.

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