

## Internal and External Environment Analysis on The Performance of Provincial Office of Indonesian Food and Drug Authority in Manado

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### ARTICLE INFORMATION

#### Publication Information

#### Research Article

#### HOW TO CITE

Sakinah, M. U., & Wibowo, S. A. (2021). Internal and External Environment Analysis on The Performance of Provincial Office of Indonesian Food and Drug Authority in Manado. *Journal of International Conference Proceedings*, 9(1), 23-31.

#### DOI:

<https://doi.org/10.32535/jicp.v4i2.1240>

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Received: 19 September 2021

Accepted: 15 October 2021

Published: 15 November 2021

### ABSTRACT

Small and medium-sized businesses (SMEs) contribute significantly to the national economy. In 2018, North Sulawesi had a total of 48.45 thousand SMEs. Indonesian Food and Drug Authority (BPOM) has supports and provides convenience, protection and empowerment for SMEs. In accordance with BPOM's second mission, which is to facilitate the acceleration of the development of the Food and Drug business by partnering with SMEs in order to build a productive and competitive economic structure for the nation's independence. The purpose of this study was to determine the influence of internal and external environment analysis on the performance of Provincial Office of Indonesian Food and Drug Authority in Manado (BBPOM in Manado) as a Technical Implementing Unit (UPT) of BPOM related to registration assistance services to processed food SMEs in North Sulawesi. The company's external and internal environment can affect the company's performance to gain and maintain a competitive advantage. The external environment analysis using PESTEL analysis and Porter's Five Force analysis while the internal environment analysis using VRIO analysis and RBV analysis. The results showed that internal and external environment analysis could affect on the performance of BBPOM in Manado.

**Keywords:** External Environment,  
Government Service, Internal  
Environment, Performance of

Government, Provincial Office of  
Indonesian Food and Drug Authority in  
Manado, SMEs

**JEL Classification:** H10, H11

## **INTRODUCTION**

SMEs have historically been the dominant participant in domestic economic activity in Indonesia, as they generate a big number of jobs and hence serve as the major or secondary source of income for a huge majority of rural low income families (Tambunan, 2009). According to the Indonesian Ministry of Cooperatives, there were 64.2 million SMEs in 2018, accounting for 99.99% of all business actors. 117 million workers, or 97% of the corporate workforce, can be absorbed by SMEs. Meanwhile, SMEs generated 61.1 percent to GDP, while big corporations contributed 38.9%.

SMEs have advantages since they operate in a variety of business sectors and directly impact the community's interests, particularly those of the middle and lower economic classes, as viewed through the lens of consumer purchasing power. However, when company development and sustainability are considered, SMEs appear to develop slowly, and business sustainability is still in doubt (Soegoto, A. S., & Worang, 2018). Through increasing sales and operational profits, the empowerment program implemented by the government and private sector was able to accelerate the expansion of SMEs (Putra, I. G. C., Kepramareni, P., & Suryandari, 2019)

Food safety is a fundamental issue for all Indonesians. Thus, the food industry influences the flow of food that fulfills government standards for quality and safety. So BPOM exists to protect the public by monitoring pre- and post-market food circulation. Certified small and large-scale food producers review licensing and registration applications for already-marketed food products to ensure pre-market control (Puri, 2016).

BPOM assists and protects SMEs. As part of the National Proud Made in Indonesia program, BPOM will continue to support SMEs in increasing their competitiveness. Assisting SMEs with GMP certification, product registration, and other requirements necessary to meet the requirements and support the acceleration of regulation number of BPOM is one of the ways BPOM shows its unwavering support for SMEs.

BBPOM in Manado aids SMEs in obtaining registration numbers. Obtaining this license would assist protect SMEs' product safety while enhancing their competitiveness and market value. North Sulawesi has 48.45 thousand businesses in 2018, with 72.11 percent of all businesses being SMEs in the food industry, earning IDR 3.73 trillion. The Food Industry contributed the most to SMEs' income, accounting for 47.23 percent of total income, with Manado City accounting for the most. (North Sulawesi Province's Central Bureau of Statistics, 2020).

This study examined the internal and external environments that influenced the performance of the BBPOM in Manado's public service related to registration assistance services for processed food SMEs in North Sulawesi.

## **LITERATURE REVIEW**

Australia, New Zealand, and the UK altered their public services in the 1990s to give citizens new forms of government. NPM sought to build a smaller, more transparent government that provided high-quality services to residents. The challenges to increase openness, efficiency, and responsiveness have been felt globally by local governments (Shackleton, P., Fisher, J., & Dawson, 2004).

Administrative reform is a substantial transformation in the Indonesian government's worldview and governance, focused on improving services and bureaucratic governance to produce clean government and good governance. The government provides public services to suit the needs of the community. Quality services are strongly reliant on management, human resource, and institutional support. (Wakhid, 2017). Public service is a collection of actions carried out by the government and its apparatus for the benefit of the community. (Barata, 2004). To improve public services related to processed food licensing, BPOM has expanded its function to include Balai Besar/Balai POM offices nationwide. Balai Besar/Balai POM should do more to promote SMEs. The license service was moved closer to the community's most likely access point. (Puri, 2016).

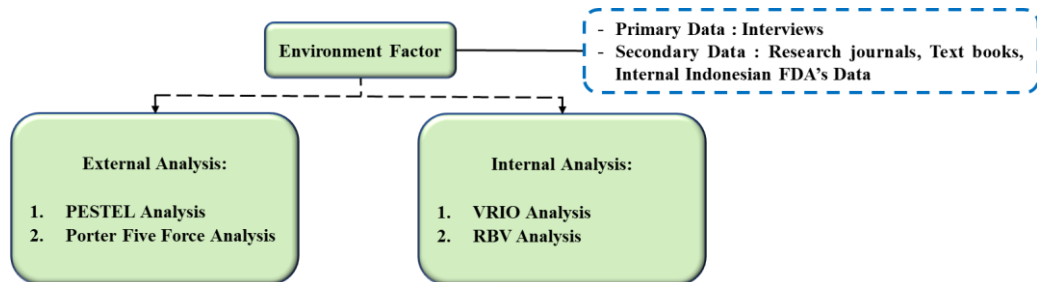
The external environment of a company is comprised of all external factors that can affect the firm's ability to achieve and sustain a competitive advantage. Studying the firm's external environment can help strategic executives avoid problems and seize opportunities (Rothaermel, 2021). Separated into social and professional environments (Task environment). Economic forces manage material, money, energy, and information exchanges; technology powers led to issue solving; and political law powers apportion power, give coercion, and provide protection. The work environment includes external variables or groups influenced by the firm. Suppliers, competitors, customers, creditors, labour, and trade associations (Wheelen, T. L. & Hunger, 2012). The macro and micro environments make up the external environment, and both have an impact on the business's performance. Suppliers, consumers, agents, governments, and competitors are all part of the microenvironment. As well as changes in the macroenvironment such as demographics and culture. Environmental analysis is crucial and should be undertaken regularly by all business managers for two reasons: (1) A business does not exist in a vacuum, but is part of a dynamic environment; (2) A highly complicated environment can impact a company's success (Indris, S., & Primiana, 2015).

Resources, assets, and procedures are all examples of internal components of a corporation that are analysed. To build and implement a plan that maximizes the possibility of gaining and maintaining a competitive advantage, a corporation must have core competences. To survive and thrive, successful businesses carefully establish their essential talents, resources, and competencies (Rothaermel, 2021). Internal aspects include human resource (owners, managers, and employees) financial, manufacturing, and marketing factors. External determinants include government policy, social, and economic factors, as well as the role of colleges, corporations, and non-profits (NGOs) (Indris, S., & Primiana, 2015). For the most part, businesses accept their environment as is and adapt accordingly. High achievers adjust to their external environment's complexities by using external elements as internal supervisors. High performers set competitive priorities that are congruent with the external environment (Badri, M. A., Davis, D., & Davis, D. 28(2), 2000).

## RESEARCH METHOD

This study uses semi structured in-depth interviews with processed food SMEs in North Sulawesi, as well as structural managers involved in the BBPOM in Manado registration process. A semi-structured in-depth interview is a conversation between a researcher and a participant, aided by follow-up questions, probes, and remarks. Soliciting open-ended responses helps the researcher to probe extensively into participants' personal and sometimes sensitive topics (DeJonckheere, M., & Vaughn, 2019).

**Picture 1.** Research Design of Internal and External Environment Analysis



## RESULTS AND DISCUSSION

### 1. External Analysis

#### a. PESTEL Analysis

- **Political.** In 2019, the Indonesian government issued Government Regulation No. 23 of 2020 on the Support of State Financial Policies for Combating Corona Virus Disease. (Covid-19). SMEs are crucial to the Indonesian economy, especially in times of crisis. SMEs businesses must lead the way in reviving the national economy. The BPOM, as a government organization, helps SMEs succeed. BPOM has made several concrete steps, including: (1) Signing an MoU with eight ministries/agencies and related agencies to coordinate food monitoring and SME growth. (2) Elimination of the PNBP rate for small businesses. (3) Creation of the SMEs Palace Application, which will supply SMEs with regulatory, manufacturing, marketing, financial, and management information. (4) Collect samples of SME products for registration. (5) Assist and guide customers in meeting manufacturing facility and process specifications. (6) Consult stakeholders on processed food regulation and registration.
- **Economic.** With the help of Presidential Regulation No. 54, the Republic of Indonesia will be able to contain the 2019 pandemic of Covid-19. The economic downturn has reduced BPOM and its UPT budgets. The APBN 2020 budget for the BBPOM in Manado was reduced by 15.46 percent, from IDR 37,622 billion to IDR 31,844 billion.
- **Sociocultural.** North Sulawesi is dominated by Generation Z and millennials. Generation Z makes up 25.23 percent of the population, while millennials make up 24.63 percent. Personal experience has overtaken ads or information from huge companies as the dominant option for that generation. Also, the legality and safety of items is more important than food taste. This legality and safety can be assured if the products are BPOM registered.
- **Technological.** Indonesia has 171.26 million internet users out of 276.3 million people, an increase of 8,560 percent since the Covid-19 Pandemic.

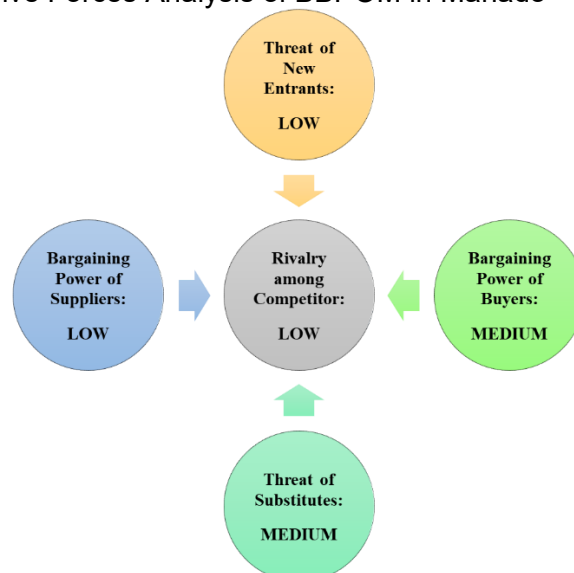
BPOM anticipated this rapid online growth by integrating registration services with the E-BPOM application launched in 2016. E-BPOM is a web-based service that allows users to register their products.

- **Ecological.** Wood products make for roughly 10% of total exports in the most deforested countries. Products like pulp and paper might come from deforestation in Southeast Asia or worldwide forestry. In Indonesia, the pulp rush has degraded forests, allowing new "quick forest" crops like acacia to flourish. Moving from a manual to an online registration system (e-registration) provides a chance to address environmental issues such as paper waste and deforestation caused by paper-making timber.
- **Legal.** Numerous Indonesian laws and internal BPOM policies compel business actors operating in Indonesia to comply with applicable laws and regulations. Among the numerous laws and regulations are: (1) Consumer Protection Law No. 8 of 1999 prohibits business actors from producing and/or dealing goods and/or services that do not meet or comply with appropriate criteria. (2) Law No. 18 of 2012 on Food, any Business Actor who wilfully fails to get a distribution permission for any Processed Food manufactured locally or imported for retail packaging is liable to a maximum sentence of two years in prison or a maximum fine of IDR. 4 billion. (3) BPOM Regulation No. 27 of 2017, all processed foods produced domestically or imported for retail sale in retail packaging require a Marketing Permit.

#### b. Porter's Five Forces Analysis

Although BPOM and BBPOM in Manado are non-profit government entities, the Porter five force analysis can identify BPOM's competitive strength in light of other Indonesian government regulatory standards such as P-IRT, Halal, and Indonesian National Standard (SNI). While these certificates are not convertible with BPOM certificates, many people still believe they are. Because of this, customers are occasionally given the choice of applying one of the certificates.

Picture 2. Porter's Five Forces Analysis of BBPOM in Manado



- **Threat of new entrants is Low.** Indonesia has a restricted number of institutions or companies capable of giving certificates related to processed foods, hence the authority must be granted by the Indonesian government

through Regulations or Decrees. To enter the market, a corporation must be able to judge whether a product is certificate-worthy.

- **Bargaining Power of Buyer is Medium.** BPOM applicants' range in size from large to small. While large corporations are often indifferent with the cost of tariffs connected with applying for BPOM certification, SMEs are frequently slowed down by the tariff payments associated with specific product submissions.
- **Threat of Substitute is Medium.** Due to limited financial resources, SMEs usually just complete one certificate or opt out of obtaining one. They will use a P-IRT certificate rather than an MD certificate if they anticipate they will not be able to achieve the BPOM standards. Also, given that most Indonesians are Muslims, some companies see halal certification as particularly crucial.
- **Bargaining Power of Supplier is Low.** Human resources can be considered as suppliers to public service providers. The Computer Assisted Test (CAT) is still used at BPOM and BBPOM Manado. The BPOM recruitment system was widely deployed, garnering many applications.
- **Rivalry among Competitor is Low.** The rivalry among certification agencies is mutually beneficial, as the Indonesian government has explicitly authorized each agency's service areas and client categories.

## 2. Internal Analysis

### a. Resource Base View Analysis

This study used the VRIO paradigm to examine whether the resources at BBPOM in Manado are weaknesses or strengths. Businesses using RBV must be able to manage their own resources. Using a range of strategies to compete for a long time. Intangible Resources include Technology, Reputation, and Culture, while Tangible Resources include Capital and Physical also Human Resource.

**Table 1.** Capability and Resource of BBPOM in Manado

Resource	Characteristic
Tangible Resource	<ol style="list-style-type: none"> <li>1. Company finances (adequate capital)</li> <li>2. Facilities and Infrastructure fulfill the standard criteria for the Facilities and Infrastructure of public services set by the Kemenpan RB</li> </ol>
Intangible Resource	<ol style="list-style-type: none"> <li>1. The integration of registration services into the online registration technology system since 2016</li> <li>2. BBPOM in Manado received a B rating based on Customer Satisfaction Survey Report in 2020</li> <li>3. BPOM has applied Professional, Integrity, teamwork, Credible, and Innovative (PIKKIR) culture that implemented in all BPOM unit around Indonesia</li> </ol>
Human Resource	BPOM issued Regulations of the Head of BPOM No. 15 and 18 of 2017 on Technical Competence Standards for Functional Positions of Employees

#### 1) Tangible Resources

- a. Capital. A company's funds (sufficient capital) must come from the state budget every year. According to the 2020 Performance Report, BBPOM Manado has a budget of IDR 31,844 billion, including IDR 119 million allocated for certification assistance services (BBPOM in Manado, 2020).
- b. Physical (Facilities and infrastructure). BBPOM in Manado meets the standard criterion for public service facilities and infrastructure specified

by the Kemenpan RB, which is one of the assessment criteria for the quality of public services from government organizations.

2) Intangible Resources

- a. Technology. Since 2016, online registration technology has integrated registration services. An IT support system and IT-savvy people help the integration.
- b. Reputation. The reputation method is based on BPOM's yearly customer satisfaction survey, which includes consumers from all around Indonesia. Customer satisfaction scores for BBPOM in Manado are B, suggesting that customers are generally satisfied with the company's services.
- c. Culture. BPOM has adopted the PIKKIR (Professionalism, Integrity, Teamwork, Credibility, and Innovation) culture throughout Indonesia. Organizational culture is what sets an organization apart from others. This company culture guides all members' interactions, both internal and external (Achmad, 2007).

3) Human Resource.

In line with Government Regulation No. 11 of 2017 on Civil Servants Management, BPOM published Regulations of the Head of BPOM No. 15 and 18 of 2017 on Technical Competence Standards of Employees. These rules help maintain a professional demeanour at work. BPOM values its employees' integrity, objectivity, tenacity, and devotion. Human resources are one of the organizational resources that must be altered to obtain and retain a competitive edge (Rengkung, 2015).

**b. VRIO Analysis**

Diverse resources can be combined to establish and preserve a competitive edge. Indicators of organizational resources that generate competitive advantage are shown in four ways. Value, rarity, imitability, and substitutability are examples. The VRIO analysis of BBPOM in Manado is determined by internal data and in deep interviews.

**Table 2.** VRIO Analysis of BBPOM in Manado

Resource	Characteristic	V	R	I	O	Description
Tangible Resource	Company finances (adequate capital)	1	1	1	1	Sustainable Competitive Advantage
	Facilities and Infrastructure fulfill the standard criteria for the Facilities and Infrastructure of public services set by the Kemenpan RB	1	0	0	1	Temporary competitive advantage
Intangible Resource	The integration of registration services into the online registration technology system since 2016	1	1	1	1	Sustainable Competitive Advantage
	BBPOM in Manado received a B rating based on Customer Satisfaction Survey Report in 2020	1	0	0	1	Temporary competitive advantage
	BPOM has applied Professional, Integrity, teamwork, Credible, and Innovative (PIKKIR) culture	1	1	1	1	Sustainable Competitive Advantage

	that implemented in all BPOM unit around Indonesia					
Human Resource	BPOM issued Regulations of the Head of BPOM No. 15 and 18 of 2017 on Technical Competence Standards for Functional Positions of Employees	1	1	1	1	Sustainable Competitive Advantage

The table 2 represents the VRIO analysis using RBV BBPOM in Manado:

Detailed information:

1 indicates that the resource satisfies the VRIO criteria.

0 = if it is determined that the resource does not match the VRIO criteria

- Quantity = 1 : indicates that the resource is at the level of Competitive Equality (not worse than competitors)
- Quantity = 2 : indicates that the resource possesses a Temporary competitive advantage (Other companies will try to imitate it in the near future, then the company loses its competitive advantage)
- Quantity = 3 : indicates that the resource is at its maximum unutilized competitive advantage level (resource becomes expensive for the company or in other words there will be unused costs incurred)
- Quantity = 4 : indicates that the resource is at a sustainable competitive advantage level (the company has a permanent competitive advantage)

(Source : (Rothaermel, 2021), (Barney & Mackey, 2016))

Based on the findings, researchers focus on RBV and VRIO to create a sustainable competitive advantage for BBPOM in Manado, namely: company finances, integration of registration services into online registration technology system, (PIKKIR) culture implemented in all BPOM units throughout Indonesia, and employee competencies. These four assets are fundamental competencies that competitors cannot imitate. Thus, BBPOM Manado must build competencies to navigate this transformation.

## **CONCLUSION**

The results of the evidence from this study can be used to solve problems that occurs on the performance of BBPOM in Manado in providing registration assistance services to small and medium industries (SMEs) business actors. The performance of BBPOM in Manado can be improved through increases in internal and external analysis. Internal and external analysis has significant effects on the performance of BBPOM in Manado. There is a favourable correlation between company assets and environmental stewardship. In comparison to the competitive advantage achieved through differentiation, businesses who invest in environmental improvements have gained a greater reputation among customers (López-Gamero, M. D., & Molina-Azorín, 2016).

## **ACKNOWLEDGMENT**

The researcher would like to thank the Provincial Office of the Indonesian Food and Drug Authority in Manado (BBPOM in Manado), the North Sulawesi Provincial Health Office, the Central Bureau of Statistics of North Sulawesi Province which have supported in providing data and information for the purpose of this research.

## **DECLARATION OF CONFLICTING INTERESTS**

Monik Umi Sakinah is the employee (civil servant) of Provincial Office of the Indonesian Food and Drug Authority in Manado (BBPOM in Manado) and receiving financial support from an MBA grand of Indonesian Food and Drug Authority (BPOM).



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