



The Effect of Business Strategy on Business Performance Moderated by Environmental Dynamics (Study on SMEs in Timor Leste)

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Abstract

The purpose of this study is to analyze and explain the effect of business strategy on business performance and the influence of business strategy and environmental dynamics as a moderating variable on business performance. This study was conducted in the capital cities of Dili, Baucau and Maliana from 13 districts in Timor Leste. The population in the study was 275 SMEs from three districts (Dili, Baucau and Maliana) in Timor Leste with saturated sampling, of which only 157 questionnaires were collected with a respondent rate of this study of 57.1%. Data analysis techniques using Generalized Structured Component Analysis (GSCA). Based on the results of the study, it shows that there is a positive influence of business strategy on business performance, meaning that the more appropriate a business strategy is, the higher the performance of small and medium enterprises, the influence of business strategy and government policies as moderating variables on business work shows a positive influence on environmental dynamics as a pseudo moderating variable. This means that the more precise the implementation of a business strategy that is in accordance with the environment, the stronger it will encourage business performance improvement.

Keywords: *Business Strategy; Environmental Dynamics; Business Performance*

Introduction

The emergence of competition and rapid changes in the business environment both in technology, customer needs, and increasingly shorter product cycles are inevitable for SMEs in East Timor, let alone a newly established country. Every company is required to always understand and understand what is happening in the market, what consumers want, as well as how to anticipate various changes in the business environment. The ability to manage the business environment, both external and internal environments, makes the company able to compete with other companies. Therefore, companies are required to choose and establish the right strategy to face the competition.

The industrial environment is much more important and more decisive to the rules of competition compared to the analysis of the general environment because the strength of the general environment in influencing competition is very relative in nature meaning that if there is a change in the general

environment, economic, social, political and legal factors, technology and demographics that are affected by the change are not just a company, melaing all companies in an industry.

Environmental dynamism (which consists of uncertainty of environment and intensity of competition) Morris and Schindehutte (2005) which focuses on the role of ethnicity in the formation of SME growth patterns in Hawaii, Anand and Ward (2004) and Kara, Spillan and DeShields (2003) emphasize environmental dynamics factors in influencing performance. While Glancey, Greig and Pettigrew (1998) and Neshamba (2003) brought up about the character of management in influencing performance. This research also wants to see the influence of elements of environmental dynamics and strategies as researched by Hashim, Wafa and Sulaiman (2001:11-14) on small and medium enterprises in Malaysia, and other studies such as Nurhayati (2004:181); Muryati (2004:72); Maupa (2004:219). The results of Nurhayati's research (2003) significant factors whose influence on strategy are internal factors while external factors are not significant to export-oriented small business strategies. Meanwhile, the results of Muryati's research (2004) showed that external factors had a significant positive effect on the intensity of competitive strategies. Internal factors have a significant negative effect on the intensity of competing strategies. The results of Maupa's research (2004) show that external environmental factors have proven to be insignificant influencing business strategy. From the results of previous research, researchers want to re-examine environmental dynamics on business strategies and on business performance in SMEs in East Timor.

Muryati (2004) The internal environment consisting of 5 variables, namely: production, marketing, finance, human resources and company information systems have a significant negative effect on the intensity of competitive strategies. The results of Maupa's research (2004), skills that are individual characteristics of managers / owners have a direct, positive and significant influence on business strategy as well as on business growth.

Taking into account the results of the RESEARCH of SMEs mentioned above, especially in SMEs in East Timor, it can be seen that the development of SMEs in East Timor can be said to still not show superior performance. The lack of an adaptation process to consumer demand makes SMEs unresponsive to market will. This instability makes SMEs undeveloped. The niches that SME products should be able to master are not successfully optimized. Production that is monotonous in types and variations makes consumers turn to imported products (especially from China and Indonesia) as a substitute for SME products. Research can be recognized for its benefits to the practical world if the problems raised are based on the gap in real conditions in the object of research with conditions that are considered ideal by science.

Entrepreneurs themselves as the driving force of SMEs are often unable to catch the symptoms of changing consumer tastes. According to Glancey, Grey and Pettigrew (1998) the cause is, among others, the motivation of individuals to start a business (start-up conditions). Individual motivation which is only based on the factor of 'economic pressure' makes business actors not creative in their business and has the goal of obtaining profits only, but without having a goal for business development (growth). In other words, the environmental factors of the industry become neglected.

Porter (in Pearce and Robinson. 1997) posits the mechanisms of the industrial environment in influencing enterprises. The concept is known as the forces that influence the competition of an industry. There are five scopes of strength in it, namely the power to compete that comes from suppliers; the threat of competition from new entrants and goods of substitution as well as strong bargaining power with buyers.

When viewed from the growth, for small industries and household crafts, both the development of their business units, their workforce, investment value and production value for 2012 showed growth that was not optimal, where SMEs in East Timor had the same problems as the common problems faced by SMEs in other countries, namely not being able to show superior performance in filling / mastering

existing niche markets. The results of preliminary observations of several Districts in East Timor which have a central SME show that there are interesting things and need to be studied in SMEs in East Timor so that they can be more deceived.

Based on the description above, the thing that must be considered is how to anticipate the weaknesses and obstacles faced by SMEs. The thing that is worth paying attention to is in facing the dynamics of the environment to choose and implement the right management and business strategy, so that an increase in the performance and competitive advantages of SMEs can be achieved. The strategic management paradigm that the industrial environment (environment) will affect business strategy and business strategy will affect business performance (performance) as discussed by strategic management theory (Pearce and Robinson, 2005) will not happen.

Porter (1993) in his book *Competitive Strategy*, states that business actors in determining competitive strategies aim to connect companies with their environment, both industrial and macro environments. But the dynamics of the industrial environment are much more important and more determine the rules of competition compared to the analysis of the general environment, since the dynamics of the industrial environment (customers, suppliers, substitution goods, newcomers and competitors in one industry) have a direct effect on the company.

The state of competition in an industry depends on the five main competitive forces, where the combination of the five forces can determine the potential final profit in an industry, namely the capital that has been invested in the long term. The five forces of competition are (1) the influx of newcomers; (2) the threat of substitute products; (3) the bargaining power of the buyer; (4) the bargaining power of suppliers; and (5) conventional competition among existing competitors.

Customers; suppliers, replacement products as well as potential newcomers are all competitors to companies in the industry. Broader rivalry can be referred to as extended rivalry, an expanded rivalry. The notion of competitor is no longer simple in the conventional sense, but must be defined in the context of extended rivalry (Porter, 1993; Hutabarat, 2006; Nature, 2009).

According to Hashim, Wafa and Sulaiman (2001) in Rahayu (2009: 30), the five forces outside the company that affect the company's performance as above are included in the dynamism variable, which identifies the uncertainty of the environment. Influences other than uncertainty, can be in the form of intensity competition which Hashim et al- (2001) refer to as variable hostility. The dimensions used to identify the intensity of competition are: (1) the intensity of competition (IP) in price (price competition); (2) IP in production quality (product competition); (3) IP technology competition; (4) IP in distribution (distribution competition); (5) IP in managing human resources (manpower competition); and (6) IP in raw material competition

The dynamic environment has a more organic organizational structure in small enterprises. Organizational structure has a positive and significant correlation to performance in the environment dynamism_ But, on the contrary, it has a negative correlation in stable environments (Miles, Covin & Heeley, 2000). The company's ability to adapt to the environment is indispensable. Anand and Ward (2004) found that environmental dynamics and their mobility had a positive and significant effect on market share and sales growth. Pelham (1999) states there is a relatively weak direct and indirect influence of the competitive environment on performance (in Rahayu, 2009).

The interrelationship of environmental dynamics and business strategies is very important in relation to improving performance. By Hashim, Wafa & Sulaiman (2001) have examined the influence of business strategies on performance moderated by environmental factors. The results of his research found that the effectiveness of the strategy can be seen by understanding and knowing the company's environment, so that business strategy must be in line with the organizational environment if you want good organizational performance. In his research, the environment includes environmental uncertainty

and the intensity of competition, and business strategy refers to Porter's three general strategies. His findings show that Porter's three generic strategies are not only relevant in large companies, but also at SME's in Malaysia. In addition, the relationship between business strategy and performance is moderated by the environment, meaning that the company implements a business strategy based on its environment.

In order to improve the performance of SMEs, it is necessary to research how the prevalence of environmental dynamics as a moderation variable in improving the performance of SMEs in Timor Leste

The research is also intended to answer all challenges and obstacles both now and in the future so that later it can make a very significant contribution to economic development in the country of East Timor.

Literature Review

Business Strategy

According to Swamidass & Newell (1987) strategy is "the formulation of basic organizational missions, purposes, and objectives, polices and program strategies achieve them, and the methods needed to assure that strategies are implemented to achieve organizational end" while, Glueck & Jauch (1988) defines the strategy as an integrated, comprehensive and integrated plan that relates the strategic advantages of the company to the challenges of environmental change. In addition, Kotey & Harker (1998) defines strategy in the company as a form of game (games) in organizing planning to develop a business, maintain or supervise a market position, attract and please or satisfy customers, be able to compete successfully, carry out operations and generate success from the intended goals. On the other hand, Kotler (2003) defines strategy as a game plan to achieve what the business activity wants. Kolter (2003) states "if you have the same strategy that competitors have, then you don't have any strategy. If your strategy is different from others, but it is easy to imitate, then you have a weak strategy. If your strategies are uniquely different and difficult to replicate, then you have a strong and durable strategy" Three effective generic strategy approaches from Poter (1998), to counteract the strengths of the industry: (1) Overall cost leaders strategy (2) Differentiation strategy (3) Focus strategy (focus strategy)

Environment Business actors in determining business strategies aimed at relating the company and its environment, then the environmental analysis referred to here is an analysis of the industrial environment where it is competing (Michael E. Porter, Competitive strategy, 1990) Porter (1993) which has been developed by Hashim, Wafa and Sulaiman, (2001) to see the environmental dynamics of a company needs to pay attention to (1) Uncertainty of Environment (environmental uncertainty), seen from: competitors, customers, suppliers, regulators and associations, and (2) Intensity of Competition (Level of Competition), which uses: price, quality, innovation, distribution, manpower, and raw materials. Zimmerer (1996: 98), analyzes new opportunities of the environment by calling it environmental observation, that is, the process by which all critical sectors of the environment that affect the new company are observed, evaluated and tested to determine the effect of changes occurring in that environment on the potential of the company. The purpose of this tethering process is to identify new opportunities or challenges created by environmental changes. Anderson, Cleveland and Schoder, (1989) explained that the success of SMEs after starting their activities, is greatly influenced by the conditions of their environment and environmental conditions themselves can be used as the basis of business strategy. Therefore, if the manager builds a strategy by actively looking for new solutions, as soon as possible to respond to environmental changes, it will produce a very appropriate strategy in decision making until new things arise that will be made into a business plan, Mintzberg (1990). Two aspects of environmental studies that can be developed based on studies, Daft, (2002) prove that one of the factors that needs to be observed is the pressure and environment on performance, thus, the environmental pressures can be understood through a critical review of the high level of competition, complexity and dynamics of the environment occurring in a competitive and constantly changing market.

Business Performance

The company's performance can be seen from the level of sales, profit rate, return on capital, turn over rate and market share achieved (Jauch and Glueck, 1988). The constraints on the growth of SMEs stem from the weaknesses inherent in internal SMEs, namely: lack of knowledge and production technology, lack of knowledge in marketing, constraints in resource proficiency (human and financial) and weak knowledge and management capabilities (Tambungan, 2009). Sanchez & Marin (2005) measures the performance of small and medium-sized enterprises (SMEs's) by referring to three aspects, namely profitability, productivity, and market. The profitability aspect (profitability) selects business performance from the point of achieving financial targets as planned by the company. Financial objectives are generally emphasized on achieving income, profits, cash flow, return on capital employed, return on investment (Return on investment) or economic value added. In the aspect of productivity is based on the achievements of the company in its business activities to meet the wants and needs of customers, as well as the productivity of its employees. Meanwhile, business performance in the market aspect (market) is in terms of product sales achievement, market position and market share.

Research Method

This research uses explanatory patterns (explanatory) is a study that intends to explain the position of the variables studied as well as the relationships and influences between variables. The research approach is quantitative research which is research that emphasizes more on testing theories through measuring the variables of research in numbers and conducting data analysis with statistical procedures and aiming to test hypotheses. This study was conducted in the capital cities of Dili, Baucau and Maliana from 13 districts in East Timor. The sample determination technique used saturated samples, all members of the population were used as a sample of all SMEs in 3 Districts (Dili, Baucau and Maliana) as many as 275 SMEs out of this number only 157 questionnaires were successfully collected with a respondent rate from this study of 57.1%. Data Analysis Techniques using Generalized Structured Component Analysis (GSCA) which are

Result

The results of the study are seen in Table 4.1 below.

Table 4.1 Research Hypothesis Testing Results and Moderation Variables

No	Relationship between Variables		Path Coefficient	CR	p	description
1	Business Strategy	SME Performance	0.169	2.23*	0.0272	Accepted
2	Environmental dynamics	SME Performance	-0.215	2.42*	0.0167	Moderation pseudo
	Relationship Strategy Business * Environmental Dynamics	SME Performance	0.217	2.11*	0.0365	

Description: ts=insignificant; *= significant at α 5%

Table 4.1 shows that there is a positive relationship between Business Strategy and Business Performance while the relationship between Business Strategy and Environmental Dynamics as a variable of moderation is significant to Business Performance. It can be explained that the dynamics of the environment as a moderation variable.

The results of hypothesis testing can also be presented in the form of a graph in the form of a path diagram as shown in the following 4.1 picture.

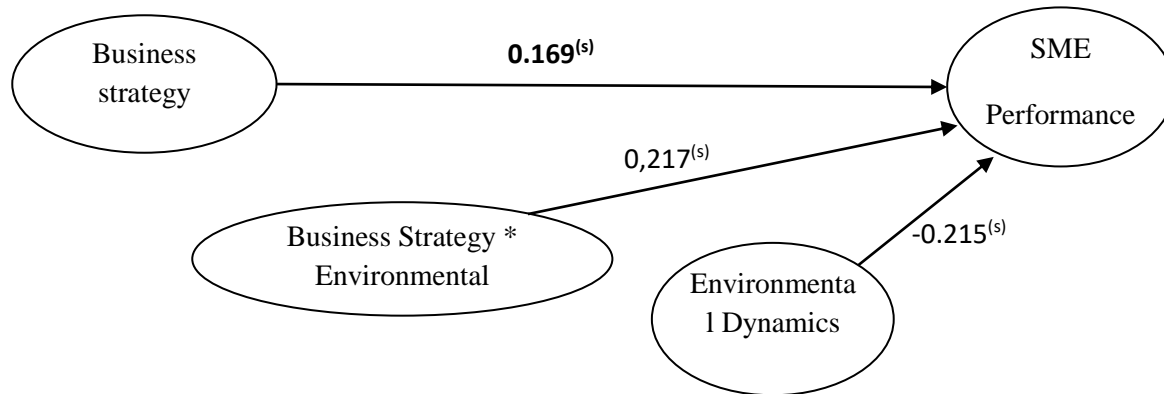


Figure 4.1

Description: s= significant, ts=insignificant

Discussion

1. Business Strategy Affects Business Performance

The test results prove that Business Strategy has a significant effect on Business Performance. This shows that the more appropriate it is to apply a business strategy, the higher the performance of small businesses.

The results of the study strengthened the research conducted by Asmarani (2006) which found that business strategies had a positive effect on the performance of the Ikat Weaving Small and Medium Industry in Troso, Jepara. Where the better the business strategy carried out will improve the company's performance. The existence of a good business strategy can allow the company to easily achieve the organizational goals that have been set. This result is also in accordance with research conducted by Rue and Ibrahim (1998) and Shrader et al (1989) which states that small and medium-sized companies that formally have a business strategy produce above-average performance compared to companies that do not have a business strategy. In addition, Miller & Cardinal (1994) also concluded that business strategy has a positive influence on the company's performance.

Related to the phenomenon that occurs, there are indicators used to measure business strategies showing good results, thus it can be said that SMEs in East Timor have a good ability to determine the right business strategy so as to improve business performance in these SMEs.

2. Strategy Affects Business Performance Moderated by Environmental Dynamics.

The test results proved that business strategy affects Business Performance which is moderated by environmental dynamics. This means that the more appropriate it is to implement a business strategy that is in accordance with environmental dynamics, the stronger it will be in encouraging the improvement of SME business performance. Shows that environmental dynamics play the role of a pseudo-moderation variable.

The results of this study expand the research conducted by Pono (2009) which shows that environmental dynamics and business strategies have a significant influence on the performance of the Manufacturing Industry in South Sulawesi. Where the faster the changing needs of consumers, technology, macroeconomics and suppliers, the higher the performance the company achieves. The findings also show that consumer change has a more dominant role in company performance. This shows that if consumers like the company's products more, it will increase sales which ultimately improves the company's performance.

Badri et al., (1999) suggest that the environment can have an effect on performance when there is an application of different operating strategies in response to environmental stimuli. The competitive strategy also shows a significant influence on performance. Where if the manager is able to plan a competitive strategy well or emphasize his attention to the competitive strategy then the performance of the industry can be improved. If the company wants to improve performance, then managers make efforts to improve competitive strategies including competitive pricing strategies, differentiation, and focus strategies.

The results of this study show that the business strategy chosen by the majority of SMEs in East Timor is a differentiation strategy. This means that these SMEs have the ability to set the right strategy in making quality products, producing products that have more benefits than similar products on the market, formulating varied products, and providing exceptional service to their customers. The environmental dynamics that are often experienced by SMEs in the 3 District Timor Leste are the intensity of competition. It shows that these SMEs experience a lot of environmental dynamics in the form of product competition, promotional competition, price competition, competition for distribution channels, and competition for raw materials. Thus, it can be said that SMEs in East Timor have the ability to set the right business strategy that is in accordance with the dynamics of the environment faced so that it can encourage the increasing performance of small and medium enterprises in East Timor.

This research expands the research of Hashim, Wafa and Sulaiman "Testing Environment as The Moderator Between Business Strategy Performance Relationship: A Study of Malaysian SME'S" which examines the environment as a moderator of the relationship between business strategy and performance of 100 SMEs in the manufacturing sector in Malaysia, Sample taken 100 SMEs (small and medium size enterprises) in the manufacturing sector in Malaysia using ANOVA (Analysis of Variance) analysis techniques for hypotheses first and for the second hypothesis using multiple regression analysis with interaction forms. The findings from this study suggest that Porter's three generic strategies are not only relevant in large companies but also SME's. In addition the relationship between business strategy and SME's performance is moderated by the environment. These findings require companies to implement business strategies based on the

Suggestion

Advice for subsequent researchers

1. Further research suggested could take different locations in the territory of the Republica Democratica State of East Timor so that data will be obtained that is describes the overall condition of SMEs in the region.
2. Further research suggests that it be possible to take samples on another type of business because there are still many SMEs that are developing.
3. Further research is suggested to proceed to the concept of environmental dynamics on different situations.

Advice for practitioners

1. It is recommended for practitioners to be able to establish good cooperation with SMEs spread across the territory of the Republica Democratica East Timor so that they can participate in helping the development of SMEs.
2. So that Small and Medium Enterprises can escape from dependence on other parties so that it is easier to manage a business, then small and medium enterprises need to be addressed with management's ability to set the right business strategy in accordance with the environmental dynamics. For this reason, it is necessary to have coaching to provide provisions that are enough to the SME actors.

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