

**THE INTERVENING EFFECT OF BUSINESS
STRATEGY TO THE RELATIONSHIP
BETWEEN INTERNAL AND EXTERNAL
BUSINESS ENVIRONMENTAL AND
PERFORMANCE AMONG MICRO AND
SMALL INDUSTRY CLUSTER SERVICES
AND CREATIVE INDUSTRY IN JAKARTA,
INDONESIA**

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ASIA e UNIVERSITY

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ENVIRONMENTAL AND PERFORMANCE AMONG MICRO AND
SMALL INDUSTRY CLUSTER SERVICES AND CREATIVE INDUSTRY
IN JAKARTA, INDONESIA

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ABSTRACT

This research aims to determine external business environmental factors which influence the measurement of business performance levels, to identify internal environmental factors/ RBV includes resources, efficiency, capabilities and competitive advantages that influence the measurement of business performance levels in MSMEs and creative industry service clusters in DKI Jakarta. To identify external & environmental business environmental factors internal/RBV which influences the measurement of business performance levels in the MSME service cluster and creative industry in DKI Jakarta. To identify and confirm the impact of Resource-Based Policies Perspective strategy indicators (RBV) and I/O indicators in making business strategies for micro, small and medium enterprises (MSMEs) operating in the service and creative industry cluster in DKI Jakarta. To identify the influence of business strategy on business performance in MSMEs in the service and creative industry cluster in DKI Jakarta. This research uses semi-structured interviews and questionnaires. Data was collected using a purposive sampling method from 365 business actors operating in the creative and service economy sectors in DKI Jakarta. Data analysis uses the PLS-SEM method. The findings of this study indicate that The internal environment (RBV theory) influences the performance of businesses operating in the MSME service and creative sector clusters in DKI Jakarta, The external environment (I/O theory) affects the business performance of communities of MSME service and creative industries in DKI Jakarta, Business strategy influences the performance of micro, small and medium enterprises (MSMEs) in the service and creative industry clusters in DKI Jakarta, The RBV and I/O theories affect on the business performance of small and medium-sized enterprises (SMEs) in the service and creative sector cluster in DKI Jakarta, The Resource-Based View (RBV) and I/O theories affect the business strategies of service cluster SMEs and creative industries in DKI Jakarta. Hence, enhancing the business strategy and performance of small and medium enterprises (SMEs) operating in the service sector and creative economy within DKI Jakarta, specifically by augmenting the internal and external business environments that consistently yield positive outcomes, can lead to an enhancement in company performance.

Keywords: Business strategy, I/O theory, RBV theory, DKI Jakarta, SMEs

APPROVAL

This is to certify that this thesis conforms to acceptable of scholarly presentation and is fully adequate, in quality and scope, for the fulfilment of the requirements for the degree of Doctor of Philosophy

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Professor Dr Siow Heng Loke
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(17 February 2022)

DECLARATION

I hereby declare that the thesis submitted in fulfilment of the PhD degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches in this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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A handwritten signature in black ink, appearing to read 'Prasetio Ari Wibowo', with a long horizontal stroke extending to the right.

Signature of Candidate:

Date: 17 February 2022

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LIST OF ABBREVIATION

RBV	Resource Based View
SMEs	Small Medium Entreprises
AeU	Asia e University
MSMEs	Micro, Small and Medium Enterprises
DKI	Daerah Khusus Ibukota
GDP	Gross Domestic Product
SEO	Search Engine Optimation
POAC	Planning, Organizing, Actuating, Controlling
IT	Information Technology
PLS	Partial Least Square
SEM	Structural Equation Modeling
I/O	Input/Output

CHAPTER 1

INTRODUCTION

1.0 Preliminary

This dissertation's writing begins with an introduction that briefly explains the dissertation's topics and cues to go to the subsequent chapters. This chapter describes the study's background. This chapter elucidates the organisational framework of dissertation composition through the presentation of problem statements, objectives, research questions, research hypotheses, justifications and significance of the study, theoretical contributions, practical contributions, contribution to methodology, and operational definitions. As stated by Sugiyono (2017, p. 37), the associative approach refers to a method of formulating research inquiries that seeks to examine the interaction between two or more variables. The research factors encompass both independent variables, which consist of the internal business environment and the external business environment, and dependent variables, which encompass the performance of service cluster MSMEs and the creative industries.

1.1 Problem Statement

The growth of micro, small, and medium-sized enterprises (MSMEs) in Indonesia exhibits a consistent upward trajectory on an annual basis. The future prospects of micro, small, and medium-sized firms appear promising due to the simultaneous advancements in technological capacity and the accessibility of skilled labour.

Table 1.1: Forecasts for Indonesia's birth rate between 2021 and 2023

No.	Country	Mid Year Population (Thousands)		
		2021	2022	2023
1	Indonesia	272.682,5	275.773,8	278.696,2

Source: Indonesian Central Bureau of Statistics (2023)

Table 1.1 shows that since 2021, Indonesia's population has grown to an estimated 272,682.5 million, and is projected to reach 275,773.8 million in 2022 and 278,696.2 million in 2023. Independent and with significant potential to boost people's standard of living, MSMEs are an integral part of the national economy. Small and medium-sized enterprises (SMEs) are of paramount importance in the overall functioning and development of the national economy. According to a projection by the Ministry of Cooperatives and Small and Medium Enterprises (SMEs) of the Republic of Indonesia, it is anticipated that the number of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia will reach 64.19 million by the year 2023. These MSMEs are expected to make a significant contribution to the country's Gross Domestic Product (GDP), accounting for 61.97% or 8,573.89 trillion rupiahs (Putri et al., 2023). SMEs play a crucial role in the Indonesian economy due to their significant contribution in terms of employment, with over 97% of the workforce being employed by these firms. Additionally, they also attract a substantial portion of investments, accounting for 60.4% of the total investment inflow (Sasongko et al., 2020).

Figure 1.1: The impact of SMEs on GDP from 2010 to 2020



Sources: The Indonesian Ministry of Cooperatives and SMEs (2020)

In 2020, the proportion of gross domestic product (GDP) attributed to micro, small, and medium-sized enterprises (MSMBs) reached a level of 37.3%, marking the lowest figure observed since the year 2010. This figure indicates a decrease of 38.14% compared to the preceding year. The aforementioned observation aligns with the prevailing global COVID-19 viral pandemic, which poses a significant challenge not only in Indonesia but also in several other regions. The crisis has had extensive ramifications, impacting not only the total output and commerce, but also resulting in a significant decline in employment rates in Indonesia. This is particularly significant considering the prevalence of Micro, Small, and Medium Enterprises (MSMEs) in the country. The outbreak of the Corona virus, sometimes referred to as Covid-19, has exerted a substantial influence on the food and beverage sector in Indonesia. Production of food and drink in Indonesia has dropped by 20-40%, according to a study conducted by industry leaders (GAPMMI) (Fitriani, 2022). From the time of Covid-19, Sarkodie & Owusu (2021), this forecast is in line with government directives to cut tourist capacity by up to 50%.

The sustainability of MSME business performance, whether it experiences growth or decline across various business clusters in Indonesia, particularly in DKI Jakarta, is consistently influenced by internal and external business factors. This assertion is supported by preliminary observations conducted by researchers at the commencement of the study. The inclination to initiate a commercial venture is not inherent, but rather a product of gradual evolution influenced by various factors. Mopangga (2014) posits that the development of an entrepreneurial attitude is influenced by a combination of internal and external factors. Locus of Control (LOC), Need for Achievement, and Risk-Taking are all internal factors. Passion, empathy, originality, and enterprise. Internal LOCs and exterior LOCs are the two main categories of LOCs. Those who have an internal LOC think they can change their surroundings, whereas those with an external LOC think they are shaped by theirs. LOC business owners seek to control and regulate their surroundings to minimise potential losses. The Need for Success is the drive to succeed at whatever one undertakes. It has long been acknowledged as a factor influencing entrepreneurship since it is a potent psychological force that drives one's behaviour. Due to the constant requirement to anticipate future opportunities and risks, entrepreneurs require specific accomplishments to reach their objectives. Indicators of N'ach were identified in Chairy's (2011) research cited in Widhiandono et al. (2016) as a sense of personal responsibility, a willingness to accept risks, and an understanding of the potential outcomes. Taking chances helps you identify possibilities in difficult decisions. Groups engaged in entrepreneurial activities tend to be risk takers, as stated by Grol and Atsun (2006) in Widhiandono et al. (2016). Nickels et al. (2005, p. 176) argues that in order to be successful in business, one needs possess the "entrepreneurial spirit," which involves traits like boldness, self-assurance, initiative, vitality, and tolerance for

risk. Emotional intelligence is the most important factor in professional success, say Cooper and Sawaf (2000). They also argue that the most successful people in life and business are not always the smartest. It has been found that IQ accounts for only 4% of success in the actual world, while other forms of intelligence account for over 90%. The presence of such individuals is crucial to the development of the Indonesian business sector. An emotionally-driven businessman will view the current situation as a window of opportunity. Nagel and Suhartatik (2018) argue that those with a high EQ will excel in a variety of settings. Self-awareness, emotion management, productive emotion use, empathy: interpreting emotions, and relationship building all play a role in the development of an entrepreneur. According to Alma & Hurriyati (2008), creativity refers to an individual's capacity to generate novel ideas and tangible creations that deviate from preexisting concepts or works. Indicators include traits including interest in learning, optimism, adaptability, creativity, problem-solving, and daydreaming (Suryana, 2006). According to Hadiyati (2011), the capacity for innovation is a crucial quality in business owners. Without new ideas, businesses will fail quickly. This is due to shifts in what consumers want and expect. Innovations are defined as anything that is seen as novel by at least one person.

According to Pearce and Robinson (2013), an organization's choices on where to go and what to do are affected by the "external environment," which is something beyond the organization's control. Ultimately, this affects the organization's internal structure and procedures. Siswanti (2020) argues that there are a number of issues outside the corporation that should be taken into account whenever possible. According to Maupa (2004), there exists a clear and substantial correlation between several factors, including individual manager/owner traits, firm characteristics, the external business environment, the influence of economic and social policies, and

business strategy, and their impact on business strategy and growth. Companies' decisions on what to do and where to go are affected by external influences, as stated by Pearce et al. (2013). The remote environment (economic, social, political, technological, and ecological), the industrial environment (barriers to entry, supplier power, buyer power, competitive rivalry, and availability of substitute products), and the operational environment (competition, lending institutions, customers, the labour market, and suppliers) are the three external factors. Public sector policy, social and cultural variables, economic features, and the participation of linked organisations are all examples of external factors (Sandra & Purwanto, 2015).

- i. Financial service infrastructure improvements, including the ease of investment and savings, market access, billing and payment services, and general support for execution of trade transactions are all examples of i. Aspects of Government Policy that Friedrich (1969) cites in (Agustino, 2008).
- ii. Considerations of Society, Culture, and the Economy: There are positive and bad results from considering social, cultural, and economic factors. They affect people in positions of power in both governments and MSME communities. The economy, and notably micro, small, and medium-sized enterprises (MSMEs), is a target of these three programmes. There are many repercussions of business activity, including wasteful use of natural resources and diminished prospects for neighbouring communities. Changes in population, health, lifestyle, customs, and other social structures are just some of the social, cultural, and economic elements that can have a negative impact on a society. Furthermore, this feature is good for the public good. Investments that boost locals' incomes, modes of transportation, access to

clean water and energy, and connectivity to other communities are all fair game (Kasmir and Jakfar, 2003).

- iii. There is a connection between the roles of linked institutions and the ways in which SMEs might employ them to advance their operations. Financial institutions include banks, credit unions, stockbrokers, asset managers, equity investors, venture capitalists, cooperatives, insurance providers, mutual funds, pawnshops, and more. Therefore, banks and other financial organisations can be seen as intermediaries between those in need of financial resources and those with financial resources to lend (Pearce et al., 2013). In addition, the company's performance may be influenced by external variables. The elements of competition, institutions, culture, and society all have a role.

Small and medium-sized enterprises (SMEs) have the potential to boost the economy as a whole, but they are hampered by both internal and external factors. Limitations in working capital, human resources, productivity, and scientific and technological expertise are common themes among the challenges that micro, small, and medium-sized enterprises (MSMEs) confront worldwide (Lubis & Junaidi, 2016). The key issues, which have an effect on the limited access to funds from financial institutions, are managerial capability and capital factors (Matoenji et al., 2021).

Strategic planners feel that a company's overarching philosophy may be distilled into actionable statements via a well-articulated business strategy. According to strategic planners (Pearch & Robinson, 2007), a company's long-term strategy stems from its attempts to identify its competitive advantage on the basis of generic plans. Attempting to follow cost-effective industry norms. In order to keep overhead down, savvy business leaders take advantage of savings in areas like customer care, marketing, R&D, and staff tenure to cut costs elsewhere. Next, companies should aim

to differentiate (differentiate) their goods and services in a number of ways (including but not limited to design, brand image, technology, distinctive features, customer service, and distribution). Consumers are less concerned with pricing when purchasing a differentiated product, entry barriers are significant, and the product has a commanding market position relative to substitutes. Then, MSME actors typically employ a business strategy that places a premium on cost savings or product differentiation in order to meet the unique needs of a variety of industries and consumers.

Meeting client needs is the foundation of a focused business strategy, especially for micro, small, and medium-sized enterprises (MSME) with narrow product offerings. This was done so that consumer goods wouldn't be at risk from advertising competitions and a flood of new products hitting the market. The generic strategy developed by Porter (1980) is utilised in addition to the aforementioned three business strategies to address the five or five forces that influence the industry.

The term "performance" is used to describe how much a corporation has accomplished in a certain time frame. The success or failure of a business is crucial to its future. The company has four main goals: survival, benefit acquisition, performance enhancement, and performance enhancement. If a business wants to succeed, it needs an entrepreneurial mindset, strong management skills, and innovative approaches to the market. Various metrics such as sales, profitability, return on capital, turnover rates, and market share serve as key performance indicators for assessing the overall performance of a company (Suci, 2009).

Talking about the role and performance of MSMEs, especially the service sector and the creative industry in Indonesia, Based on the findings of the 2020 Creative Economy OPUS report, it has been observed that the creative economy sub-sector in