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CORPORATE STRATEGY BASED ON BUSINESS ENVIRONMENT MACRO AND MICRO TO ACHIEVE BUSINESS PERFORMANCE SME (SMALL AND MEDIUM ENTERPRISES) BUSINESSES IN WEST JAVA, INDONESIA DURING THE COVID-19 PANDEMIC

Nurul Hermina^{1}, Nilawati², Apri Damayana Marbun³*

Widyatama University, Bandung, Indonesia

nurul.hermina@widyatama.ac.id¹,

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ABSTRACT:

In December 2019, in China a corona virus was discovered that has spread very quickly throughout the world. In March 2020, WHO declared corona virus or COVID-19 as a pandemic, not only health problems, but also the world is experiencing severe economic pressures. Indonesia with an occupation of 265 million people cannot be separated from this economic pressure. The most affected sector is the Small and Medium Enterprises (SMEs) sector. Not a few SMEs have to close their businesses because they are unable to cover operational costs. It's been almost a year gone by, but the pandemic hasn't shown it's coming to an end. The second wave of the pandemic is even felt more severely than the first wave. However, the economy must keep moving. The SME sector plays an important role in pushing the national economic movement. One of the efforts that can be done is to improve the business performance of SMEs during the COVID-19 pandemic through the development of corporate strategies by paying more attention to the external environment both macro and micro. This research was conducted to examine the influence of macro and micro external environment on business performance through the Company's Strategy on SME Businesses in West Java, Indonesia during the COVID-19 Pandemic. To answer the objectives, data collection has been conducted through questionnaires by collecting as many as 138 SMEs in West Java. The results found that there is a significant influence from the external environment of Macro and Micro on Business Performance through the Company's Strategy on SME Businesses in West Java, Indonesia during the COVID-19 Pandemic. These results

can be utilized by policy makers to accelerate the recovery of SMEs by encouraging the improvement of SME performance through a better understanding of the external environment, especially the micro external environment.

INTRODUCTION

Coronavirus has been declared a pandemic by whom in March 2020 and caused adverse effects not only health, but also severe economic pressures including Indonesia. Various sectors were hit by this condition. The most affected sector is the Small and Medium Enterprises (SMEs) sector. Not a few SMEs have to close businesses because they are unable to cover operational costs. It's been almost a year gone by, but the pandemic hasn't shown it's coming to an end. The second wave of the pandemic is even felt more severely than the first wave. However, the economy must keep moving. If the economy slows down, then the threat of poverty will hit. This can be seen from the national inflation data in 2020 only around 3%, economic growth in the range of -2%, credit growth weakened in November 2020 to only 1.39%. (Bank Indonesia). The economic crisis caused by COVID-19 has an impact on family and personal financial condition. Research conducted by Inventure-Alvara on 1121 Indonesians spread throughout Indonesia, resulted in a 67.6% reduction in income, and a 57.6% decrease in savings. The results of in venture research also convey that in 2021, the industry in Indonesia will experience drastic changes both mega (Politics, technology, social), Macro (competition) and Micro (Customer). The SME sector plays an important role in encouraging national economic movements. One of the efforts that can be done is to improve the business performance of SMEs during the COVID-19 pandemic through the development of corporate strategies by paying more attention to the external environment both macro and micro. This research was conducted to examine the influence of macro and micro external environment on business performance through the company's strategy on SME businesses in West Java, Indonesia during the COVID-19 Pandemic.

LITERATURE REVIEW

David and David (2015) states that the business environment factor for all organizations will become more uncertain at all times both from the degree of complexity and the degree of change that exists in the external environment of the organization. A number of factors that must be considered by the company include economic, technological, political, legal, regulatory and socio-cultural pressures. Based on understanding the business environment of the company can be more focused in setting the priorities of the company's strategy. Some alternative strategies that can be pursued by the company, among others advanced integration, reverse integration, horizontal integration, market penetration, market development, product development, related diversification, un-related diversification, savings, divestment, and liquidation. The company can run. Combination of several strategies tailored to existing resource capabilities. Furthermore, David and David (2015) stated that another important strategy evaluation activity is measuring organizational performance. How well the balance of corporate investment between slow-growing and fast-growing markets, how major competitors tend to respond to

certain strategies, what is the relationship between the company's internal and external key factors. Some parameters used to measure the company's performance include revenue, profit and Return on Investment (ROI). David & David (2015:245) stated that to establish the key factors of success, the company must understand the strengths and weaknesses of its competitors, including Market Share factors, Product Quality Financial Position, Consumer Loyalty, Production Capacity, Customer Service, Competitive Prices and Management Experience. Nurul et al. Research Results (2018) on 56 respondents of small and medium enterprises (MSMEs) throughout Indonesia stated that the business environment has no significant impact on business performance; however, the business environment will improve business performance through increased competitive advantage. Kang & Diao (2020) goals – This study aims to identify appropriate strategies and actions adopted by business-to-business companies to address the on-going COVID-19 crisis. One of the recommended strategies is through product development through product line expansion to meet urgent needs and adapt products proactively. Varelas and Apostolopou researched (2020) on 131 tourism organizations across Greece. The purpose of this research is to explore the implementation of strategic management during the economic crisis due to the impact of covid-19 pandemic. The results showed that a significant percentage of participants understood and used several strategic management procedures, and some strategies for managing the volatile environment caused by the economic crisis. Dragnić research results (2014), Research conducted on fast growing SMEs in Croatia. This research aims to expand the understanding of small and medium businesses (SMEs) as a significant driver of economic development, especially in relation to market performance, as well as internal and external impacts. The results confirmed that eight internal factors; business entity size, lifecycle stages, technology and product innovation, organizational autonomy, centralization and formalization, the role of the market, depends on the general state of the economy and less impact on the performance of SMEs.

HYPOTHESIS

The hypotheses tested in this research are as many as 5 hypotheses as follows:
Hypothesis

H₁: There is an influence of the macro external environment on the company's strategy

H₂: There is an influence of the micro external environment on the company's strategy

H₃: There is an influence of the company's strategy on business performance

H₄: There is an influence of the macro external environment on business performance through the company's strategy

H₅: There is an influence of the micro external environment on business performance through the company's strategy

More clearly, the hypothesis of this research can be described in the path diagram as follows:

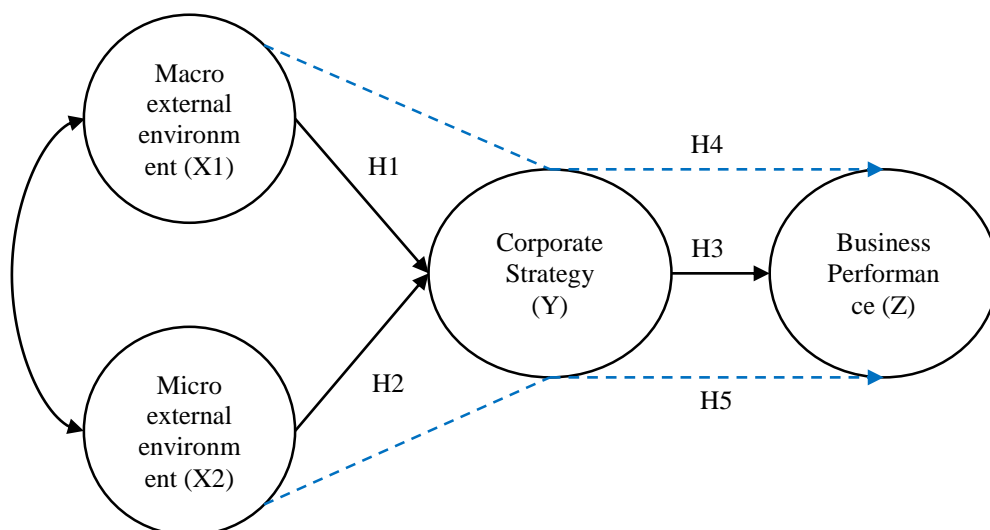


Figure 1. Research hypothesis

The calculation process is done using R application with plsmp package (Sanchez, 2013).

METHODOLOGY

This research uses primary data collected from west Java SMEs. Primary data is collected through online surveys through the site https://docs.google.com/forms/d/e/1FAIpQLScjbN6ifp-gvxdjz5_UQdmUOCuaKuwwPxIPhGndnUWW7r1pWg/viewform?usp=sf_link from December 2020 to January 2021 with a total of 138 respondents. There are four variables examined in this study, namely (1) Macro external environment, (2) Micro external environment (3) Corporate strategy (4) business performance. The method used in this research is descriptive and verificative method. Descriptive method is done by explaining the research variables based on survey data using static descriptive approaches such as average and deviation. On average, the study found that if the average was close to 5, it was concluded that respondents gave a positive assessment of each research item. Meanwhile, deviation standards make it clear how vaccinated the respondents' answers are.

Furthermore, influence analysis is used Variance Based Structural Equation Modeling (VBSEM) technique or better known as Partial Least Square-Path Modeling (PLS-PM) (Hair, Hult, Ringle, & Sarstedt, 2017). PLS-PM is an analytical technique that combines Line analysis with confirmatory factor analysis. The advantage of this analysis is that it can do modeling by paying attention to complex relationship structures and at the same time evaluating research instruments.

RESULTS AND DISCUSSION

This research was conducted by distributing questionnaires to as many as 138 SMEs in West Java, Indonesia where more than 50% spread in Bandung. Bandung is a provincial city of West Java with various fields of SMEs including Services, Fashion, Food and Beverage. The data collection found

that the majority of SMEs in West Java are engaged in services, namely 27.5%, Food & Beverage as much as 12.3%, Trade as much as 10.9% the rest include fashion, finance, energy and others. For more details, can be seen in Table 2.

Table 2. SME Business Field

UKM	Frequency	(%)
Services	38	27.5
Food & Beverage	17	12.3
Trade	15	10.9
Fashion	13	9.4
Financial	13	9.4
Energy	7	5.1
Health	5	3.6
Automotive	5	3.6
Education	5	3.6
Fitness Center	3	2.2
Convection	3	2.2
Property	3	2.2
Insurance	2	1.4
Manufacture	2	1.4
Plantation	2	1.4
Coffee Shop	1	0.7
Expert	1	0.7
Pharmaceutical	1	0.7
Security	1	0.7
Media	1	0.7
Total	138	100.0

Measurement model

The initial stage in modeling the influence of macro external environment and micro external environment on SME business performance through the company's strategy during the Covid-19 pandemic in West Java is to evaluate research instruments. The main requirements that must be met by research instruments are valid and reliable. Validity seen from the lowest loading factor should be 0.50 and reliabilias seen from the combined reliability of cornbach's alpha (alpha), composite reliability (CR) and also average variance extracted (AVE). Cronbach's alpha and composite reliability values should be greater than 0.700 and AVE is expected to be greater than 0.50 (Hair, Ringle, & Sarstedt, 2011); (Hair, Matthews, Matthews, & Sarstedt, 2017); (Henseler, Ringle, & Sinkovics, 2009); (Hair, Matthews, Matthews, & Sarstedt, 2017). This research uses instruments in second order format that has variable structure, dimensions and items. So that the measurement model uses a second order measurement model. The first order model is displayed in Table 3 and the second order model in Table 4.

Table 1. First Order Measurement Model

Latent variable	Item	Loading	R2	Mean	SD
Political and regulatory conditions (X1.1) K=4 Alpha=0.818 CR=0.882 AVE=0.651					
	Stability Government/Political stability	0.85	0.72	3.79	1.04
	Regulation (Regional Regulations, Ministerial Decrees)	0.92	0.84	3.75	1.03
	Taxation regulations	0.71	0.51	3.64	0.96
	Social welfare policy	0.74	0.55	3.61	0.98
Economic conditions (X1.2) K=8 Alpha=0.179 CR=0.803 AVE=0.342					
	Economic growth rate	0.71	0.51	3.97	1.02
	Inflation Rate	0.63	0.40	3.75	0.90
	Interest Rate	0.66	0.44	3.58	0.96
	Consumption patterns	0.63	0.39	3.70	1.05
	Unemployment rate trend	0.39	0.15	4.20	0.93
	Foreign currency market	0.41	0.17	3.45	0.93
	People's tendency to shop	0.65	0.42	3.33	1.27
Social and cultural conditions (X1.3) K=8 Alpha=0.789 CR=0.845 AVE=0.413					
	Lifestyle changes	0.67	0.44	3.97	0.93
	Buying habits	0.59	0.35	3.49	1.21
	Attitude towards business/employment	0.58	0.33	3.62	0.87
	Attitude towards saving	0.71	0.50	3.51	1.06
	Social security programs	0.71	0.50	3.36	0.97
	Low trust among the community	0.67	0.45	3.25	0.89
	Distribution of income (change of priority in spending money)	0.76	0.57	3.64	0.93
	Customer in a condition has fear: pain, economic recession, etc. (Fear Customer)	0.39	0.16	4.08	0.83
Technology conditions (X1.4) K=4 Alpha=0.780					
	New technology (Internet, Digital Technology, Financial technology, Big Data)	0.74	0.55	4.46	0.70

CR=0.859 AVE=0.601	Government and industry efforts to use technology	0.79	0.62	3.94	0.90
	Mobile Technology Development	0.82	0.67	4.35	0.70
	Increased productivity through automation activities	0.75	0.56	4.03	0.83
Legal condition (X1.5) K=3 Alpha=0.805 CR=0.885 AVE=0.720					
	Competition laws	0.83	0.69	3.49	0.80
	Employment law	0.87	0.76	3.55	0.97
	Consumer protection laws	0.85	0.71	3.56	0.90
Environmental factors (X1.6) K=3 Alpha=0.803 CR=0.884 AVE=0.717					
	Environmental laws	0.83	0.69	3.49	0.88
	Laws on the use of environmentally friendly products	0.87	0.76	3.39	0.88
	Government regulations on environmental management efforts and environmental monitoring	0.84	0.70	3.31	0.93
Competition factors (X2.1) K=7 Alpha=0.816 CR=0.864 AVE=					
	Product Quality	0.70	0.49	4.17	0.72
	Consumer loyalty	0.69	0.47	3.86	0.98
	Relatively cheaper price competition	0.68	0.46	4.14	0.77
	Company's Financial Position	0.68	0.46	3.57	1.02
	Customer service	0.75	0.57	3.93	0.94
	Promotion (Advertising)/social media	0.75	0.56	4.25	0.82
	E-commerce	0.58	0.34	4.31	0.81
Customer factor (X2.2) K=4 Alpha=0.720 CR=0.828 AVE=0.478					
	Customized products (Customization)	0.65	0.43	3.88	0.89
	Cheaper price with good quality (Provide value)	0.82	0.68	4.20	0.77
	Responsive service	0.86	0.73	4.26	0.71
	Want many variants/features of the product	0.60	0.36	4.09	0.77

Concentration growth strategies (Y1) K=6 Alpha=0.861 CR=0.897 AVE=0.550					
	Forward integration	0.68	0.46	3.54	0.90
	Backward integration	0.77	0.59	3.46	0.86
	Horizontal integration	0.84	0.70	3.49	0.86
	Market penetration	0.76	0.57	3.78	0.82
	Development pas r (Market development)	0.82	0.67	3.88	0.87
Diversified growth strategy (Y2) K=2 Alpha=0.656 CR=0.853 AVE=0.592	Product Development	0.75	0.56	3.93	0.87
	Related diversification	0.87	0.76	3.82	0.86
Retrenchment (Y3) K=3 Alpha=0.548 CR=0.768 AVE=0.744	Unrelated diversification	0.86	0.73	3.46	0.89
	Turn around	0.72	0.52	3.82	0.89
	Divesture	0.76	0.58	3.20	1.03
	Liquidation	0.68	0.46	3.08	1.08
Business Performance (Z) K=3 Alpha=0.880 CR=0.926 AVE=0.807					
	Revenue/sales growth	0.90	0.81	2.95	1.04
	Profit growth	0.92	0.84	2.80	1.00
	Market share growth	0.88	0.77	2.93	0.98

*) K: many valid and reliable items

Table 3 presents all items can be categorized as valid. There are some items with a loading value of less than 0.50 but a composite reliability value (CR) greater than 0.700 (Hair et al., 2014) so that the item can be maintained. These items are (1) Trends in the unemployment rate, (2) Foreign currency markets and (3) Customers in fear: pain, economic recession, etc. (Fear Customer). So in this case all items are declared valid and reliable. In the measurement process phase two also provides the same kesimulan that all dimensions are declared valid and reliable in measuring the vairabel penelitin with a loading factor value greater than 0.500 and a reliabilitas coefisein greater than the minimum limit.

Table 4. Second Order Measurement Model

Latten	Dimensions	Loading	R ²	Mean	SD
Macro External Environment L=6 CR= 0.863					
	Political and regulatory conditions (X1.1)	0.78	0.61	3.70	1.00
	Economic	0.75	0.56	3.67	1.01

AVE=0.515	Conditions (X1.2)				
	Social and cultural conditions (X1.3)	0.79	0.62	3.61	0.96
	Technological Conditions (X1.4)	0.56	0.31	4.20	0.78
	Legal condition (X1.5)	0.70	0.50	3.53	0.89
	Environmental Factors (X1.6)	0.70	0.50	3.40	0.90
Micro-Environment L=2 CR=0.894 AVE=0.809					
	Competition factor (X2.1)	0.94	0.88	4.03	0.87
	Customer Factor (X2.2)	0.86	0.74	4.11	0.79
Corporate Strategy L=3 CR=0.865 AVE=0.684					
	Concentration growth strategy (Y1)	0.96	0.92	3.68	0.86
	Diversified growth strategy (Y2)	0.73	0.53	3.64	0.88
	Retrenchment (Y3)	0.78	0.60	3.37	1.00

*) L: many dimensions are valid and reliable

Based on the test results of the instrument can be concluded both items or dimensions valid and reliable so that the conclusions obtained in this research is expected to bring valid results reliable.

Influence modeling

There are five hypotheses in this study related to the influence of macro and micro environments on business performance through the implementation of SME strategies on SME businesses in West Java, Indonesia during the COVID-19 pandemic. The amount of the complainant is rerenstated by the koefisen value of the path of each latent varaibel with one arrow. The assessment of parmaeter influence is done by ordinary least square (OLS) method and hypothesis testing is based on bootstrap method (Hair, Ringle, & Sarstedt, 2011). A p-value of less than 0.05 states the hypothesis of acceptable influence.

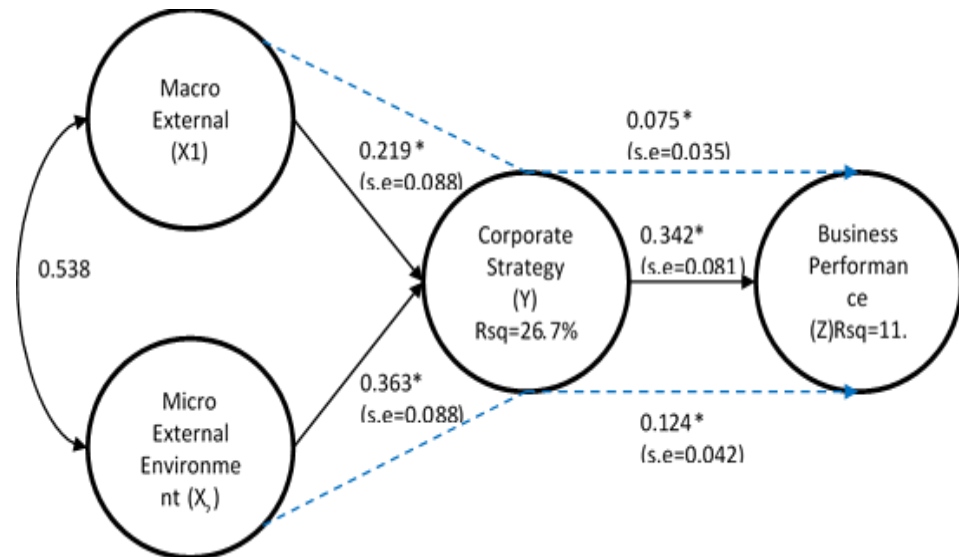


Figure 2. Macro and Micro Environmental Influence Model on Business Performance Through Corporate Strategy on SME Businesses (Small and Medium Enterprises) In West Java, Indonesia During the COVID-19 Pandemic

Note: s.e: standard error estimate; full line: direct effect; dash line: indirect effect

Table 5. The influence of macro and micro environment on business performance through the company's strategy on SME businesses in West Java, Indonesia during the COVID-19 pandemic

Hypothesis	Path	Estimate	Std. Error	t value	p-value	Decision
H1	Macro external environment (X1) → SME strategy (Y)	0.219	0.088	2.480	0.014	Supported
H2	Micro external environment (X2) → SME strategy (Y)	0.363	0.088	4.110	0.000	Supported
H3	SME strategy (Y) → SME business performance (Z)	0.342	0.081	4.250	0.000	Supported
H4	Macro external lingkungan (X1) → SME strategy (Y) → SME	0.075	0.035	2.141	0.016	Supported

	business performance (Z)					
H5	Micro external lingkungan (X2) → SME strategy (Y) → SME business performance (Z)	0.124	0.042	2.953	0.002	Supported

Hypothetical test results found that all hypotheses were accepted at a rate of 5% significance. All exogeneous variables of macro external environment and micro external environment have a positive effect on SME strategy in West Java, Indonesia. The large influence of the macro external environment of 0.219 standard deviation and the large influence of the micro internal environment on SME strategy of 0.363 with a large coefficient of determination of 26.7%. Furthermore, sme strategy variables have a positive effect on sme business performance with a large influence of 0.342 standard deviation and coefisein determination of 11.7%. The study also found that the influence of endogenous variable SME strategies had an effect on SME business performance at a significance of 5%. This research model is a full mediating research model so that it is possible to test the hypothesis of indirect influence of macro external environment variables and micro external environment positively affect the business performance of SMEs in West Java, Indonesia through strategies developed by SMEs. The results of the analysis found that macro external lingkungan exerted an indirect influence of 0.075 standard deviation and the influence of micro external lingkungan variables of 0.214 standard deviation. Hypothetical testing with Sobel test statistics found that there was a significant indirect influence on the 5% significance rate.

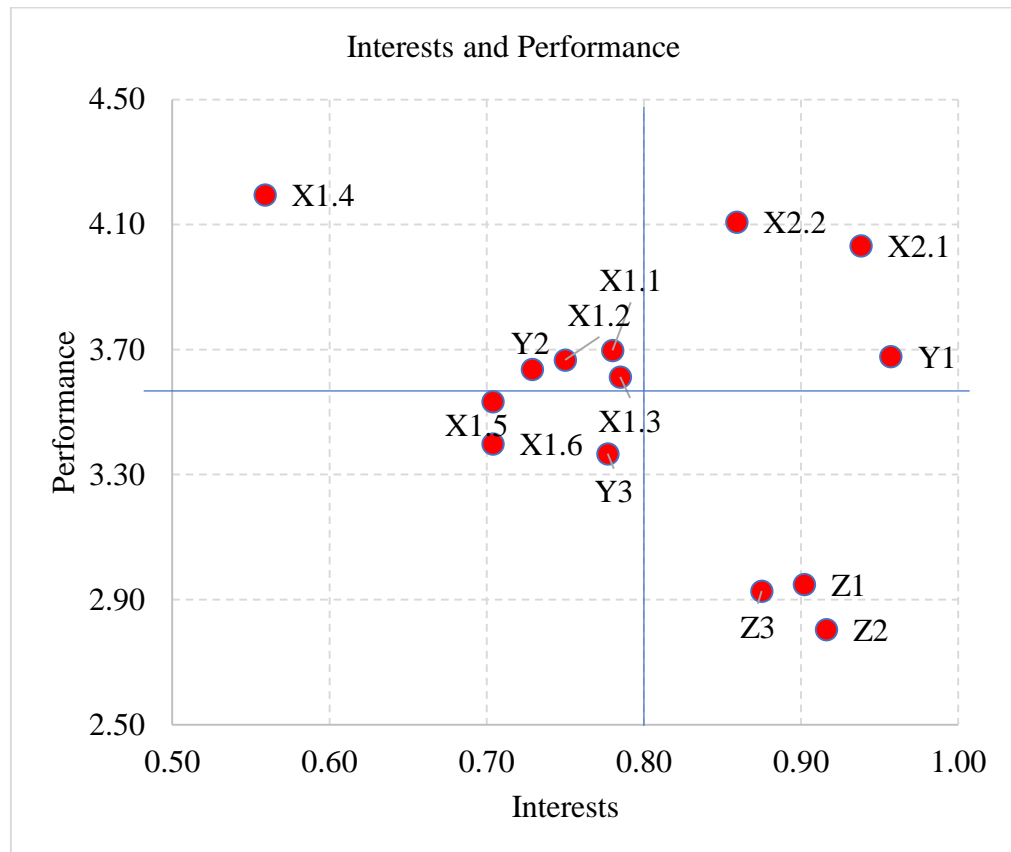


Figure 3. Analysis and Dimension Performance

The results of the analysis of the interests and performance of each dimension that measures the research variables of the macro external environment, micro external environment, SME corporate strategy, and SME business performance. The results of the analysis found all dimensions for business performance variables have high importance but performance is still low. This dimension should be the focus of attention in improving the performance of SMEs. Those dimensions Are Revenue/Sales Growth, Profit Growth and Market Share Growth. Such efforts can be made to understand the macro external environment and micro external environment and develop the most appropriate corporate strategy during the COVID-19 pandemic.

CONCLUSION

The main purpose of the study was to identify whether micro and macro link factors had an impact on the company's strategy and its impact on business performance during the COVID-19 pandemic in West Java. The results found that micro and macro environmental factors have a significant influence on SME company strategies and indirectly have a positive impact on the business performance of SMEs in West Java during the COVID-19 pandemic. In more detail it was found that the micro external environment contributes more to the SME Company's strategy compared to the macro external environment these results show that during the COVID-19 pandemic, competitor factors and customer factors become important in designing the company's strategy and also have an impact on the business performance of SMEs. The findings of

this research can be used as a reference in accelerating the recovery of SMEs in West Java where during the COVID-19 pandemic experienced a very significant decrease in performance. Knowing who the competitors are, what products are developed, the extent of product quality and knowing customer quality can serve as the basis for developing strategies that are most appropriate during the COVID-19 pandemic.

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