

The Influence of External Environment and Resource Capability on the Hybrid Business Strategy and Business Performance

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Abstract: This research has a purpose to examine the role of hybrid business strategy in mediating the influence of external environment and the capability of resources on business performance. The structural equation modelling (SEM) based on AMOS is the analysis technique that was used to examine the hypothesis in this research. A total of 135 people were selected as sample with the criteria as follows: is a small and medium enterprise in Bali that has operated for at least one year. The research results show that (1) the external environment has a positive and significant influence on business performance; (2) resource capability has a positive and significant influence on business performance; (3) external environment has a positive and significant influence on the implementation of hybrid strategies; (4) resource capability has a positive and significant influence on the implementation of hybrid strategy; (5) the implementation of hybrid strategy has a positive and significant influence on business performance; (6) hybrid business strategy is able to significantly mediate the influence of external environment on business performance; (7) hybrid business strategy also significantly mediates the influence of resource capability on business performance. The theoretical implications attained from this research is that the business strategy concept can be developed from various available business strategy choices such as innovation strategy, service strategy, differentiation strategy, partnership strategy, and promotion strategy. Meanwhile, the practical implication and recommendation in this research is that marketers are expected to be able to develop other hybrid business strategies by integrating or combining several available business strategy choices in line with the external environment conditions and the capability of the resources owned by the SME.

1 INTRODUCTION

The hybrid business strategy is the concept of implementing several available business strategy choices, such as a combination between the innovation and promotion business strategy; between service and partnership business strategy; between differentiation and promotion business strategy; and other forms of combination. The hybrid business strategy is implemented in response to the opportunity and challenge from the external environment and the condition of the resources owned by a business including SMEs. SMEs need to implement the hybrid business strategy to maintain and develop their business.

The development of SMEs can be assessed from the increase in performance, which can be in the form of increase in sales, increase in market share, or even increase in profit which is largely determined by the external condition of the

environment. External environment, which comprises of economic condition, competition, government regulation, availability of suppliers, and the preference of the market, will determine the performance achievement of the SME. If the external environment condition provides opportunities, the performance of the SME will also increase, vice versa. Aside from the external environment condition, resource capability also determines the performance achievement of SMEs. If the capability of the human resource, capital, information technology ability, and the management ability are good, the performance of the SME will increase.

Other than the two factors above, SME performance is greatly determined by the business strategy implemented. If the business strategy implemented is suitable with the external and internal condition of the business, this would result in an increase in performance. There are several

business strategy choices that can be implemented, among others, the innovation strategy, service strategy, differentiation strategy, cost leadership strategy, focus strategy, partnership strategy, and promotion strategy. The business strategies can be implemented independently or in a combined manner.

The phenomena of combining a number of strategies have been implemented by SMEs in Bali. The SMEs in Bali have already implemented business strategies, among others, partnership strategy (Yasa et al., 2013), differentiation strategy (Yasa et al., 2014), business strategies which encompasses innovation strategy, differentiation strategy, service strategy, and partnership strategy (Yasa et al., 2017), and the Blue Ocean Strategy (Yasa et al., 2017). The research results show that business strategy does have a positive and significant influence on the performance achievement of SMEs in Bali. Even though the SMEs in Bali have already implemented several business strategies, they are not yet able to provide maximum results. This is shown from the annual sales data, one of the performance measurements of SMEs, which does not show an increasing year to year trend. Thus, the SME performance is not yet optimal, and there is a need to implement the hybrid business strategy which is able to drive the SME towards an increase in business performance.

Based on the business issue faced by SMEs in Bali and the lack of previous studies that review hybrid business strategies while considering the external environment and capability of the resources owned by the business, with the complement of several empirical review results that are related with the existing issue, the motivations of this research are: 1) to review available business issues; 2) to develop a suitable and comprehensive hybrid business strategy implementation model to increase SME performance; 3) to explain the role of business strategy in mediating the influence of external environment condition and resource capability on business performance.

Hence, the aim of this research is to explain the influence of external environment, resource capability, and hybrid business strategy on the business performance of SMEs in Bali.

2 THEORETICAL REVIEW AND RESEARCH HYPOTHESIS

Industrial competition is a very dynamic external

environment. Industrial competition is the rivalry between two or more similar industries that provide products, service, price, distribution, and promotion to customers (Adnan et al., 2016). The industrial competition intensity is dependent on the number of competitors in the same market, technological advancement frequency, new product release frequency, decrease in price, packet agreement provided to customers among competitors, the change in government relation and policy and tariff cut (Chong and Rundus, 2004). Industrial competition occurs in terms of cost, resource dependency, managerial practice, entrance difficulties, and implementation of technology. The industry's external environment factors which act as the instigator of industrial competition are: (1) intensity of business competition, (2). threat of new entrants, (3). The bargaining power of suppliers, (4). The bargaining power of buyers, and (5). The threat of substitute products (Metts, 2007; Huang and Lee, 2012).

Companies that have and develop their resources and internal capabilities to produce unique and valuable products to customers will be able to increase their competitive position and produce better performance than their competitors (Huang and Lee, 2012; Bobe and Kober, 2015).

Business performance is the indicator that is usually used to measure the success of a company in achieving their goal or the company's ability to provide satisfaction to customers and win the market through the products and services they offer. Business performance is generally measured by using the indicators of financial and market performance. Market performance is measured with the market's ability, total growth in sales, and total profitability. There are 4 dimensions of business performance used in this research, namely, relative profitability, return on investment, customer retention and total sales growth.

Likewise, there are variances in the indicators to measure performance. For example business performance is measured with financial performance indicators such as return on investment or ROI, return on equity or ROE (Abdifatah, 2014; Al-Najjar, 2014; Kilic et al., 2015), income growth, profit size (Pinho et al., 2014) and marketing performance such as sales growth and profitability (Lee and Yang, 2011), market share (Kilic et al., 2015; Zehir et al., 2015; Prajogo, 2016), customer satisfaction and total sales (Kilic et al., 2015).

In this research, the business strategy theory (Porter, 1985) and RBV is used. According to the industrial competition theory (Porter), competition

intensity in an industry will increase if the number of companies in the industry increases. This condition could cause increasing performance to be more difficult. Likewise, the capability of the resources owned will surely have a significant influence on the competitive ability and performance achievement. Thus, implementing a suitable and comprehensive hybrid business strategy (innovation strategy, differentiation strategy, service strategy, partnership strategy, and promotion strategy) will be able to increase the company's performance (Kwak and Kim, 2016).

The conceptual framework which explains the correlation between variables is formulated and displayed in picture 2.1.

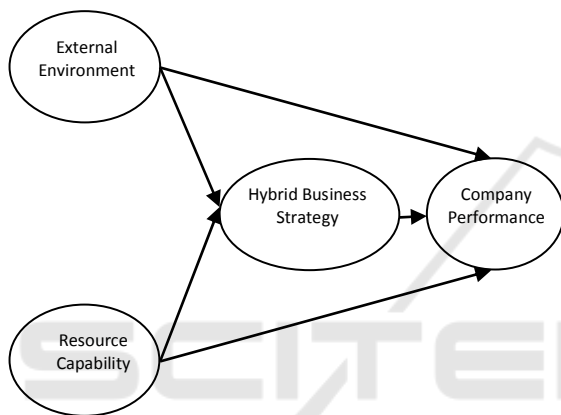


Figure 1: Research Conceptual Framework.

Research Hypotheses: Based on the conceptual framework, the research hypotheses are formulated as follows:

- H1: External environment has a positive and significant influence on company performance
- H2: Resource capabilities have a positive and significant influence on company performance
- H3: External environment has a positive and significant influence on hybrid business strategy
- H4: Resource capability has a positive and significant influence on hybrid business strategy
- H5: Hybrid strategy has a positive and significant influence on company performance

3 RESEARCH METHOD

This research is conducted on the SMEs in all regencies/cities in Bali Province, including: Denpasar City, The Regency of Gianyar, Bangli, Klungkung, Karangasem, Buleleng, Jembrana, Badung, and Tabanan.

The subjects in this research are the SMEs from the commerce sector, agricultural industry, non-agricultural industry, and other services in Bali Province. The objects in this research are the business performances influenced by the external environment strategy, capability of the resources and the hybrid business strategy.

There are three variables studied in this research, namely: 1) the exogenous variable: external environment (X_1) and resource capabilities (X_2); 2) the Intervening variables: hybrid business strategy (Y_1); and 3) Endogen Variable: business performance (Y_2).

The population in this research are all the SMEs that operate in the commerce sector, agricultural industry, non-agricultural industry, and other services in Bali. The samples in this research are 135 SMEs in Bali Province.

The indicators of the external environment, resource capabilities, hybrid business strategy, and business performance is measured from the perception of the owners or SME managers, as the ones who formulate strategies, by using the five level Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = agrees enough, 4 = agree, 5 = Strongly agrees. This research utilized primary data. The data collection technique is conducted through two methods, namely through questionnaire and interview on the SME owners or managers and SME observer/academician.

The instruments used has its validity and reliability tested in order to ascertain that it can measure what it is meant to and to determine the consistency of the responses given by the respondents. The instrument validity test is conducted using Pearson's product moment correlation technique with a minimum limit $r = 0,3$. The instrument reliability test is conducted by calculating the Cronbach's Alpha reliability coefficient. With a minimum limit of the alpha coefficient $> 0,6$. Both tests utilize the SPSS computer program.

The causal relationship formulated in this research is a complex model; in which the variables in the model have a recursive relationship. These forms of causal relationships require analysis tools that are able to explain them. Thus, the inferential

statistic method used in this research is the Structural Equation Modelling (SEM).

4 RESULTS AND DISCUSSION

The research data are attained through questionnaires which have been distributed to 135 respondents. After attaining the data from the questionnaire, the data are analyzed using the SEM analysis.

Hypothesis Test Results: The hypothesis test is conducted using the t-test on each direct influence path separately. Table 1 shows the direct influence hypothesis test results.

Table 1: Direct Influence Hypothesis Test Results.

Independent Variable	Dependent Variable	Path Coefficient	p-value	Description
External Environment (X1)	Company Performance (Y2)	0,079	0,681	Insignificant
Resource Capabilities (X2)	Company Performance (Y2)	0,470	0,099	Significant
External Environment (X1)	Hybrid Business Strategy (Y1)	0,097	0,163	Insignificant
Resource Capabilities (X2)	Hybrid Business Strategy (Y1)	0,292	0,014	Significant
Hybrid Business Strategy (Y1)	Company Performance (Y2)	1,067	0,003	Significant

Research Result Discussion: From the validity and reliability calculation results, it can be concluded that each indicator is capable of measuring the variable and the tested concept, and between one concept and the other, there is an independent nature/ characteristic. Based on the confirmatory factor analysis (the goodness of fit test and the weighted factor significance test), there are evidence that the observed variables reflect the factors being analyzed. With the overall model confirmatory test (goodness of fit test and the weighted regression causality test), there is evidence that the overall goodness of fit and the causality relationship formulated can be examined.

The Influence of External Environment on Company Performance of SMEs in Bali Province: Based on Table 1, the external

environment variable is determined to have an insignificant influence on the company performance of SMEs. This is proven with a p-value of 0,681 which is greater than 0,05. The positive relationship between the external environment variable and the company performance of SME is shown by an inner weight value of 0,079. This result can be interpreted as more or less even due to a better external environment, it will not result in the increase in company performance of SMEs in Bali.

In this research, the indicators of external environment is formed by the indicators of the economic condition variable, government regulation support, conducive competition environment, development of information technology, and the development of the people's socio-culture, does not have an important role in the increase in the business performance of SMEs in Bali. This research result is consistent with the condition faced by the SMEs in Bali. Company performance of SMEs in Bali is dependent on the external environment condition.

The Influence of Resource Capability on the Company Performance of SMEs in Bali Province: Table 1 shows that resource capability has a significant influence on the performance of SMEs. A p-value of 0,099 which is less than 0,10 is the evidence of this result. Based on the inner weight of 0,470, the relationship between resource capability and company performance is positive. This result means that with higher resource capability, the company performance of SMEs in Bali will also be higher.

This research result is consistent with the actual conditions in the field, in which a higher resource capability makes the company performance of SMEs higher too. In this research, the indicators of resource capability, which are formed by the indicators of human resource, capital resources, information technology resources, and management resource, have an important role in the increase in SME's company performance.

The Influence of External Environment on the Implementation of Hybrid Business Strategy in SMEs in Bali Province: Table 1 shows that the external environment has a significant influence on the implementation of hybrid business strategy. This result is proven by a p-value of 0,163 which is greater than the 0,05. The relationship between the external environment variable and the hybrid business strategy implementation variable shows that there is a positive relationship indicated by the inner weight of 0,097. This means the better the external environment condition, the more intensive

the implementation of the hybrid business strategy in Bali.

This research result shows that the implementation of the hybrid business strategy will be more intensive depending on the external environment condition. In this research, the indicators of external environment, which is formed by the indicators of a good economic condition variable, supportive government regulation, conducive competition environment, fast IT development, and a good social development of the people do not have a significant role in increasing the intensity of the hybrid business strategy implementation.

The Influence of Resource Capability on the Implementation of Hybrid Business Strategy in the SMEs of Bali Province: Table 1 shows that the resource capability has a significant influence on the hybrid business strategy. This is proven by a p-value of 0,014 which is less than 0,05. The relationship between the variables of resource capability and hybrid business strategy shows that with a higher resource capability, there will be a more intensive implementation of hybrid business strategies by SMEs in Bali.

This research result is in line with the actual conditions in the field, in which with a higher resource capability, the implementation of the hybrid business strategy will become more intensive. In this research, the indicators of resource capability, which are formed by the indicators of human resource variable, capital resource, IT resource, and management resource, have an important role in the increase in intensity of hybrid business strategy implementation.

The Influence of Hybrid Business Strategy on the Company Performance of SMEs in Bali Province: Table 1 shows that the implementation of Hybrid Business Strategy has a significant influence on company performance. This result is proven by the p-value of 0,03, which is less than 0,05. The relationship between the implementation of the hybrid business strategy and the company performance is positive which is indicated by an inner weight value of 1,067. This result can be interpreted as the higher the intensity of the hybrid business strategy implementation, the higher the company performance of the SME in Bali.

This research result is consistent with the actual condition in the field in where a more intensive implementation of hybrid business strategy will increase the company performance of SMEs. In this research, the indicators of hybrid business

strategy implementation, which are formed by the dimensions of hybrid business strategy I : service and partnership strategy, hybrid business strategy II : innovation and promotion strategy, and hybrid business strategy III : differentiation strategy, have an important role in increasing SME performance.

The Role of Hybrid Business Strategy in Mediating the Influence of External Environment on the Business Performance of SMEs in Bali:

The hypothesis test regarding the role of hybrid business strategy in mediating the influence of external environment on the company performance of SMEs using the SEM analysis for the direct and indirect influence revealed that the influence of external environment on company performance is 0,079, while the influence of external environment on company performance of SMEs through hybrid business strategy is 0,103. Thus, the hybrid business strategy has a role as the mediator in the influence of external environment on company performance of SMEs. This means that the external environment is able to positively affect hybrid business strategy in increasing the performance of SMEs.

The Role of Hybrid Business Strategy in Mediating the Influence of Resource Capability on the Business Performance of SMEs in Bali:

The hypothesis test regarding the role of hybrid business strategy in mediating the influence of resource capability on the company performance of SMEs using the SEM analysis for the direct and indirect influence revealed that the influence of resource capability on company performance of SMEs is 0,470, while the influence of resource capability on company performance of SMEs through hybrid business strategy is 0,312. Thus, hybrid business strategy is not able to mediate the influence of resource capability on the company performance of SMEs. This means that resource capability positively affects the hybrid business strategy, resulting in the increase in company performance of the SME.

Research Implication: As conveyed in the analysis and discussion, in terms of theory this research is able to reveal the influence of the latent variables; external environment and resource capability, on the hybrid business strategy (combination of several business strategies) and the company performance of SMEs variable.

This research is able to contribute recommendations to SME business practitioners (commerce sector, agricultural industry sector, non-agricultural industry, and other sectors). The

recommendations are that SMEs should maintain and strengthen the implementation of their hybrid business strategy in a comprehensive manner through several strategies such as innovation strategy, differentiation strategy, service strategy, and partnership strategy which are able to increase the company performance of SMEs.

Research Limitations: There are various limitations found in this research, especially due to the following reasons. 1) This research only gather data from the managers or SME business practitioners in Bali as respondents, thus the results cannot be used for generalization purpose. 2) The mediating variable studied is the hybrid business strategy variable of several strategies (5 business strategies) which in this research have a significant influence on the performance of the company. In other words, there is a need to think of other hybrid business strategies as the mediator variables, such as the customer relationship, cost leadership, and the blue ocean strategy. 3) Additionally, other variables that can influence the business strategy implementation can be added in, such as: management characteristics, company characteristics, and company resources especially SME entrepreneurship.

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