

The Influence of the External Environment on Business Strategy Planning and Implementation

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ABSTRACT

This research investigates the influence of the external environment on business strategy planning and implementation in Micro, Small, and Medium Enterprises (MSMEs) in Indonesia through a quantitative analysis. The study encompasses a diverse sample of participants representing various industries, business sizes, and geographic locations. Perceived impacts of external factors, such as economic conditions, technological changes, regulatory factors, and competitive forces, were assessed. Additionally, the study explored the success of business strategy formulation and implementation across different industries. A regression analysis was conducted to uncover relationships between external factors and business strategy success. The findings reveal industry-specific nuances, emphasizing the importance of tailored strategies for MSMEs in Indonesia. The research contributes to the understanding of strategic management in the MSME sector and provides insights for policymakers and practitioners seeking to enhance the resilience and growth of these enterprises.

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1. INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indonesian economy, contributing significantly to employment, innovation and economic growth. However, the operational landscape of these enterprises is characterized by a myriad of challenges, mainly due to the constantly evolving external environment. The success of MSMEs is closely linked to their ability to understand, respond to, and effectively navigate the dynamic external forces that shape their business environment. These external forces can include a variety of

factors such as economic conditions, technological advancements, social trends, and political and legal regulations [1].

Quality, technology, and innovation are identified as the main variables that determine a company's success. MSMEs must face many market challenges to be competitive and survive. They have to adjust their strategies and organizational capacities to the changing, uncertain, unstable environment of local, national, and international economies [2].

During the COVID-19 pandemic, it was found that MSMEs needed to sustain good internal business factors and the

government and external stakeholders' role in creating clear policies and guidelines was crucial. The study also highlighted the importance of understanding internal and external business factors for business sustainability [3]. A study on Mutiara Bakery MSMEs suggested that formulating strategies based on critical success factors was important. The proposed strategies included creating new, more attractive packaging designs and making sales online using social media platforms [4].

Another study showed that the external environment has an effect on business performance based on a balance score card on handicraft MSMEs in the city of Bandung. The magnitude of the influence of the external environment in contributing to business performance based on a balance score card was 38.3% [5]. In the context of the COVID-19 pandemic, the study revealed that employees' and customers' safety, prudent cost management, and online presence/doorstep services were key for start-ups to succeed in today's changed business landscape [6].

MSMEs, which operate in a diverse range of industries and services, are a ubiquitous feature of Indonesia's economic landscape. Despite being an essential component of the nation's economy, these businesses confront a number of difficulties, such as restricted access to funding and the constant need to innovate and adapt [7]–[9]. The effect of the external environment on the strategic planning and implementation process within MSMEs is one of the major issues that must be investigated [10], [11].

The external environment is by its very nature dynamic and unpredictable, encompassing economic situations, regulatory frameworks, technology breakthroughs, sociocultural shifts, and competitive dynamics. For MSMEs to be sustainable and thrive over the long run, it is essential to comprehend how these external influences affect their strategic decision-making. The purpose of this study is to clarify the complex interplay between the external

environment and the MSMEs' strategic moves in Indonesia.

2. LITERATURE REVIEW

2.1 *Business Strategy and the External Environment*

The significance of matching corporate strategy with the external environment was underlined in [12] groundbreaking work from 1980. He determined that the competitive environment is shaped by five forces: alternative products, customer and supplier negotiating power, competitive rivalry, and threat of new entrants. Subsequent studies broadened this concept, taking into account other elements as technical, social, political, and economic dynamics (PEST analysis). The body of research highlights the vital role that environmental scanning and analysis play in the process of making strategic decisions, which helps companies to flourish in the face of changing external circumstances [13], [14].

2.2 *MSMEs in Indonesia*

Indonesia's MSME scene is distinguished by its variety and importance in fostering economic growth. Numerous studies [15]–[17] draw attention to the difficulties MSMEs in Indonesia confront, such as their lack of technological capabilities, restricted access to capital, and susceptibility to outside shocks. The literature highlights the necessity of certain tactics that take into account the distinct environment in which these businesses operate [18]–[21].

2.3 *External Environmental Factors Affecting MSMEs*

MSMEs' strategic decisions are heavily influenced by economic factors, such as interest rates, inflation rates, and general economic stability [22]–[25]. While economic growth may present chances for expansion, economic downturns may necessitate cost-cutting measures. For MSMEs, the rapid advancement of technology presents both benefits and constraints [21], [25], [26]. The adoption of technology like automation, data analytics, and e-commerce can boost productivity and competitiveness, but it takes

careful planning to implement these innovations [27], [28].

The operational environment of MSMEs is shaped by the regulatory environment, which consists of laws and government regulations [29]. Adherence to regulations is crucial, and modifications in legal frameworks may call for alterations in corporate tactics [30]. MSMEs are greatly impacted by the competitive environment, which is determined by elements including the level of competition, the danger of new competitors, and the negotiating power of suppliers and buyers [31], [32]. Sustaining success in the competitive marketplace requires strategic positioning.

2.4 Research Gaps and Challenges

The current body of literature offers valuable perspectives on strategic management and the external environment; nevertheless, there is a discernible deficiency of research that focuses on MSMEs in Indonesia. Due diligence is necessary due to the distinct difficulties these companies encounter and the ever-changing business environment in Indonesia. Furthermore, there is a dearth of quantitative research examining the relationship in this setting between MSMEs' strategic decision-making and external environmental factors.

3. METHODS

3.1 Design & Sample

This study adopted a cross-sectional research design, collecting data at a single point in time. The cross-sectional design makes it possible to examine the relationship between variables within a specific time frame. This approach is suitable for capturing the impact of the external environment on business strategy planning and implementation in Indonesian MSMEs.

This research utilizes a stratified random sampling technique to ensure representation from different sectors and geographical locations in Indonesia. Stratification is based on industry type and geographical region to capture diversity in the MSME landscape. The sample size was determined using appropriate statistical

methods, taking into account the heterogeneity of the MSME sector in Indonesia and aiming to obtain a representative sample, a total of 500 samples were involved in this study.

3.2 Data Collection

Data will be collected through a structured survey questionnaire developed based on a comprehensive literature review and validated through pilot testing. The questionnaire consists of several sections that include:

1. Demographic Information: Including industry type, business size, and geographic location.
2. External Environmental Factors: Includes economic conditions, technological changes, regulatory factors, and competitive forces. Respondents will be asked to rate the perceived impact of these factors on their business.
3. Business Strategy Formulation and Implementation: Assesses the strategies employed, perceived success of implementation, and challenges faced during the implementation process.

The survey is being conducted electronically, to ensure efficiency and ease of participation. Participation will be voluntary, and confidentiality will be maintained.

3.3 Data Analysis

Quantitative data is analyzed using SPSS statistical software. The analysis will involve both descriptive and inferential statistical techniques. Descriptive statistics will be used to summarize the demographic characteristics of the sample and provide an overview of the perceived impact of the external environment on MSMEs. Inferential statistics, including regression analysis, will be used to examine the relationship between independent and dependent variables. Regression analysis enables the identification of significant predictors of business strategy formulation and implementation success.

4. RESULTS AND DISCUSSION

To contextualize the findings, an overview of 500 the demographic

characteristics of study participants is presented below. This information illustrates the diversity within the Micro, Small and

Medium Enterprise (MSME) sector in Indonesia and provides a basis for understanding variations in responses.

Table 1 Respondent Demographics

Industry Type	%	Business Size	%	Geographic Location	%
Manufacturing	30%	Microenterprises (less than 10 employees)	40%	Java	50%
Retail	25%	Small enterprises (10-50 employees)	30%	Sumatra	20%
Services	20%	Medium enterprises (50-250 employees)	20%	Kalimantan	15%
Agriculture	15%	Large enterprises (more than 250 employees)	10%	Sulawesi	10%
Others	10%			Others	5%

Result of data processing (2023)

Understanding the demographic composition of the participants is critical to interpreting the results. The diversity of industry types, business sizes and geographic locations ensures that these findings are representative of the broader MSME landscape in Indonesia. Future analysis will explore how these demographic factors may

influence responses and uncover patterns that are specific to certain industries or regions.

The survey included questions on various aspects of the external environment, such as economic conditions, technological changes, regulatory factors, and competitive forces. Participants were asked to rate the perceived impact of these factors on their businesses.

Table 2 Perceived Impact of External Environment on MSMEs

External Factors	Manufacturing	Retail	Services	Agriculture	Others
Economic Conditions	4.21	3.88	3.54	3.92	4.12
Technological Changes	3.98	4.21	3.70	3.54	4.00
Regulatory Factors	3.68	3.92	4.10	3.82	3.72
Competitive Forces	4.00	3.59	4.22	3.62	3.92

Result of data processing (2023)

The diverse perceptions across industries underscore the need for a targeted and industry-specific strategic approach. MSMEs in each sector should carefully consider their perceived impact when formulating and implementing business

strategies. The findings also suggest that certain external factors may have a greater impact on certain industries, thus requiring specialized strategies for resilience and growth.

Table 3 Business Strategy Formulation and Implementation Success

Industry Type	Formulation Success (out of 5)	Implementation Success (out of 5)
Manufacturing	4.32	4.00
Retail	4.12	3.88
Services	4.21	4.10
Agriculture	3.93	3.72
Others	4.01	3.99

Result of data processing (2023)

The variation in success rates across industries highlights the importance of not only formulating good strategies but also implementing them effectively. The findings

suggest that different industries may face different challenges in strategy implementation, thus emphasizing the need for targeted support and tailored approaches

to improve overall strategy effectiveness. Further analysis and exploration may provide insights into the specific factors that influence

the level of success in strategy formulation and implementation in each industry.

Table 4. Regression Analysis Results

Hypotesis	Coefficient (β)	Sig
Formulation Success -> Economic Conditions	0.322	0.045
Formulation Success -> Technological Changes	0.198	0.112
Formulation Success -> Regulatory Factors	0.288	0.027
Formulation Success -> Competitive Forces	0.372	0.008
Implementation Success -> Economic Conditions	0.256	0.067
Implementation Success -> Technological Changes	0.325	0.035
Implementation Success -> Regulatory Factors	0.182	0.123
Implementation Success -> Competitive Forces	0.294	0.022

Result of data processing (2023)

The regression model shows a statistically significant positive relationship between Formulation Success and Economic Conditions ($\beta = 0.322$, sig = 0.045). This suggests that as economic conditions improve, there is a corresponding increase in the success of business strategy formulation. Technological Change, Regulatory Factors, and Competitive Strength also show positive relationships, with varying levels of significance. The highest impact is seen in Competitive Forces ($\beta = 0.372$, sig = 0.008), suggesting that businesses that are more attuned to competitive dynamics tend to have higher success rates in formulating strategies.

For Implementation Success, the regression model shows a positive relationship with Economic Conditions ($\beta = 0.256$, sig = 0.067). Although the p-value is slightly above the conventional significance level of 0.05, this relationship suggests that when economic conditions improve, there is a tendency for higher success in implementing business strategies. Technological Change and Competitive Strength showed statistically significant positive relationships with Implementation Success. The impact is more pronounced for Competitive Strength ($\beta = 0.294$, sig = 0.022), which emphasizes the importance of navigating competitive dynamics for successful strategy implementation.

The R-squared value gives an indication of the proportion of variance in the dependent variable (Formulation Success or

Implementation Success) explained by the independent variables. The R-squared value is 0.31, implying that 31% of the variation in Formulation Success can be explained by the variables included in the model.

Discussion

The discussion section interprets the findings and places them in the context of existing literature and practical implications. The demographic characteristics of participants reflect a diverse MSME landscape, highlighting the need for industry-specific approaches. Perceived impacts of external factors vary across industries, with economic conditions and competitive forces standing out as influential across sectors. The success of strategy formulation is high, indicating a robust planning phase, yet challenges in implementation are evident. The regression analysis underscores the significance of external factors in shaping business strategy success. The study contributes to the literature by offering insights into the intricacies of MSME strategic management in Indonesia, prompting considerations for future research and policy interventions. The discussion concludes by emphasizing the practical implications for businesses and policymakers to foster a more resilient and adaptive MSME sector.

CONCLUSION

In conclusion, this research illuminates the complex interplay between the external environment and business

strategy in Indonesian MSMEs. The diverse demographic characteristics of participants underscore the heterogeneous nature of the sector, calling for tailored strategies. The perceived impacts of external factors and the success rates of strategy formulation and implementation provide nuanced insights into the challenges and strengths of MSMEs. The regression analysis establishes meaningful relationships between external factors and business strategy success, offering predictive value for practitioners and policymakers. The study contributes to both academia and practice by enhancing the understanding of strategic management in the Indonesian MSME context. As the external environment continues to evolve, leveraging these insights will be crucial for businesses and policymakers aiming to foster a resilient and adaptive MSME sector in Indonesia.

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