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Environmental Determination And Strategy Business as Intervening on Business Performance

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Abstract

The purpose of this study is to examine the impact of the internal and external business environment on the formulation of business strategy, the impact of business strategy on business performance, and the impact of the internal and external business environment on the performance of the Service and Creative Industry Cluster MSMEs in DKI Jakarta.

This study employs a quantitative approach to research, collecting data through observation and interviews and processing primary data derived from respondents' questionnaire responses. Using SEM-PLS, the validity test, the reliability test, outer loading, the inner model fit (R-Square), the significance test (hypothesis test), and the F-Square Test are then utilized to assess the study data. -square of 0.409 > f-square of 0.35, the Internal Environment has a moderate influence on Business Strategy. The moderate influence of the Internal Environment on the Outcome of Small and Medium-Sized Enterprises, as indicated by the F-Square value of 0.29, is accompanied by a modest effect.

The finding from this research indicates that the service and creative industry cluster MSME actors in DKI Jakarta formulate business strategies to become Prospector, Analysts, Low-Cost Defender, and Different Defender based on or have different external environmental backgrounds in terms of demography, politics/law, economic conditions, and the technology used to run their respective businesses.

Keywords: Business Performance, Business Strategy, External Business Environment, Internal Business Environment.

Introduction

It is well acknowledged that through innovation, employment, and welfare effects, entrepreneurship can serve as a potent instrument for promoting development and boosting prosperity. (Acs et al., 2008). This significantly contributes to expanding small and medium-sized businesses, the engine of economic growth and development. (Ikebuaku & Dinbabo, 2018).

Due to the strategic location of the Jakarta area as the heart of government and economics, DKI Jakarta is one of the most strategic, expansive, and diverse economic potential zones in Indonesia (especially the business, services, and trade sectors). have substantial growing activity. This is because DKI Jakarta serves as the capital of the Republic of Indonesia.(Seleim & Bontis, 2013). The relevance of intellectual capital for economic development in developing countries is highlighted. Most SMEs in these nations are typically SSBs (Subsistence Small Businesses) or MSMEs (Micro, Small, and Medium-Sized Businesses) that rely on local knowledge to compete. Various factors that influence the competitiveness of small and medium-sized enterprises (SMEs) have been investigated. For example, environment

(Eijdenberg et al., 2015); (Kumar et al., 2014) or location-dependent resources in SSB (Dubois, 2016)(Peredo & McLean, 2013). However, more research needs to be conducted on the intellectual capital mediation process because SSB has limited intellectual capital.(Gill & Mand, 2013). (Efobi & Orkoh, 2018) According to experts, the development of new entrepreneurs promotes market competitiveness, which is a crucial source of competition to stimulate economic growth. It is consistent with the findings of the hypothesis testing procedure and route description analysis undertaken by Alhamidi, Ariwibowo, Saputro, and Juriah (2021), demonstrating that the market orientation variable (X1) has a significant impact on the business operations of MSME actors (Y1). Furthermore, market orientation (X1) has a positive and statistically significant effect on East Jakarta MSMEs (Y2) business performance with an effect size of 0.192. (Alhamidi, Ariwibowo, Saputro, and Juriah, 2021).
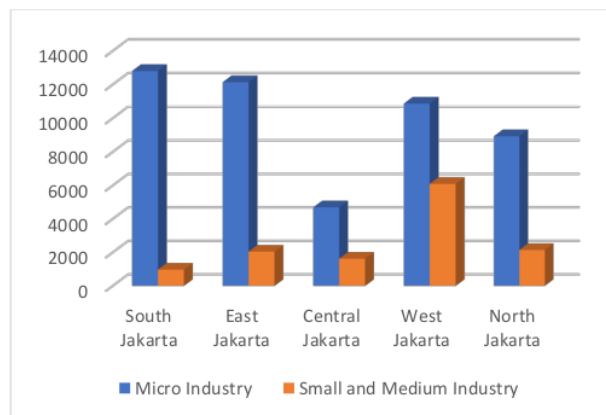

Figure 1. Number of MSMEs in DKI Jakarta by Category and Regency/City in 2019
Source: DKI Jakarta Central Bureau of Statistics (2021)

Figure 1 illustrates the distribution of MSME variables in DKI Jakarta. (Shrivastava & Kennelly, 2013) Introduce the notion of place-based enterprises to illustrate the significance of businesses integrating in with their surroundings. Thus, we are aware that West Jakarta is home to 16,969 SME (Small and Medium Enterprises). This number accounts for 26.96% of all small and medium-sized businesses in DKI Jakarta. In addition, there are 14,187 SMEs in East Jakarta, the highest concentration in the city (22.54 percent). In 2019, most small and medium enterprises (SMEs) in DKI Jakarta were micro firms, totaling 50,030 units (79.50 percent). The remaining 12,899 units are comprised of small companies (20.50 percent). With 12,807 and 12,142 units, the bulk of Micro Industries (IMK) is located in South Jakarta and East Jakarta, respectively. In addition, there are 10,870 and 8,933 micro industries in West and North Jakarta, respectively. In 2018, every Thousand Islands IMK was a micro industry. There were 586 micro industries and seven small industries in existence in 2019. As the seat of government, the Special Capital Region of Jakarta has a particularly dense population, making it a commercial hub.

According to the researcher's observations, the cluster of UMKM services and the creative industry in the Special Capital Region of Jakarta saw a fall in business performance during the Covid-19 pandemic (market share and profits fell between 30 and 80 percent). Up to 30 percent of the surviving MSMEs in DKI Jakarta's service sector and creative industries have been declared insolvent. This is because the service cluster MSME actors and creative industries in DKI Jakarta need more excellent and proper governance (SME management), particularly in

dealing with Covid-19 owing to their lack of knowledge about business governance, beginning with environmental variables. Supply chain resilience is one example of enhancing the quality of business management, particularly in risk management, and not a replacement, allowing managers (business owners) to not only analyze vulnerabilities but also match them to the portfolio of supply chain capabilities of their businesses. (Pettit et al., 2019). So in such conditions many companies are acquired by other businesses to maintain their business existence. According to (Mickelson & Worley, 2003) The post-acquisition success factors that business leaders should consider are:
1. Develop a vision and objectives for
2. Resolve maturing integration issues
3. Recognize and respect purposeful culture
4. Protect important personnel from acquisition
5. Connect with members gained
6. Make use of planning and decisionmaking
7. Commit project and team personnel
8. Employ a consultant to assist with

Inability to establish strategies to sustain and improve the business's existence and performance in the face of internal and external business issues. Moreover, the number of visitors and consumers has decreased due to the implementation of PSBB (Large-Scale Social Restrictions) and PPKM (Enforcement of Restrictions on Community Activities) regulations by the Central Government of the Republic of Indonesia and the Regional Government of DKI Jakarta. resulting in a decline in the procurement of many significant creative industry events. as well as services in DKI Jakarta.

 (Hermawati et al., 2020) demonstrates that "people are the most significant aspect of a corporation because they play a role in planning, executing, and regulating the organization's goals."(Effendy & Sunarsi, 2020) states that "Establishing a project or MSME (Micro, Small, and Medium Enterprises) must have knowledge, ability, and entrepreneurial acumen so that the company can operate efficiently and obtain optimal profits." this means, when culture and leadership drive flexibility drives, service companies can connect, coordinate, and synchronize functional units to take advantage of new product and market opportunities.

Small business has the capacity to create foreign currency for the country and is one of the primary drivers of job creation. (John, 2002)((Holden et al., 2011). It is common knowledge that the function of large, medium, and small private entrepreneurs cannot be separated from a country's economy. Entrepreneurs contribute to expanding and developing road infrastructure, buildings, and human necessities such as commodities and services.(Lordkipanidze et al., 2005)(Lovelock & Yip, 1996). This demonstrates that entrepreneurs or the entrepreneurial community play a "crucial" and "strategic" role in a nation's economic growth and development. The capacity to grow a company's business depends on the efforts of its entrepreneurs to apply their business abilities to please clients. (Seelos & Mair, 2005) (Bhide, 1994)

In addition to the criteria relating to MSME actors, the greatest obstacles for MSMEs are marketing (22.94%) and capital (22.46%), followed by raw materials (19.5%), competition (18.99%), weather (13.18%), BMM/energy (8.02%), labor (3.83%), and infrastructure (6.93%). Generally, managers who have access to this sort of data are able to create more effective plans and fulfill their objectives. It is essential to measure performance to see if there are variations from the intended plan or if the performance can be executed as anticipated. (Farmer & Tierney, 2017). The company's performance measurement system will motivate managers to work more because the company's performance is essential. (Istianingsih et al., 2020). The performance measuring system is a technique that influences the probability of a

company's strategy implementation success. The system of measuring work has a positive impact on management performance. Quite the contrary,(Elmgasbi, 2019) Conclusion: the work measuring system has no effect on performance sustainability managerial. The conduct of the personality type significantly impacts whether business field will be successful. Entrepreneurial conduct relates to a person's nature, disposition, and character in relation to the fight of life to achieve success in running his business. (Kobia & Sikalieh, 2010)

The author wishes to address the impact of the internal and external business environment on the development of business strategy, the impact of business strategy on business performance, and the impact of the internal and external business environment on company performance. Through this research, the service and creative industry cluster MSME players in DKI Jakarta will be able to sustain their business performance (market share, profit, income) and business system stability effectively. Therefore, this can be both an opportunity and a challenge for the service cluster MSMEs and the creative sector in DKI Jakarta to support the DKI Jakarta government in stabilizing the economy. Given that service cluster, SMBs and creative sectors are seeing robust expansion

Literature Review and Hypotheses

Management Features

Broadly, there are two types of managerial roles : operational management and project management. Operational managers have ongoing responbilities. Project manager are assigned The majority of problems affecting SME owners-managers stem from their lack of management abilities. Despite the difficulty of defining poor management, all MSMEs fundamentally management issues. Regardless of what occurs to this function, the efficacy of management can avert or at least mitigate its influence on the company's ability to survive. (Chung et al., 2019) demonstrates that the owner's approach to decision-making can facilitate the incorporation of external RBV influence effects into the initial performance framework. In light of these findings, micro, small, and medium-sized business owners should consider incorporating the influence of governance decision-making when investigating the interactive effects of RBV and organizational learning on export performance. Significantly impacted by the management effectiveness of the owner-managers. Al-Madhoun and Analoui in (Lamptey & Marsidi, 2020) investigated 106 managers in Palestine and discovered a substantial correlation between management abilities and small business growth.

The owner-managers of SMEs have tight interactions with workers and carry out operational operations with enough opportunity to directly affect employees. At contrast, employee-employer relationships in SMBs are frequently informal and lack a clear description of tasks and responsibilities. Promotions and appointments are not always determined by objective criteria. Jennings and Beaver in Ernawati (2021) discovered a substantial difference between the performance of owners who delegate responsibility and owners/managers who regularly undertake routine duties themselves. Small and medium-sized enterprises are frequently viewed as a valuable training ground for entrepreneurs. However, ineffective delegation remains a barrier to preparing people for expanded responsibility.

According to McPherson in (Coetzer et al., 2019), small enterprises have informal customer attitudes that differ from those of large corporations. Typically, micro and tiny firms have a straightforward structure. Owners manage and make decisions. In certain micro and small enterprises, the owner is involved in the management of marketing, finances, and operations. For small enterprises, the topic of owner-manager capability is a highly delicate matter. Management characteristics comprise variables that serve as policy holders in determining organizational attitudes, including innovation culture attitudes. In regard to the innovation culture, the owner's management plays a role in fostering innovation that

necessitates sacrifices of cost, time, and labor, taking risks to create an innovation culture, and enhancing knowledge, attitudes, and behavior to innovate (Kurniati, 2019).

When it comes to keeping their businesses afloat during tough times, owner-managers play a crucial role (Hadjielias et al., 2022). In contrast, the chances of a small business's survival are reduced if its owner-managers show signs of weakness in coping with adversity (such as increased stress, anxiety, burnout, rumination, and general negativity (Hadjielias et al., 2022). That the practices and behaviours of key individuals within small businesses, such as their owner-managers, contribute to their resilience. For instance, (Herbane, 2019)stressed the importance of owner-manager actions and choices in planning, networks, learning, and location in determining the success of small and medium-sized enterprises (SMEs).

The resilience literature needs to provide more understanding of how individual and organizational resilience interact within small business settings, despite growing evidence for the influence of multi-level factors on business or organizational resilience (Putri et al., 2021). However, the literature on small businesses needs more empirical research on individual (Hadjielias et al., 2022). Little has been done to utilize the existing literature on psychological resilience, which may explain individual resilience (Hadjielias et al., 2022), and there has been no attention paid to the process through which psychological resilience benefits individuals and organizations (Hadjielias et al., 2022). Our understanding of the impact of owner-managers (psychological) resilience on the performance of small businesses in the face of challenging exogenous conditions like the COVID-19 pandemic is hampered by the disjointed nature of the relevant literature and the lack of a solid conceptual foundation for the concept (Chadwick & Raver, 2020).

External Business Environment

The contribution of manufacture industry sector is very important in economic development. The manufacture industry can encourage an increase in GRDP, absorb workforce, reduce poverty, and become a supporting sector of other sectors, such as retail and services. However, as a business entity in a global environment, the manufacture industry cannot be separated from the effect of external environment dynamics. Manufacturing industries must be able to adapt the changing of dynamic environment in order still exist in the market (Riyadi & Munizu, 2022). In addition, the ability of organisations to adopt advances in information technology and production technology from external environment is an important factor that drives innovation and company performance (Riyadi & Munizu, 2022).

The external environment is always changing and its changes are very dynamic (Munizu & Riyadi, 2022). There are two views on the concept of external environment. The first view said that external environment as source of organisational assets. Then, the second view describes the external environment as source of data and information for many organisations in facing uncertain environmental conditions (Riyadi & Munizu, 2022). Previous research results interpreted the external environment as a variable covering macro and micro aspects. The macro aspects of the external environment include the socio-cultural and economic dimensions, government policies, advances in information technology, financial institutions, industry, and the labour market, while the micro external environment relates to competitors, customers and suppliers (Riyadi & Munizu, 2022). The external environment also includes suppliers, customers and the global community (Riyadi & Munizu, 2022).

Internal Business Environment

Everything and everyone inside the organization that has any bearing on the day-to-day operations, any kind of program, or any kind of policy is considered part of the Internal Environment. Six primary internal strengths influence an organization's internal environment, as outlined by Ayudia (2020) :

1. Management
   The five pillars of management are planning, organizing, motivating, staffing, and controlling.
2. Advertising
   Marketing can be defined as the activity "through which needs and wants of consumers for a product or service are identified, anticipated, created, and satisfied." The marketing idea, often known as the marketing mix, includes the following seven components, all of which contribute to the overall scope of marketing activities:
   a. Product
      A product is anything or a service that offers customers multiple advantages.
   b. Price
      The price strategy influences customers' perceptions of a product's value and their level of enthusiasm about making a purchase.
   c. Location Decision
      Distribution Channel Place combines the first four. How and where services are delivered to customers is a key consideration here.
   d. Promotion
      It is important to consider which marketing mix to use while planning promotions. Consider the advertising, personal selling, sales promotion, public relations, word-of-mouth, and direct mail that comprise the "promotion mix.
   e. People
      In the marketing world will serve as service providers, and their performance will have a major impact on the quality of the service they give.
   f. Material Prove
      Brochures, business cards, report templates, and tools are all examples of physical documentation of services.
   g. Procedures, work schedules, methods, activities, and routine matters are all part of the process where services are created and given to customers.

3. Accounting and Finances
   Determining where a company is financially is a crucial first step in developing a winning plan.
4. The fourth core business function is "production," which encompasses all the processes that transform raw materials into finished products. Different industries and markets require different inputs, transformations, and final products. Therefore, it is up to production management to handle all of that.
5. Innovation through Study and Study Research and development constitute the sixth area of internal operations that needs analysis. Administration of Duties Partnerships in strategy and operations, among other core business activities, are necessary for success. Its broad goals include helping existing businesses thrive, facilitating the start-up of new ones, creating innovative products, enhancing existing ones, streamlining manufacturing, and increasing the company's technological prowess.
6. Information Management System
   Because information underpins and links all aspects of a company's operations, enhancing the quality of managerial decision-making is essential to boosting productivity.

Strategic Planning and Management

In a good strategy, there is coordination of the work team, a theme, the identification of supporting components that are consistent with the principles of implementing ideas rationally, efficient funding, and effective techniques for achieving goals.

Before conducting business, we must be familiar with a variety of strategic concepts, including Planning to explain the route chosen by the firm rationally in achieving long-term goals, References are pleased to evaluate the consistency or inconsistency of the organization's behavior and actions, The perspective through which the organization enhances its operations, A perspective on the integrated vision between the organization and its surroundings, which is a constraint on the company's operations, Specifics on the organization's deceptive strategic moves.

Strategic management is that set of managerial decisions and actions that determines the long-run performance of a corporation. It includes environmental scanning (both external and internal), strategy formulation (strategic planning), strategy implementation, and evaluation and control (Hunger & Wheelen, 2011). The study ofstrategic management therefore emphasizes the monitoring and evaluating o fexternal opportunities and threats in light of a corporation's strengths and weaknesses in order to generate and implement a new strategic direction for an organization (Hunger & Wheelen, 2011)

Guckenbiehl and Corral de Zubielqui (in Newman, Obschonka, and Block, 2022) examine how start-ups have been affected by and have responded to the COVID-19 pandemic. They identify six start-up types and examine how they respond in different ways to the pandemic. Overall, they find that most start-ups respond to crises through business model changes, and the extent to which start-ups focus on business model adaptation vis-a-vis business model innovation, depends on several factors including the size of the start-up and the impact of the crisis. Following this, Miklian and Hoelscher (in Newman, Obschonka, and Block, 2022) undertake a conceptual review of the literature on SMEs and exogenous shocks. In so doing, they explored key trends in the literature, gaps in our understanding and highlight opportunities for future research. In particular, they highlight how small and medium-sized businesses differ from larger businesses in how they experience and respond to shocks and examine how the COVID-19 pandemic has affected SMEs.

Achievement

Individual and group effort pays off when the result can be generated, carried out and enjoyed (Rafiola et al., 2020). Maintaining company continuity depends on several factors, including the characteristics of the entrepreneur, the external environment, and the survival strategies employed by the MSME. However, the characteristics of the entrepreneur are the most important factor in determining the firm's success. Based on the findings, (Dwiastanti & Mustapa, 2020) advocate bolstering entrepreneurs' talents, interests, and convictions in the face of real hard work and tenacity. Leadership, strategic planning, customer focus, measurement, analysis, knowledge management, employee focus, operation focus, and organizational performance results are all ways to evaluate a small or medium-sized enterprise's (SME's) success (Ermawati & Arumsari, 2021). Therefore, SME's performance is due to the efforts of UKM, which have paid off in spades. SME's Achievement is the case because UKM excels in leadership, personnel, customer service, expertise, financial success, and product quality (Ermawati & Arumsari, 2021). The success of a business directly affects its future (Abbas, 2018). On the other hand, business performance results from a company's employees working together to achieve its objectives over a given time frame (Abbas, 2018)

This study employs numerous indicators defined by Hitt (2016) for the formulation of various indicators on the Resources Based View (RBV) variable. According to Hitt (2016), the internal environment comprises of resources, capabilities, competences, and competitive advantage. Nevertheless, this study will introduce a new modifier. As a modifier for simplification, the researcher included the commerce strategy changer. Therefore, the I/O and RBV strategies will forecast simultaneously the trade strategy modifiers, the I/O and RBV strategies will predict simultaneously the commerce strategy modifiers, and the commerce strategy will predict the MSME performance modifiers. Figure 2 illustrates the conceptual framework underlying this investigation:
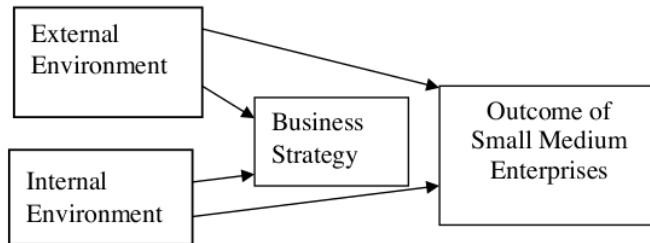

Figure 2. Research Framework

The hypotheses of this research pilot project are as follows, based on the explanations provided previously:

Hypotesis I : A strategic perspective based on the inner and outer environments will have a good impact on the commerce strategy of the MSMEs and creative industries in DKI Jakarta's service cluster.

Hypotesis II : The accomplishments of the service cluster SMEs and creative industries in DKI Jakarta will be positively impacted by an internal and external environment-based perspective.

Hypotesis III : The commerce strategy will have a favorable impact on the accomplishments of MSMEs.

Research Method

This study used a quantitative method with a research philosophy in the form of descriptive positivism, namely wanting to measure and develop the influence between the internal business environment variable and the external business environment as variable X on business performance as variable Y with business strategy as an intervening variable in MSME service clusters and creative industries in DKI Jakarta. The analytical test tool used is the SPSS Version 25, with indicators for each variable: the internal business environment variables in capabilities, competency, competitive advantage, and resources. Indicators of external business environment variables include the economic, demographic, political/legal, and technology segments. Meanwhile, indicators of business strategy variables are prospectors, analyzers,

Defended low cost, and different Defenders. Meanwhile, business performance indicators include market share, profitability, business systems, and productivity.

The purpose of this study is to investigate the impact of the business environment (internal and external) on the business performance of service sector and creative industry MSME players in DKI Jakarta, with business strategy as an intervening variable. This research was conducted between January and December of 2020. This study employed the positivism research technique which collects primary positivist data gathered through experiments and sample evaluations (Sekaran, & Bougie, 2016). This research strategy is quantitative, which is a method that describes descriptively and inferentially the findings of statistical tests (Sekaran, U., & Bougie, 2016).

According to Riyanto and Hatmawan (2020), the number of samples with an unknown population can be calculated using the Lemeshow method. This study used a random sample strategy to collect data from a cross-section of micro, small, and medium-sized enterprises (MSMEs) that practice Islamic economic activities according to criteria such as revenue, tenure in business, and capitalization.

$$n = \frac{Z^2.P.(1-P)}{D^2}$$

$$n = \frac{1,96^2.0,5.(1-0,5)}{(0,1)^2}$$

$$n = \frac{3,8146 \times 0,5 \times 0,5}{0,1^2}$$

N = 96.04 = 97 rounded up to 100 Respondents

Data :

n = Total Number of Observations
Z = 1.96 (95% confidence interval)
P = Highest Possible Estimate (50%)
D = Error Proportion (10)

Source: Riyanto and Hatmawan (2020)

The "Lemeshow" algorithm determines that 100 participants will provide sufficient data for analysis. However, there were still many errors and incomplete questionnaires filled out via the G-Form or in person with a total of 75 people. Then, the 75 respondents from the service and creative industry cluster MSME business actors in DKI Jakarta were filtered again using purposive sampling based on sample criteria/characteristics (UKM) in the business sector and creative industries in DKI Jakarta (North Jakarta, East Jakarta, South Jakarta, Central Jakarta and West Jakarta), including length of business, gender, level of education, and position. However, until the deadline for collecting questionnaire answers from respondents, only 30 MSME actors in the services and creative industries cluster in DKI Jakarta were respondents in this study. 30 MSME actors in the services and creative industries cluster in DKI Jakarta because many respondents did not return answers or answer questions within a predetermined time limit, many respondents did not complete the answers to questions according to the questionnaire procedure, so many respondents forgot, so many respondents made mistakes in inputting. Answers to questions are given directly or via Google Forms. Observation and a study questionnaire are employed during the data collection process. This study employs descriptive statistics and inferential statistics via validity test, reliability test, external loading, Inner Model Fit (R-Square, Significance Test (Hypothesis Test), and F-Square Test to address research concerns with test equipment analysis utilizing SPSS Version 25. To evaluate research data using SPSS Version 25, the validity test, reliability test, outside loading, Inner Model Fit (R-Square, Significance Test (Hypothesis Test), and F-Square Test are applied (Purwanto & Sudargini, 2021)

Results and Discussion

This study's data were acquired via a survey distributed to all MSME actors in DKI Jakarta's service and creative sectors. Previous studies have created the questionnaire utilized. The questionnaire contained a total of 49 statement items, with 4 statement items about business strategy, 20 statement items about the internal business environment, 20 statement items about the external business environment, and 5 statement items about business performance. Thirty surveys were delivered to respondents in DKI Jakarta who were MSME actors in the service sector and creative industries. After receiving research approval from each business owner, questionnaires were disseminated. The questionnaire was distributed by entrusting one of the employees, the manager/head of the business division, or the direct business owner with its distribution. The questionnaire was completed over 45 days, from 1 April 2020 to 15 May 2020. In total, thirty questionnaires were distributed, and thirty of them were returned. There were no surveys that could not be processed in total. In this study, the characteristics of the respondents included gender, age, period of business operation, and monthly income. The researcher has provided a detailed summary of the characteristics of the respondents in table 1.

Table 1. Characteristics of Respondents

Characteristics	Number (People)	Percentage
Gender		
1. Men	17	56,66
2. Woman	13	43,33
Age:		
1. 20-30 years	8	26,66
2. 31-40 years	12	40
3. > 40 years	10	33,33
Long Business Established		
1. 1-3 years	10	33,33
2. 3-6 years	4	13,33
3. 6-10 years	11	36,66
4. > 10 years	5	16,66
Income/Month		
1. 1-5 million	3	10
2. 6-15 million	9	30
3. 16-25 million	12	40
4. > 25 million	6	20

Table 2. Construct Reliability And Validity

	Cronbach's Alpha	Rho_A	Composite Reliability	Average VarianceExtracted (AVE)
Business Strategy	0,731	0,746	0,881	0,787
External Environment	0,901	0,920	0,924	0,669
Internal Environment	0,910	0,921	0,930	0,689
Outcome of Small Medium Enterprises	0,807	0,811	0,887	0,723

A validity test was conducted to determine the instrument's ability to measure research variables. This test is carried out by asking questionnaire questions which will later be given to respondents (Williams et al., 2014). Table 1's analysis results indicate that all constructs have AVE values greater than 0.5, indicating that all constructs have achieved good convergent validity, namely Business Strategy with a value of 0.787, External Environment with a value of 0.669, Internal Environment with a value of 0.689, and Outcome of Small and Medium-Sized Enterprises with a value of 0.723. This indicates that all of these variables are latent variables that account for the fact that their average variance is greater than fifty percent of the variation of the indicators.

In addition, table 2 reveals that the four variables have a Composite Variable value of more than 0.70, indicating that these variables have high precision, consistency, and accuracy in measuring their respective constructs and may therefore be used in the SEM-calculation process next PLS.

The Fornell-Lacker discriminating validity test was conducted by comparing the AVE squared value to the connection between constructs (Andriariza, 2013). The outcomes of the discriminatory validity examination are shown in Table 3 below.

Tabel 3. Discriminant Validity (*Fornell-Lacker Criterion*)

	Business Strategy	External Environment	Internal Environment	Outcome of Small Medium Enterprises
Business Strategy	0,887			
External Environment	0,302	0,818		
Internal Environment	0,486	0,449	0,830	
Outcome of Small Medium Enterprises	0,496	0,662	0,678	0,850

The objective of discrimination analysis, a multivariate approach, is to anticipate the association between two or more variables. The discriminant validity test is deemed valid when the AVE is larger than 0.50 (Darmawan, 2010). Consequently, the model (business strategy, external environment, internal environment, and outcome of Small and Medium Enterprises) utilized in this study is valid with each value of 0.888; 0.81; 0.840; 0.850.

Several indicators, including BS1, BS4, CA1, CA2, CA3, CA4, CA5, CAP1, CAP4, COM3, COM4, COM5, ES1, ES3, OSME2, OSME5, PS1, PS4, PS5, R2, R3, R4, R5, and TS1, do not meet the common factor loading values, so they must be removed from the model because their loading factor value is less than 0.5 and they are not significant. The following are the outcomes of the outer model following the release of non-standard indicators:

Table 3. Outer Model Fit

	Business Strategy	External Environment	Internal Environment	Outcome of Small Medium Enterprises
BS2	0,866			
BS3	0,908			
CAP2		0,863		
CAP3		0,857		
CAP5		0,750		
COM1		0,815		
COM2		0,770		
ES2			0,819	
ES4			0,880	
ES5			0,880	
OSME1				0,855
OSME3				0,793
OSME4				0,899
PS2			0,833	
PS3			0,814	
R1		0,847		
TS4			0,746	

Table 3 demonstrates that the square root value of AVE is bigger than each construct or that the AVE root value exceeds 0.5. As the AVE root is greater than the correlation value, it may be concluded that the outer model or measurement model is valid because it satisfies both convergent and discriminant validity.

Table 4. Analysis of the f-square effect size (f2)

	Business Strategy	External Environment	Internal Environment	Outcome of Small Medium Enterprises
Business Strategy				0,061
External Environment	0,012			0,409
Internal Environment	0,204			0,299
Outcome of Small Medium Enterprises				

The f2 category is separated into three subcategories, with 0.02 representing a weak influence, 0.15 representing a moderate influence, and 0.35 representing a high influence (Wijaya, 2013;

Sarwono, 2015). According to table 4, most variables in the structural model have a moderate to strong influence, whereas one variable has a weak influence.

Tabel 5. Construct Cross Validated Communality.

	SSO	SSE	Q^2 (=1-SSE/SSO)
Business Strategy	58.000	38.108	0.343
External Environment	174.000	84.101	0.517
Internal Environment	174.000	77.146	0.557
Outcome of Small Medium Enterprises	87.000	50.479	0.420

According to table 5 It is understood that the bigger the GoF number, the more accurate the model description. According to Sarwono (2015) and Hussein (2015), the GoF value category is separated into three levels: 0.1 (weak), 0.25 (moderate), and 0.36 (strong) (large). The GoF result of 0.599 indicates that the measurement model (outer model) combined with the structural model (inner model) is feasible or valid

Table 6. Construct Cross Validated Redudancy (Q^2)

	SSO	SSE	Q^2 (=1-SSE/SSO)
BS2	29.000	25.679	0.115
BS3	29.000	24.780	0.146
CAP2	29.000	29.000	
CAP3	29.000	29.000	
CAP5	29.000	29.000	
COM1	29.000	29.000	
COM2	29.000	29.000	
ES2	29.000	29.000	
ES4	29.000	29.000	
ES5	29.000	29.000	
OSME1	29.000	16.941	0.416
OSME3	29.000	20.642	0.294
OSME4	29.000	16.773	0.422
PS2	29.000	29.000	
PS3	29.000	29.000	
R1	29.000	29.000	
TS4	29.000	29.000	

Q2 scores are categorized as 0.02 (weak), 0.15 (medium/moderate), and 0.35 (high) (Wijaya, 2013; Sarwono, 2015). According to table 6, the structural model's relative impact on the dependent variable's measurement is modest to substantial. The predictor variable exhibits a substantial change in effect when it is included in the model and when it is removed.

Table 7. R-Square Test Results

	R Square	R Square Adjusted
Business Strategy	0,245	0,187
Outcome of Small Medium Enterprises	0,642	0,599

Based on the R-Square value calculation findings, the R-Square values for the Business Strategy and Outcome of Small and Medium Enterprises variables were 0.187 and 0.599 (0.75), placing the Business Strategy model in the vulnerable group and the outcome variable in the moderate category. According to Ghozali and Latan (2012), the R-Square value can indicate the strength of the interaction; however, the R-Square value for this model is lower. Between 0.25 and 0.75 for each variable.

Table 8. PLS Significance Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P-Values
Business Strategy -> Outcome of Small Medium Enterprises	0.17	0.15	0.096	1.778	0.086
External Environment -> Business Strategy	0.105	0.051	0.213	0.493	0.625
External Environment -> Outcome of Small Medium Enterprises	0.43	0.5	0.149	2.891	0.007
Internal Environment -> Business Strategy	0.439	0.482	0.163	2.694	0.012
Internal Environment -> Outcome of Small	0.402	0.372	0.145	2.773	0.01

Medium
Enterprises

Table 9. F-Square Test Results SEM-PLS

	Business Strategy	External Environment	Internal Environment	Outcome of Small Medium Enterprises
Business Strategy				0.061
External Environment	0.012			0.409
Internal Environment	0.204			0.299
Outcome of Small Medium Enterprises				

Based on the significance test findings in table 8 and the F-square test results in table 9 using sem-pls, it can be observed that:

1. With a P-Value of 0.086, an f-square value of 0.061, and a positive original sample value, Business Strategy has a positive but non-statistically significant influence on Small and Medium Enterprise Results. These results suggest that micro, small, and medium-sized firms (MSMEs) operating in the financial and creative services sector of DKI Jakarta have only marginally benefited from the business plans that have been developed and executed thus far. The business strategy that intends to boost the awareness of MSME actors in the form of the Prospector, Analyst, Low-Cost Defender, and Different Defenders has improved the performance of MSMEs in DKI Jakarta's service sector and creative economy. Many MSME actors, regardless of whether they have a Prospector, Strategy Analyst, Low-Cost Defender, or Different Defender business strategy, do not comprehend how to develop a business strategy that is consistent with the characteristics of business actors and the conditions of the business environment in order to improve business performance. This is consistent with the (Mustikowati & Tysari, 2015) conclusion that business strategy will influence the attainment of firm performance. This indicates that the greater a company's entrepreneurial orientation, inventiveness, and business strategy, the greater its performance. In addition, to improve business performance, MSME actors should improve short-term and long-term integration strategies, which require strengthening intellectual capital, especially in cooperation, professionalism, and training (Tañski, 2017)

2. Given that the P-Value is 0.625 and the original sample (OS) is positive at 0.105, the external environment has a positive but not statistically significant impact on Business Strategy. It is supported by the calculated value of 0.409 for the f-square statistic. With an f-square value of 0.409 greater than an f-square of 0.35, the external business environment has a marginal effect on Business Strategy. The results of this study are supported by research (Nurjaman, 2022) indicating that external environmental variables have a positive but not statistically significant effect on business performance (marketing) and that marketing strategy also has a positive but not statistically significant effect on marketing performance. External factors have a huge impact on corporate strategy. It indicates that the service and creative industry cluster MSME actors in DKI Jakarta formulate business strategies to become Prospector, Analysts, Low-Cost Defender, and Different Defender based on or have different external environmental backgrounds in terms of demography, politics/law, economic conditions, and the technology used to run their respective businesses. So that business actors should be adept at inventing, influenced by external environmental elements, it must be underlined that creative activities are complicated processes from a company management standpoint. Innovations fall into two categories: genuine innovations with a high degree of novelty that are in high demand on the market and increase the competitiveness of economic and economic subjects, and fake innovations that lead to insignificant improvements (or are copied from other countries) that are in low demand and do not increase business competitiveness. (Popkova et al., 2018).

3. From a technological standpoint, technological asymmetry (difference in the level of technological progress) generates an imbalance in the regional economy of contemporary Spain and heightens internal disparity. (Sanabria-Gomez, 2013)

4. The influence of the P-Value, External Environment on the Outcome of Small and Medium-Sized Enterprises is very significant, with a P-Value of 0.007, the f-square value of 0.409 exceeding the f-square value of 0.35, and the original sample (OS) (+0.430). The null hypothesis is rejected, and it is found that the External Environment has a statistically significant and positive effect on the Outcome of Small and Medium-Sized Enterprises. From external variables, the performance of service cluster SMEs and creative industries in DKI Jakarta in acquiring market share and achieving profitability is determined by their individual competitors' ability to compete. If the quality of these external environmental elements is enhanced, business performance, as measured by market position and profitability, will increase. On this basis, it is hoped that MSMEs will preserve their long-term viability. According to the findings (Hanggraeni et al., 2019) the performance of SMEs in capturing market share and reaching a high degree of profitability is contingent upon their capacity to compete with their rivals. The company's performance, market position, and profits will increase if these characteristics are enhanced. On this basis, it is hoped that MSMEs will preserve their long-term viability.

5. With a P-Value of 0.012, an F-Square of 0.204, and an original positive sample (OS) of 0.439, it can be concluded that the internal business environment of service cluster SMEs and creative industries in the form of resources, capability, competitive advantage, and competencies has a significant impact on business strategy. All of these variables are endogenous and have a reciprocal relationship. According to (Baidoun, Lussier, & Burbar, 2017), The most critical aspects for the survival and profitability of a small firm are having appropriate cash, maintaining proper records with financial controls, formulating plans, and obtaining competent management assistance. Then, as indicated by (Ikebuaku & Dinbabo, 2018), it demonstrates that, as a result of business

incubation, aspiring entrepreneurs have more access to the infrastructure and resources necessary for entrepreneurial success, hence improving their actual likelihood of success.

6. The environment and capabilities influence the company's strategy and performance. According to empirical studies (Marc Huygens, Charles Baden-Fuller, Frans A.J. Van Den Bosch, 2001) and (Nickerson & Silverman, 1997), the competitive environment and organizational skills are interdependent. When firms encounter competition, they continually seek to enhance their performance-enhancing capabilities (Kaplan & Norton, 2017); Huygens et al., 2001) (Barnett, William, 1996). Suppose a business cannot increase its adaptability to competition. In that case, it will be driven off the market (Justin Tan & Litsschert, 1994) and (Tan & Tan, 2005) demonstrate the reciprocal effect of environment and strategy. These two investigations demonstrate that strategic orientation or strategy as a behavioral pattern emerges in response to environmental uncertainty (Tan & Tan, 2005)

With a P-Value value of 0.010, an F-Square value of 0.299, and the original sample (OS) value of +0.402, the significance of the relationship between the two variables is not supported. The null hypothesis (H0) is rejected, and it is concluded that the Internal Environment has a positive and statistically significant effect on the performance of Small and Medium Enterprises. These results indicate that internal environmental elements significantly positively affect business performance. It demonstrates that the internal environment of the Service and Creative Industry Cluster MSMEs in DKI Jakarta is favorable. As a result, the impact of enhancing the business performance of the Service and Creative Industry Cluster MSMEs in DKI Jakarta grows as business owners and managers become more adept at implementing management capacity, product promotion, and the utilization and application of technology to enhance production efficiency. Consistent with past research, this study demonstrates that the internal environment has a positive and substantial effect on corporate performance (Sidik, 2012); (Ates et al., 2013); and (Osmani & Kraja, 2015); (Bouazza et al., 2015). Measurement of performance is an important thing to do so that it is known whether there are gaps from the predetermined plan during the implementation of performance or whether performance can be carried out as expected (Dos Santos et al., 2021). The company's performance measurement system will motivate managers to work better because the company needs their work performance. The company's performance measurement system will motivate managers to work better because the company needs their work performance. The performance measurement system is a mechanism that affects the likelihood that the organization will implement its strategy successfully (Susiana et al., 2018)

Conclusion

The study's findings indicate that the performance level of the UMKM and creative industry service clusters in DKI Jakarta is determined by external environmental factors, namely demographic, economic, political/legal factors, and technological development factors used by business actors in their daily business activities. However, this study's findings reveal that internal business environment variables, such as resource elements (raw materials, labor, machinery, capital, and consultant expertise), capability, competence, and competitive advantage, have little effect on development. The performance of the DKI Jakarta SME and creative industry service clusters has deteriorated. Uniquely, the findings of this study indicate that different indicators of business strategy variables, such as the business characteristics of Prospectors, Analyzers, and Defended low cost. Differentiated defenders have a fairly strong influence on the fluctuations of performance levels, as measured by market share, profitability, business system, and the level of business productivity in the SME and creative industry service

clusters in DKI Jakarta. In addition, the findings of this study indicate that internal and external environmental factors influence the formulation of business strategies by business actors and their organizations, which are categorized as Prospectors, Analyzers, Defended low-cost, and Differentiated defenders.

This research expands knowledge in the fields of entrepreneurship, strategic management, business management, and the use of the SEM-PLS method as an analytical test instrument, despite the limitations of conducting research in DKI Jakarta due to the limited number of samples and population.

Based on the findings of this study, the service and creative industry cluster MSME actors in DKI Jakarta should maintain and quickly adapt to various changes in the external business environment and the internal business environment, which are always the foundation so that business performance can respond positively to various changes that occur. The external business environment of DKI Jakarta's creative economy and service sector. Furthermore, in the future, researchers conducting similar studies should enrich the study of business strategy and business performance for MSME actors and develop a method for analyzing business performance and business strategy based on the business sector of non-profit institutions, such as the socio-economic business sector. In analyzing the performance of MSMEs, it is desired that future scholars can utilize this work as a reading/reference. The researchers provide academic guidance to test new variables that can affect the performance of MSMEs, such as strategic leadership, knowledge management, internal environment, and external business operations, as well as several other performance improvement determinants.

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