Does Adapting the Business Environment Have a More Dominant Effect on Business Performance Than Optimizing Company's Resources?: Strategies to Improve Business Performance

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Abstract. Purpose: This study aims to examine during the Covid-19 pandemic situation in the ISP Industry in Indonesia, what is the effect of adapting to changes in the business environment on business performance and the effect of optimizing company resources to business performance, and which ones have a more dominant effect to business performance? Research Design: This study uses a quantitative research approach. Observations were made in a cross-section/one-shot, in 2022. The population of this study was the ISP industry, which amounted to 474 companies, and the unit of observation was the management. Sampling used stratified random sampling. ISPs are grouped based on the size of each company based on the number of customers and branch cities which are divided into 3 groups, namely: small, medium, and large. Samples were taken from as many as 100 respondents. Sampling from each classification is done randomly based on a list of population members. Testing the causality hypothesis in this study used Partial Least Square (PLS). Result: The hypothesis testing shows that both adapting the business environment and optimizing the company's resources have a direct significant effect on business performance. This study shows the results that optimizing a company's resources has a more dominant effect on business performance rather than adapting to changes in the business environment. Despite changes in the business environment, namely the weakening of the economy and the decline in people's purchasing power due to the covid-19 pandemic. Findings: The results of this study provide managerial implications for ISP companies in Indonesia that efforts to improve business performance can be done by optimizing and developing more adequate ownership of the company's resources and following by adapting to changes in the business environment. Optimizing and developing of company's resources needs to be prioritized over intangible resources then tangible resources. Efforts to adapt to the change in the business environment need to be prioritized on the macro-environment first then the micro-environment. On Business Performance, Company needs to prioritize achieving better ROIC, increase market share and asset growth, better ROA, and Ebitda Margin.

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1 Introduction

Based on data from the 2019–2021 Indonesian Internet Service Providers Association (APJII) survey, the increase in internet penetration in Indonesia is almost nine times greater than population growth. This cannot be separated from the role of the Internet Service Provider/ISP which is currently facing hyper-competition conditions. This condition occurs because currently 474 local ISP players are registered as members of APJII and have a permit from the Ministry of Communication and Information Technology. In addition to competing with fellow local ISPs, competition will also occur with Global ISPs, both operating in Indonesia and abroad.

During the Covid-19 pandemic, local ISPs experienced a decline in revenue, especially for ISPs that rely on the B2B (Business to Business) business model that serves non-retail customers. During the covid-19 pandemic, many work or study activities are carried out from home. Many entrepreneurs have also reduced their spending, including Internet spending, due to the difficulty of doing business during the pandemic.

Based on the results of the APJII online survey in May-June 2021, it is known that almost 80% of APJII members rely on the corporate sector with a "Business to Business" business model. The Covid-19 Pandemic condition resulted in 28% of APJII members who rely on this sector to close more than 50% of their operational locations, even 5.9% of members decided to close their business because the income they received was not enough to support operational cost needs. There are 31% of APJII members whose all operational locations are still running as usual. ISP companies serving the corporate and retail segments experienced a decrease in revenue from the corporate segment by more than 30%, while revenue from the retail segment experienced an increase, but the value was not proportional to the decline in revenue from the corporate segment.

Such conditions indicated problems in the business performance of ISP companies in Indonesia. According to Krause [1], performance refers to the level of achievement of goals or possible achievements that may be related to important characteristics of the organization for the relevant stakeholders.

The phenomenon in the ISP industry shows a high level of competition, regulations that tend to not support the ISP industry, economic fluctuations, and customer preferences that tend to increase and are more dynamic. These phenomena are part of the business environment according to the concept presented by Ahmad Ch et al. [2] that the business environment includes the micro- environment and macro-environment. The micro-environment includes corporate stakeholders who have control over suppliers, customers, retailers, and competitors. While the macro-environment includes political, economic, social, and technological. On the other hand, previous research shows the influence of the business environment on business performance [3–6], Nonetheless, other studies yield different findings in the external environment does not affect business well [7].

Another phenomenon that becomes a problem for ISP companies is related to human resources and the need for investment development, capital ownership, and an insufficient number of experts, only able to provide internet access services, as well as the limited mastery of Digital Technology and the performance of ICT infrastructure which tends to lag behind ISPs in other countries. These phenomenons are part of a company's resources according to the concept presented by Thompson et al. [8], that the company's resources and capabilities are the basic building blocks of a company's competitive strategy, resources are productive inputs or competitive assets owned and controlled by the company's, and divided into two main categories, namely: tangible resources and intangible resources.

The phenomenon of a company's resources at ISPs in Indonesia is an important factor as stated in the RBV (Resource Base View) theory, which states that companies that have "Strategic Resources" will have a long-term competitive advantage over other companies that do not have it. RBV theory emphasizes the company's ability to understand the relationship between resources, capabilities, competitive advantage, and profitability to maintain long-term competitive advantage [9]. According to Barney [9] efforts to maintain a company's competitive advantage in the long term can be achieved through strategic resources that are VRI (valuable, rare, inimitable). Furthermore, Barney & Hesterly [10] revealed two models on the RBV concept, namely: valuable, rare, inimitable and organizational/VRIO; and valuable, rare, not easily imitated, and cannot be replaced (valuable, rare, inimitable, and non-replaceable/VRIN).

Meanwhile, the previous studies state that a company's resources have a significant direct relationship with business performance [11–13], while research by Hussain and Waheed [14] found that the capital resources used had no significant effect on the operating performance and financial performance of the company's. Intellectual capital also affects stock market performance, but not significantly.

Based on the phenomenon of the ISP industry in Indonesia and previous research, It is interesting to study the ISP Industry in Indonesia, because the business performance is not optimal when compared to the high growth of Internet users in Indonesia, and the phenomenon in the ISP industry in Indonesia shows that the company's performance is not optimal, due to problems in the business environment and company resources, so it is interesting to study how the influence of the business environment and company resources on company performance and which on have a more dominant effect on business performance?.

2 Literature Review

2.1 Business Environment

The business environment indicates internal factors (internal environment) and external forces (narrow external environment) and institutions outside the company's control (broader external environment) that can affect the company's business either directly or indirectly [15]. External environmental forces include economic strength; social, cultural, demographic, and environmental forces; political, governmental, and legal power; technological power; competitive forces [16]. In the research of Ahmad Ch. et al. [2], the external environment includes the micro-environment and macro-environment. The micro-environment includes corporate stakeholders who have control over suppliers, customers, retailers, and competitors. While the macro-environment includes politics, economics, society, and technology. The business environment variable in this study was measured by the dimensions of the macro-environment and micro- environment which refers to the opinion of Ahmad Ch et al. [2]. Macro-environment includes economic, political, social, government policy, and technological development and the micro- environment includes industry competition and customer profile.

2.2 Company's Resources

Thompson et al. [8] explain that the company's resources and capabilities are the basic building blocks of a company's competitive strategy. Resources are productive inputs or competitive assets owned and controlled by the companies. Resources for companies differ in type and quality. Resources are divided into two main categories, namely: tangible resources and intangible resources.

Amit and Schoemarker [17] argue that a company's resources are available factors or inputs, both tangible and intangible, which are owned and/or controlled by the company. Resources consist of financial or physical assets (eg property, plant, and equipment), tradable knowledge (eg patents and licenses), and human capital (eg talent, expertise, and experience).

Resources are tangible assets and intangible assets as stated by Hubbard & Beamish [18], tangible assets include physical assets such as land, factories, equipment, and financial resources, while intangible assets such as product brand, organizational reputation, operating knowledge, and experience, individual and intellectual skills.

Hafeez et al. [11] highlight the significance and role of a company's unique resources and unique competencies in determining the company's capacity to innovate. There are several important resources as instruments in achieving differentiation advantage and higher business performance, namely: financial resources, human resources, and network alliances. Some studies emphasize the contribution of human resources to the creation of cooperation, survival, development, and growth of the company.

Based on previous research and also by the conditions of the unit of analysis, namely the ISP industry in Indonesia, in this study, the company's resources were measured using two, namely tangible resources and intangible resources. Tangible resources include an office building, facilities, capital, and adequate human resource. Intangible resources include the company's reputation, customer service, mastery of its technology, culture, and internal business proses.

2.3 Business Performance

According to Best [19], business performance is the output or result of implementing all activities related to business activities, the indicators such as market share growth, sales, and profitability. Wheelen et al. [20] state that performance is the final result of activity as measured by several measures that have been set in the formulation of strategy as part of the strategic management process related to profitability, market share, or cost reduction. David [21] suggests several financial ratios used to evaluate strategies, namely: Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to

Equity, Earnings per share, Sales growth, and Asset growth. Furthermore, Romero et al. [22] said that the company's financial performance was measured using a profitability ratio.

According to Jewell and Mankin [23], financial analysis involves evaluating a company's profitability and risk and then comparing them with industry averages. Return on Assets (ROA) is one of the most popular and useful financial ratios. This was confirmed by Damilano et al. [24] that profitability is defined by two indicators, namely, Return on Assets (ROA) and Return on Sales (ROS). Return on invested capital (ROIC) is also an important measure of earnings efficiency and represents management's ability to promote and maintain shareholder value. According to Tang and Liou [25], ROIC is a financial measure of the profitability of a company or business unit. Another measure measuring profitability is EBITDA Margin [26].

Based on this study, and following the unit of analysis for ISP companies, the dimensions used to measure the performance of ISP companies include profitability, asset growth, and market share. Profitability includes ROA, EBITDA MARGIN, and ROIC. Asset growth is measured by asset growth in the last year, and market share is measured by market share in the last year.

2.4 Hypothesis Development

Vo Van Dut [3] found that local government promotion policies of private companies and local workers have a positive effect on the performance of SMEs. Local government support policies for private companies and the workforce have a positive effect on business performance. In addition, Gado [4] found that collectively, environmental variables have a significant and positive impact on business performance. Similarly, Gavrila-Paven and Muntean [5] found that small and medium enterprises need to identify and respond quickly to market changes in search of flexibility and innovative ways to develop activities. Eruemegbe [6] found that the business environment puts pressure on business activities so businesses also depend on their environment.

- Based on the results of these studies, the following hypotheses were formulated: H1: business environment affects business performance.

Hafeez et al. [11] found that entrepreneurial orientation, corporate resources, and SME branding are related to business performance through innovation. Karami et al. [12] found that HR practices have a positive effect on business performance. The main elements of human capital include knowledge, skills, and abilities, as well as open-mindedness, execution, imitation, and functional diversity. Innovation capability is very important to improve performance [13]. Bagheri et al. [27] found that manager competence has an effect on business performance, and indicators of manager competence have a significant relationship with business performance.

- Based on the results of these studies, the following hypotheses were formulated: H2: company's resources affect business performance.

Based on the phenomenon the business environment faced by ISP companies in Indonesia resulted in many ISP companies experiencing a decrease in income and profits so that many had to reduce the coverage of their operating areas or even close their businesses, especially during the Covid-19 pandemic situation, this study assumes that ISP companies in Indonesia to improve business performance will prioritize on adapting of the business environment rather than optimizing company's resources.

3 Methodology

This study uses a quantitative research approach. Observations were made on a time horizon that is cross-section/one shot, namely in 2022.

The population of this research is the ISP company's industry, and the unit of observation is the management. Sampling used stratified random sampling, in which population elements were grouped at certain levels to take samples evenly throughout the group so that the sample represented the character of all heterogeneous population elements.

The survey was conducted by selecting a sample of the population, namely licensed ISP companies operating in Indonesia and being members of APJII (Indonesian Internet Service Providers Association) totaling around 474. ISPs are grouped based on the size of each company based on the number of customers and branch cities which are divided into 3 groups, namely: small, medium, and large. Samples were taken from as many as 100 respondents (Table 1). Sampling from each classification was carried out randomly based on a list of population members.

The measurement scale in this study uses an ordinal scale using the Likert method which produces ordinal data. The ordinal measurement scale is a scale where the data shows a certain order or order [28].

Testing the causality hypothesis in this study used Partial Least Square (PLS).

Table 1. Research participation.

Classification	Population	Sample
Big	14	3
Medium	65	14
Small	395	83
Total	474	100

4 Results

4.1 Structural Model

The structural equation modelling (SEM) approach (Fig. 1) was used to test the research hypotheses using LISREL 8.80 [29]. The structural model yields a $\chi 2$ of 173.90 (df = 181, p- value < .05), other fit indicators (RMSEA = .000; NFI = .96; NNFI = .92; CFI = .93; IFI = .93) were used to assess the model fit [30, 31].

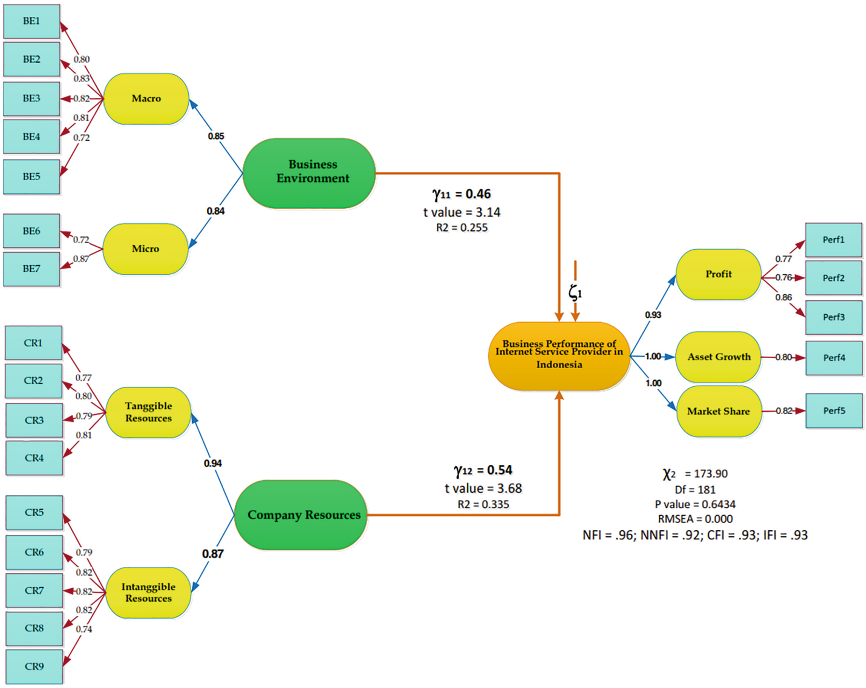

Fig. 1. Research result.

4.2 Measures

Before testing the hypotheses, we assessed the reliability and validity of the constructs (Table 2). All constructs in the study were measured with a five-point Likert-scale Likert scale, ranging from 5 to 1.

To assess convergent validity, the magnitude of the estimated factor loading and its significance (t-value) were evaluated [30, 31]. All factor loadings exceed the 0.70 cut-off point and the t-values of all indicators are greater than 1.96. Evidence of discriminant validity was found because the AVE for each construct was always greater than the mean variance along with the construction of the other [32]. Overall, the measures used in the study have adequate reliability and validity. Table 1 shows the standard loading factor, t-value, AVE, and the overall model fit index.

4.3 Hypothesis Testing

The results of hypothesis testing are shown in Table 3.

Based on the Table 3, it is known that:

- The business environment has a positive and significant direct effect on Business Performance with t value > 1.96 and $R2 = 25.5\%$

Table 2. Research measurement.

Variable	**Dimension Indicator**	**Loading Factor (λ)**	**t value**	**Prob**	**Average Variance Extracted (AVE)**	**Composite Reliability**
Business Environment	Macro Environment	0.94	12.89	0.000	0.635	0.897
	Economy	0.80	–	–		
	Political	0.83	7.6	0.000		
	Socio-cultural	0.82	7.5	0.000		
	Government policy	0.81	7.3	0.000		
	Technological development	0.72	6.31	0.000		
	Micro Environment	0.82	10.32	0.000	0.579	0.733
	Industry Competition	0.72	–	–		
	Consumer Profile	0.80	5.26	0.000		
Company's Resources	Tanggible resources	0.86	13.09	0.000	0.628	0.871
	Office building	0.80	–	–		
	Completeness of Facilities	0.77	6.89	0.000		
	Capital adequacy	0.79	6.76	0.000		
	Adequate human Resources	0.81	6.95	0.000		
	Intanggible resources	1.00	14.75	0.000	0.638	0.898
	Company's reputation	0.82	–	–		
	Superior customer Service	0.79	7.4	0.000		

(*continued*)

Table 2. (*continued*)

Variable	Dimension Indicator	Loading Factor (λ)	t value	Prob	Average Variance Extracted (AVE)	Composite Reliability
	Mastery of IT Technology	0.82	7.41	0.000		
	Organizational culture	0.82	7.38	0.000		
	Internal business Processes	0.74	6.5	0.000		
Business Performance	Profit	0.93	5.39	0.000	0.637	0.840
	ROA	0.77	-	-		
	Ebitda margin	0.76	6.38	0.000		
	ROIC	0.86	7.24	0.000		
	Asset Growth	1.00	5.98	0.000	0.640	0.700
	Asset growth	0.80	–	–		
	Market Share	1.00	6.1	0.000	0.672	0.710
	Market share	0.82	–	–		

Table 3. Hypothesis testing.

	Structural Model	Path Coeff.	Std. Error	t-value	R^2	Conclusion
1	Business Environment > Business Performance	0.46*	0.15	3.14	0.255	Significant
2	Company's Resources > Business Performance	0.54*	0.15	3.68	0.335	Significant

- A company's Resources have a positive and significant direct effect on Business Performance with t value > 1.96 and R2 = 33.5%

The test results show support for the proposed hypothesis that the business environment and company's resources have an effect on business performance, but do not support the previous assumption because it turns out that the optimization of company resources has a more dominant influence on company performance compared to adapting to changes in the business environment.

The results of hypothesis testing support previous research that stated there is the role of the business environment on business performance [3–6], and the company's resources affect business performance [11–13].

Empirically, during the Covid-19 pandemic, many ISPs doing B2B business experienced a decline in income, so the ability to keep the companies' cash flow resources positive is one of the most important things to pay attention to survive. Various problems related to the company's resources greatly affect the profitability of ISP companies in Indonesia. Such conditions require companies to have superior resources to be able to position themselves in the competition. Companies are required to be able to utilize their resources as a comparative advantage to improve performance, as with the RBV concept, companies are able and the relationship between resources, capabilities, competitive advantage and profitability to maintain a long-term competitive advantage [9].

Term company's resources have been proven to affect the business performance of ISP companies, where 33.5% of changes in business performance are influenced by the company's resources, in Fig. 1 it is revealed that intangible resources have a larger coefficient (1.00) than the coefficient of tangible resources (0.86). This illustrates that the role of intangible resources is more dominant in improving the business performance of ISP companies than tangible resources. Intangible resources include reputation, superior customer service, mastery of IT technology, supportive organizational culture, and development of internal business processes and Tangible resources include representative office buildings, complete office facilities, and capital adequacy.

Meanwhile, in terms of the business environment, it has also been proven to affect the business performance of ISP companies, where 25.5% of changes in business performance are influenced by the business environment. In Fig. 1 it is revealed that the macro-environment has a greater influence coefficient (0.94) than the micro-environment coefficient (0.82). The macro- environment covers the following aspects: economy, politics, socio-culture, government policies, and technological developments. The micro-environment includes industry competition and consumer profiles. These aspects need to be understood and evaluated by the companies as input in formulating the company's strategy to be able to survive in the competition.

Companies must understand the conditions of their business environment as opportunities or threats and then anticipate them to have a competitive advantage. Industrial Organization theory states that the competitive advantage of a company is determined by the ability to analyze the opportunities and threats of the company's external factors, and emphasizes that the source of the company's competitive advantage comes from attractive industries or external factors.

In which case has a dominant effect on business performance, is it the business environment or the company's resources? The results of the hypothesis test found not supported the initial assumptions of this study, which states that the business environment has a more dominant effect on company performance than company resources. The result of this study showed that 33.5% of changes in business performance were influenced by the company's resources, which was higher than the influence of the business environment on business performance which was only 22.5%.

5 Conclusions and Suggestions

This study aims to examine the effect of the business environment and company resources on the business performance of ISP companies in Indonesia. The results of hypothesis testing indicate that the business environment and the company's resources have a significant effect on business performance, which is the company's resources have a more dominant effect on business performance than the business environment. The findings of this study are also in line with the RBV theory where companies that have "Strategic Resources" will have a long-term competitive advantage over other companies that do not have them. RBV implementation emphasizes the company's ability to understand the relationship between resources, capabilities, competitive advantage, and profitability to maintain long-term competitive advantage [9]. In this study, it was revealed that the company resources have a greater contribution than the business environment as a driver to improve the business performance of ISP companies.

The results of this study are novel and very interesting to apply, because:

- This study found that ISP companies to achieve sustainable business performance must prioritize the achievement of the ROIC (return on invested capital) Indicator first and then achieve market share which is supported by asset growth and provide a decent ROA (return on asset) and increased Ebitda margin. Because the ISP industry is an industry of assets that require substantial investment/capital costs which are generally financed by bank loans, the ISP company must ensure that the business being run generates a profit to guarantee a return on investment that has been made (increased ROIC), ensuring increased ownership market share through asset growth which is ensured to provide the best ROA, with market share control and asset growth it is hoped that an increase in revenue and supported by operational cost efficiency will increase Ebitda Margin.
- This study finds that for ISP companies in Indonesia, efforts to improve business performance can be carried out by first trying to optimize and develop more adequate ownership of company resources and following by adapting to change in a business environment. To optimize and develop company resources, ISP companies need to prioritize first intangible resources and then tangible resources. To optimize and develop the intangible resource, ISP companies need to prioritize superior customer service, then mastery of IT technology, organizational culture, company reputation, and internal business processes. For tangible resources ISP companies need to prioritize having adequate human resources, then completeness of Facilities, having capital adequacy, and representative office building. Meanwhile, to adapt to the change in the business environment, ISP companies need to prioritize adapting the macro environment and then the microenvironment, because the macro environment such as political, socio-cultural, government policy, economy, and technological trends are all aspects beyond the control of ISP Companies. And micro- environment which are consisting of customer profiles and industry competition.

This research is limited to examining how the influence of the business environment and the company's resources on the business performance of the ISP industry in Indonesia. So it is interesting to study further what other variables also have a significant effect on the performance of ISP companies in Indonesia, and it is also interesting to investigate further the results of this study in other industries such as the manufacturing industry which is strongly influenced by tangible resources or digital creative industries which heavily influenced by intangible resources.

This research was conducted using quantitative methods that rely on statistical results, so to get a deeper understanding and truly describe the details of the empirical conditions, it is necessary to complement qualitative research through confirmatory and in-depth interviews, which cannot be applied in this study.

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