

# Strategic Flexibility In Mediating The Effect Of Entrepreneurial Orientation And Dynamic Environment On Firm Performance

Yudi Nur Supriadi, Eeng Ahman, Lili Adi Wibowo, Chairul Furqon, Dodi Subagia

**Abstract:** This paper aims to present the role model of mediating strategic flexibility to fill the research gap between entrepreneurial orientation and a dynamic environment on firm performance. The method used in this research quantitative descriptive research with a simple dissertation approach using SEM SMART-PLS statistics. Conceptual models are developed and empirically tested through surveys. The 150 respondents at the shoe firms. These firms are based in Banten Province, DKI Jakarta, and West Java Indonesia. The main finding of this study is that the mediating variable, in this case, strategic flexibility, about the influence of entrepreneurial orientation and dynamic environment on firm performance. The implication of this research shows that strategic flexibility has an important role in maintaining a business in the future, especially in facing business decline due to the impact of the COVID-19 pandemic on shoe firms. The novelty and originality of research that strategic flexibility is used to mediate the influence of entrepreneurial orientation and a dynamic environment have the potential to improve firm performance, and this is one of the new things in this research that is an attempt to fill this gap.

**Index Terms:** Dynamic Environment, Entrepreneurial Orientation, Firm Performance, Strategic Flexibility.

## 1. INTRODUCTION

Research on firm performance has dominated in the last 10 years [1]. Firm performance research has been carried out in manufacturing [2], [3], the tourism industry [4], the logistics industry [5], textile industry [6] to the banking industry [7]. Each firm is faced with the problem of formulating strategies to improve firm performance [8]. Therefore, the firm's performance has become a major concern which will ultimately determine the success and business sustainability of the firm [9], [10]. However, the performance gap occurs when the desired plan situation is not following the results of the reality of the firm's performance [11]. Research on firm performance in the context of the manufacturing industry is very interesting to be studied comprehensively in developing countries that focus on improving the financial, material, and human resources sectors available in organizations to achieve firm goals [12]. Indonesia is among the top four global shoe manufacturers under China, India, and Vietnam. Production of 1.41 billion pairs of shoes in 2018, Indonesia contributes around 4.6% of total world shoe production [13]. The export value in the shoe industry sector is one of the government's priorities to continue to improve its performance [14].

In 2017 the value of shoe exports reached 2.95 percent when seen in the previous period there was a surplus-value of USD 4.15 billion. However, in 2019 the value of exports will decline by 12% from 2018, this condition is worsened in 2020 the shoe industry is predicted to not reach its business growth target this year of 13% because the COVID-19 pandemic has caused exports to drop by 70%, plus domestic demand which sluggishness also suppresses the performance of the shoe industry business [15]. Therefore, this condition explains the profit ratio of the performance of Indonesian shoe companies which experience fluctuations every year, thus indicating that the performance of the shoe industry is unstable. Thus through dynamic capabilities to increase the ability to see new business opportunities will support increased firm performance [16]. The firm's performance as an indicator in achieving firm goals and to defend its business in a turbulent environment is through operational and marketing strategies that emphasize competitive priorities such as quality, cost, flexibility to maintain competitive advantage [17]. Given the increasingly fierce competition climate, increasing product competitiveness is the biggest challenge for the Indonesian shoe industry. Thus, shoe firms in Indonesia need to implement strategic designed to achieve firm goals through proper implementation, evaluation processes, and the selection of alternatives carried out [18]. For that reason, through in-depth thinking and field study, the author offers a dynamic entrepreneurial and environmental orientation role in increasing the growth of shoe firm performance in Indonesia which is mediated by strategic flexibility. A systematic and critical approach to provide input on new perspectives on firm strategy in dealing with intense business competition [19]. In the context of the shoe industry, the application of strategic flexibility in improving firm performance is very important in dynamic environmental conditions [20], [21]. The relationship between strategic flexibility and firm performance reflects trends in the business world that encourage the integration of both [22]. Firms that adopt the firm's performance model involve the role of strategic flexibility. Will encourage companies to identify major changes in the external environment, to identify problems in increasing commitment to the needed resources appropriately to improve firm performance [23].

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## 2 LITERATURE REVIEWS AND HYPOTHESIS DEVELOPMENT

### 2.1 Entrepreneurial orientation

According to [24] defines entrepreneurial orientation, which is an organizational phenomenon that describes entrepreneurial behavior in organizations. The concept is to explain the mindset of the firm involved in pursuing new ventures by providing a useful framework for researching entrepreneurial activities. Firms that has an entrepreneurial orientation will produce positions in the market to create a competitive advantage [25]. Therefore, entrepreneurial orientation is very important for business processes in making good decisions for the firm [26], the dimensions used to consist of Innovativeness, proactive, and risk-taking dimensions [27]. Proactivity refers to the tendency to anticipate future needs and changes in the operating environment, and to pioneer new methods and techniques [28]. According to [29] found that entrepreneurial orientation influences strategic flexibility. In this study, strategic flexibility is used as a measure of entrepreneurial orientation. Meanwhile [30] explained that entrepreneurial values support the development of new activities in firms that encourage stagnant business activities so that business runs again. To develop activities, the role of strategic flexibility is very important. Meanwhile, the results of the study [25] explain that entrepreneurial orientation influences strategic flexibility. Based on this explanation, it is clear that the role of entrepreneurial orientation is very important in providing firm business development. The role of entrepreneurial orientation can encourage and promote an organizational environment conducive to carrying out integrated strategic flexibility activities. Thus, it is hoped that a positive relationship between entrepreneurial orientation and strategic flexibility can be proven. Thus, the hypothesis is formulated: H1: The stronger the role of entrepreneurial orientation will increasingly encourage the success of the process of strategic flexibility. According to [31] states that entrepreneurial orientation is the involvement of firm in achieving good firm performance, measured using three dimensions, namely: innovative, proactive, and risk-taking. The role of entrepreneurial orientation is divided into six categories: 1) strategic ability, 2) management skills, 3) relationship skills, 4) knowledge, 5) innovation opportunity abilities. An empirical study from [32] shows that there is a significant influence between entrepreneurial orientation on firm performance. The role of entrepreneurial orientation is very important in improving firm performance [2], therefore the stronger entrepreneurial orientation of the firm will have an impact on improving firm performance [33]. Thus, the hypothesis is formulated: H2: The stronger the role of entrepreneurial orientation will increasingly encourage the increase in firm performance.

### 2.2 Dynamic Environment

According to [34] explained that the dynamic environment is part of the concept of strategic flexibility so that the most important dynamic environment can influence the strategic flexibility as an embodiment in describing the last step of the firm's progress in facing business changes [35]. A dynamic environment can strengthen a firm in dealing with conditions of uncertainty and business change. Thus, firms dynamically seek to deal with change [36]. For this reason, a business environment that has business uncertainty requires strategic

flexibility to continue to win a competitive advantage in the market [37]. Therefore, a dynamic environment can create strategic flexibility in carrying out all of the firm's business activities in environmental conditions. According to [38] there are six environmental dimensions reduced to three: purity, complexity, and dynamics. Based on previous arguments and other supporting arguments, the following hypothesis must be examined empirically as follows: Thus, the hypothesis is formulated H3: The better a dynamic environment, the better the application of strategic flexibility. The implementation of relatively complex tasks will depend on the ability of skills so that it will encourage entrepreneurs to carry out dynamic environmental strategic [36]. A dynamic environment will implement Strategic to improve firm performance, which is an effective strategy to anticipate changes that occur in the firm's business situation. For this reason, contingency thinking explains that the strategy will show a successful combination of dynamic environmental Strategic that can lead to an increase in the firm's business performance. Thus, the firm's performance will be a determinant of the firm's success to maintain its superiority from competitors [39]. For this reason, dynamic environmental conditions can make changes in the firm in adapting through the application of a dynamic environment, so that firm performance can be realized [40]. The firm's dynamic environment can prepare existing resources to empower new resources for performance improvement [41]. For this reason, a dynamic environment is positioned as a way for a firm to improve its performance. Although there are research gaps are describing the relationship as a dynamic environment that has an insignificant direct impact on performance results [42]. Thus, the hypothesis is formulated H4: The dynamic environment has a strong relationship with increasing firm performance.

### 2.3 Strategic Flexibility

According to [43] explains the notion of strategic policies for resolving intentional changes and discusses climate change through current strategic planning, asset transfer, and investment strategy. An organization's ability to identify major changes from a firm's external environment through its resource role is interpreted as an understanding of strategic flexibility [23]. Strategic flexibility variables can positively and significantly affect firm performance. Strategic flexibility will enhance the performance capabilities of each firm which are implemented through dimensions, namely: 1). Resource orientation, 2). Endurance, 3). Agility, and 4). Integrity [44]. According to [45] showed that strategic flexibility succeeded in driving the success of effectively increasing firm performance in the industry. The results of research from [46] explain the relationship between strategic flexibility and firm performance, where the strategic firm can have an impact on improving firm performance, this is due to the contribution of strategic flexibility to increase sales and firm assets. The existence of strategic flexibility adopted by the firm can deal with changes in uncertainty in the business environment because the firm can determine the right decision in maintaining its performance. Agree [47] that strategic flexibility can improve firm performance by increasing the creativity and innovation of its superior products, research [48] explain that increasing firm performance cannot be separated from the existence of a strategic flexibility process. In a manufacturing industry firm, the role of strategic flexibility can interact to influence firm performance, so strategic flexibility can enhance positive

relationships on firm performance [25]. Thus, the hypothesis formulated H5: strategic flexibility intelligence has a strong relationship to improve firm performance. The conceptual framework in this research further develops the synthesis of hypothesis development in various literature. The conceptual framework can be seen in figure 1 below:

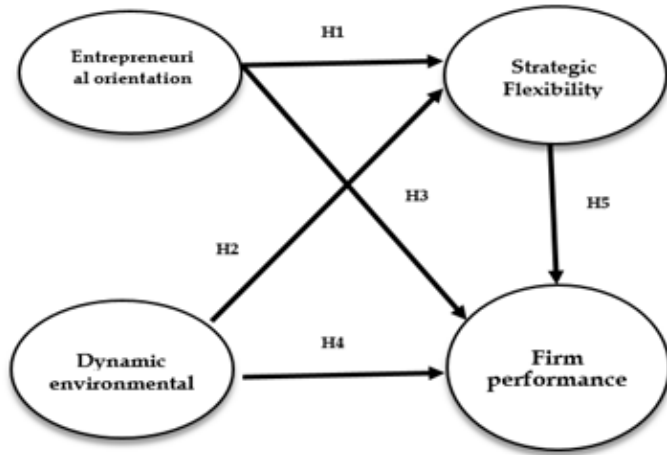


Fig. 1 Conceptual Framework

**3 METHODOLOGY**

The unit of analysis of this study is the firm observed in all companies classified as manufacturing industries in the shoe sector throughout Banten Province, DKI Jakarta, and West Java Indonesia. The data collection method uses the cross-section method. The sample of this research is shoe firms in all provinces of West Java and Banten, which number 150 firms. The observation unit of this research is individuals from companies who have good managerial knowledge in the firm. The analysis tool uses Partial Least Square (PLS) whose analysis method is very strong because it is not based on many assumptions, the data do not have to be normally distributed as well as the sample does not have to be large so that they can explain the relationship between latent variables [49].

**4. QUESTIONNAIRE DEVELOPMENT**

The development questionnaire in this research can be explained in the following table 1.

Table 1 Questionnaire Development

| No | Variables                   | Dimensions of measuring                   | Reference |
|----|-----------------------------|---|-----------|
| 1  | Entrepreneurial orientation | x1.1 Strategic Abilities                  | [50]      |
|    |                             | x1.2 Management Skills                    |           |
|    |                             | x1.3 Relationship Skills                  |           |
|    |                             | x1.4 Risk Taking                          |           |
|    |                             | x1.5 Competitive Aggressiveness           |           |
|    |                             | x1.6 Proactiveness                        |           |
|    |                             | x1.7 Knowledge                            |           |
|    |                             | x1.8 Ability For Innovation Opportunities |           |

|   |                       |   |      |
|---|-----------------------|---|------|
| 2 | Dynamic environmental | x2.1 Measuring product levels                         | [51] |
|   |                       | x2.2 Processes in service businesses                  |      |
|   |                       | x2.3 Levels of taste change                           |      |
|   |                       | x2.4 Consumer preferences                             |      |
|   |                       | x2.5 Service features desired by costumers            |      |
|   |                       | x2.6 Service features supplied by competitors         |      |
|   |                       | x2.7 Product Technologies in the Industry             |      |
|   |                       | x2.8 Government Policy in the Industry                |      |
|   |                       | x2.9 Systematic formulation of the long term strategy |      |
| 3 | Strategic flexibility | x3.1 Resource reallocation requirements               | [52] |
|   |                       | x3.2 Emerging market opportunities                    |      |
|   |                       | x3.3 Emerging market threats                          |      |
|   |                       | x3.4 Changing environmental conditions                |      |
|   |                       | x3.5 Changing technology needs                        |      |
|   |                       | x3.6 Readiness for change                             |      |
|   |                       | x3.7 Priority for consumers                           |      |
|   |                       | x3.8 Commitment to customer orientation               |      |
| 4 | Firm performance      | y1.1 Growth in Firm Organizational Performance        | [53] |
|   |                       | y1.2 Growth in Firm Operational Performance           |      |

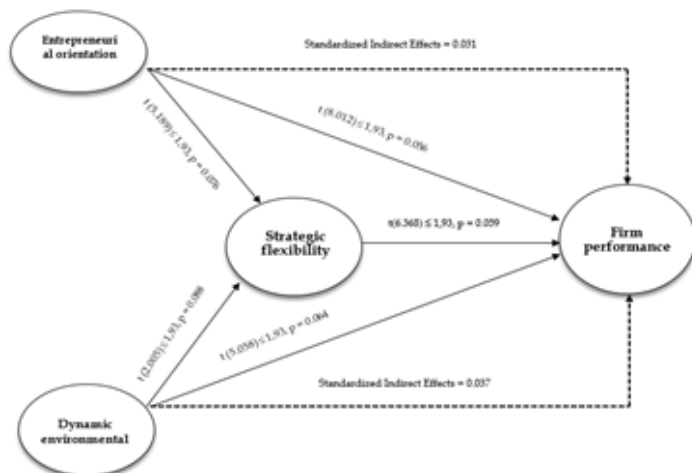
Data on characteristics based on respondents on a firm scale can be seen in the following table 2.

**Table 2** Sample Demographics

| Item   | Classification            | Frequency | Percentage |        |
|--|---------------------------|-----------|------------|--------|
| Characteristics based on business scale                      | SMEs                      | 35        | 23.33%     |        |
|  | Large industries          | 115       | 76.67%     |        |
| Characteristics of shoes firm based on the number of workers | Between employees         | 1-20      | 10         | 6.67%  |
|  | Between employees         | 21-99     | 40         | 26.67% |
|  | Above 100 employees       | 100       | 66.67%     |        |
| Based on the type of legal entity                            | Limited Liability         | 110       | 73.33%     |        |
|  | Commanditaire Vennonschap | 25        | 16.67%     |        |
|  | Business Trading          | 15        | 10.00%     |        |

**5. RESULTS AND FINDINGS**

Data processing was carried out using SEM. Based on the data processing using Smart-PLS, the following results were obtained.



**Fig 2:** Coefficient T Calculated Full Model,

Measurement models have been analyzed based on PLS-SEM with the help of Smart-PLS 3.0 [54]. For assessment of measurement models, loading factors, composite reliability, Cronbach's alpha Table. 3 reliability test shows that all research variables have Cronbach Alpha values greater than 0.6 so that all variables are concluded reliability

**Table 3** Results of Reliability Testing

| Indicators                  | Number of Items | Cronbach Alpha | Composite Reliability | AVE   |
|-----------------------------|-----------------|----------------|-----------------------|-------|
| Entrepreneurial orientation | 8               | 0.891          | 0.913                 | 0.671 |
| Dynamic environmental       | 9               | 0.941          | 0.948                 | 0.671 |
| Strategic flexibility       | 8               | 0.915          | 0.931                 | 0.627 |
| Firm performance            | 2               | 0.463          | 0.788                 | 0.650 |

Table. 3 shows the factor loading value, Cronbach Alpha value, composite reliability value, and AVE value. [55] mention that Cronbach's Alpha of more than 0.7 ( $\alpha > 0.9$ ) is very good. In the current study, more than 0.9 were very good. Also, AVE must be equal or more than 0.5 and composite reliability must be 0.7 or higher [56]. In the current study, both AVE and composite reliability were more than the acceptable range. After assessing the measurement model, the structural model is analyzed with the help of Smart-PLS 3. The current research has five (5) direct hypotheses as shown in table 4. PLS bootstrapping (SEM) was chosen to observe the mediating effect. One technique that is suitable when analyzing through small samples. Also, by following recommendations, when examining mediation effects, procedures are followed and immediate effects are examined.

**Table. 4** Direct Effect Results and Decision

| Relationship  | Standard Deviation (STDEV) | T Statistics (O/ STDEV) | p Values | Explanation |
|---|----------------------------|-------------------------|----------|-------------|
| Entrepreneurial orientation → Strategic flexibility | 0.076                      | 5.189                   | 0.000    | Accepted    |
| Entrepreneurial orientation → Firm performance      | 0.056                      | 8.012                   | 0.000    | Accepted    |
| Dynamic environmental → Strategic flexibility       | 0.088                      | 2.005                   | 0.045    | Accepted    |
| Dynamic environmental → Firm performance            | 0.064                      | 5.058                   | 0.000    | Accepted    |
| Strategic flexibility → Firm performance            | 0.059                      | 6.368                   | 0.000    | Accepted    |

The relationship between the strategic flexibility, dynamic environment, and innovation ability on the firm's performance is seen in. t-value and probability scores describe the positive and significant relationship of each variable.

**5. DISCUSSION**

Based on statistical data processing, it was concluded that for discussion of each variable relationship is as follows:

- H1: entrepreneur orientation effect on strategic flexibility. Table 4 shows the structural path model which explains the relationship between entrepreneur orientation effect and strategic flexibility. The review of the measures indicates that they are well exceeded the values. The structural path findings indicate that there is a significant and positive relationship between the entrepreneur orientation effect and strategic flexibility ( $t = 5.189 > 1.96$ ) with significance value ( $0.000 < 0.05$ ). Hypothesis 1 is accepted.
- H2: Entrepreneur orientation effect on firm performance. Table 4 shows the structural path model which explains the relationship between entrepreneur orientation effect and firm performance. The review of the measures indicates that they are well exceeded the values. The structural path findings indicate that there is a significant and positive relationship between the entrepreneur orientation effect and firm performance ( $t = 8.012 > 1.96$ ) with a significance value ( $0.000 < 0.05$ ). Hypothesis 2 is accepted.
- H3: Dynamic environmental effect on strategic flexibility. Table



4 shows the structural path model which explains the relationship between dynamic environmental effect and strategic flexibility. The review of the measures indicates that they are well exceeded the values. The structural path findings indicate that there is a significant and positive relationship between the dynamic environmental effect and strategic flexibility ( $t = 2.005 > 1.96$ ) with a significance value ( $0.04 < 0.05$ ). Hypothesis 3 is accepted. The results of correlational testing between the dynamic environmental effect on firm performance showed significantly.

H4: Table 4 shows the structural path model which explains the relationship between dynamic environmental effect and firm performance. The review of the measures indicates that they are well exceeded the values. The structural path findings indicate that there is a significant and positive relationship between the dynamic environmental effect and firm performance ( $t = 5.058 > 1.96$ ) with a significance value ( $0.000 < 0.05$ ). Hypothesis 4 is accepted.

H5: Strategic flexibility effect on firm performance. Table 4 shows the structural path model which explains the relationship between strategic flexibility effect and firm performance. The review of the measures indicates that they are well exceeded the values. The structural path findings indicate that there is a significant and positive relationship between the strategic flexibility effect and firm performance ( $t = 6.368 > 1.96$ ) with a significance value ( $0.000 < 0.05$ ), hypothesis 5 is accepted. The results of this study indicate that the better the application of strategic flexibility, it will improve firm performance.

## 6. IMPLICATION

The findings of this study have several implications, including managerial implications that indicate the need for deep strengthening and integration of strategic flexibility, this shows the need for deep strengthening and integration of strategic flexibility in realizing firm performance, especially for processes facing environmental changes, each firm needs to coordinate the process of determining the firm's performance to be offered and determined. Segmenting its target market, firm must conduct chain configuration resources that can be used by companies in developing, producing, distributing, and marketing products intended for the market, and especially developing resources through organizational restructuring specifically chosen for those who can implement the firm. Firm performance, and innovatively. Thus, problems that occur, through the application of strategic flexibility, can quickly resolve the shoe export performance. The firm performance must be considering the unique factors of shoe firm export performance that must be diverse and multifunctional not only for more flexible firm activities but this can also be used as future research. Therefore, each footwear firm needs to consider how the implementation process of developing the firm's strategic capabilities, improving management skills, the firm's efforts to strengthen relations skills with companies and business institutions.

## 7. CONCLUSION

The results of this study have several implications, including managerial implications that indicate the need for deep strengthening and integration of strategic flexibility, this shows the need for deep strengthening and integration of strategic

flexibility in realizing firm performance, especially for processes that face changing environments, each firm needs to coordinate the determination process firm performance to be offered and determined. Classifying the target market, companies must conduct chain configuration resources that can be used by companies in developing, producing, distributing, and marketing products intended for the market, and especially developing resources through organizational restructuring specifically chosen for those who can implement the firm. The development of a new model of strategic flexibility can potentially improve firm business performance. In the face of global business competition and uncertain conditions today such as COVID-19. Therefore, by taking into account the implementation of a shoe firm's export performance more flexible. So that the firm's ability to implement strategic capability development through improving management skills, as an effort by the firm to strengthen skills in dealing with shoe brand buyer firms in the international market, makes the firm continue to dominate the market and become superior. Based on this research, it was concluded that an indicator of the success of a firm's performance is the aspect of skills in building business relationships and the firm's strategic ability to see business opportunities to increase sales that have an impact on export performance so that shoe firm performance can contribute to increasing the achievement of Indonesia's gross domestic product.

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