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Does Environment-Serving-Organisation Concept Affect Firm Performance? A Strategic Perspective

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ABSTRACT

Pursuing the Environment-Serving-Organisation (ESO)-based view this research aims to investigate firm's capabilities in gaining competitive advantage at the automobile manufacturing industry. It shows that more formal and adaptable strategic planning and relevant synergy mentality based on the understanding of environmental turbulence level, helps maintain and increase a firm's competitiveness. Using structural equation modelling, business environmental turbulence from ESO-based view strongly and favourably affects a company's strategic planning and synergy mentality.

Keywords: Environmental turbulence, firm performance, strategic planning, synergy mentality, strategic aggressiveness

INTRODUCTION

Prominent scholars argue that basic theories of strategic management should involve Resource Based-view in which superior resources are fundamental to competitive advantage (Peteraf, 1993; Peteraf & Barney, 2003; Thompson, Peteraf, Gamble, & Strickland, 2014). The Environment-Serving-Organisation (ESO)-views a firm's competitive advantage will be at optimum when it firm matches the level of its management capabilities and strategic aggressiveness to its business environmental turbulence level (Ansoff, 1988; Ansoff & Sullivan, 1993). A company must analyse weak signals to better prepare its strategic planning to win competition (Hollopainen & Toivonen, 2012 ; Ilmola & Kuusi, 2006). The role of strategic planning increases as environmental instability grows (Brews & Purohit, 2007). How you and your rivals

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compete is the first step toward building and sustaining your competitive advantage (Sherman, Rowley, & Armandi, 2007). Collaboration is needed between strategy researchers and innovation, manufacturing and organisational behavior as well as with business history (Teece, Pisano, & Shuen, 1997).

It is commonplace to hear that firms need to build and sustain their competitive advantage to achieve long-term success, but in reality, it is very difficult for majority of local companies in one region to compete with more aggressive multinational companies. There are many stories of top regional local brands been taken over by established multinational companies for reasons such as new generation's failure to succeed, lack of financial engineering and management, lack of technology knowledge and invention, no sense of crisis and strategic plan, new government regulations, lack of expansion, and other relevant aspects.

Leading scholars in strategic management and environment-serving-organisation (ESO) concept such as Ansoff (1965, 1988), and Ansoff and Sullivan (1993) refer to the "environmental turbulence" as the changeability of environmental challenges consisting of the intricacy of the market and the knowledgeable of events. Companies will not be able to sustain their competitive advantages without having clear plans on how to compete under different environments and with the relevant top management and key managers' capabilities and distinct strategic behavioural styles.

Based on Miller and Friesen (1983), and Ansoff's (1988, 1993) research a firm strategic behavior is its response to the degree of changeability of environment challenges, and therefore the more turbulent the business environment the more aggressive should be the firm's response.

It is interesting that earlier research argue organisations or companies may be examined as information processing systems. The system's capability depends upon its ability to manage challenges from the environment (Miller & Friesen, 1983). The question is whether to stay aggressive and uncompromising. It appears that studies of business environmental turbulence and therefore the Environment-Serving-Organisation (ESO)-based view are not mentioned in this new decade. Earliar, some of researchers argue that the turbulence environment complicates the job of marketer and therefore marketing programs will have to be customized to individual clients with an emphasis on "one-to-one" marketing (Morris, Hansen, & Pitt, 1995); When the level of environmental uncertainty within an organisation is high then greater reliance on non-financial performance measures can increase performance (Hoque, 2005). The absence of stability in the environment requires firms to shape their paths through uncertain markets and adopting an entrepreneurial orientation as a strategic positioning maybe useful (Engelen, Schmidt, & Buchsteiner, 2015).

In this research the author elucidates the fundamental theories of environmental

turbulence and the role of strategic planning. The author elaborates top management and key managers strategic aggressiveness that need to be aligned with environmental turbulence levels to achieve better sustainable performance levels.

In addition to in-depth interviews, the author provides the results of using Partial Least Square of Structural Equation Modelling to test the research-fit and explain the effects of each variable. The author argues the managerial implications on this research for the automobile manufacturing industry in particular.

LITERATURE REVIEWS

Environmental Turbulence (ET/MT)

The definition of this variable is a combined measure of changeability and predictability of the firm's environment (Ansoff & Sullivan, 1993; Moussetis, Rahma, & Nakos, 2005). Following Ansoff and Sullivan (1993) environmental turbulence is the external variable, focus on change, whose values specify the type of behavior necessary for success, and it is described by five different turbulence levels in the environment-serving-organisation-based concept. Each level requires different strategic behaviours and capabilities. On the other hand, the resource-based view believes that the controlled internal resources and capabilities should be the fundamental of business success. These two concepts, one is focusing on the external-unpredictable and the other from the internal-perspective, are indeed complementing each other.

According to The Environment-Serving-Organisation the business environment at level one is a situation of a very efficient product-market transaction, unchanging from previous condition, and smooth without any turbulence, and if there is a change, it will be very slow and therefore can be responded relatively easy by companies. At level two the change is still remaining slow but more frequent and company still can response on time before the shock materialized. At level three the change is becoming faster but the future is still a logical extension of the historical past, so companies can prepare before the blow.

The researchers then stated that companies must have a forward-looking strategy and then response can be planned earlier, and therefore the company is ready to cope with the turbulence. At level four, the change is not only fast but also come and off at an unexpected cycle, and therefore company must have not only forward-looking strategy but also an environmental scanning system should be in place to prepare strategic actions and reactions. At level five, change is moving so fast and also the future is unpredictable. It is very difficult to foresee what will occur in the future. Companies should therefore be better prepared to surprise its rivals and take advantage of the market.

Other turbulence concepts come from the marketing paradigm of market turbulence, competitive intensity, and technological turbulence from the model of Market Orientation (Jaworski & Kohli,

1993; Kohli & Jaworski, 1990). Market turbulence basically measures the tendency or the real changes of customer preferences over time. Competitive intensity asses the behavior, resources, and ability of competitors to distinguish and then technological turbulence items exploited the degree to which technology in an industry is in changing.

Miller and Friesen (1983) state that the extent to which changes in environmental challenges are actually correlated with changes in strategy making in order to achieve a high level of performance. Companies should change strategy if they are going to perform better than their competitors as and when the environment changes. The fundamental of the above-mentioned environment-serving-organisation-based view is actually aligned to the definition of competitive advantage (Peteraf et al., 2003). Ansoff has elaborated even further on product market growth strategies in his famous "Ansoff matrix" (1988, 1965) model, by including factors such as market penetration, market development, product development, and diversification strategies.

Strategic Planning (SP)

If one company fails to plan, it is planned to flop. Strategic Planning deals with the futurity of current decisions, is a process, an attitude, a way of life. A formal strategic planning system links 3 major types of plans namely strategic plans, medium-range programs, short-range budgets and operating plans (Steiner, 1979). Firms capable of concurrently acting and reacting are in a better competitive position than those that are unable to effectively change the objectives of their strategic plan to changes in the external environment (Dibrel, Craig, & Neubaum, 2014). Planners significantly perform better than non-planners (Ansoff, Avner, Brandenburg, Portner, & Radosevich, 1970), when instability increases planning degree should be aligning even the factors within management's control are stronger at explaining increases in planning than external environmental conditions (Brews & Purohit, 2007).

Scholars further argue that formal and incremental planning in unstable environments and provided evidence to reject the hypothesis that environment moderates planning type on an either/or basis (Oroh, 2016). An alternative hypothesis that planning in unstable environments includes both formal and incremental planning, and possibly other types of planning too, was thus supported (Brews, & Purohit, 2007). Based on the above we can hypothesize that there is a relationship between environmental turbulence or market turbulence and strategic planning. The greater the turbulence the environment or the market, the more comprehensive strategic planning is needed by the company to achieve a better performance.

Synergy Mentality (SM)

"The mindset" that more value is created by a combined performance between firm units compared to if the units worked by

themselves (Hitt, Ireland, & Hoskisson, 2005). Synergy means working together in Greece word, and synergistic effect concept of "2 + 2 = 5" or value (a,b) > value (a) + value (b), and cost (a, b) < cost (a) + cost (b); Value of business unit a and b working together is more than the value if we add Business Unit a and Business unit b separately working; The cost of business units a and b working together will be Less than if they are separately working (Ansoff, 1965, 1988; Davis, Robinson, Pearce II, & Park, 1992; Rozemeijer, 2000; Wind & Mahajan, 1988).

From the above statements business units need to be combined first and will have more value than if they are not and therefore business units or companies have to be united and then merged under one (1) "synergistic" management. Simply saying synergy will not be fully enhanced without the "merging" different business units, or companies. Thus, key managers must first have a clear mindset that synergy is a must to do action to succeed and therefore they must have the knowledge and then clear plan to be implemented.

From the above, we can then hypothesize that the more synergy mentality indulges at top management and key managers the better the performance of the company will be. When business is running as usual nothing to change to gain a good profit and acceptable growth (at environmental turbulence level one) company doesn't need to have an opportunity mentality, but stability. In context of leadership, leaders need to have multiple identities and capabilities in order for the organisation to perform better (Anderson & Sun, 2015). Thus, we can argue that every environmental turbulence level needs to be approached differently and that the higher the level of turbulence the higher the level of synergy mentality level required between top management and key managers.

Strategic Aggressiveness (SA)

This variable is the response to the degree of discontinuity on the part of a firm's new products or services, competitive environments, and marketing strategies. It ranges from stable to reactive, to anticipatory, to entrepreneurial, and to creative (Ansoff & Sullivan, 1993; Moussetis et al., 2005). The response degree can be divided from stable (level one), reactive (level two), anticipatory (level three), entrepreneurial (level four), and creative (level five). The level of strategic aggressiveness is determined by two elements: the degree of change between a firm's successive strategic moves in the environment. The degree of change is categorized from zero change (level one), incremental change (level two), incremental 2 (level three), discontinuous familiar (level four), and discontinuous novel (level five). The second is the database used in choosing firm manager's moves or responses. The database is divided into historical precedents or example (level one), historical experience (level two), extrapolated (level three), future opportunities (level four), and creativity (level five).

Some scholars suggest Entrepreneurial Orientation as a firm's strategic behavior or response toward environmental challenges (Engelen et al., 2015). Other scholars argued that Entrepreneurial Orientation within organisations or firms is manageable; that is, an organisation is not per se entrepreneurial or not entrepreneurial, but the organisational culture is an effective lever in driving the degree of Entrepreneurial Orientation as an organisation-level behavior (Engelen, Flatten, Thalmann, & Brettel, 2014). They continued that there are four (4) forms of organisational culture and behavioural Entrepreneurial Organisation within the organisation namely Clan Culture, Adhocracy culture, Hierarchical culture, and Market culture. We can then argue that the more strategic the aggressiveness of the management, or the higher the strategic aggressiveness of the key managers the better the performance of the firm should be.

Firm Performance (FP)

An increasing number of scholars argue that not only financial accounting performance is necessary to measure a firm's effectiveness and efficiency to manage its resources but also the non-financial performance measures. Business performance was measured using two (2) distinct approaches which are judgmental as well as objective measures. The judgmental measure asks informants on their assessment of the overall performance of the business and its overall performance relative to major competitors. The objective measure is the dollar share of the served-market (Jaworski & Kohli, 1993).

Following the above statements we can hypothesize that there is a relationship between environmental turbulence (market turbulence) and the strategic planning of the company. There is also a relationship between synergy mentality and strategic aggressiveness. Without a clean mentality to work together key managers will not having strategic response to not only in different situation during high turbulence, but also in order to understand the on-going and the future business environment and then to properly react accordingly. We can then say that the more positive the synergy mentality the better the strategic aggressiveness of the key managers and therefore the higher the firm performance in the industry (the dependent variable).

Based on the explanation of environmental turbulence, strategic planning, synergy mentality, strategic aggressiveness and firm performance the following below research framework is proposed.

MATERIALS AND METHODS

Research Framework / Model

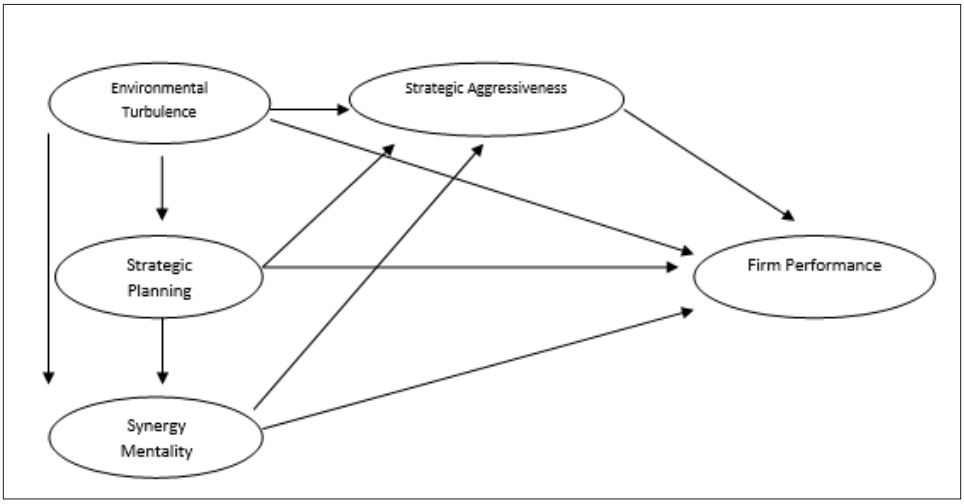

Figure 1. Research framework

Research Process

The author is using questionnaires to collect necessary data from the top management and key managers in the best automobile companies in Indonesia. During the process validity and reliability tests to ensure the data, variables and the model are valid, reliable, and fit is done. The Tests were done based on the Partial Least Square for Structural Equation Modelling. Results show that both variables, data and research model are fit.

Prior to testing the data in-depth interviews on more than 200 key managers and top management representatives at the best automobile companies in Indonesia was done. The goal is not only to ensure the questionnaires will be well understood but also investigate the company's top management skills and capabilities.

RESULTS AND DISCUSSIONS

The study uses Partial Least Square for Structural Equation Modelling (SEM) to check the Validity and Reliability of the data and the constructed research model.

Based on the Cross Loading at Table 1, the numbers showed higher results on each indicator used by the authors to measure Environmental Turbulence or Market Turbulence (MT), Strategic Aggressiveness (SA), Synergy Mentality (MT), Strategic Planning (SP), and Firm Performance (FP) in the proposed construct and therefore we can conclude that both the data and model are valid.

Table 1
Convergent validity test (Output cross loading)

	FP	MT	SA	SM	SP
FP	0,825772				
MT	0,0261	0,733348			
SA	0,0887	0,3165	0,730274		
SM	-0,0117	0,4365	0,7299	0,725259	
SP	0,548	0,2061	0,513	0,3758	0,772852

From the Overview Algorithm at Table 2, we can see the AVE (Average Variance Extracted) number of Firm Performance (FP) is 0.6819, Environmental Turbulence or Market Turbulence (MT) is 0.5378, Strategic aggressiveness (SA) is 0.5333, Synergy Mentality (SM) is 0.526, and Strategic Planning (SP) is 0.5973, and since those numbers are all ≥ 0.50 mean that all indicator probabilities are valid. The Reliability test result can be seen from the Composite Reliability numbers of all variables which are 0.8653 for Firm Performance (FP), 0.6992 (0.7) for Environmental Turbulence or Market Turbulence (MT), 0.8202 for Strategic Aggressiveness, 0.7654 for Synergy Mentality, and 0.8157 for Strategic Planning, and since all are > 0.7 then they are reliable.

Table 2
Overview algorithm (Construct validity and reliability)

	AVE	Composite Reliability	R Square	Cronbach's Alpha	Communality	Redundancy
FP	0,6819	0,8653	0,3634	0,7713	0,6819	0,0001
MT	0,5378	0,6992	0	0,1409	0,5378	0
SA	0,5333	0,8202	0,5993	0,7106	0,5333	-0,0058
SM	0,526	0,7654	0,2758	0,5409	0,526	0,0972
SP	0,5973	0,8157	0,0425	0,6585	0,5973	0,0273

Furthermore, from the Path Coefficient at Table 3 we can summarize as follows:

The Effect of Market Turbulence (MT) or Environmental Turbulence to Firm Performance (FP)

From the Path Coefficient table, the T Statistics number shows 0.0453 which are ≤ 1.96, we can conclude that Market Turbulence (MT) or Environmental Turbulence is not having a positive effect on Firm Performance (FP), and therefore the hypothesis of Market Turbulence or Environmental Turbulence having a strong positive effect on Firm Performance is not supported.

The Effect of Market Turbulence (MT) or Environmental Turbulence to Strategic Aggressiveness (SA)

From the Path Coefficient table, the T Statistics number shows 0.3989 which are ≤ 1.96, we can conclude that Market Turbulence (MT) or Environmental Turbulence is not having a positive effect on Strategic Aggressiveness (SA), and therefore the hypothesis of Market Turbulence or Environmental Turbulence having a strong positive effect on Strategic Aggressiveness is not supported.

The Effect of Market Turbulence (MT) or Environmental Turbulence to Synergy Mentality (SM)

From the Path Coefficient table, the T Statistics number shows 5.8718 which are ≥ 1.96, we can conclude that Market Turbulence (MT) or Environmental Turbulence is having a positive effect on Synergy Mentality (SM), and therefore the hypothesis of Market Turbulence or Environmental Turbulence having a strong positive effect on Synergy Mentality is strongly supported.

The Effect of Market Turbulence (MT) or Environmental Turbulence to Strategic Planning (SP)

From the Path Coefficient table, the T Statistics number shows 2.8281 which are ≥ 1.96, we can conclude that Market Turbulence (MT) or Environmental Turbulence is having a positive effect on Strategic Planning (SP), and therefore the hypothesis of Market Turbulence or Environmental Turbulence having a strong positive effect on Strategic Planning is strongly supported.

The Effect of Strategic Aggressiveness (SA) to Firm Performance (FP)

From the Path Coefficient table, the T Statistics number shows 1.5017 which are ≤ 1.96, we can conclude that Strategic Aggressiveness (SA) is not having a positive effect on Firm Performance (FP), and therefore the hypothesis of Strategic Aggressiveness having a strong positive effect on Firm Performance is not supported.

The Effect of Synergy Mentality (SM) to Firm Performance (FP)

From the Path Coefficient table, the T Statistics number shows 1.7863 which are ≤ 1.96, we can conclude that Synergy Mentality (SM) is not having a positive effect on Firm Performance (FP), and therefore the hypothesis of Synergy Mentality having a strong positive effect on Firm Performance is not supported.

The Effect of Synergy Mentality (SM) to Strategic Aggressiveness (SA)

From the Path Coefficient table, the T Statistics number shows 16.0079 which are ≥ 1.96, we can conclude that Synergy Mentality (SM) is having a positive effect on Strategic Aggressiveness (SA), and therefore the hypothesis of Synergy

Mentality having a strong positive effect on Strategic Aggressiveness is strongly supported.

The Effect of Strategic Planning (SP) to Firm Performance (FP)

From the Path Coefficient table, the T Statistics number shows 15.2915 which are ≥ 1.96, we can conclude that Strategic Planning (SP) is having a positive effect on Firm Performance (FP), and therefore the hypothesis of Strategic Planning having a strong positive effect on Firm Performance is strongly supported.

The Effect of Strategic Planning (SP) to Strategic Aggressiveness (SA)

From the Path Coefficient table, the T Statistics number shows 6.6151 which are ≥ 1.96, we can conclude that Strategic Planning (SP) is having a positive effect on Strategic Aggressiveness (SA), and therefore the hypothesis of Strategic Planning having a strong positive effect on Strategic Aggressiveness is strongly supported.

The Effect of Strategic Planning (SP) to Synergy Mentality (SM)

From the Path Coefficient table, the T Statistics number shows 4.8635 which are ≥ 1.96, we can conclude that Strategic Planning (SP) is having a positive effect on Synergy Mentality (SM), and therefore the hypothesis of Strategic Planning having a strong positive effect on Synergy Mentality is strongly supported.

Table 3
Path coefficient

Variable	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)
MT -> FP	0.002749	0.002319	0.060614	0.060614	0.045350
MT -> SA	-0.017086	-0.017885	0.042823	0.042823	0.398984
MT -> SM	0.375004	0.377851	0.063865	0.063865	5.871812
MT -> SP	0.206086	0.209732	0.072870	0.072870	2.828132
SA ->FP	-0.140416	-0.139333	0.093503	0.093503	1.501726
SM -> FP	-0.166795	-0.170074	0.093370	0.093370	1.786383
SM -> SA	0.632560	0.635375	0.039515	0.039515	16.007953
SP -> FP	0.682183	0.683838	0.044612	0.044612	15.291575
SP -> SA	0.278827	0.280344	0.042150	0.042150	6.615184
SP -> SM	0.298470	0.300011	0.061368	0.061368	4.863574

From the above findings especially that Market Turbulence (MT) or Environmental Turbulence is having a positive effect on Strategic Planning (SP), and therefore the hypothesis of Market Turbulence or Environmental Turbulence having a strong positive effect on Strategic Planning is strongly supported, as well as Strategic Planning (SP) is having a positive effect on Firm Performance (FP), and therefore the hypothesis of Strategic Planning having a strong positive effect on Firm Performance is strongly supported, we can strongly argue that Environmental Turbulence is indeed having a strong positive effect toward firm's performance. Thus, we can strongly infer that the more the understanding of Environmental Turbulence concept the better the performance of the firm.

Furthermore, from the Structural Modelling Path Coefficient (Figure 1, Appendix) we can also infer that Strategic Aggressiveness variable has a mediation effect toward Firm Performance variable from Environmental Turbulence variable since the T statistics from Environmental Turbulence is larger through Strategic Aggressiveness than directly on Firm Performance. A further study on this topic needs to be done.

Managerial Implications

The results prove and validates the Ansoff's (1970, 1988, 1990, 1993) school of Strategic Planning and the Environment-Serving-Organisation-based theory which stated that strategic planning had a strong positive effect on overall performance. A firm with a formal strategic planning will outperform its rivals, and those that match strategic aggressiveness and management capabilities to environmental turbulence level will sustain their competitive advantage. Indeed, the researched automobile companies have been the leaders in the industry for many years (Figure 2, Appendix). This research proves Environmental turbulence has a strong effect on Synergy Mentality, a key aspect in strategic management (Ansoff, 1990). Synergy Mentality also has a strong positive effect on Strategic Aggressiveness and Firm Performance.

From this research it is obvious that firm's top management, who understand the importance of Environmental Turbulence concept use it as the foundation of the company's strategic planning process. The performance of such companies are relatively more stable vis a vis competitors. On the other hand, most of the key managers in the company didn't recognize the existence of environment-serving-organisation-based theory, including environmental turbulence and strategic aggressiveness concepts. Thus, in this research it is not a surprise to find out that the effect of environmental turbulence to strategic aggressiveness and especially to firm performance is not significant compare to strategic planning. In general, top management and key managers who are not familiar and never use environmental turbulence concept will base their strategic decisions mostly on precedent and intuition to react to important changes in the industry and therefore having the tendency to use wrong and irrelevant strategies. The more

aggressive they are the more problems will occur at later stage including a negative contribution to the firm competitiveness and overall performance. These are companies who will lose their strategic directions and at latter stage will be taken over by their rivals.

CONCLUSION

Environmental Turbulence Based view and analysis should be well understood and mastered prior to adjusting a company's strategic aggressiveness. Top management and key managers who rely too much on their marketing and production skills may find themselves unsuitable in a high business environment turbulence level. It can be said that only if the top management and key managers are mastering and implementing the basic concepts of business Environment-Serving-Organisation-Based concept which include the environmental turbulence level analysis, strategic aggressiveness, strategic planning and synergy mentality (and their appropriate levels, which should be aligned) then firm performance results can be satisfactorily maintained. Furthermore, following this research, it is essential for top management of automobile companies to notify their key managers and employees with updated information on what is actually taking place in the market. A relevant synergy mentality can be increase a company's competitiveness. Training on synergy knowledge, its measurement, and implementation in all business units should be properly planned and executed by the firm's top management. Regular training will change existing mindsets and working culture among key managers and employees, increasing management capabilities and firm competitiveness and performance.

Limitations and Directions for Further Research

This research is focused on a major leading company in the automotive industry in Indonesia. To enrich the research on strategic aggressiveness, strategic planning, and synergy mentality, more data should be collected from more companies at other industries. Different industry have their own special characteristics and cultures, a greater mix of industries can improve the research scope.

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