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The Mediation Effect of Strategic Orientation on the Relation between Inflation, Tax and Business Growth

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ABSTRACT

Businesses, particularly distributors bringing in merchandise from overseas into Timor-Leste, are greatly impacted by the high rate of import taxes and inflation as external factors. In order to help distributors, grow their businesses significantly, this study aims to analyze how this tax rate and inflation effect distributor growth, as well as to identify obstacles and possibilities that distributors pursue. This research was carried out in 100 Distributors in Dili and questionnaires were used to collect data. To measure the associations between numerous variables, the methodology used in this study makes use of both descriptive and inferential statistics. The findings show that while the tax rate has a marginally meaningful link with growth, inflation has a significantly negative relationship with business growth. However, strategies with a mediation role do not show any significant relationship. In the future, it is recommended to conduct thorough interviews and implement appropriate strategies to enhance business growth.

Keywords: Inflation, Tax, Strategic Orientation, Business Growth.

1. Introduction

During the past few years, business growth has remained a significant concern for businesses, and this has occurred due to changes in the global economy, whose current impact extends to underdeveloped countries, especially in emerging markets (Liadze et al., 2022). To ensure this growth, Businesses must constantly be on the lookout for outside elements that could jeopardize their ability to grow, particularly high rates of inflation and rising costs for essentials that are closely related to community fundamental needs (Achtenhagen et al., 2010; Bravo-Biosca et al., 2016; Adomako & Mole, 2017; Miroshnychenko et al., 2021).

Market shifts are inevitable, and their influence lies beyond a business's control. To thrive, businesses need not just monitor these changes, but proactively develop agile strategies that can bend and adapt, transforming challenges into opportunities for growth (Obeidat, 2016; Park, Sung and Byun, 2019).

Empirical studies have shown that inflation demonstrates a significant positive relationship with growth (Ademola & Badiru, 2016; Aydın et al., 2016), while the import tax also exerts a significant positive influence on growth (Twesige and Gasheja, 2019). The relationship between inflation and taxes towards business growth remains unclear. While some studies point that inflation has negative impacts on growth (Ocheni, 2015; Tien, 2021), others find tax has no significant influence on growth also (Pope and Abdul-Jabbar, 2008; Ocheni, 2015). Furthermore, studies related to strategic orientation and business growth shows a positive and significances impacts between these constructs (Blackmore & Nesbitt, 2012). Nevertheless, some studies also indicates negative impact between strategic orientation and business growth (Setijadi Lumbantoruan et al., 2020; Helmig et al., 2014). In relation to inflation and tax variables toward strategic orientation point to positives influences (Higgins et al., 2015; D'Acunto et al., 2019), in contrast, these variables shows negatives impacts (Sadjiarto et al., 2020; El-Sayegh, 2008).

This ambiguity prompts researchers to explore strategies that empower businesses to thrive regardless of external economic factors (Parnel, et al., 2015; Thoumrungroje and Racela, 2022). Given the inconsistency in the results of these empirical studies, it is crucial to have a well-directed business strategy that can provide solutions to the external influences affecting business growth.

This study looks at how vital it is for importing companies to expand in order to support the basic necessities of peoples, as these importers play a major role in meeting those demands. The research also seeks to comprehend the tactics used by importers in response to rising inflation and changes in government policy, such as the imposition of large taxes on long-standing companies. This study is being carried out for retailers, construction companies, and importers who deal with basic necessities for people in Dili, Timor-Leste.

2. Literature Review

2.1. Inflation and Business Growth

The percentage increase in the cost of goods and services that reduces customers' purchasing power is known as inflation (GreenLaw and Shapiro, 2011). Business growth is the process of growing a company, but it also entails raising sales and developing goods and services that benefit clients or consumers (Singh, 2010). A study conducted in emerging countries like Pakistan indicates that inflation with a rate of 9% shows a negative but significant impact on economic growth, affecting business growth as well (Mubarik, 2005). When inflation rises above 7%, it has a detrimental and substantial effect on the

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economic growth of Vietnam (Tung and Thanh, 2015). In the meantime, inflation above 6% also hinders growth in other nations (Tien, 2021).

In Malaysia, inflation with a rate exceeding 3.89% has a negative impact on economic growth, directly affecting business growth (Munir, Mansur, and Furuoka, 2009). In Azerbaijan, it is observed that inflation exceeding 13% has a negative impact on economic growth (Hasanov, 2011). However, in other contexts, inflation also shows a positive influence on economic growth, as seen in Nigeria (Ademola and Badiru, 2016), and in Turkey, where inflation below 7.97% has been noted to have positive effects (Aydın, Esen, and Bayrak, 2016). Looking at the mentioned studies, it can be concluded that inflation has an impact on growth, whether in a positive or negative aspect, depending on the percentage of inflation and the specific country in question.

2.2. Inflation and Strategic Orientation

According to Shapiro (2022) inflation is the rise in prices of products and services over a specific period of time in an economy, which affects the value of the currency and raises the cost of living for people. The Miles and Snow Typology is the strategic orientation that is being addressed here. It is a strategy that companies adopt in response to external threats (Miles et al., 1978).

A study conducted by the International Monetary Fund (IMF) indicates that inflation with an insertive character can have a significant impact on businesses, both small and large, as it may result in an increase in unemployment numbers and adversely affect the job market (Ghosal and Ye, 2015). Businesses must use appropriate strategies in this case to survive such uncertain circumstances. This includes changing the prices of goods offered in the market, clearly communicating the rationale behind these price changes, and making an effort to give devoted customers good discounts (D'Acunto et al., 2019)

A study conducted by companies in Russia shows that the economy, which is not stable due to the effects of inflation and other factors, demonstrates a significant positive relationship with entrepreneurial orientation which strongly associated with a proactive strategy (Beliaeva et al., 2020). In order to avoid suffering larger losses—particularly for retail businesses—during periods of inflation, companies also wish to create contracts with distinctive characters, particularly with international suppliers (Wan and Chen, 2018). According to a study done in the UK, world commodity prices regularly affect domestic food prices that retailers source during periods of inflation (Davidson et al., 2016). In the meantime, worker salaries are decreasing throughout this time, indicating that enterprises need to automate processes (Alaloul et al., 2021).

It is clear that there is little association between strategic orientation and inflation, but firms still need to have their own plans in place in case of significant inflation that puts at risk their long-term viability.

2.3. Strategic Orientation and Business Growth

An organization's ability to plan and conduct its operations in a way that advances its long-term goals and objectives is referred to as strategic orientation. To achieve organizational success, this calls for a deep comprehension of the external settings, the ability to predict future trends, and the ability to make well-adapted decisions (O'Regan and Ghobadian, 2006). From startups to established companies, the pursuit of growth is a constant motivator. It means not just surviving, but expanding your reach, revenue, and market share. And with that comes the potential for increased sales, venturing into new territory, offering more products or services, and running things more efficiently (Fader, 2012).

A strong strategic orientation helps a company become flexible and responsive when changes occur in the market, industry, or the broader external environment (Zhou and Li, 2009). Simultaneously, it aids the company in anticipating or responding to changes in competitive zones, seizing emerging opportunities, and mitigating existing threats by adjusting its strategy according to the tactics and dynamics present (Nadkarni and Narayanan, 2007).

An empirical study conducted across a variety of industries such as banking, brokerage, hospitals, lodging, insurance, and transportation reveals that defender and prospector strategies have a significant relationship with business performance (Jenning et al., 2003). A study specifically conducted in the retail industry indicates that the Prospector strategy performs better compared to the Defender strategy when businesses have clarity in their strategies (Parnell, 2010).

A study conducted in Small Medium Enterprises (SMEs) in Australian companies reveals that Prospector and Defender strategies are considered suitable for business growth (Blackmore and Nesbitt, 2012). Prospector and Defender strategies perform well based on the specific characteristics of each country (Parnell et al., 2015). In the USA, the Prospector strategy works effectively due to issues related to innovation and market demand, while in China, the Defender strategy works better due to a focus on low-cost considerations (Parnell et al., 2012).

However, the use of strategic orientation for research in emerging markets is not yet widespread, so it is crucial to conduct such research.

2.4. Tax and Strategic Orientation

Tax is a mandatory financial contribution made by individuals and businesses to the government, aims to sustain expenses and services provided by the state to the people and general public (Hines, 2017). Meanwhile, strategic orientation defines as the strategies that businesses used to succeed in the face of external threats to the business (Hawrysz, 2020).

Empirical studies show that high taxes have a significant influence, especially on businesses that adopt a prospector strategy, as they tend to implement tax avoidance in their own ways. Some of these businesses invest in tax havens and aggressively plan their strategies when facing higher taxes (Higgins, Omer, and Phillips, 2015). Businesses who use prospector or defender methods which were listed on the Brazilian Stock Exchange are found to engage in tax aggressiveness, which involves looking for tax policy gaps to lower the payments that corporations are required to make (Lopo Martinez and Ferreira, 2019).

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It is clear that businesses in the manufacturing sector that use smart business strategies have a big impact on tax evasion, using legal ways to pay as little as possible in taxes (Wahyuni, Fahada, and Atmaja, 2017). Research has also demonstrated that enterprises using prospector strategies have a substantial positive link with tax avoidance in various industrial industries in Indonesia, with the goal of lowering their tax payments (Sadjiarto et al., 2020).

2.5. Tax and Business Growth

The relationship between taxes and business growth varies, and one aspect that research focuses on is how the importation of goods through ports influences business growth. An empirical study conducted in Rwanda indicates that taxes have a significantly positive relationship with business growth due to government tax incentives provided to SMEs in the country (Twesige and Gasheja, 2019). On the other hand, a study conducted in Nigeria shows that taxes have a negative impact on business growth because higher taxes result in significant damage to businesses, increasing running costs and consequently hindering growth (Ocheni, 2015).

Studies conducted in Nigeria also indicate that taxes have a significantly positive relationship with business growth due to incentives that aid SMEs in sustaining their operations for the short term (Feyitimi et al., 2016). However, in another context, taxes also have a negative impact on business growth, as a high tax percentage increases the cost of production, distribution, and sales processes, resulting in higher market prices and reducing purchasing power (Tee, Boadi, and Opoku, 2016). A study on SMEs in Malaysia further demonstrates that taxes have a negative influence on business growth, as SMEs spend a considerable amount of time and face various difficulties, especially high bureaucracy, when making payments (Pope and Abdul-Jabbar, 2008).

2.6. Inflation, Strategic Orientation no Business Growth

Inflation has a significantly positive relationship with business growth through incentives provided to companies to increase productivity (Umaru and Zubairu, 2012). Empirical studies on developing countries with moderate inflation rates ranging from 5.6% to 15.9% show significant results for economic growth. However, when the inflation percentage exceeds this range, it has a negative impact on growth (Baharumshah, Slesman, and Wohar, 2016).

Empirical studies conducted on SMEs in Malaysia indicate that inflation has a negative impact on growth by affecting profitability, even with a 1% increase in inflation (Halim et al., 2017). Similar empirical studies in Ghana show that inflation has a negative effect on growth, as it hampers entrepreneurial spirit and raises production costs, hindering business creation and growth (Thompson Agyapong, Mmieh, and Mordi, 2018). Another study in Nepal demonstrates that inflation exceeding 6% has a negative influence on economic growth, strongly correlating with business growth (Karki, Banjara, and Dumre, 2020). An appropriate strategy for a business during an inflationary period is to focus on cost reduction and relying on suppliers for low-cost become business operational priorities (Jaffar and Sharaaz, 2016).

2.7. Tax, Strategic Orientation no Business Growth

High taxes can cause harm to the performance of small and medium enterprises (SMEs) (Ongayi et al., 2021). High percentage taxes have a negative relationship with business growth, as various taxes paid by SMEs can erode the profits they earn. However, larger businesses have the capacity to make payments compared to smaller-sized businesses (Ocheni and Gemade, 2015).

Empirical studies conducted in the construction industry also indicate that the implementation of taxes has a negative impact on SMEs. The perception of tax compliance costs consistently creates dissatisfaction among business owners due to ongoing government requirements (Matarirano, Chiloane-Tsoka, and Makina, 2019).

In relation to the implementation of taxes in the macro context, an increase in the percentage of taxes has a negative impact on autonomous states or provinces. This is because these states introduce income taxes, and the rise in the percentage becomes a source of revenue for these states (Poulson and Kaplan, 2008). Taxes are often influenced by political factors, such as ideology, party platforms, and electoral considerations. Political leadership can make tax policy decisions based on their political beliefs, party preferences, or the need to attract votes (Román, 2008).

A high percentage of taxes can pose difficulties for businesses in making payments. However, with an appropriate business strategy, tax aggressiveness can be employed to achieve profits even in the face of high taxes (Ihsan and Mustikasari, 2018). The prospector strategy has a positive influence on tax avoidance due to its aggressive nature, risk-taking initiative, and efforts to minimize tax liabilities owed to the government (Sadjiarto et al., 2020).

2.2. Conceptual Framework

The model developed in this study is based on Miles and Snow typology from 1978, specifically the dimensions of prospector and defender strategies within the variable of strategic orientation. In another context, business growth is considered a process of expansion that adds value to the business itself.

The research model utilized in this study, developed by Moore in 2005, focuses on prospector and defender strategies, as well as dimensions of business growth such as sales growth and profit growth (Sarwoko and Frisdiantara, 2016). In this research model, the variable of inflation influences strategic orientation and business growth, while the variable of import taxes influences strategic orientation and business growth. The strategic orientation variable acts as a mediator for the relationship between inflation and import taxes and business growth.

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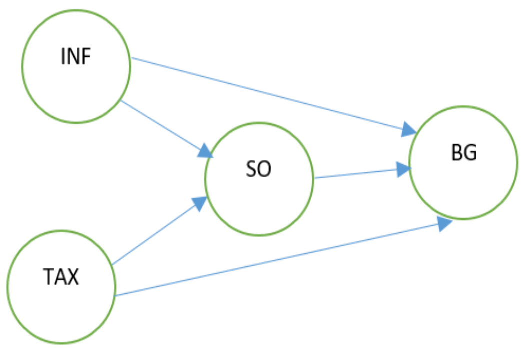

Figure 1. Conceptual Framework

INF: Inflation; SO: Strategic Orientation; Tax and BG: Business Growth.

2.3. Hypothesis

2.3.1. Inflation and Business Growth

Inflation can normally be caused by an increase in the cost of raw materials such as material costs, labor, and energy. This cost increase can have an impact on businesses, especially in the rise of production costs. When businesses face high costs, it becomes challenging for them to generate profits and limits their ability to make investments that could foster growth. Many studies assert that inflation has a significant positive correlation with economic growth, suggesting a direct link to business expansion. A study conducted in Nigeria indicates a significant positive relationship between inflation and economic growth due to the support or incentives for productivity during a certain period of time. This productivity naturally will lower the prices of goods and services (Umaru and Zubairu, 2012).

The study conducted by Sepehri & Moshiri (2004) indicates that the impact of inflation on economic growth, with a direct link to business growth, varies from one nation to another. For nations with a path to development, high inflation can hinder economic growth, especially in lower-middle-income countries, while developed nations such as those in the OECD do not experience any significant effects of inflation on economic growth. He (2012) conducted a study revealing that a high percentage of inflation fosters entrepreneurial spirit and innovation, ultimately contributing to economic growth. The results of this study also provide an explanation for the observed positive and significant relationship between inflation and growth when the inflation rate is high.

In the hospitality industry, inflation has a positive but not significant influence on growth, this occur due to increase prices which immediately effect on hotels in the short run (Gricar and Bojnec, 2014).

H1: Inflation has a significantly positive influence on Business Growth.

2.3.2. Inflation and Strategic Orientation

Inflation is the increase in the prices of goods, measured according to the consumer price index, and these price changes occur over a specific period *(IMF Terminology)*. Inflation also signifies a decline in purchasing power, meaning that the money individuals have will no longer be able to buy the same quantity of products or services, as prices of goods and services rise due to inflation, making everything more expensive (Putra, 2022).

From a business perspective, inflation can affect small businesses because when prices in the market rise, it implies that customers' purchasing power also decreases, leading to a decline in business spending (Forbes et al., 2022). For this reason, businesses need to be vigilant in minimizing their expenses, primarily through the implementation of technology to automate certain services, review their processes, identify areas that need improvement, eliminate unnecessary steps, and streamline services to enhance efficiency.

Additionally, inflation can introduce uncertainties that impact operations and costs significantly. In such a scenario, it becomes crucial to adopt a more conservative strategy that focuses on stability and cost control (El-Sayegh, 2008; Grosmaitre and Marshall, 2022). Moreover, businesses can negotiate with their suppliers to establish mutually beneficial contracts in response to inflationary pressures (Grosmaitre and Marshall, 2022; Dekimpe and van Heerde, 2023).

H2: Inflation has a significantly positive impact on strategic orientation.

2.3.3. Strategic Orientation no Business Growth

Strategic Orientation which utilize the Miles and Snow strategy, is the direction that businesses take when facing external influences that may have the potential to impact their performance and consequently contribute to their own growth.

In the context of Small and Medium Enterprises (SMEs), Strategic Orientation has a significantly positive impact on business growth because an approach focused on innovation and the development of new markets, characteristic of a prospector strategy, tends to consistently provide solutions for the growth of a business (Park, Sung, and Byun, 2019). In the manufacturing industry for SMEs, it is demonstrated that strategic orientation has a significantly positive relationship with business performance as both defender and prospector strategies emphasize efficiency and innovation in the operation of the business (Chereau and Meschi, 2018).

Strategic Orientation, which influences business growth, typically tends to foster entrepreneurship as it explores existing market opportunities to generate innovations that become the focus of a company (Upton, Teal, and Felan, 2001). Simultaneously, in the petrochemical industry, companies utilizing a Prospector strategy demonstrate a significantly positive influence on business environmental efficiency, as they produce less toxic chemicals compared to companies employing a Defender strategy (Magerakis and Habib, 2021). Research by Zamani et al. (2013) asserts that prospectors have a significant relationship with growth, while defenders do not have any significant relationship.

H3 : Strategic Orientation has significant influence on business growth.

2.3.4. Tax and Strategic Orientation

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Tax is an act that competent authorities, usually the government, employ to levy financial charges on individuals or organizations within a nation (Chuenjit, 2014). In this study, we focus on import duties imposed on businesses. Import duty is a tax collected by a country's customs for imported products from businesses, and the purpose of this tax is to generate revenue for the state and protect domestic producers from international competition (Gnangnon and Brun, 2019).

From a business perspective, bulk distributors bear the full responsibility of paying the regulated import duties set by the Customs Authority. When goods are imported from foreign sources and pass through customs, they are subject to import duties. These duties also influence the cost structure of a company because they contribute to the overall expenses. Moreover, through this cost structure, a company can identify areas with high expenses and work towards reducing them to achieve cost savings and, consequently, profits (Sargent and Matthews, 2004).

Furthermore, the tax rate also affects a company's decision to invest or expand, as entrepreneurship and innovation become spaces for a company to attain good performance and profitability for the future (Gale and Brown, 2014).

H4 : Tax has significant influence on strategic orientation.

2.3.5. Tax no Business Growth

Taxes or levies imposed by the government or relevant entities on businesses always have an impact on business growth because high percentage taxes can reduce profitability and limit businesses from making investments according to opportunities, such as hiring more workers and expanding operations. Empirical studies conducted on Small and Medium Enterprises show that regulations or taxes have a negative impact on small business performance, especially in terms of the owners' response to the taxes, which can directly or indirectly influence their businesses (Kitching, 2006).

Taxes also have a negative impact on business performance, consequently shaping the trajectory of business growth, as manufacturing companies allocate their funds with less effectiveness (Vătavu, 2015). Lee & Gordon (2005) assert that a high percentage of corporate tax negatively affects economic growth, implying a direct link to business growth. Conversely, if corporate tax is reduced by only 10%, it can lead to a 1% increase in annual growth. This research also suggests that tax policies play a crucial role in promoting business growth.

H5: Tax has negative significant influence on business growth.

2.3.6. Inflation, Strategic Orientation and Business Growth

Considering the inflation rate, which increased to 6.9% in 2022 compared to 5.3% in 2021 (Finance Ministry, 2022), it indicates a significant rise during this period. This demonstrates a notable increase in the prices of goods in the market, causing distress among the population with lower income as their purchasing power diminishes considerably.

The impact of inflation on the financial institution industry is quite complex. One study suggests perspectives that are not uniform. Firstly, it claims that inflation will negatively affect the banking sector by diminishing purchasing power, influencing exchange rates, affecting opportunity costs, loan policies, business plans, and equity performance. On the other hand, inflation may enhance the performance or growth of banks if they can anticipate future inflation and adjust interest rates accordingly, leading to increased revenue. Therefore, the second perspective emphasizes the importance of a bank's ability to adapt to a highly inflationary environment (Umar, 2014).

The study conducted by Putra (2022) on inflation in Indonesia from 2015 to 2020 indicates that currency supply and demand have a significantly positive influence on inflation. However, money supply shows a positive but not significant influence on inflation. This study suggests that policymakers should prioritize effectively managing currency supply and demand to control inflation and promote economic growth.

The study conducted on inflation and economic growth in 32 Asian countries from 1980 to 2009 reveals that inflation and economic growth exhibit a nonlinear relationship with a threshold (standard) at approximately 5.43%. Inflation shows a negative impact on growth when it exceeds this threshold, while below this percentage, it has no significant effect. Additionally, the study discovers that initial income, investment, and openness have a significantly positive correlation with economic growth, indicating a direct relationship with business growth (Thnabalasingam and Leon-gonzalez, 2012).

With the interpretation of empirical studies and real-world issues, it can be said that the macro perspective represented by inflation is crucial, as it can impact economic growth significantly. Therefore, importers need to adopt appropriate strategies to anticipate and respond to the fluctuation in inflation rates that may affect business growth.

H6: The mediating effect of strategic orientation on the relationship between inflation and business growth.

2.3.7. Tax, Strategic Orientation and Business Growth

The implementation of the Excise tax in 2023, aimed at ensuring public health which is essential for the population's well-being, the relocation of the Port of Dili to Tibar, and the introduction of the X-Ray Cargo Scanner machine, undoubtedly has a significant impact on distributors importing goods, both from the sea and land borders. When distributors have strategies aligned with the increased import taxes and the modernization of the port, it automatically aids businesses in surviving and maintaining their daily operations without unnecessary complaints or claims due to these changes. In the macro context, the increase in taxes negatively affects the state or autonomous provinces because the states introduce income taxes, leading to a rise in the percentage and becoming a source of state revenue (Poulson and Kaplan, 2008).

In the context of small and medium enterprises (SMEs), an increase in tax rates has a negative effect on the survival of businesses because the implementation of taxes does not necessarily align with the size of the businesses and their ability to make the required payments. Consequently, many businesses face bankruptcy and decline due to the challenges of tax

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payments (Adebisi and Gbegi, 2013). A study conducted by Stoilova (2017), which investigates the impact of tax structure on economic growth in the European Union (EU), demonstrates that a tax structure based on selective consumption taxes, personal income taxes, and property taxes can influence economic growth.

In these circumstances, businesses with adequate strategies are likely to experience growth, while those that do not pay sufficient attention to external forces, especially the tax structure, may encounter significant challenges.
H7: The mediating effect of strategic orientation on the relationship between import tax and business growth.

3. Research Method

The population participating in this study consists of Import Managers existing in the capital, Dili, Timor-Leste. Data collected from the participants involved a total of 100 respondents (samples) selected based on a Numerical Census. The questionnaire provided to the participants was structured around four main variables: Inflation, Tax, Strategic Orientation, and Business Growth, using a 5-point Likert Scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The instrument used for data analysis was SMART PLS 4, a credible platform for testing multivariate models, assessing data normality, conducting collinearity tests, and evaluating formative or reflective indicators (Hair et al., 2014).

In the reliability testing of the data, Cronbach's alpha and Composite Reliability will be used, as recommended by Hair et al. (2014). For testing the validity of the data, indicator loading and outer loading will be employed to assess Convergent Validity. The Forner Larcker Criterion and Heterotrait-Monotrait ratio will be used for testing Discriminant Validity, following the guidelines of Hair et al. (2014) and Henseler, Ringle, and Sarstedt (2015).

Regarding hypothesis testing in this study, the Path Coefficient (T and P Values) will be used to observe direct and indirect effects through the calculation of Bootstrap tests, following the methodologies suggested by Hair et al. (2014) and Hair et al. (2017).

4. Results

4.1. Reliability and Validity

Reliability testing is used to measure the internal consistency of relationships between indicators and variables according to the research model. The reliability test employs two parameters: Cronbach's Alpha (CA) and Composite Reliability (CR). According to Table 1, as explained in the research using SMART PLS 4, both Cronbach Alpha and Composite Reliability values should exceed 0.7 (Hair et al., 2017). An indicator is considered reliable when both CA and CR values are above 0.7. However, for exploratory studies, CA and CR values exceeding 0.6 may be acceptable. Thus, all indicators must demonstrate reliability for this research.

Composite validity testing involves two typologies, namely convergent validity and discriminant validity. Convergent validity utilizes parameters such as Outer Loading (OL) or indicator loading and Average Variance Extract (AVE) (Hair et al., 2017). An indicator is considered valid in terms of convergent validity when both OL and Ave values exceed 0.7 and 0.5, respectively.

Table 1. Relaibility Test and Validity Test

Item	Cronbach's Alpha	Composite Reliability (rho_a)	Composite reliability (rho_c)	Average Variance Extracted (AVE)
BG	0,913	0,944	0,934	0,740
INF	0,803	0,824	0,858	0,505
SO	0,749	0,786	0,837	0,563
TAX	0,893	0,939	0,895	0,551

Validity testing for Figure 2 indicates that all Outer Loading values exceed 0.7, and Table 1 demonstrates that the Average Variance Extract (AVE) values surpass 0.5. This implies that all indicators are valid in terms of convergent validity. Therefore, they can be used to test relationships between variables in the inner model measurement.

For Discriminant Validity testing, SMART PLS employs two parameters: the Forner-Larcker Criterion (FL) and Heterotrait Monotrait (HTMT). According to the Forner-Larcker Criterion, an item is considered valid when the Average Variance Extract (AVE) value for that indicator is higher than the AVE values of the other indicators. As seen in Table 2., the AVE values for each indicator surpass the AVE values of the other indicators according to the standard (Hair et al., 2017).

Table 2. Fornell-Larcker Criterion for Discriminant Validity

Item	Business Growth	Inflation	Strategic Orientatio	Tax
BG	0,860			
INF	0,426	0,711		
SO	0,124	0,308	0,750	
Tax	0,343	0,538	-0,058	0,742

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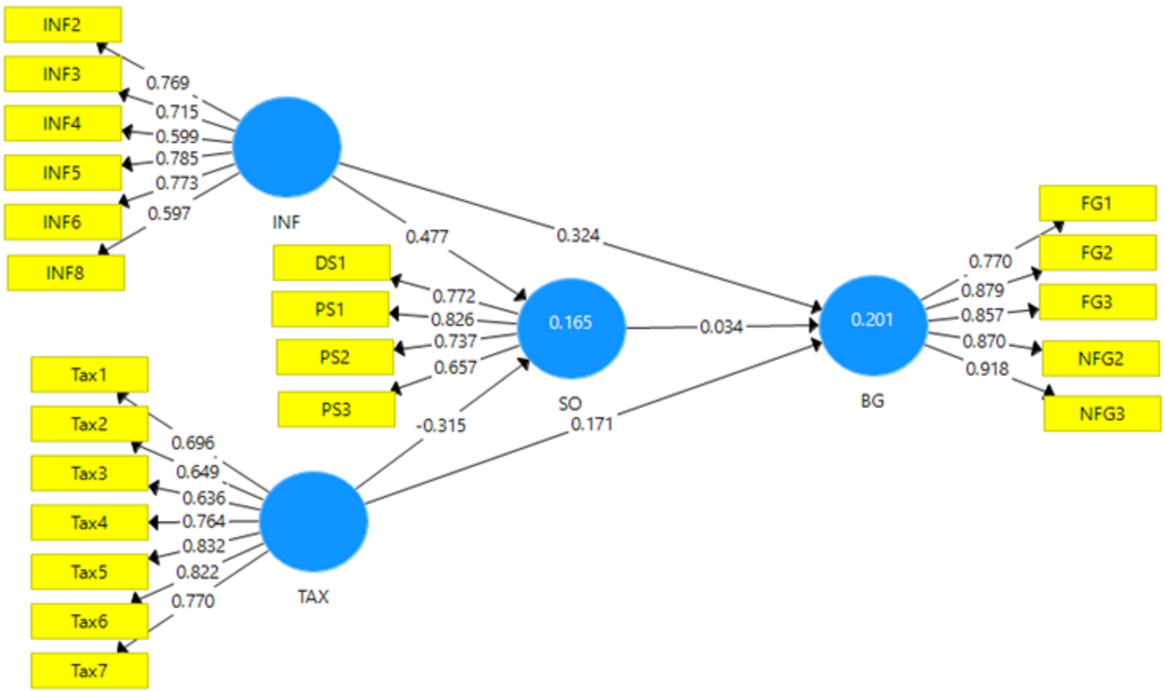

Figure 2. Convergent Validity Test

According to the Heterotrait-Monotrait (HTMT) criterion, an indicator is considered valid when its HTMT value does not exceed 0.85 (Henseler, Ringle, and Sarstedt, 2015). Following this standard, the HTMT table, if presented, would demonstrate that all indicators are valid since none of their HTMT values surpass the specified threshold.

Table 3. Heterotrait-Monotrait (HTMT) for Discriminant Validity

Item	Business Growth	Inflation	Strategic Orientation	Tax
BG				
INF	0,464			
SO	0,168	0,356		
Tax	0,247	0,617	0,184	

4.2. Hypothesis Test

Regarding the relationship between the Inflation and Business Growth variable (H1), the results indicate that the T value (2.138) exceeds the minimum standard of 1.96, and the P value (0.033) is less than the minimum standard of 0.05. This means that Inflation has a statistically significant influence on Business Growth. Therefore, the First Hypothesis (H1) is supported. Concerning the variable Inflation and Strategic Orientation (H2), the results show that the T value (4.339) surpasses the minimum standard of 1.96, and the P value (0.000) is less than the minimum standard of 0.05. This signifies that Inflation has a statistically significant influence on Strategic Orientation. Thus, the Second Hypothesis (H2) is acceptable.

Regarding the variable Strategic Orientation and Business Growth (H3), the results indicate that the T value (0.304) is less than the minimum standard of 1.96, and the P value (0.761) is greater than the minimum standard of 0.05. This suggests that Strategic Orientation is not statistically significant for Business Growth; therefore, the Third Hypothesis (H3) is not supported. Concerning the variable Tax and Strategic Orientation (H4), the results show that the T value (2.365) exceeds the minimum standard of 1.96, and the P value (0.018) is less than the minimum standard of 0.05. This signifies that Import Tax has a statistically significant impact on Strategic Orientation. Thus, the Fourth Hypothesis (H4) is supported.

Regarding the relationship between the Tax variable and Business Growth (H5), the results indicate that the T value (0.986) is less than the minimum standard of 1.96, and the P value (0.325) is greater than the minimum standard of 0.05. This means that Import Tax does not have a statistically significant influence on Business Growth. Therefore, the Fifth Hypothesis (H5) is not supported.

Results of the indirect effect test show that there is no significant mediating effect in this study. The test for the mediating effect from Strategic Orientation to the relationship between Inflation and Business Growth (H6) indicates that the T value (0.291) is less than the minimum standard of 1.96, and the P value (0.771) is greater than the minimum standard of 0.05. Hence, it can be concluded that the mediating effect between Strategic Orientation for the relationship between

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Inflation and Business Growth is not significant. Therefore, H6 is not supported.

Regarding the mediating effect from Strategic Orientation on the relationship between Tax and Business Growth (H7), the results indicate that the T value (0.302) is less than the minimum standard of 1.96, and the P value (0.763) is greater than the minimum standard of 0.05. Therefore, it can be concluded that the mediating effect from Strategic Orientation on the relationship between Tax and Business Growth is not significant. Hence, H7 is not supported.

Table 4. Test Result on Hypothesis (Direct and Indirect Effect)

Item	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Note
Inflation-Business Growth	0,324	0,336	0,151	2,138	0,033	Significant
Inflation – Strategic Orientation	0,477	0,473	0,110	4,339	0,000	Significant
Strategic Orientation Business Growth	0,034	0,033	0,113	0,304	0,761	Not Significant
Tax – Strategic Orientation	-0,315	-0,298	0,133	2,365	0,018	Significant
Tax – Business Growth	0,171	0,187	0,173	0,986	0,325	Not Significant
Inflation – Strategic Orientation – Business Growth	0,016	0,016	0,056	0,291	0,771	Not Significant
Tax – Strategic Orientation – Business Growth	-0,011	-0,011	0,036	0,302	0,763	Not Significant

5. Discussion

The first objective of this research is to test the variable inflation on the variable business growth. The test results show that the Inflation factor has a statistically significant positive impact on Business Growth. This signifies that the circulation of money, largely driven by government spending, creates a significant demand from consumers. As a result, businesses increase their product prices, leading to higher sales and good performance for the business. Additionally, in countries heavily dependent on imports, it is challenging to control inflation, which originates from foreign sources. This situation can benefit businesses by allowing them to increase prices domestically, leading to favorable conditions for business growth.

The results of this study are consistent with other studies that describe how inflation has a significant relationship with growth when there is a substantial increase in money supply in a nation's economy. This can create a strong demand from consumers, providing significant benefits to businesses, as noted by Van Dinh (2020). Another study conducted in Nigeria found that inflation has a significant relationship with economic growth due to the high revenue from petroleum, ensuring growth within the country. In this context, it can enhance business sustainability (Ademola and Badiru, 2016). Additionally, inflation continues to have a significant positive impact on economic growth in ASEAN nations, especially when employment is stable, salaries are good, and market prices controlled by businesses experience growth that prevails over time (Fung and Nga, 2022).

This study also differs from research conducted in Ghana, which indicates that inflation has a negative effect on growth because it dampens entrepreneurial spirit and raises production costs, hindering business creation and its growth (Thompson Agyapong, Mmieh, and Mordi, 2018). Similarly, in Malaysia, inflation exceeding 6% is shown to have a negative impact on growth (Tien, 2021). Meanwhile, inflation in Timor-Leste, reaching 8.7% by December 2023, suggests that commodity prices are rising and consistent intervention from the government is needed (INETL, 2023). Observations made by researchers indicate that there is already a subsidy provided by the government to importers, especially those responsible for meeting the basic needs of the population. The government's subsidy to importers serves as a goodwill gesture toward businesses. However, due to worldwide inflationary pressure, prices related to basic necessity such as rice, medication and building materials continue to rise.

The second objective of this research is to test the variable of inflation in relation to the strategic orientation of businesses. The results of this test show that inflation has a significant relationship with the strategic orientation of businesses. This implies that when inflation rises, some businesses or importers may not have other options than to increase the prices of goods as part of their strategies to secure profits. Simultaneously, some businesses attempt to achieve efficiency by controlling operational costs, and they may also focus on importing goods originally from abroad at reasonably high prices during this period. Therefore, the prices of goods or commodities that importers commercialize in the market tend to be higher for consumers, naturally resulting in consequences for the population. Researchers also observe that as the number of importers increases, especially those from foreign countries such as China and Indonesia, businesses established in the country may feel desperate in the free market environment the country adopts. At the same time, these businesses feel disadvantaged and have no other option than to increase prices to survive.

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The empirical study that shares similarities with this research reports as follows: a study that identifies that businesses with strong and flexible strategic orientation help companies adapt quickly and be responsive to changes in the market, industry, or external environment (Zhou and Li, 2009). The strategic orientation that businesses choose when facing high inflation is often a defensive strategy in response to the efficiency that the business needs to maintain (Kiayang Lim, Chalmers, and Hanlon, 2018). When inflation is high, some research indicates that importers continue to pass the market prices on to consumers. In other words, importers observe what their competitors are doing and decide on prices based on the market conditions they face (OECD, 2022).

The third objective of this research is to test the variable Strategic Orientation for Business Growth. The results of this test indicate that Strategic Orientation is not statistically significant for business growth. These results suggest that the strategies adopted in this study are only partially adequate. Based on the observations made by the researchers, most importers have focused on reducing operational costs and easily adapting to the business environment, particularly in response to the increase in prices set by other competitors.

The empirical study with a similarity to the third objective reported as follows: The empirical study affirms that strategic orientation composed of the Miles and Snow typology does not have a significant relationship with business performance because other factors also influence business, such as the business environment, especially competitors and suppliers, the technology used by the business, and the established business structure, specifically the quality of managers. These factors can directly influence business performance and growth (Setijadi Lumbantoruan et al., 2020). In the hospital industry, the strategic orientation using prospector and defender does not show significance for performance and growth because, in a complex environment, some businesses use a hybrid strategy according to the specific challenges faced by the industry (Helmig, Hinz, and Ingerfurth, 2014). Empirical studies investigating business strategy and performance reveal that businesses with clarity in their strategy perform better than those combining their strategies, such as using the Miles and Snow typology combined with cost leadership and differentiation strategies, resulting in less favorable performance in business (Parnell, 2010).

The study that differs from the results of this study reports on studies of Small Medium Enterprises (SMEs) in Australia, revealing that the Prospector and Defender strategies are suitable strategies for use in business growth (Blackmore and Nesbitt, 2012). This study is highly relevant to the retail industry in small countries that have pathways for development because the strategies or approaches that businesses usually choose do not typically focus on the long term but rather the short term. Therefore, variables such as Marketing, Diversification, and investment opportunities may not apply in an inflationary situation.

The fourth objective of this research is to test the variable Import Tax in Strategic Orientation. The test results show that Import Tax or duties have a significant influence on Strategic Orientation. The inconsistent government policies in adjusting and increasing taxes, especially import taxes and selective taxes in this year, create uncertainty for businesses, making them hesitant to invest for the long term due to government policy issues. Observations made by researchers indicate that, in the previous government, when taxes were increased on basic necessities, businesses felt the impact, resulting in increased prices in the market. However, with the new government adjusting taxes and providing subsidies to importers, importers normalize prices but still maintain higher prices in small retail outlets that directly affect consumers. Therefore, businesses continue to adopt strategies according to their competitors, adjusting and increasing prices in the market.

The research study, which shares similarities with the results of this research, is as follows: empirical studies address that taxes have a significant relationship with the strategic orientation of businesses because prospector strategy enables anticipating the taxes that businesses will face and reinvesting the acquired capital elsewhere, thus regulating tax avoidance according to the laws of each country (Higgins et al., 2015). Empirical studies report that strategic orientation, especially the prospector strategy, has a significant relationship with Tax Avoidance because in a business environment that constantly presents uncertainties, taking risks and investing in innovation becomes crucial. To avoid missing out on these opportunities, businesses tend to avoid innovation, emphasizing the importance for policymakers to prioritize innovation in business growth (Arieftiara et al., 2020). Empirical studies addressing the importance of tax avoidance for business strategy state that businesses focused on cost reduction or defender strategy can avoid paying certain taxes compared to businesses adopting differentiation or focus strategies for seeking opportunities. These businesses tend to accept risks and adopt an insertional/prospector strategy.

In line with the nature of businesses that adopt various strategies, in uncertain situations, they manage to avoid high taxes implemented by the government (Higgins, Omer, and Phillips, 2011). A partially different study describes that the defender strategy has a negative relationship with tax avoidance in businesses (Sadjiarto et al., 2020).

This study is particularly relevant for small retail businesses in developing countries because the consistency of government policy preferences does not demonstrate seriousness and creates uncertainties in the business community. Long-term investments preferred by businesses may not materialize due to uncertainties and mistrust in the state.

The fifth objective of this research is to test the variable Import Tax on Business Growth. The test results indicate that Import Tax does not have a significant influence on Business Growth. This study suggests that business growth can occur independently of taxes as a suitable variable to measure such growth. Observations made by the researchers highlight the existence of subsidies for importers due to external factors such as inflation faced by the country. This possibility could serve as a relief for businesses, allowing them to continue their operations and preventing consumers from facing excessive price increases in the market. However, this is contingent on

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government intervention, and without it, businesses may struggle to survive in the short term.

The empirical study conducted reveals similarities with research carried out in OECD nations, indicating that the tax burden imposed by the government on businesses has a negative impact on economic growth. It can be understood that increasing government revenue through taxes, especially high taxes, can discourage businesses from engaging in economic activities (Baiardi et al., 2017). Similar findings were observed in Nigeria, where the company income tax did not show a significant relationship with economic growth. This lack of significance was attributed to businesses needing profits to cover operational costs, and when the tax burden increases, it becomes challenging for businesses to thrive (Ojong, Anthony, and Arikpo, 2016).

Furthermore, specific examination of sales tax revealed a lack of significant correlation with business growth in the short term. Sales tax was seen as potentially discouraging consumers from purchasing products or services, thereby reducing the number of sales and impacting business profits negatively (Al Quraan, 2020 & Li & Lin, 2015). This study differs from empirical research that emphasizes the ineffective allocation of budgetary resources linked to taxes having implications for the trajectory of businesses in terms of both performance and growth (Vătavu, 2015). Sustainable business growth is influenced not only by tax variables but also by other factors such as managerial capacity, advantages in the supply chain, and loyal customers.

The sixth objective of this research is to examine the mediating effect of Strategic Orientation on the relationship between Inflation and Business Growth. The test results indicate that Strategic Orientation mediation does not have any significant impact on the relationship between Inflation and Business Growth. These results suggest that the strategy adopted by importers in this business, particularly the partial implementation of a defender strategy, is not effective in promoting growth when faced with inflation. However, certain indicators of the defender strategy, which can help businesses, such as importers, achieve efficiency in import costs and operational control, may still play a role.

It is important to note that importers need to be aware that high inflation can lead to changes in consumer behavior, affecting their purchasing power and preferences. In such a situation, consumers may choose to buy products in different locations or opt for alternative products, and the quantity purchased may decrease due to reduced purchasing power. Importers heavily reliant on imported products may experience inflation not only as a result of internal factors but also due to external factors, such as those originating from foreign markets.

The empirical study, which is in harmony with the findings of this research, explains as follows: the empirical study clarifies that the Miles and Snow strategy, consisting of both defender and prospector strategies, is not the sole solution for strategic orientation towards business performance. Instead, it emphasizes systematic maintenance of the business strategy, considering the environment, technology, and company structure (Setijadi Lumbantoruan, Nazaruddin, and Pujangkoro, 2020). In the context of the Turkish stock exchange, a study indicates that there is no significant relationship between defender and prospector strategies and the performance of companies. However, the interaction between the size of the company and the utilization of strategy can only result in business performance when using an appropriate strategy based on the specific operating environment (Sarac, Ertan, and Yucel, 2014). Furthermore, an empirical study conducted in the public sector suggests that not only Miles and Snow strategies but also the use of contingency strategies by managers is crucial for achieving outcomes when adapting the strategy according to the specific service environment (context) in which the organization operates.

Therefore, conducting this study is crucial. It reveals that when inflation rises, businesses not only need to adapt to the available strategies but also must be contingency-oriented to be adaptable and flexible in achieving good performance for the organization.

Seventh objective of this research is to test the mediating effect of Strategic Orientation on the relationship between Import Tax and Business Growth. Test results indicate that the mediating role of Strategic Orientation in Business Strategy does not have any significant impact on the relationship between Import Tax and Business Growth. This implies that the inconsistency in the implementation of taxes applied by the government does not have a substantial impact on the strategies that businesses adopt and the desired growth they aim to achieve.

Strategic Orientation does not emerge as a mediating factor between taxes and business growth because the strategic concept of businesses to compete in the market and achieve their specific objectives may not necessarily be influenced by the specific costs incurred in paying taxes at a given time. Importers from various industries feel relieved by the change in the percentage of import and selective taxes on basic needs returning to normal. In the meantime, the prices of their goods in the market remain stable because existing stock of previous products still exists. This demonstrates that the prices continue to be maintained as they were. The legislation for tax changes is set to be implemented starting in 2024.

The literature that aligns with the findings of this study is as follows: An empirical study conducted in Nigeria on Small and Medium Enterprises (SMEs) revealed that the use of multiple taxation has a significant negative impact on the survival of businesses (Adebisi and Gbegi, 2013). Another study indicated that taxes have a significantly negative influence on businesses, affecting their running costs and hindering growth (Ojeka, 2011). Businesses face various taxes, including those on imported products, profits earned, and their workforce. Therefore, providing proper training for businesses on tax matters can help them survive and contribute to the development of the nation.

Furthermore, research on Small and Medium Enterprises showed that those relying solely on defender and prospector strategies face challenges, while those combining hybrid or analyzer strategies are more flexible and adaptable, suggesting that businesses should adopt flexible and adaptable strategies for growth (Yanes-Estévez, et al., 2018).

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It is indeed crucial to conduct studies like this one to understand the impact of taxes on growth through the lens of business strategy. As mentioned, higher taxes can often hinder business evolution, while lower taxes may stimulate growth. The flexibility and adaptability of businesses are essential in responding to external factors such as tax rates.

6. Conclusion and Implications

In emerging markets where there is a high dependence on imports for basic necessities from foreign countries, it serves as a significant indicator that the economy of a particular country demonstrates vulnerability. This vulnerability requires substantial attention from the government, academics, and researchers. Thus, the availability of data becomes crucial for these stakeholders as it allows them to provide assistance through the analysis of pertinent information to find solutions to address such dependency effectively.

The external business environment, such as inflation and taxes, represents variables that demand maximum attention from businesses because they indirectly influence them. For this reason, businesses need to have a suitable strategic orientation to foster growth and survive in a business environment affected by uncertainties. The essential objective of this study is to examine how inflation and taxes influence business growth through the lens of strategic orientation, which provides clarity. However, the study's results indicate that while inflation significantly affects business growth, strategic orientation and taxes do not contribute significantly to business growth. Thus, we confirm that the mediating effect of strategic orientation in the relationship between inflation, taxes, and business growth is not statistically significant.

This study has practical implications for guiding import managers during periods of inflation. They should consistently monitor prices from their suppliers, attempt to reduce necessary costs before bringing products to the market, and stay vigilant to policy changes that might impact import taxes. Emerging markets always face such changes, emphasizing the importance for import managers to remain attentive to shifts in the business environment and utilize appropriate strategies to foster growth.

7. Limitation and Future Research

This study has some limitations. Firstly, it relies on a numerical census and a questionnaire to collect data, which is heavily dependent on responses from managers or importers. In this situation, there is a possibility that clear information about taxes, price increases, and business strategies may not be provided. Secondly, as the respondents are limited to managers or key personnel, there may be difficulties in reaching or obtaining time from these individuals to complete the questionnaire. This circumstance might result in bias or a lack of understanding of strategic aspects of the business. Considering these scenarios, the study suggests that future research should consider conducting interviews or focus group discussions to obtain more credible data from importers. Thirdly, the study is conducted only in Dili and during a transitional period with changes in import taxes at customs entry points. Due to this circumstance, it is challenging to generalize the findings to other industries.

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