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The Mediation Effect of Business Strategy on the Relations between External Factors, Internal Factors and Business Performance

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ABSTRACT

This study aims to test the influence of external, internal factors and business strategy on business performance, in addition to the mediation effect of business strategy on external, internal and business performance. This research was carried out in 150 restaurants in Dili, Timor-Leste, and questionnaires were used to collect data. SMART-PLS 3.0 was used to test the hypothesis. The finding reveals that external factors had no significant impact on business performance, and internal factors positively influenced business performance. The mediation effect of external and internal factors had no significant impact on business performance. This research extends the empirical works of Huang & Lee (2012), Metts, (2007) and Barney (1991) on the relationship among external factors, internal factors, and business strategy and performance. This study practically contributes to the restaurant manager and regulators being aware of threats and opportunities from the external environment and improving internal construct to enhance business performance.

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

1. Introduction

In recent business activities, business performance has been an essential measurement for business profitability and sustainability (Venkatraman & Ramanujam, 1986; Regev, 1998; Ortega, 2010; Nguyeng, 2018). Therefore, managers aim to enhance business performance by seeking business opportunities and neutralizing business threats in the recent dyanamic and intense competitive business environment (Porter, 1980; Metts, 2007; Saldanha *et al.,* 2019) by utilising corporate's internal resources and capabilities (Barney, 1991; Huang & Lee, 2012) and strategic fitness (Porter, 1985; Sigalas & Papadakis, 2018; Yuliansyah et al., 2017).

Numeorus empirical studies revealed that external factor influence negatively on business performance (Porter, 1980; Metts, 2007; Saldanha *et al.*, 2019), while the internal factor influenced positively and significantly on business performance (Barney, 1991; Huang & Lee, 2012; Kamboj *et al.,* 2015). Nonetheless, numerous studies also showed the reversed results of both external and internal factors on business performance (Saldanha et al., 2019b). This literature goes back to the study that of the combined business strategy will lead to enhance business performance (Gabrielsson et al., 2016; Saldanha, 2019).

Due to this inconsistent, appropriate business strategy or other contingency approaches are needed to enhance business performance.This study aims to test the influence of external, internal factors and combined business strategy on business performance, and the mediation effect of combined business strategy on the relationship between external, internal factors and business performance. The research was carried out in restaurants in Dili, Timor-Leste which is categorized as small medium enterprise (SMEs).

2. Literature Review

2.1. External Factors

The external industry environment is an important factor to consider for business activities (Dill, 1958; Duncan, 1972; Wang & Ellinger, 2011) due to its impacts on business competitive advantages. The industry environment is consisted of the five dimensions namely threat of new entry, threat of substitutes, power of buyer, power of supplier, and rivalry among competitors (Porter, 1980). The new competitor who enters the industry tends to carry new ideas or skills to get the market share in the industry. The competition emerges when new competitors intentionally put pressure on goods and services and invest reasonably to compete with existing players in the industry (Porter, 1980). This new competitor could increase competition in the new industry, decreasing industry attraction (Uçmak & Arslan, 2012).

The first five competitive forces are the threat of entry. Enter the industry depends on established entry barriers. If the barrier is high, it is difficult for a new competitor to enter a new industry. It is because of the product and services delivered by the existing competitor (incumbent). Also, they are challenging to imitate. Budget investment from the incumbent requires an amount of cash, and it is difficult for a new competitor to access the existing supply chain (Karagiannopoulos *et al.,* 2005). When the industry has a low barrier, imply to the existing competitor that they can lower the prices for the product and services while adding more investment to the market to eliminate new competitors. Especially in the retail industry (coffee), due to the lower barrier of entry, companies such as Starbucks

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

invest more in the modernization of the establishment or the menus. They will continue to lead the industry (David & David, 2017).

Second is the thread of subtitutes. A substitution is a form of product and service which has a similar function and usefulness in the industry. For instance, Video Conference substitutes travel, plastic substitute aluminum, and email substitute postcard (Porter, 1980). *Substitution* is also defined as an alternative for using resources and capabilities to achieve standards or goals where the same resources become obsolete (Barney, 1991). From time to time, the threat of substitution is indirect. For instance, lawn care companies will be out of business when people in the urban area move out to live in suburban areas. Additionally, most software Site Companies that sell their product to airline companies feel threatened because the travel site from the company is substituted by a travel agency (Mcevily *et al.,* 2000). Ultimately, this substitution always occurs in the present day. However, it is usually overlooked because they appear different from products or services in the existing industry.

The measurement of external factors is done already by numerous empirical studies where researchers study higher technical and vocational education, specifically on the influence of external factors on organizational performance. Huang & Lee, (2012), Huang & Lee (2012); Barhatov & Belova, (2015) conducted a study on the success of Small Medium Enterprise (SMEs) where these businesses influence tax and legislation perspective. In the banking sector, studies measure external factors on the banking credit (Alexandri & Santoso, 2015), while, in safety leadership, there is also measure external factor (Zhang et al., 2017).

The third is the power of buyer. Major distributors usually get significant power over other players in the industry. Generally, they raise the price of the product. Consequently, it will limit innovation toward product quality (Porter, 1980). For instance, Microsoft puts much pressure on the computer manufacturer by raising software prices in the market, while, on the other hand, computer manufacturers compete intensively to reach the customer. Hence, whoever decides the price will get a much higher market share in the business (Baseman *et al.*, 2005).

Fourthly, it is the power of supplier. In the industry where the customer is more than the distributor, the meaning distributor has plenty of power. The supplier will raise the price or create a low-quality product, considering that state intervention is absent around standard barriers that deserve to be attributed to the customer. The clients hold power when there are more distributors in the market, meaning clients could demand lower prices and better-quality products and services (Porter, 1980). These demands make distributors compete in the industry because if clients are not satisfied, there is always an alternative, especially if the clients are sensitive to the price (Zhang, 2016).

Lastly, it is rivalry among competitors. The rivalry in the industry appears in various forms, such as discounts in prices, engagement by introducing a new product, advertising, and customer service (Šperková & Hejmalová, 2012). (Micheal E Porter, 1980) realized that rivalry occurs when many competitors are involved in an industry. It makes the industry evolve slowly. At the same time, all the players compete for market share.

Once there is differentiation in products and services that creates loyalty. Meanwhile, some companies are more successful than others. When an acquisition occurs for littering the market, all these conditions make rivalry occur. Intensive competition commonly occurs in advertising, product innovation, service quality, and highly qualified employees to attract potential clients and maintain loyal clients (Adnan *et al.,* 2016). Lichtenthaler (2009) informs that the more competitive the industry, the more positive outcomes for innovation and performance occur. Private companies tend to get better performances than public companies during the competition in the industry because private entities have more flexibility, making them more able to adapt quickly to their position in the market (Ramaswamy, 2001). In the meantime, intensive competition has a negative side that affects profitability which companies are looking for the sustainability of the business. This affirmation is described by the companies that compete for leadership in the market.

2.2. Internal Factors

This study's internal factors are human resources, marketing capabilities, and financial resources. An organization functions when there are better interaction and cooperation between people involved in the structure; to be solid and sustainable, the organization needs its internal capability (Selznick, 1948; Chuang et al., 2015). In order to be more competitive in the industry, managers of the business must secure qualified employees so that they can work with proper commitment and achieve the organization's goals (Kamoche, 1996; Buller & McEvoy, 2012). The organization should prioritize human capital as the potential force that is essential to attain a competitive advantage in the business (Barney, 1991; Nyberg *et al.,* 2014). To manage these human resources to become more successful, the manager needs to recruit employees based on their ability and guide them towards professionalism to achieve the goals they are responsible for (Eva, 2018). The following is the explanation of internal factors.

Firstly, it is human resources. In the restaurant industry, the manager needs to delegate competencies to staff, encourage them when they face difficult situations, maintain proper coordination, and guide appropriate direction to do their work diligently (Cheung & Cheng,

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

1996). The quality of human resources could be seen based on their academic degree and working experience that produce a practical solution related to their actual job (Davidsson & Honig, 2003; Unger *et al.,* 2011).

The ideal behavior that a manager should possess is a leadership quality. Where demand employees to work as a team so that the job is lighter and more successful (Wang *et al.,* 2010), (Wang et al., 2010), encourage employees by guiding them step by step even the job is new, but if they already possess skills, then direct them toward creativity and innovation (Choi *et al.,* 2016). It is also necessary to establish specific group objectives to encourage their performances (Gathmann & Schönberg, 2010).

Managers need to create adequate expectations for the employees to give them confidence so that when they do their job, it will be successful (Landry, 2003). During the job, necessary for the manager to give employees appreciation, and it is much better when the employees appreciate one other (Shonubi *et al.*, 2016). In the meantime, employees need to recognize their performance, achieve targets, and assess their position (Smith & Bititci, 2017). Finally, the manager has to make a team effort assessment. If the performance decreases, even if the employees know the target is not achieved yet, necessary always to encourage the team to be more resilient facing difficult times (Manz & Sims, 1987; George & Zhou, 2001).

Secondly, it is marketing capabilities. Marketing capabilities indicate internal factors that have an essential role in increasing financial performance. Those businesses that emphasize marketing capabilities will increase performances because available resources will facilitate clients with actual products and services, product quality with lower prices, and based on consumer feedback, the business will act according to existing demand (Morgan *et al.,* 2009; Morgan, 2012).

Advertising in business is not a new subject these days. Due to the increased use of the technological gadget in the XXI century, the business tends to promote products, creativity, and innovation immediately. Such social networking sites as youtube, Facebook, Instagram, Google +, and Twitter become tools that small business owners use to advertise their products and services that possibly attract clients to purchase (Li et al., 2019). Business with more significant dimensions as a corporation usually promotes their businesses on TV and social media related to their core business. Additionally, they use their brand to become sponsors for non-profit organizations or realize philantrophies work for communities that live in vulnerable areas.

Lastly, it is financial resources. Finance is defined as resources in an organization that are very dependable for the business to operate because it facilitates every activity in the organization. Financial resources are related to economic perspectives associated with the property/asset of the organization. These resources need a proper system to guide their operationalization to aspire for transparency, accountability, and responsibility (Grant, 1991).

In the restaurant sector, the owner requires a sufficient budget to operate the business. When the capital is below expectations, the business could borrow capital from a financial institution or convince the investor to put money into the business. For this reason, managers must have a plan were supposed to define very well to attend to clients and possibly increase performance. After this, it is necessary to analyze better budget allocation for those activities (Otley, 2002).

It is essential to have a human resource with qualities to implement or execute the budget according to the existing plan in budget implementation. Finally, its necessary assessment for budget execution has to be done so that the manager can link budget execution to the existing plan. Also, managers need to present percentages executed. Are those clients satisfied with such budget execution, and is there any continuation toward the activity because sustainability is critical for the business brand (Poston & Grabski, 2001). To sum up, the manager must refund investor capital so that the partnership can prevail from a long-term perspective.

2.3. Business Strategy

There will be an elaboration on essential concepts *in business strategy* namely *differentiation strategy and cost leadership strategy.* Differentiation strategy is a business strategy that allows managers to use it to gain a competitive advantage compared to other businesses in the same industry. This strategy is used to gain an advantage over the competitor by offering unique products and better service quality which clients consider superior even if the price is high (Porter, 1985).

This strategy occurs because of a consumer's numerous demands (Richards & Celine, 2016). These clients prefer different products and services compared to other clients and their tastes for the product (Porter, 1985). Subsequently, some businesses who use this strategy intentionally develop unique and quality products according to the costumer's specific needs. One of the characteristics representing differentiation strategy is a product and service presented to the market but is difficult for competitors to imitate (Baroto *et al.,* 2012). To prevent product imitation from a competitor, businesses using this strategy have to continue their creativity and innovation. They have to do innovative research to create new products and are capable of adapting quickly to new technology in the business (Tuominen *et al.,* 2004).

This strategy could be very successful in the industry when the business owner continues to establish higher prices for the product, but those clients are still loyal to the company. It occurs due to a solid client-brand relationship. With this partnership, a business must have excellent

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

service quality. Meaning has to be available when customers need it, unique product design with attraction and easy to use and durable (David & David, 2017).

The differentiation strategy used in business is measured through indicators such as unique products developed according to intense research and development and quality customer service (Banker *et al.,* 2014). Although in higher education, Saldanha *et al.,* (2018) measure differentiation strategy based on the availability of unique course programs, competent graduates, and unique service quality, which are fundamental in the business.

On the other hand, a cost leadership strategy is a business strategy used by a business to offer products and services at a lower cost compared to other competitors to get a competitive advantage in the industry (Porter, 1985). Products and services supplied to the clients are durable when the commodity is distributed efficiently *(Banker et al.,* 2014). Efficiency in the lower cost is not applied only in the product or services but also implemented in the service quality, advertisement, research, and development of new products and efficiency for the employees who sell products and services directly for the clients/sales forces (Porter, 1980).

In the meantime, efficiency also applies to the production and distribution process, cost control, employee performance, and efficiency in the organization's assets (Baack & Boggs, 2008). Risk for cost leadership strategy occurs when it is difficult for the company to purchase equipment to produce products with the quantity to sell in the market. Another risk is that it is challenging to recruit untrained employees to work in the industry related to product manufacture. In addition, when the company grows more significant, the manager is sometimes distracted to identify this change; they need to manage company growth using a cost leadership strategy carefully. The business's cost leadership strategy is typically measured by indicators such as the vigorous pursuit of cost reduction, tight control of overhead costs, and minimizing distribution costs (Allen & Helms, 2006).

On the hand, this strategy is also measured by an indicator such as Minimize Procurement costs, minimizing operational costs, cost of labor, service costing, and *cost for the promotional activities (Nyauncho & Nyagara, 2015).* In addition, Saldanha *et al.,* (2018) measure this strategy with indicators such as *cost efficiency, low operation cost, and low tuition fee per student* for industry competitive advantage.

2.4. Business Performance

Business performance is an essential construct because it is the indicator that determines the business's success or failure. To succeed in the business, the managers need to develop a suitable strategy that attracts client decision-making to purchase the product and service available. In the meantime, better business strategy, get competitive advantage compared to existing competitors.

The definition of performance is a multidimensional one because there are numerous researchers use this construct to be their dependent variable. Parnell et al., (2012) measure performances using indicators such as financial dimension and accountability reports, market valuation, and critical informant descriptions. Performances are also measured by reputation, market, and economic dimensions (Hall Jr. & Lee, 2014). However, in strategic management, financial performance always becomes the dependent construct (Mills *et al.,* 2014). On the other hand, researchers such as Kaplan & Norton, (2001) and Hilman & Kaliappen, (2015) criticize performance measurement, which interprets only financial performance.

Due to this claim, Kaplan & Norton, (2001) recommend measuring performance by the dimension of learning and growth, internal process, customer satisfaction, and finance itself. For this whole explanation, we could define business performance measurement as constituted by financial performance, which measures by dimensions such as Return of Investment (ROI), Return on Asset (ROA), Return on Equity (ROE), and profitability. In contrast, non-financial performance is measured by dimensions such as learning and growth, internal process, customer satisfaction no market share (Zehir et al., 2015). In this study, we use two dimensions, such as ROI and Profitability for financial performance and customer satisfaction and market share on non-financial performance.

2.5. Conceptual Framework

The conceptual model of this research was developed based on the Porter Five Competitive Forces, which focus on external factors in the business and use Porter Generic Strategy for the mediation. On the other hand, Internal Factor is based on the Resource-Based View (RBV), which emphasizes business internal resources and capability to obtain competitive advantage and better performance.

According to Porter (1980) business managers need to have the proper capacity to analyze five competitive forces to achieve better competitive advatanges and business performance. In addition, Barney, (1991) states that to have a competitive advantage, business managers need to manage resources and capabilities effectively in the business in order for the business to become successful.

The research model used in this study is adapted by Huang & Lee, (2012), where based on the theory of five competitive forces from (Porter, 1980) and the theory of resource-based view developed by (Snow & Hrebiniak, 1980; Barney, 1991; Verona, 1999).

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

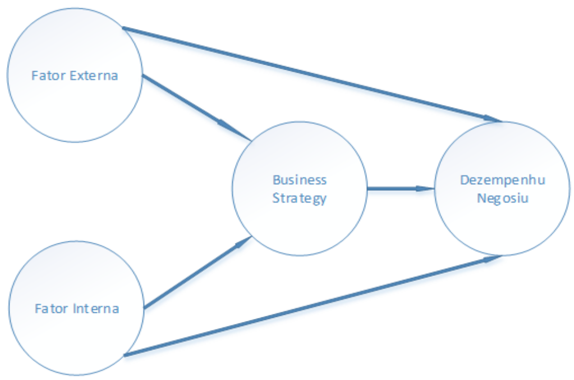

Figure 1. Research Model

2.6. Hyphotesis

2.6.1. External Factor and Business Performance

Five competitive forces represent a business model which identifies industry strengths and weaknesses. This model can determine competitive advantage for the business in the market where the competition takes place (Porter, 1980). Huang & Lee (2012) also found that competitive forces in a vocational school had insignificant influence on business performance, which is in line with the view of Porter (1980). In addition, Metts (2007) and Saldanha et al. (2019) found that external factors had no significant effect on business performance. Therefore, this research proposed the following hypothesis:

H1: External Forces insignificantly influence on business performance.

2.6.1. Internal Factor and Business Performance.

Based on resource-based view (RBV), heteregenous corporate resources dictate the competitiveness and business performance. A corporate with good resources and capabilities certainly will over-perform its competitors within the same market place (Barney, 1991). This has been confirmed by numerous empirical studies that revealed that corporate resources namely human resources significantly influenced on business performance (Richard, 2000; Schroedere *et al.,* 2002). Corporate with rare and value resources and capabilities significantly influenced on business performance (Newbert, 2008). Therefore, this research proposed the following hypothesis:

H2: Internal factors influence positively and significantly on business performance.

2.6.2. External Factor and Business Strategy

Five competitive forces of Porter (1980) are important factors to consider in taking business decision. It requires managers to observe the dyanamnic and intense competition, and respond accordingly by developing business strategic fitness. Some managers handle five competitive forces by using product quality and differentiation, while others approach by cost leadership strategy *(*Song *et al.,* 2002). Omsa *et al.* (2017) found that five competitive forces the power of buyers influences differentiation strategy significantly but does not affect the power of suppliers. On the other hand, suppliers' power significantly influences costs leadership, while the threat of rivalries significantly influences differentiation strategy. Therefore, we proposed the following hypothesis:

H3: External Factor has positive and significant influence on business strategy.

2.6.3. Internal Factor and Business Strategy

The resource-based theory perspective, which also describes the dimension of organizational resources such as price, product quality, and service quality, could become resources that managers need to pay attention to because these indicators, when appropriately managed, will increase business performance. In the price indicator, cost leadership strategy faces difficulties when multinational corporations operate their business in emerging markets (Baack & Boggs, 2008). Besides this, Bingxin Li & Juan Li, (2008) highlight that the cost leadership strategy used by businesses is not effective in emerging markets, especially in less concentrated markets compared to more concentrated markets. The differentiation strategy, associated with product quality, has a significant influence during moderate cost leadership strategy—the higher the cost leadership more effect on product quality (Prajogo, 2007).

H4: Internal Factor has a significant influence on business strategy.

2.6.4. Internal Factor and Business Strategy

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H4: Internal Factor has a significant influence on business strategy.

2.6.5. Business Strategy and Business Performance

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

Differentiation strategy and cost leadership strategy are constituted from Porter Generic Strategy, which focuses on how business differentiates their product and services to achieve competitive advantage. On the other hand, more focus on efficiency and cost control to secure a competitive advantage over another competitor. (Semuel *et al.,* (2017) affirm that differentiation strategy significantly influences hotel performance. An empirical study indicated that differentiation strategy influences the business performance of SMEs (Kaya, 2015). The study that uses cost leadership strategy to measure hotel performance significantly influences business performance (Gorondutse & Gawuna, 2017). Other studies in Iran show that cost leadership strategy has a significant influence on business performance (Valiopur *et al.,* 2012).

H5: business strategy has a significant influence on business performance.

2.6.6. External Factor, Business Strategy and Business Performance

The mediation effect that uses cost leadership strategy and differentiation strategy defines as an alternative strategy that the industry uses to get a competitive advantage, automatically increasing business performance. An empirical study made by Ong et al. (2018) indicated that employed competitive forces as a moderator between differentiation strategy and cost leadership strategy on business performance. They also indicated that companies need to use a differentiation strategy in the industry with higher buyer bargaining power. The cost leadership strategy is used when the company has higher supplier bargaining power. In the furniture industry, cost leadership strategy has significantly influenced business performance. This differentiation strategy influences performance when there is pressure from the bargaining power of buyers and when there is rivalry between competitors(Omsa et al., 2017).

H6: Mediation effect from business strategy concerning External factors and business performance.

2.6.7. Internal Factor, Business Strategy and Business Performance

Differentiation strategies that indicate service quality, product quality, and brand promotion become important indicators because they determine business performance.
In contrast, indicators with cost efficiency, minimizing cost distribution, and control of indirect cost will assist the manager in implementing a cost leadership strategy to get a competitive advantage. In the business world nowadays, with intensive competition, there is necessary to have an efficient marketing strategy to increase superior performance (Aghazadeh, 2015). While in the area of knowledge-based resources, which emphasize exploration opportunity and knowledge formulation on market behavior, changes in commercial attraction in the environment could become intangible resources that a company has to pay attention to because they contribute significantly to business performance (Wiklund & Shepherd, 2003).

H7: Mediation effect from business strategy Concerning internal factors to business performance.

3. Research Methods

This research was carried out in 150 restaurants in Dili, Timor-Leste. Data were collected from 150 restaurant's managers as respondents using accidental sampling method. The questionnaires were developed by using Five Scale Likert, ranging from 1 (strongly disagree) to 5 (strongly agree).

The data analysis used SMART-PLS 3.0 which has been proven as reliable instrument to test multivariate models, small sample size and formative/reflective indicators's test (Hair *et al.,* 2014). Cronbach alpha (CA) and composite reliability (CR) were used to test the reliability of the data (Hair *et al.,* 2014). For the data validity, it was used outer loading (OL) and average variance extracted (AVE) for convergent validity test, and Forner-Larcker criterion (Hair *et al.,* 2014) and Heterotrait-Monotrait (HTMT) (Henseler *et al.,* 2015) for discriminant validity. Hypothesis were tested using path coefficient (T and P values) for observing direct and indirect effects of bootstrapping analysis (Hair *et al.,* 2014 & Hair *et al.,* 2017).

4. Results

4.1. Realibility and Validity

We used Cronbach's alpha (CA) and composite reliability (CR) to analyze data reliability. According to Hair *et al.*(2014), items are reliable when the CA and CR values are higher than 0.7. However, for exploratory studies, the CA and CR values can be accepted at above 0.6. Table I shows that CA and CR values of all items are above 0.6. Therefore, all items are reliable for inner model measurement.

The validity test comprises two types, namely convergent validity, and discriminant validity. Convergent validity uses two parameters such as outer loading (OL) and average variance extract (Hair *et al.,* 2017). An indicator is valid when OL value is higher than 0.7, and the AVE value is more than 0.5. Figure 2 shows that the OL value of all items are above 0.6, while the AVE values all items as shown on the Table I are above 0.5. Therefore, all items meet the minimum threshold criteria of convergent validity.

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

Table I. Reliability and validity Test

Item	CA	CR	AVE
CLS	0.746	0.887	0.797
DS	0.603	0.827	0.705
FP	0.937	0.960	0.888
FR	0.637	0.806	0.585
HR	0.879	0.924	0.802
MC	0.794	0.879	0.708
NE	0.653	0.848	0.737
NFP	0.780	0.872	0.694
PB	0.705	0.866	0.765
PS	0.733	0.849	0.654
R	0.754	0.887	0.797
S	0.609	0.793	0.561

The Discriminant Validity Test uses Forner-Larsker Criterio (FLC) and Heterotrait Monotrait (HTMT). Looking at FLC, the item is valid when the AVE value is more significant from the indicator towards its indicator than other indicators. Table II shows that the AVE value from an indicator toward its indicator is more significant than another indicator (Hair *et al.,* 2017).

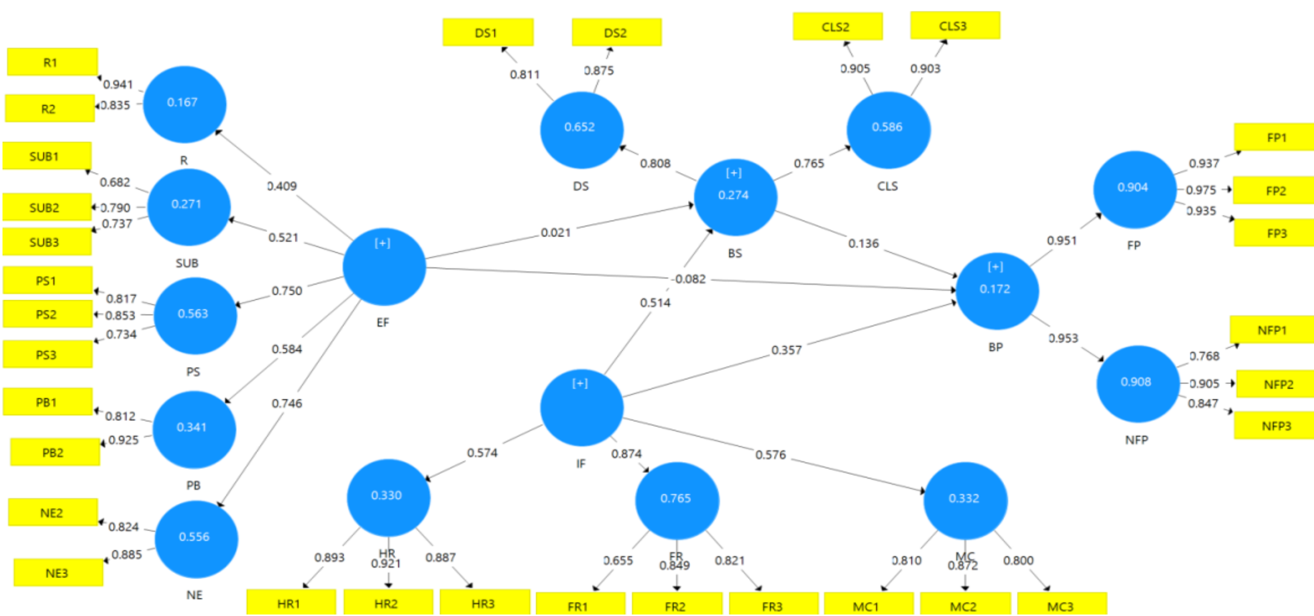

Figure 2. Outer Loading for Convergent Validity Test.

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

Tabela II. Fornell-Larcker Criterion for Discriminant Validity

Item	CLS	DS	FP	FR	HR	MC	NE	NFP	PB	PS	R	S
CLS	0.756											
DS	0.414	0.858										
FP	0.186	0.260	0.943									
FR	0.484	0.490	0.278	0.784								
HR	0.381	0.289	0.220	0.382	0.916							
MC	0.265	0.289	0.153	0.361	0.031	0.842						
NE	0.466	0.378	0.091	0.464	0.226	0.434	0.710					
NFP	0.234	0.210	0.795	0.288	0.312	0.162	0.183	0.837				
PB	0.176	0.110	0.181	0.199	0.078	0.352	0.384	0.085	0.877			
PS	0.296	0.150	0.092	0.324	0.064	0.537	0.462	0.192	0.378	0.810		
R	0.272	0.376	0.063	0.334	0.450	0.184	0.280	0.125	0.095	0.156	0.914	
S	0.238	0.183	0.156	0.313	0.325	0.206	0.396	0.214	0.022	0.229	0.421	0.759

Looking at Heterotrait–Monotrait test, the indicator is valid when the value of HTMT is lower than 0.85 (Henseler *et al.,* 2015). Table III shows that the value of HTMT from all indicators is lower than 0.85. Therefore, all indicators are valid according to discriminant validity (DV).

Tabela III. Heterotrait-Monotrait (HTMT) for Discriminant Validity

Item	CLS	DS	FP	FR	HR	MC	NE	NFP	PB	PS	R	S
CLS												
DS	0.620											
FP	0.259	0.334										
FR	0.695	0.741	0.352									
HR	0.492	0.375	0.239	0.481								
MC	0.358	0.400	0.176	0.483	0.134							
NE	0.786	0.656	0.138	0.754	0.341	0.678						
NFP	0.342	0.294	0.809	0.389	0.380	0.205	0.304					
PB	0.264	0.160	0.230	0.300	0.116	0.453	0.622	0.191				
PS	0.421	0.210	0.118	0.448	0.130	0.694	0.756	0.277	0.489			
R	0.360	0.526	0.077	0.452	0.523	0.226	0.418	0.172	0.122	0.205		
S	0.359	0.291	0.199	0.474	0.426	0.292	0.681	0.299	0.124	0.345	0.577	

4.2. Hypothesis Test

Based on results of inner test using SMART-PLS 3.0 as shown Table IV, three hypotheses were supported, while four were rejected. In regard to external factor on business performance (H1), the T value (0.860) was below the minimum threshold value of 1.96 and the P value (0.390) was above the maximum value (0.05). Therefore, the relationship between the two variables was not significant. Thus, H1 is supported. Internal factor on business performance (H2), the T value (3.687) was well exceeded the minimum value of 1.96, and the P value (0.00) is below the minimum value 0.05. Therefore, the relationship between the two variables was significant. Thus, H2 was supported.

Business strategy on business performance, the T value (1.375) is well exceeded 1.96, and P value (0.170) is above the maximum threshold value of 0.05, thus, the relationship between the two variables was not significant. Therefore, H3 is rejected. External factor on business strategy (H4), the T value (0.313), and the P value (0.755) which were not met the required criteria. Therefeore, H4 is rejected;

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

internal factor on business strategy (H5), the T value (6.11), and P value (0.000). Therefore, internal factor has no significant effect on business performance. Thus H5 is rejected.

Table IV shows the result of specific indirect effects among external Factors, business strategy, and business performance. The T value (0.240) of external factor, business strategy and business performance (EF→BS→BP) is lower than the minimum value of 1.96, and the P-value (0.811) is greater than the maximum value of 0.05. Therefore, business strategy does not significantly affect the relationship between external factors and business performance. H6 is rejected. Regarding the mediation effect of business strategy in the relationship between internal Factors and business performance (IF→ BS → BP), the result shows that the T value (1.381) is below than the minimum value of 1.96, while the P-value (0.188) is far beyond the maximum of 0.05. Therefore, business strategy has no significant effect on internal factors and business performance. So, H7 is rejected.

Tabela IV. Test Result of Hypothesis (Direct and Indirect Effect)

Effect	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Note
EF -> BP	0.087	0.088	0.102	0.860	0.390	Not Significant
IF -> BP	0.355	0.365	0.096	3.687	0.000	Significant
EF -> BS	0.031	0.051	0.098	0.313	0.755	Not significant
IF -> BS	0.536	0.548	0.077	6.911	0.000	Significant
BS -> BP	0.138	0.140	0.101	1.373	0.170	Not significant
EF->BS->BP	0.004	0.008	0.018	0.240	0.811	Not significant
IF ->BS ->BP	0.074	0.076	0.056	1.318	0.188	Not significant

5. Discussion

The first objective of this study was to test the influence of external factors on business performance. The result shows that there is no significant influence between external factors on business performance which confirmes the study of Huang & Lee (2012), González-Rodríguez et al. (2018) and Saldanha et al. (2019) that competitive forces insigficantly contributed to the business performance due to corporates have enough capabilities to develop strategic fintness in dealing with competitive forces and achieving sustainable performance as stated by Porter framework (Porter, 1980) and resource based theory (Barney, 1991). The result of this study is not in line with the study of Metts (2007) which found that competitive forces influenced adversely on business performance.

The second objective of this research was to test the influence of the internal factors on Business Performance. The result shows that internal factor has a significant influence on business performance. The resource-based theory suggested that corporate with the best resource and capabilities will lead to organizational growth. Corporates with better human resources, marketing capability, and financial resources will certainly contribute to enhance business performance (Lorenzo et al., 2018; Peteraf & Barney, 2003). This result confirmed previous empirical studies that internal factor influence significantly on business performance (López-Cabarcos et al., 2015; Newbert, 2008). In addition, study reveal that marketing capability and partnership has significant influence on business performance (Cruz-Ros *et al.,* 2010).

The third objective of this study was to test the influence of external factors on business strategy. The results show that external factor has no significant influence on business strategy. This result is reinforcing the study of Song *et al.* (2002) and Omsa *et al.* (2017) which found that competitive forces had no significant influence on business strategy (cost leadership strategy and differentiation strategy). However, the result of this study is not consistent with previous study that competitive forces had significant effect on hybrid business strategy (Saldanha et al., 2019).

The fourth objective was to test the influence of internal factors on business strategy. The study results show that the internal factor has a significant influence on business strategy because cosporate with better human resources, financial resources, and market capability have great capability to undertake continuous innovation and develop either pure

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

strategy or combined strategy to overcome industrial competitive forces and achive sustainable competitive advantages. The result of this research corresponds to the empirical study, which uses the generic porter strategy, especially in partnership with the industry leader, by minimizing cost distribution and providing capacity building for the staff and brand development for the business (Akan *et al.,* 2006). At the same time, another study also addresses human resource influence on differentiation strategy, which significantly influences these indicators (Kariuki *et al.*, 2018). To sum up, the study made by Murray *et al*. (2011) illustrates that generic strategy, which plays the role of moderation, also significantly influences marketing capability.

The fifth objective of this study was to test the influence of business strategy on business performance. The result shows no significant influence of business strategy on business performance. This result implies that businesses adopting combined cost leadership and differentiation strategies have no significant influence on business performance. This result is in line with the study of (Parnell, 2010) and Lin *et al.* (2021). In addition, the result of this study also similar to the study of Allen & Helms (2006), Alzoubi & Emeagwali (2016) and Waterbury (2018) which found that differentiation strategy and cost leadership strategy does not significantly influence business performance. However, the result of this study is asymmetric with the finding of Gabrielsson et al. (2016), Yuliansyah et al. (2017) and Saldanha et al. (2019) which found that combined business strategy had significant influence on business performance.

The sixth objective of this study was to test the mediation effect of business strategy on the relationship between external factors and business performance. The study results show that business strategy has no significant impact on the relationship between external factors and business performance. This result shows that managers' doest care about the external environment, which possibly influences performance, and no influence from dimensions such as human resources, marketing capability, and financial resources toward performance. This result is synchronized with empirical studies that address no significant influence of mediation business strategy on external factors and performance (Larry *et al.,* 2014). At the same time, the business strategy that operates in a competitive environment also mediates external factors and business performance (Wada, 2018). Lastly, studies show that business strategy does not mediate external factors toward business performance but suggests innovations strategy be effective for the business after pandemic covid 19 because business evolves to a new era (Caballero-Morales, 2021).

The seventh objective of this study was to test the mediation effect of business strategy on the relationship between the internal factor and business performance. The result of study shows that business strategy is not significantly mediating the relationship between the internal factor and business performance.

This result shows that even though internal factors are significant toward business strategy and business performance but for the mediation effect, the result is different. This result is similar to the study that identified business strategy is not adequate to mediate with internal factors in human resources towards business performance (Huang, 2001). This result is also supported by a study that competitive organizations with differentiation strategy will decrease business performance (Acar & Zehir, 2010). Lastly, a study on the manufacturing industry shows that business strategy is not adequate to mediate the relationship between the internal factor and business performance (Wada, 2018).

6. Conclusion and Implications

The external, internal, and business strategies are essential constructs for business performance. This study aims to test the proper contribution of external and internal factors to business performance through business strategy. However, the result indicates that only internal factors significantly contribute to business performance, while external factors and business strategy do not significantly influence business performances. The result shows no significant influence of business strategy on the relationship between external and internal Factors on business performance.

From a theoretical perspective, this study will contribute to the existing literature on Porter's five competitive forces, the concept of the resource-based view, business strategy, and business performance. This study also highlights the effect of these constructs on emerging markets such as Timor-Leste.

7. Limitations and Future Research

This research has several limitations, such as using a questionnaire only as an instrument for data collection, which depends solely on the response of restaurant managers and owners. To efficiently control those responses, for future research, we suggest in-depth interviews and direct observation starting from the restaurant's external factors, internal factors, and business strategy and business performance. This research is viewed from the supply perspective because it is conducted solely on restaurant managers and owners. Because of this, it is challenging to predict restaurant business

Vol. 4, Issue. 2, pp.34-47, 2022
Available online at: https://tljbm.org/jurnal/index.php/tljbm

performance correctly. This research is an exploratory study to test the influence of external factors, internal factors, and business strategy on business performance; for this reason, it is difficult to generalize for a different industry.

This study was conducted during the period of covid 19 Pandemic. Where possible, most of the participants who filled the questionnaire also depended on their moodiness. These emotions could affect the result of the study.

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Vol. 4, Issue. 2, pp.34-47, 2022
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