



THE IMPACT OF THE COMPANY'S ENVIRONMENT TO PERFORMANCE AND COMPETITIVENESS OF INDONESIAN CONSTRUCTION COMPANIES

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ABSTRACT

This study aimed at analyzing and proving the influence of the internal, industrial and external environments of the corporate on the performance and competitiveness of construction companies. This research was conducted in East Java Province-Indonesia. Data were collected through Likert (1-5) scale questionnaire with combination sampling technique, namely stratified sampling, purposive sampling and proportional sampling methods. The research respondents consisted of 65 Directors, deputy directors and managers of construction companies. Data analysis used Smart PLS and SPSS v.22 software. The results of the study concluded that the corporate environment consisting of internal, industrial and external environments had positive and significant effects on improving the performance and competitiveness of Indonesian construction companies.

Key words: environment, internal, industry, external, performance, competitiveness, construction.

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1. INTRODUCTION

The number of construction service companies in Indonesia continues to grow. In 2018, the number reaches around 146 thousand companies (National Construction Services Development Board, 2014) [1]. Law of the Republic of Indonesia No. 2 of 2017, states that construction companies are one of the economic, social and cultural activities that have an important role in achieving various targets to support the realization of national development goals. In globalization era, it is expected that Indonesian construction companies can compete

in both regional and international environments, but in fact, many construction companies in Indonesia do not survive and continue their performance and even the competitiveness are low (Huda, 2009; 2013) [2] [3]

The fact shows that a strong, reliable and competitive business structure for Indonesian construction companies has yet to be achieved (Husaini, 2013) [4]. This is because of the dynamics of the corporate environment, both internal and external environments (Isik et al., 2010; Huda, 2017) [5] [6] The company changes in conditions very fast due to increasingly difficult and complex business competitions (Sudarto, 2007) [7]. The operational environment which is also called the competition environment is a factor in which the competitive situation that affect the success of a company. There is a very strong relationship between the environment, operating strategy, and the company's overall performance (Huda, 2009) [2].

Construction company performance is the results or achievements achieved continuously that are supported by project management competencies (Huda & Wibowo, 2013) [3][6], capabilities and resources as well as strategic decisions owned by contractors (Sadikin, 2009; Ellitan and Anatan, 2009) [8] [9] The company is said to have good performance if it is superior to indicators of profitability, growth, sustainability and competitiveness (Sudarto, 2007) [7]. In general, the performance of Indonesian construction companies is still relatively low (Husaini, 2013) [4]. This is because some efforts made by stakeholders to improve have not touched directly on fundamental improvements in terms of management competencies, resources and competency capabilities and strategies that must be done (Huda, 2017) [6].

On the other hand, according to Budiwibowo et al. (2009) [10], the competitiveness of construction companies in Indonesia is also still low. This is an illustration at the level of Indonesian construction companies because the company's competitiveness is an important component of industrial competitiveness and the competitiveness of nation (Huda & Wibowo, 2013) [3]. The competitiveness of Indonesian construction companies in the sense of their ability to compete at national and international levels is still low similar to companies with all the advantages they have to compete successfully in achieving sustainable growth is also still low (Huda, 2017) [6].

Research on the relationship between internal, external and corporate business environment and company performance is carried out by: Huda (2009) [2], Kusmayadi (2008) [11], Nurlena et al (2013) [12], Ramdani & Supriyat (2014) [13], Eruemegbe (2015) [14], Gado (2015) [15], Ibrahim & Primiana (2015) [16] and Indris & Primiana (2015) [17]. Research on contractor performance was carried out by: Bassioni (2004) [18], Achda (2007) [19], Raduan et al. (2009a) [20], Raduan et al. (2009b) [21], Lam et al. (2010) [22], Huda and Wibowo (2013) [3] and Huda (2017) [6]. Research on the relationship between company performance and competitiveness was carried out by: Satrio (2004) [23], Isik et al. (2010) [5], Absah (2008) [24], Asa et al. (2008) [25], Raduan et al. (2009a) [20], Raduan et al. (2009b) [21], Che Rose et al. (2011) [26], Huda & Wibowo (2013; 2017) [3] [6] and Huda et al., (2018) [27]

Based on the background description above, the research is related to the relationship among various parameters, namely; the corporate environment (internal, industrial and external environments), construction companies performance and competitiveness are very important and need to be done. The purpose of this study was to analyze the influence of the company's environment on the performance and competitiveness of construction companies in Indonesia. Benefits of the research were expected to provide informative contributions to stakeholders of Indonesian construction companies in fostering and improving the performance and competitiveness of companies at regional and international levels.

2. METHOD AND MATERIAL

2.1. Data and Research Instrument

This study used a small, medium and large qualifying construction company analysis unit in East Java Province-Indonesia. The research population was all construction companies who had obtained business certification from the National Construction Development Services Board, in accordance with the provisions of Law Number 07 of 2017 concerning Construction Services Companies (LPJKN, 2017) [28]. Data collection used a Likert (1-5) scale questionnaire with a combination sampling method namely; stratified sampling, purposive sampling and proportional sampling methods. Stratified sampling method is to determine the qualifications of small, medium and large contractors that will be used as research samples, purposive sampling method is to determine the location of the selected District based on the rationality and consideration of the researcher (Sugiyono, 2013) [29]. While proportional sampling method is to determine the number of proportions of small, medium and large qualified contractors selected in each district based on their proportion. Table 1 describes the characteristics of companies and respondents

Table 1 Data Characteristics of Companies and Respondents Eligible Analysis

Company Profile / Respondents	Small Qualification		Medium Qualification		Large Qualification		Total	%
	S2	S3	M1	M2	L1	L2		
Sub Qualification	22	18	10	5	6	4	65	100
Respondent Position								
<i>Director</i>	15	16	8	5	5	2	51	78,46
<i>Manager</i>	7	2	2	0	1	2	14	21,54
Gender								
<i>Man</i>	18	16	8	4	6	4	56	86,15
<i>Women</i>	4	2	2	1	0	0	9	13,85
Age (Year)								
<i>25– 37</i>	5	3	2	0	0	0	10	15,38
<i>38 – 43</i>	6	4	3	2	1	0	16	24,62
<i>44 – 49</i>	8	5	3	2	2	0	20	30,77
<i>50 – 55</i>	3	5	2	0	2	2	14	21,54
<i>> 55</i>	0	1	0	1	1	2	5	7,69
Level of education								
<i>Middle school</i>	0	0	0	0	0	0	0	7,69
<i>Senior High School</i>	3	2	0	0	0	0	5	18,46
<i>Diploma</i>	7	2	2	1	0	0	12	63,08
<i>Bachelor</i>	12	13	6	3	4	3	41	10,77
<i>Post Graduate</i>	0	1	2	1	2	1	7	7,69
Experience								
<i>< 5 years</i>	10	5	4	0	0	0	19	29,23
<i>6 - 10 years</i>	10	8	3	3	0	0	24	35,38
<i>11-15 years</i>	2	4	2	2	4	1	15	24,62
<i>> 15 years</i>	0	1	1	0	2	3	7	10,77
Number of employees								
<i>< 5 persons</i>	6	0	0	0	0	0	6	9,23
<i>6 - 10 persons</i>	10	6	0	0	0	0	16	24,62
<i>11-15 persons</i>	4	11	0	0	0	0	15	23,08
<i>16-20 persons</i>	2	1	2	0	0	0	5	7,69
<i>21-25 persons</i>	0	0	7	4	2	0	13	20,00
<i>> 25 persons</i>	0	0	1	1	4	4	10	15,38
Company turnover								
<i>0 - 1 B</i>	10	4	0	0	0	0	14	21,54

> 1 B - 2,5 B	6	6	0	0	0	0	12	18.46
> 2,5 B - 10 B	4	5	3	0	0	0	12	18.46
> 10 B - 25 B	2	3	2	0	0	0	7	10.77
> 25 B - 50 B	0	0	4	3	2	0	7	10.77
> 50 B	0	0	1	2	4	4	13	20.00

Where: L1 = Large qualification 1, L2 = Large qualification 2, S2= Small qualification 1, S3= Small qualification 2, M1= Medium qualification 1, M2= Medium qualification 2, B = Billion

2.2. Research Model

The research model shown in Figure 1 is based on several theories about the company's environment and previous research (Eruemegbe, 2015; Gado. 2015; Ibrahim & Primiana, 2015 and Indris & Primiana, 2015) [14] [15] [16] [17], related to the relationship between the company's environment, which consists of internal environment (INT), industrial environment (IND) and external environment (EXT), corporate performance (PER) and contractor's corporate competitiveness (COM), among others adopted from: Che Rose et al. (2011) [26], Huda & Wibowo (2013) [3], (Huda, 2017) [6], Huda et al., (2018) [27].

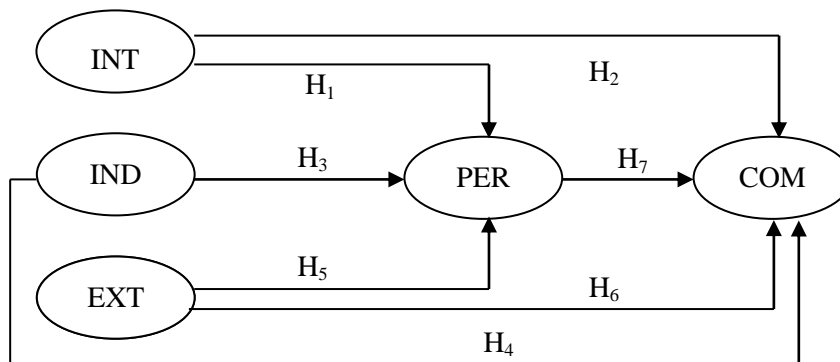


Figure 1 Relationship of Research Variables and Hypotheses

2.3. Research Hypotheses

Based on the background, problem formulation, literature review and conceptual framework described above, the research hypothesis can be formulated, as modeled in Figure 1 and explained as follows:

- 1) H1: The internal environment had a positive and significant effect on the performance of the construction company. This hypothesis was built and adopted from the research of Huda (2009) [2], Munizu (2010) [30], Hendriani (2011) [31], Syamsyurizaldi (2012) [32], Ibrahim & Primiana (2015) [16].
- 2) H2: The internal environment had a positive and significant effect on the competitiveness of construction company. This hypothesis was built and adopted from the research of Huda (2009) [2], Hendriani (2011) [31], Syamsyurizaldi (2012) [32].
- 3) H3: Industrial environment had a positive and significant effect on the performance of construction company. This hypothesis was built and adopted from the research of Huda (2009) [2], Hidayat & Budiarto (2009) [33]. Syamsyurizaldi (2012) [32].
- 4) H4: The industrial environment had a positive and significant effect on the competitiveness of construction company. This hypothesis was built and adopted from the research of Huda (2009) [2], Hidayat & Budiarto (2009) [33], Syamsyurizaldi (2012) [32].
- 5) H5: External environment had a positive and significant effect on the performance of construction company. This hypothesis was built and adopted from the research of Huda

(2009) [2], Munizu (2010) [30], Hendriani (2011) [31], Syamsyurizaldi (2012) [32], Ibrahim & Primiana (2015) [16].

6) H6: The external environment had a positive and significant effect on the competitiveness of construction company. This hypothesis was built and adopted from the research of Huda (2009) [2], Hendriani (2011) [31], Syamsyurizaldi (2012) [32].

7) H7: Company performance had a positive and significant effect on the competitiveness of construction company (Satrio, 2004) [23], Isik et al. (2010) [5], Absah (2008) [24], Asa et al. (2008) [25], Raduan et al. (2009a) [20], Raduan et al. (2009b) [21], Che Rose et al. (2011) [26], (Huda & Wibowo, 2013) [3]; Huda (2017) [6], Hud

a et al., (2018) [27].

2.3. Definitions of Variables and Indicators

Operational definitions and indicators proposed in this study were as follows:

1) Internal Environment (INT) is the environment inside of the construction company in which the firm's resources that will determine the company's strengths and weaknesses (Huda, 2009; Yulianti, 2013; Huda, 2017) [2] [34] [[6] according to Pearce and Robinson (2013) [35], including the resources, abilities and competencies of the company. The Internal Environment is formed on 7 indicators consisting of: financial resources, organizational resources, physical resources, human resources, innovation, reputation and project management.

2) Industrial Environment (IND) is a group of contracting companies that produce products or services that can replace each other. In a competitive environment, these companies influence each other. Usually, industries include the rich mix and competitive strategies that companies use to gain strategic competitiveness and above-average profits (Huda, 2009) [2]. The industrial environment is formed on 5 indicators consisting of: competition between contractors, threat of entry of foreign contractors, bargaining power of project owners, substitution service threats and supplier bargaining power (Syamsyurizaldi, 2012) [32], (Hidayat & Budiarto, 2009) [33].

3) External Environment (EXT) is the environment outside of the construction company that affects the company in terms of determining the opportunities and threats that will be faced by the company. The external environment is intended to try to identify business opportunities that need immediate attention from the executive, and at the same time are directed to find out business threats that need to be anticipated (Huda, 2009; 2017) [2] [6], Hidayat and Budiarto (2009) [33], Wispandono (2010) [36], Soekardan and Juju (2012) [37], Rahantoknam (2015) [38]. The external environment is formed on 4 indicators consisting of: scanning, monitoring, forecasting and assessing.

4) Company Performance (PER) is the result or achievement achieved continuously by the construction company as a comparison from the goals, standards and past achievements to improve the company's financial performance in the future. Company performance variables are formed on 4 indicators adapted from opinions; Sudarto (2007) [7]; Huda (2009) [2]; Isik et al. (2010) [5]; Nursin et al. (2011) [39]; Febrina (2012) [40]; Christina & Sudana (2013) [41]; Huda & Wibowo (2013) [3]; Azhari et al. (2014) [42] and Huda (2017; 2018) [6] [27], which consists of perspectives: finance, customer satisfaction, business processes within the company, as well as activities in learning and company growth.

5) Company Competitiveness (COM) is the ability of the construction company to compete in local and global markets with similar companies through all the capabilities they possess (Huda, 2017) [27]. Variable competitiveness of companies is formed on 5 indicators adapted from opinions; Porter (2006) [43]; Saptana (2010) [44] and Huda et al (2018) [27], include:

The threat of new contractors, the strength of customer bargaining, the strength of supply of suppliers, new product threats and the threat of foreign contractors.

3. DATA ANALYSIS

3.1. Test Validity and Reliability Instrument

Testing the validity and reliability in this study, preliminary research was carried out by distributing questionnaires to 15 respondents. Result of the respondent's answers was then validated by examining the value of the Average Variance Extracted (AVE) indicator for each latent variable. If the AVE value is ≥ 0.5 then the variable has a convergent validity parameter that is suitable to use. While reliability analysis was done by testing the composite reliability of each indicator variable. A variable can be stated to fulfill composite reliability if it has a composite reliability value > 0.6 . Results of the validity and reliability test are briefly explained in Table 2.

Table 2 Summary of Test Results on Validity & Reliability

Var	AVE	Remarks	Cronbach's Alpha	Remarks
INT	0,589	AVE > 0,50 Valid (OK)	0,884	> 0.60 Reliable (OK)
IND	0,559		0,804	
EXT	0,658		0,826	
PER	0,688		0,849	
COM	0,684		0,889	

3.2. Factor analysis

To evaluate the suitability or unidimensional of the dimensions in forming a factor, in this study confirmatory factor analysis for measurement models was carried out. Confirmatory factor analysis was done with Smart PLS software. Results of factor analysis showed the relationship of each variable and the value (coefficient) of the factor of each indicator. Estimated value of Loading Factor was obtained together with estimation results of Loading Factor for each factor variable on the indicators as shown in Figure 2.

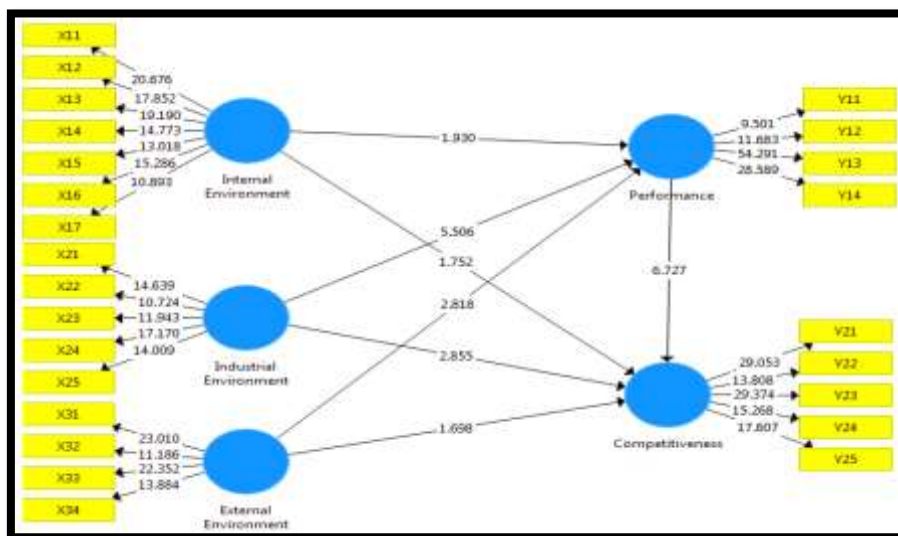


Figure 2 Smart PLS Factor Analysis Results

3.3. Hypotheses Testing

Direct and indirect influences between latent variables were done by testing hypotheses that compared the t-count values of each latent variable with t-tables. Testing the hypothesis, it used statistical values, for alpha 5% the t-statistic value used is t-table = 1.96, which is said to be significant if the t-count of the latent variable is greater than t-table (t-count > 1.96) . So that the significance criteria of Hypothesis are that Ha is accepted and H0 is rejected when t-statistics > 1.96. Rejecting / accepting the hypothesis, it used probability, Ha is accepted if the value of p < 0.05. In general, explanatory research method is a method approach that uses smartPLS. Results of hypothesis calculations can be seen in Figure 3 which shows path coefficients between latent variables.

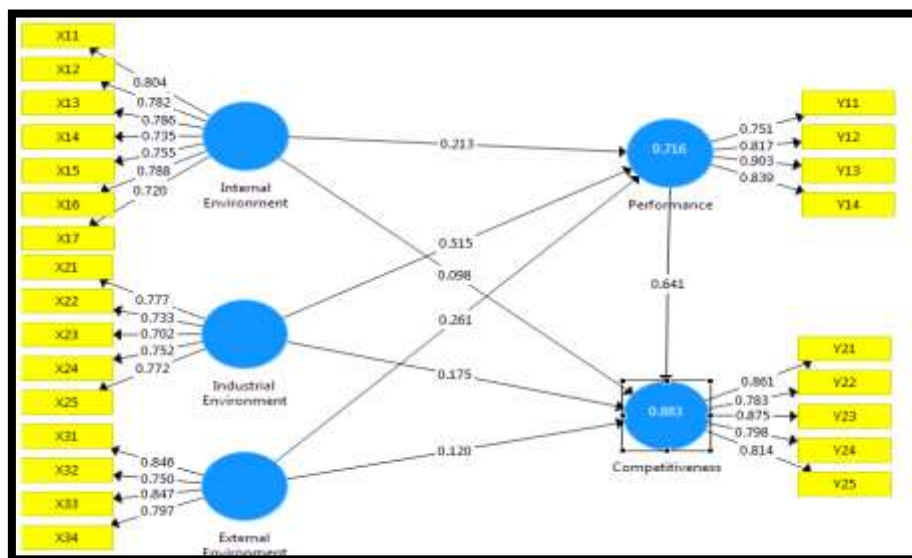


Figure 3 Smart PLS Hypothesis Test Results

Table 3 Influence among Latent Variables

Influence of Latent Variables		Path coef.	p value	p sig	Remarks
Internal Environment (INT)	Performance (PER)	0,213	0,027	0,05	Significant
Internal Environment (INT)	Competitiveness (COM)	0,098	0,040	0,05	Significant
External Environment (EXT)	Performance (PER)	0,515	0,000	0,05	Significant
External Environment (EXT)	Competitiveness (COM)	0,175	0,002	0,05	Significant
Industrial Environment (IND)	Performance (PER)	0,261	0,003	0,05	Significant
Industrial Environment (IND)	Competitiveness (COM)	0,120	0,005	0,05	Significant
Performance (PER)	Competitiveness (COM)	0,641	0,000	0,05	Significant

3.4. Influence Analysis of Latent Variables

After the research model was accepted and the path influence of the latent variables and indicators was known, the influence among the latent variables that were formed or the percentage of variance between variables is shown in Table 8, with the following explanation:

Table 8 Coefficient of Determination (R^2)

Latent variable	Squared Multiple Correlation (R^2)	Remarks
Company performance (PER)	0,883	The contribution of the influence of internal environmental variables (INT), industrial environment (IND) and external environment (EXT), on the company's performance was 88.3%.
Enterprise competitiveness (COM)	0,716	Contribution of the influence of internal environmental variables (INT), industrial environment (IND) and external environment (EXT) as well as company performance (PER) on company competitiveness (COM) by 71.6%.

Table 8 above explains that the value of R-Square for the company's competitiveness is 71.6%, meaning that the amount of competitiveness of the company can be explained by other independent variables of 28.4%. Then for the R-Square value on the company's performance is 88.3%, meaning that the percentage of the company's performance is able to be explained by another independent variable of 11.7%

4. RESULT AND DISCUSSION

The influence of Internal environmental on company performance and competitiveness:

Internal environment, namely the environment in the contractor's internal company was a company resource that determined strengths and weaknesses of the company. Internal Environment consisted of: financial resources, organizational resources, physical resources, human resources, innovation, reputation and project management. Results of this study indicated that internal environment had a positive and significant effect on the performance of construction companies in Indonesia. Findings of this study supported the theories of Pearce and Robinson (2013) and previous research conducted by: Huda (2009); Munizu (2010) [30], Hendriani (2011) [31], Syamsyurizaldi (2012) [32] and Ibrahim & Primiana (2015) research [16]. In addition, results of this study also showed the company's internal environment had a positive and significant effect on the competitiveness of the company, in accordance with the results of Huda's research (2009) [2], Hendriani (2011) [31], and Syamsyurizaldi (2012) [32]

The influence of the industrial environment on the performance and competitiveness of the company:

Industrial environment was a group of contracting companies that produce products or services that replaced and influenced each other including the wealth of mix and competitive strategies used by the company to gain strategic competitiveness and profitability. The industrial environment consisted of: competition between contractors, threat of entry of foreign contractors, bargaining power of project owners, threat of substitution services and strength of supplier bargaining. results of this study indicated that the industrial environment had a positive and significant effect on the performance of construction companies in Indonesia. Findings of this study supported the theories of Pearce and Robinson (2013) and previous research conducted by: Huda (2009) [2], Hendriani (2011) [31] and research by Syamsyurizaldi (2012) [32]. In addition, the results of this study also showed that the industrial environment of the company had a positive and significant effect on the competitiveness of the company, in accordance with the results of Huda's research (2009) [2], Hendriani (2011) [31] and Syamsyurizaldi (2012) [32].

The influence of the external environment on the performance and competitiveness of the company:

The external environment was the environment outside the contracting company that affected the company in terms of determining the opportunities and threats that the company faced. The company's ability to identify business opportunities that needed immediate attention, and at the same time was directed to know the business threats that needed to be anticipated. The external environment consisted of: the company's ability to do scanning, monitoring, forecasting and assessing. Results of this study indicated that the external environment had a positive and significant effect on the performance of construction companies in Indonesia. Findings of this study supported the theories of Pearce and Robinson (2013) and previous research conducted by: Huda (2009) [2], Munizu (2010) [30], Hendriani (2011) [31], Syamsyurizaldi (2012) [32] and Ibrahim & Primiana (2015) [16]. In addition, results of this study also showed that the industrial environment of the company had a positive and significant effect on the competitiveness of the company, in accordance with the results of Huda's research (2009) [2], Hendriani (2011) [31] and Syamsyurizaldi (2012) [32].

The influence of company performance on competitiveness:

Company performance was the result or achievement achieved continuously by the contracting company as a comparison between standards and achievements from year to year and consisted of perspectives: finance, customer satisfaction, internal business processes, and learning activities and company growth. Whereas the competitiveness of the company was the ability of the construction companies to compete in local and global markets similar to companies with all the capabilities it has, consisting of the ability to: new contracting threats, the power of customer bargaining, the power of supply suppliers, new product threats and contractor threats foreign. Results of this study indicated that the company's performance had a positive and significant effect on the competitiveness of construction companies in Indonesia. Findings of this study supported Porter's theory (2006) and also support previous research conducted among others by: (Satrio, 2004) [23], Isik et al. (2010) [5], Absah (2008) [24], Asa et al. (2008) [25], Raduan et al. (2009a) [20], Raduan et al. (2009b) [21], Che Rose et al. (2011) [26], (Huda & Wibowo, 2013) [3]; Huda (2017) [6], Huda et al., (2018) [27].

5. CONCLUSIONS

Results of this study concluded that the corporate environment consisting of internal environment, industrial environment and external environment both separately and simultaneously have a positive and significant impact on the performance and competitiveness of construction companies in Indonesia. If an Indonesian construction company wants to improve its performance and competitiveness, the company must increase: 1) its internal environment which consists of aspects: financial resources, organizational resources, physical resources, human resources, innovation, reputation and project management, 2) its industrial environment consisting of aspects; competition between contractors, threat of entry of foreign contractors, bargaining power of project owners, substitution service threats and bargaining power of suppliers, and 3) its external environment consisting of aspects: scanning, monitoring, forecasting and assessing.

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