

Analysis of the Business Environment in Construction Service Industry in DKI Jakarta, Indonesia

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ABSTRACT

This study aims to specifically analyze the business environment in the construction service industry in DKI Jakarta, by using an external and internal dimension factor approach. The dimensions of external factors include several indicators such as political, economic, social and technological indicators. While the internal factor dimensions consist of indicators of corporate culture, corporate structure, and corporate resources. The analysis technique uses Structural Equation Model (SEM) with SmartPLS. The number of samples included 370 leaders of construction service companies in DKI Jakarta. One company is represented by one company leader, either large, medium or small scale company. The results showed that external factors are more dominant than the internal factors in shaping the construction service business environment in DKI Jakarta. It can be understood because as the capital city, DKI Jakarta has a far more complex constellation than other regions. It means that in the case of operating companies in Jakarta, they must be agile in managing the external threats and opportunities. Companies that cannot adapt to the very dynamic climate in the capital with the dramatic competition will not be able to survive.

INTRODUCTION

The business environment is related to all surrounding conditions that can affect the course of a business (Thind & Thind, 2018). The business environment is the environment faced by the organization and must be considered in the company decision making. Daily activities of the organization include interactions with the work environment. This comprises the relationships with customers, suppliers, and shareholders (Gupta, 2013).

The environment is one factor that is very calculated in the management of business activities. This is because the business environment can influence important variables. The business influences the environment in business strategy planning (Buchory Herry Acmad and Saladin Djaslim, 2010), business performance (Adeoye & Elegunde, 2012; Shirokova, Vega, & Sokolova, 2013), and competitive advantage (Barquet, Seidel, Seliger, & Kohl, 2016; Ko & Liu, 2017; Nenzhelele & Pellissier, 2014), Corporate entrepreneurship (de Villiers-Scheepers, 2012; Osarenkhoe, 2010), Strategy innovation (Fernandes & Solimun, 2017), entrepreneurial orientation (Acikdilli & Ayhan, 2013; Yang & Wang, 2014), technology strategies (Chen, He, & Jin, 2008), Corporate sustainability (Dyllick & Hockerts, 2017; Høgevold & Svensson, 2012; Kleine & von Hauff, 2009a, 2009b; Tassal sustainability report, 2014), sustainable innovation (Schaltegger & Wagner, 2011) and sustainable entrepreneurship (Schaltegger & Wagner, 2011; Weerawardena, McDonald, & Mort, 2010).

Conceptually, a business environment consists of internal and external environments (Arogyaswamy, Barker, & Yasai-Ardekani, 1995; Porter, 2008). The external environment is defined as forces that arise and is out of reach and is usually independent of the company's operational situation (Buchory Herry Acmad and Saladin Djaslim, 2010). While the internal environment is the process of identifying internal strategic factors in the form of strengths and weaknesses and

organizational culture, organizational systems and organizational resources that can determine whether a company is capable to take an opportunity and avoid threats (Wheelen & Hunger, 2012).

This research will conduct a study specifically on the business environment, its constituent dimensions and its forming indicators. The study was conducted at a construction service company in DKI Jakarta. This is because the construction sector has a very significant role in national economic development (Tennant & Fernie, 2013). National economic conditions are determined by the contribution of the construction sector to the growth of other business sectors (Cakmak & Tas, 2012). In almost every country, the development of the construction sector will support the creation of better social and economic infrastructure so that it can stimulate the growth of other economic sectors.

The appointment of DKI Jakarta as a research location is that because DKI Jakarta Province has the largest construction value that has been completed compared to all provinces in Java as presented in table 1.

Table 1. Completed Value of Construction (million rupiahs)

Provinces	Year					
	2015	2016	2017	2018	2019	2020
DKI Jakarta	110,852,720	131,203,821	152,489,933	170,736,998	193,950,077	220,178,262
West Java	53,172,847	65,283,246	78,908,048	94,488,923	106,915,389	123,874,475
Central Java	48,058,364	58,359,179	69,298,526	80,895,615	91,314,064	105,817,319
DI Yogyakarta	5,498,228	6,126,843	6,896,513	7,625,665	8,556,392	9,581,407
East Java	57,124,528	68,452,648	81,733,525	97,167,652	109,917,207	125,018,368
Banten	32,186,080	36,781,249	41,839,599	47,735,148	53,430,384	60,890,501

Source: Central Statistic Agency (2021)

Therefore, DKI Jakarta is a reflection of the construction of other provinces in Java and even in all provinces in Indonesia. While researching the business environment allows companies to manage company operations appropriately, both the determination of strategy, performance measurement, competitive advantage, and so forth.

LITERATURE REVIEW

The business environment is anything that influences business activities in an organization or company (Sambamurthy, Bharadwaj, & Grover, 2003). The business environment has a strong dependence on economic conditions, industry, and interests in other community members (Paik, Kim, & Park, 2017). The business environment often influences company business decisions. The business environment consists of the external and internal environment (Hidayat, Akhmad, & Mu'alim, 2015).

The external environment is all events outside the company that has the potential to affect the company (Adeoye & Elegunde, 2012). In a strategically competing organization, the company owners/the managers will look for patterns that can help them understand their external environment, and this may be different from what they expect. The decision-makers need to have an accurate understanding of the company's competitive position.

Many researchers have examined the dimensions or indicators of the external environment (Chawinga & Chipeta, 2017a, 2017b; Chen et al., 2008; JK, W.J., D., & FM., 2016; Kang, Moretti, & Park, 2016a; Lumpkin & Dess, 2001), the external environmental analysis is commonly known as Market Based View (MBV). This research proposes, the dimensions of the external environment proposed by (Govori, 2013), namely:

a. Political Environment

The political environment defines the legal aspects to engage in business (Shiamwama, Ombayo, & Mukolwe, 2014). Some government regulations protect small businesses for example; regulations to ensure fair practice, use of government subsidies, import restrictions (import quotas, import compensation, customs shortages) and other measures to create a conducive environment for business. The political environment can also be an obstacle when considering government policies that affect the recruitment, safety, and paperwork required following legal requirements before establishing a business.

b. Economic Environment

Economic factors are related to the nature of economic trends such as the general availability of the amount of income credit that can be disposed of, interest rates, inflation rates and overall economic growth (Tajeddini, Elg, & Trueman, 2013). This is very important for entrepreneurs because they will influence the consumption patterns of products in certain markets (Shiamwama et al., 2014).

c. Social Environment

Social factors include beliefs, values and attitudes, and lifestyles developed from cultural, religious and educational backgrounds. These factors are very important when there is a change in socio-cultural factors, as well as in the demand for various things, for example, clothing, books, and recreational activities, among others (Shiamwama et al., 2014).

d. Technological Environment

The technological environment means that the companies use technical knowledge in providing solutions and meeting new market needs. Technology is one of the factors that influence the success of new products. By using sophisticated technology, companies can create better or more innovative products.

In technology-oriented companies, it can be interpreted that the company can use its technical knowledge to create technical solutions to answer and meet the needs of its users (Badrinarayanan, 2004). Furthermore, (Amasaka, 2013) states that technology is one of the factors that influence the success of new products because by using sophisticated technology companies can create better or more innovative products. The advantages of product differentiation have a very big influence, especially on high-tech companies, indicated by several different advantages (Ong & Ismail, 2013).

As for the internal environment, it can be stated as a resource that affects business activities directly (Buchory Herry Acmad and Saladin Djaslim, 2010). The internal environment according to (Hubeis, Najib, Widyastuti, & Wijaya, 2013) is a corporate environment in the organization and usually has direct and specific implications on the company. There are many opinions about how companies analyze the internal environment. According to (Barney, 2001b; Hitt, Ireland, & Hoskisson, 2012; Knight et al., 1999; Shiamwama et al., 2014) the company's internal environment analysis is known as Resource-Based View (RBV).

Referring to (Wheelen & Hunger, 2012), the internal environment needs to be analyzed to determine the strengths and weaknesses of the company. The internal environmental reference of this study (Wheelen & Hunger, 2012) consists of structure, culture, organizational resources (Wheelen & Hunger, 2012).

a. Organizational Structure

The structure is how companies are organized concerning communication, authority, and workflow (Coakes & Smith, 2007; Covin & Slevin, 1988). Organizational structure as a determination of how work is divided and formally grouped. Whereas the organization is a social unit that is consciously coordinated, that consists of two or more people, and functions on a relatively continuous basis to achieve a set of shared goals. The structure is how a company is organized concerning communication, authority, and workflow. The structure is often called the chain of command and is graphically depicted using an organization chart (Suwandej, 2015).

b. Organizational Resources

(Barney, 2001a) presents a more concrete and comprehensive structure to identify the importance of competence to obtain a sustainable competitive advantage. (Barney, 2001c; Borchert, 2008) express four indicators so that the competencies of the company can be a source of sustainable competitive advantage, namely valuable, rare, difficult to imitate and difficult to replace.

c. Organizational Culture

Culture is a pattern of beliefs, expectations, and values shared by members of an organization (Crocitto & Youssef, 2003; Kim, Lee, & Yu, 2004). Organizational norms specifically raise and define behavior that can be accepted by members from top management to operative employees (Abdelkafi & Täuscher, 2016).

METHODOLOGY

This research is a quantitative study. This study seeks to explain the dimensions of the business environment of construction service companies in Jakarta. The dimensions involved in this study include the external and internal dimensions. The external dimension is measured by several indicators namely the political environment, economic environment, social environment, technological environment. While the internal dimensions are measured by several indicators such as organizational culture, organizational structure, and organizational resources. These indicators were reduced to research instruments as shown in table 2 as follows:

Table 2. Research Instrument

Code	Statement	Answer (Scale 1-5)				
EXTERNAL ENVIRONMENT						
Political Environment						
LE1	Construction law as a basis for future strategic planning	1	2	3	4	5
LE2	Taxation policy that applies to construction companies is a consideration in developing company strategy	1	2	3	4	5
LE3	Laws and policies regarding employment are a concern for companies in determining strategic steps	1	2	3	4	5
LE4	Political stability in the country is a concern for companies in determining strategic steps	1	2	3	4	5
Economic Environment						
LE5	The level of economic growth is a concern for companies in determining strategic steps	1	2	3	4	5
LE6	Bank's interest rates are a concern for companies in determining strategic steps	1	2	3	4	5
LE7	A country's inflation rate is a concern for companies in determining strategic steps	1	2	3	4	5
LE8	The annual cycle in the construction industry is a concern for companies in setting future strategies	1	2	3	4	5
Social Environment						
LE9	Company has a policy in distributing income, especially in helping the social environment around construction projects	1	2	3	4	5
LE10	A company can anticipate worker mobility	1	2	3	4	5
LE11	Experts are needed by a construction company	1	2	3	4	5
LE12	The size of the UMR in DKI Jakarta is a concern for the company in setting strategies	1	2	3	4	5
Technological Environment						
LE13	Construction company need to work on the latest technology	1	2	3	4	5
LE14	A company need to develop technology to be applied in various fields of construction work	1	2	3	4	5
LE15	A company need to prepare new technologies in construction	1	2	3	4	5
LE16	A company need to keep up with technological changes in heavy equipment computerized systems	1	2	3	4	5
INTERNAL ENVIRONMENT						
Organizational Culture						
LI1	A company conducts a thorough study in taking risky actions	1	2	3	4	5
LI2	A company has established policies in the employee benefits system for each employee	1	2	3	4	5
LI3	Communication within the company is well established	1	2	3	4	5
LI4	A company is oriented to the vision and mission in making every policy	1	2	3	4	5

LI5	A company has good control in building organizational culture organizational structure	1	2	3	4	5
Organizational Structure						
LI6	A company has adequately carried out departmentalization in each work unit	1	2	3	4	5
LI7	A company has determined workers according to the needs and abilities of workers	1	2	3	4	5
LI8	A company has arranged the responsibilities of each work unit that must be fulfilled	1	2	3	4	5
LI9	A company has arranged the duties and authority of each work unit	1	2	3	4	5
Organizational Resources						
LI10	A company already has capabilities in physical resources such as construction equipment	1	2	3	4	5
LI11	A company has skilled human resources in their respective fields	1	2	3	4	5
LI12	A company has organizational resources that are capable	1	2	3	4	5

Source: Processed by researchers, (2020)

The questionnaire was sent to all companies that were the object of research. The object of research that became the unit of analysis is the construction service sector companies located in DKI Jakarta. Referring to (Chuan, 2006), the number of research samples obtained was 370 construction service companies. The sample was taken from the representatives of construction companies of small size categories (values <10 billion), medium (10 to 100 billion) and large (> 100 billion) (PUPR, n.d.).

The analysis used is a confirmatory analysis using structural equation modeling (Structural Equation Modeling - SEM) with SmartPLS. Partial Least Squares (PLS) can be used to test data obtained by 360 respondents (Chin, 1998). Data were analyzed with SmartPLS 2.0 developed by (Ringle & Wende, S. Will, 2005). SmartPLS 2.0 is used with the consideration that SmartPLS 2.0 was developed based on the path of modeling and bootstrap, and recommended by (Tenenhaus & Esposito, 2005) and (Wetzels, Odekerken-Schroder, & van Open, 2009). The research model developed is reflective. The aim of the reflective model is data analysis, where the researcher can further confirm the results of the analysis based on the theory that has been built and the questionnaire data that has been obtained (Ringle & Wende, S. Will, 2005).

RESULTS AND DISCUSSION

Result of the Research

This research uses Structural Equation Model (SEM) with Partial Least Square (PLS) analysis techniques. The following table presents an analysis of the outer research model:

Table 3. Cronbach Alpha, Composite Reliability Dan Average Variance Extracted

	Cut Off	Bus_En	Corp_cult	Corp_reso	Corp_Struc	Econ	Ext_Fact	Int_Fact	Pol	Social	Tech	Expl
<i>Cronbach's Alpha</i>	>0,6	0,96	0,86	0,83	0,82	0,86	0,96	0,93	0,90	0,90	0,85	All aspects have fullied the standard
<i>Composite Reliability</i>	>0,7	0,97	0,90	0,90	0,88	0,91	0,96	0,94	0,93	0,93	0,90	
<i>Average Variance Extracted (AVE)</i>	>0,5	0,51	0,64	0,74	0,65	0,71	0,62	0,56	0,77	0,77	0,68	

Source: SmartPLS 3.0 Output (2021).

According to (Ghozali, 2014) construct reliability testing is measured by composite reliability and Cronbach's alpha. The construct is declared reliable if it has a composite reliability value above 0,70 and Cronbach's alpha above 0,60. While the average variance extracted (AVE) value which is sufficient to measure validity is 0,5. Based on the criteria in table 2, the output data shows the results

of all outer model criteria are met so that it can be concluded that the research data has good validity and reliability.

Hypothesis Test

The structural model in SEM-PLS is carried out with a bootstrapping process that produces a t-statistic value. If the t-statistic value is greater than that of t-table with a 95% confidence level ($> 1,96$), the effect is significant. Meanwhile, to find out how much influence between variables, then find out the loading factor value from the original sample (O) output. This can be seen in the path coefficient table on the smartPLS output. The following image is presented 1. Bootstrapping smartPLS.

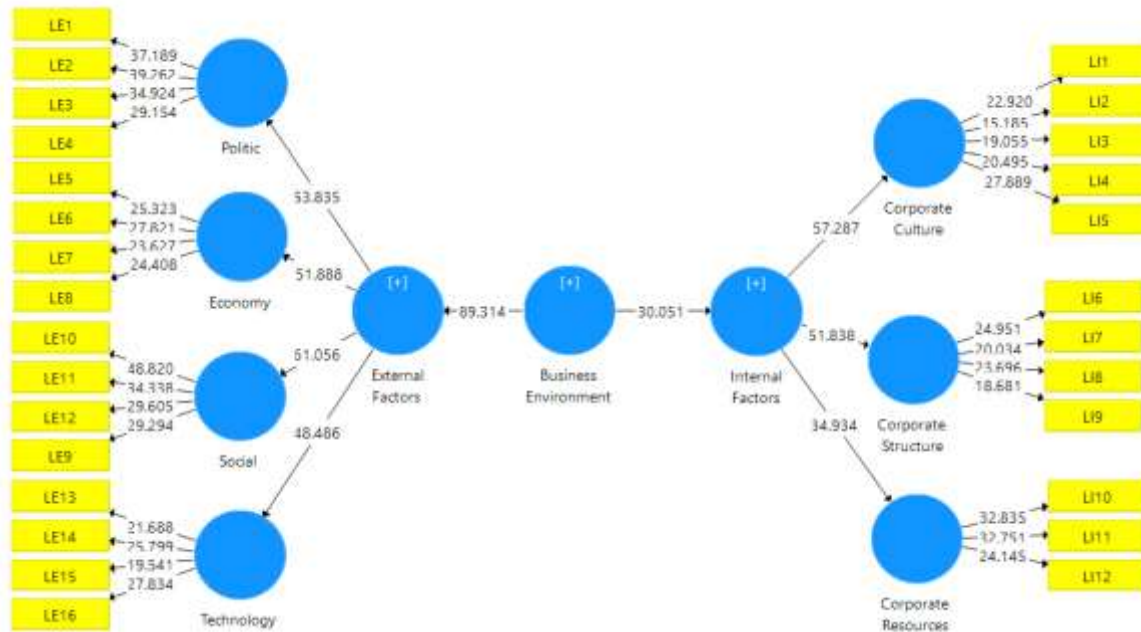


Figure 1. Bootstrapping SmartPLS

Based on Figure 1. Bootstrapping PLS output, it is obtained that all hypotheses have a t-value above 1,96. This means that all dimensions are significant in compiling the business environment, namely the external factors and the internal factors. The external factors have four significant indicators namely political, economic, social and technological factors. While internal factors have three dimensions that are all significant, namely corporate culture, corporate structure, and corporate resources. Whereas the path coefficient for each dimension can be seen in Figure 2. PLS algorithm:

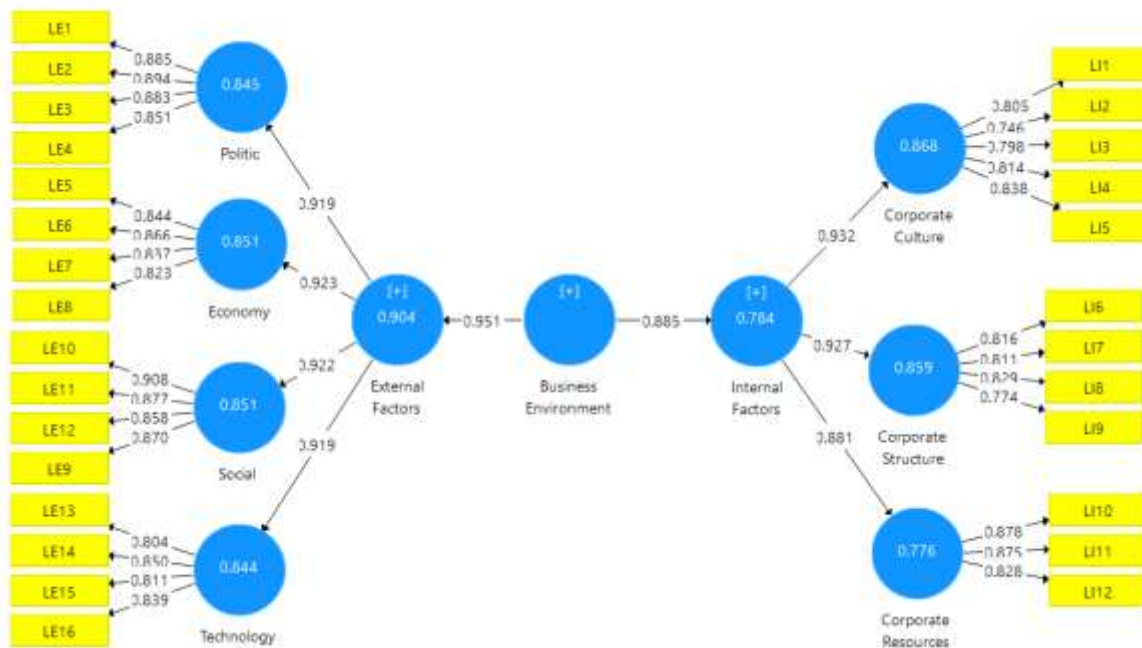


Figure 2. PLS Algorithm

Based on the results of the running PLS algorithm and the following bootstrapping is presented in Table 6. Summary of the confirmatory test results of the research dimensions:

Table 5. Summary of Results of Research’s Confirmatory Dimensions

No	Confirmatory Dimension	Bootstrapping	Algorithm PLS	Results
H ₁	Business environment → External factor	89,34	0,95	Accepted
H ₂	Business environment → Internal factor	30,05	0,89	Accepted
H ₃	Business environment → Economy	51,89	0,92	Accepted
H ₄	Business environment → Politic	53,84	0,92	Accepted
H ₅	Business environment → Social	51,06	0,92	Accepted
H ₆	Business environment → Technology	48,49	0,92	Accepted
H ₇	Business environment → Corporate culture	57,29	0,93	Accepted
H ₈	Business environment → Corporate resources	51,84	0,93	Accepted
H ₉	Business environment → Corporate structure	34,93	0,88	Accepted

Source: Processed by researchers (20210)

DISCUSSION

Based on the results of PLS running, it can be seen that the two constituent dimensions are significant in shaping the business environment variables namely the external and the internal dimensions. The external factors have all four significant indicators namely political, economic, social and technological. While the internal factors have three dimensions that are all significant, namely corporate culture, corporate structure, and corporate resources. These results are in line with (Brdesee, Corbitt, & Pittayachawan, 2013; Hidayat et al., 2015; Morioka & de Carvalho, 2016; Porter, 2008; Rundh, 2009) which states that the external and the internal factors are the main factors in a business environment. The following explanation is given on the research findings:

1. The results showed that the dimensions of the external environment had a T-statistic value of 89,34 with a PLS value of 0,95 which is greater than the dimensions of the internal environment with a T-statistic value of 30,05 with a PLS Algorithm value of 089. This means that the

dimension of the external environment is more dominant than the dimension of the internal environment in preparing the construction service business environment variable in DKI Jakarta. Conceptually, this is in line with (Reitz, 1979) who states that all organizations depend on the environment for their survival. Organizations can try to change their environment by forming the external relationships between organizations to control or absorb uncertainty. A similar sentiment was also conveyed by (Benson, Pfeffer, & Salancik, 1978) who stated that "it is the fact of the organization's dependence on the environment that makes the external constraint and control of organizational behavior both possible and almost inevitable." Empirically, the results of this study can be understood, because DKI Jakarta is a national barometer in terms of political, economic, social and technological development. The events in Jakarta have national impacts. So that the external environment temperature for each company operating in Jakarta is higher and more dominant than that of the internal environment of the company itself. Therefore, prioritizing the market-based view (MBV) approach over the resource-based view (RBV) approach is the best approach for each construction service company operating in DKI (Wang, 2014; Weerawardena & Mavondo, 2011). The results of this study are supported by previous studies (Caloghirou, Kastelli, & Tsakanikas, 2004; Chang, Hughes, & Hotho, 2011; Koufteros, Vonderembse, & Jayaram, 2005).

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3. According to (Porter, 2008) resources are very important to determine the strength of a company. Resources referred to in the Resource-Based View (RBV) study (Alvarez & Barney, 2007; Prahalad & Hamel, 1990; Teece, 2012) resources are tangible and intangible assets of the company. This includes corporate culture and corporate resources. Based on the results of confirmation of the two dimensions, the T-values are were 57, 29 for corporate culture and 51,48 for corporate resources, while the PLS algorithm value was equal at 0,93. That is, each of these indicators has the same contribution in compiling the dimensions of the internal business environment. Observation and confirmation results of corporate culture show that construction service companies always carry out a thorough and measurable study in every activity. This is because every activity that will be carried out has great potential for profit and loss. In addition to building a culture, the company has an adequate control system to ensure the company runs following the vision and mission with the employees and the partner companies. Concerning employees, the company establishes a system of employee benefits that is adequate for employees. Whereas with partner companies, construction service companies in Jakarta have good communication links. While the results of the confirmation of the corporate resources indicator show that construction service companies are supported by physical and human resources. Physically, the company has construction tools while in terms of HR capabilities the

company has skilled HR capabilities following their respective work fields. Previous research which states that corporate culture and corporate resources have the same contribution to the internal environment is (Wen-Cheng, Chien-Hung, & Ying-Chien, 2011).

4. The corporate structure indicator has a T-value of 34,93 with a PLS algorithm value of 0,88, this value is the indicator with the smallest value in preparing the dimensions of the business's internal environment. Corporate structure in construction service companies in Jakarta can be seen from adequate departmentalization in each work unit. In business operations, the company has key performance indicators (KPI) so that the duties and the authority of each work unit and employee are visible. The company regulates the responsibilities of each work unit that must be fulfilled and the company also sets a job description according to the needs and abilities of the workers. Furthermore, some companies even have ISO standards. The following is presented in Table 6. Data on the number of companies that are ISO certified and not certified.

Table 6. Data on the Number of Companies that have ISO Standard and Non-ISO Standard.

Size of Company	ISO	Non-ISO
Small	0	68
Medium	80	185
Large	37	0
Total	117	253

Source: Research data (2020)

Table 6 shows that the total respondents were 370 companies, 117 of them already have ISO standards consisting of 80 medium scale companies and 37 large scale companies. Large companies totaling 37 companies constitute the total sample of the companies. This means that 100% of research samples that represent large companies already have ISO standards. While those which do not have ISO standards are 253 companies consisting of 68 small companies and 185 medium companies. The data shows that none of the small business representative companies have ISO standards. Previous research that supports corporate culture contributing to the internal environment is (Antoncic & Hisrich, 2001; Clargo & Tunstall, 2011; Goold & Campbell, 2002; Guiso, Sapienza, & Zingales, 2015; Heilbrunn, 2005; Hoskisson, Hitt, Wan, & Yiu, 1999; Kim, Lee, Yu, Kim Jean Lee, & Yu, 2004; Tachiki, 2014).

CONCLUSION

The company's ability to control the external and the internal environment will bring the company to become a flagship company that is hard to compete with. In this article, we examine the business environment in the construction industry in DKI Jakarta. The results of testing on the model found that there are two significant dimensions in compiling business environment variables. The external factors have four significant indicators namely political, economic, social and technological. While the internal factors have three dimensions that are all significant, namely corporate culture, corporate structure, and corporate resources. This article has implications for construction business actors to take every business policy in the form of strategy, setting performance targets, technology adoption, etc. based on the consideration of these dimensions. The results of the analysis have implications for each construction service company operating in Jakarta to prioritize the market-based view (MBV) approach over the resource-based view (RBV) approach. This is very relevant to DKI Jakarta which is the national barometer. The political climate, economic turmoil, social movements, and technological development are higher than those in other regions throughout Indonesia. So that the external environmental control for every construction service company is a prerequisite for the company to continue to exist in DKI Jakarta.

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