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The Effect of Strategic Planning on SME Performance Moderation Effect of Market Dynamism

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Abstract: Dynamism is the degree to which market and industrial conditions, as well as the state of technology and overall economic performance, are dynamic. This research intends to investigate how strategic planning and market dynamism interaction affect the performance of small and medium enterprises (SMEs) in Bandung. 80 SMEs in the Bandung region that work in the topic of convection were studied. Samples from purposive sampling were employed in the study. Utilising a google form to distribute questionnaires online for data collection. In empirically testing the research model using the least square partial path modeling (PLS) approach through the smart PLS 4 program. The results of the study show that market dynamism has a positive and considerable impact on the effectiveness of efforts, as well as a positive and large impact of strategic planning on the effectiveness of businesses. The relationship between strategic planning and SME success cannot be moderated by market dynamics. Through the results of this study, it can be a consideration for SMEs to pay attention to strategic planning to improve business performance by seeing changes in the effects of changing market dynamism.

Keywords: Performance, SME, Strategic Planning, Market Dynamism.

I. INTRODUCTION

Dynamic and high competition are the hallmarks of a business. An increasingly conducive environment allows for an increasingly high level of competition. For this reason, the importance of strategic planning to maximize profits is something that must be known and done. A tool known as strategic planning can be thought of as a road map for realising an organisational goal (Bryson, 2011). Each organisation aspires to achieve success by establishing procedural measures and programmes to pursue a change from the current circumstances to the most effective future.

The organisation's mission and vision are described in the strategic planning process together with the internal and external business environments in which the company operates (Hervani et al., 2005). As a business grows and the market becomes more cutthroat, strategic planning is more important than ever. Market leaders actively implement their strategic plans in order to better anticipate market developments and to adapt to the changing needs of various market groups over time (Porter, 2008).

Beck and Demircug-Kunt (2006) assert that SMEs are essential to the economies of the world. In developing countries in particular, they rule the commercial scene. SMEs contribute significantly to industrial development and innovation, value addition creation, generational wealth, poverty reduction, global economic production, and employment creation, according to Agyapong (2010), David and Akingbade (2010), Mukhamad and Kiminami (2011). The ability to achieve socioeconomic development and national competitiveness is thought to be strongly correlated with the survival and success of SMEs (Cook and Nixson, 2000). Research shows that various factors have an impact on SMEs' performance and offer a survival threat, notwithstanding the important contribution SMEs contribute to Ghana's national output and competitiveness. According to research, SMEs have rented out outdated equipment and technology while using the incorrect development of their human resources (Yi, 2012). Because of this, SMEs are unable to achieve higher performance. Companies, according to Hecker and Ganter (2013) and Papulova and Papulova (2006), must enhance managerial capabilities aggressively and cogently in order to develop winning strategies that successfully result in better organisations. Regrettably, Robson et al. (2009) assert that due to constraints, the survival rate of SMEs in Africa is incredibly low.

The inability to employ strategic planning is one of the primary causes of SMEs failing in Africa, particularly Ghana, according to Appiah Fening et al. (2008) According to On-Correa et al. (2008), SME managers might not be fully aware of the advantages that come with strategic planning for organisations. Another typical explanation for SMEs' poor engagement in strategic processes is that many managers lack knowledge of the methods and techniques used to achieve strategic goals and are unable to integrate these strategies into their day-to-day operations (Motwaniet al., 2002). SME managers have a preconceived notion that strategic goals are only appropriate for large businesses and are not advantageous for smaller



businesses. It is expected that small and medium-sized enterprises using strategic management techniques will keep an eye on how businesses are performing even when they are working in a difficult economic climate with minimal support systems.

In light of this, SMEs in the Bandung region should consider the effects of strategic planning on SME performance with market dynamic mediation. It requires more research. Given that strategic planning is the main one, it becomes a superior company characteristic in a dynamic market. Because of this, the goal of this study is to ascertain how strategic planning affects SME business performance, how market dynamism affects SME performance, and how market dynamism modifies the relationship between strategic planning and SME performance.

II. LITERATURE REVIEW

Strategic planning offers advantages, and the underlying ideas can eventually be turned into greater corporate performance, according to Arasa and K'Obonyo (2012). While appraisal performance responds to mandated targets, strategic planning describes the performance to be measured (Zomorrodian, 2011). Strategic planning, according to Arasa and K'Obonyo (2012), offers a system of control, aids in the coordination of company affairs, and facilitates organisational decision-making; the effectiveness of goal-setting also serves as a foundation for performance evaluation.

Strategic planning, according to Steiner (2010), is an effective and formal process used to establish the fundamental organisational goals, targets, strategies, and policies. Businesses that perceive the industry's strength as dynamic might drive themselves to be more proactive and innovative, which can have an impact on performance. The dynamic nature of the corporate environment, according to Oyewobi et al. (2013), has prompted the majority of organisations to create and take a proactive attitude in reaction to change. This enables the organisation to seize the chances offered by its operating environment. The success of an organisation is positively impacted by the business environment's dynamic nature, particularly the market, according to Oyewobi et al. (2013).

According to Chan et al. (2012), the level of market competition affects how company practises affect performance. Therefore, the strategic planning initiatives that must be pursued are determined by the market's dynamic nature. Additionally, the evolving nature of strategic planning offers more room for creativity when deciding on an organization's course for success in the face of market dynamism and competition.

The research model's specifics are as follows:

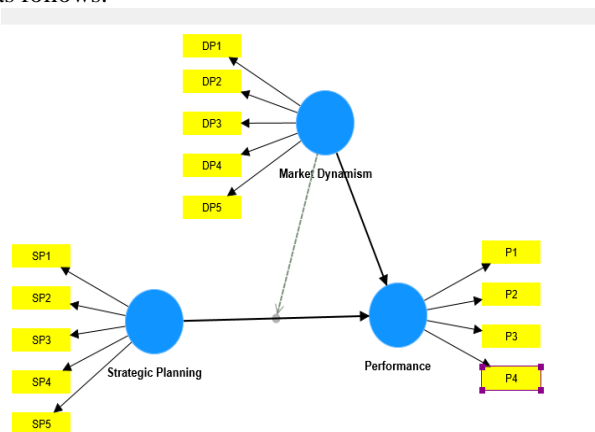


Figure 1. Research Models

For this reason, the research hypothesis can be formulated:

- H1. There is a positive influence between strategic planning and SME performance
- H2. There is a positive influence between the dynamism markets on performance
- H3. Market dynamism moderates the influence between strategic planning and SME performance

III. RESEARCH METHODS

The population of this study consists of all Bandung-based SME convection industry consumers. Purposive sampling was utilised in this study, where the researcher predetermined the criterion before collecting the sample from the respondents. SMEs are engaged in the clothing industry, with at least 3 years of business. On this basis, the number of samples studied was 80 SMEs. The instruments used to measure strategic planning use 5 indicators, market dynamism in 5 items, and business

performance in 4 items. Data was collected through the dissemination of questionnaires online. Analysis using SEM with Smart PLS program

IV. RESULTS AND DISCUSSION

A) Respondent Profile

The majority of the 80 respondents in this survey were male, with up to 50 having high school diplomas or less and up to 35 being between the ages of 30 and 40. Additionally, the business period has no more than 30 respondents and a maximum of 6 years.

B) Analysis

Using the PLS-SEM programme to process research data, which comprises analyses of the outer model and inner model.

C) Outer Model

According to the examination of the outcomes of the measurement model (Outer Model analysis), all indicators employed to measure research variables were discovered to be valid and trustworthy, enabling them to represent research variables and be trusted and relied upon.

a. Convergent Validity

Table1: Average Variance Extracted

Variable	Average Variance Extracted
Strategic planning	0.923
Market dynamism	0.851
Business performance	0.903

Convergent validity is considered valid if the AVE (average variance extracted) value is more than 0.5 (>0.5). Convergent validity can occur if scores obtained from different instruments used to measure the same construct have a high correlation

b. Descriptive Validity Testing

Table 2. Discriminant Validity

Variable	Market dynamism	Business performance	Strategic planning
Market dynamism	0.923		
Business performance	0.987	0.950	
Strategic planning	0.979	0.988	0.961

According to the results of the discriminant validity study in the Table, the magnitude of the Heteroite-Monotrait Ration value in each variable indicator has a value smaller than 0.90 (<0.90), so all indicators of each variable may be accepted.

c. Composite Reliability Testing

Table 3. Cronbach's Alpha and Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Strategic planning	0.979	0.980
Market dynamism	0.955	0.964
Business performance	0.964	0.965

According to the reliability analysis results in the Table, every variable's indicator has a Cronbach's Alpha and Composite Reliability score better than 0.60 (>0.60), meaning that all of its indicators have satisfied the criteria and are recognised as trustworthy.

D) Inner Model

a. The result of the value of the coefficient of determination.

To calculate the determination coefficient and gauge the degree of variation in change between independent and dependent variables, one uses the R-Square (R²) value. There are three requirements for R-Square values, which are as follows: values 0.75 – 1 indicate (influence is strong), values 0.5 – 0.74 indicate (influence is moderate/moderate), then values 0.25 - 0.49 indicate (influence is weak).

Table 4. R-Square Coefficient of Determination

	R-Square	R-Square adjusted
Business performance	0.979	0.980

According to the results of testing the coefficient of determination (R2) in the Table, the R-square value for the business performance variable is 0.979, which means that 97.9% of the dependent variables can be explained by the variables in this study, with the remaining 2.1% being explained by other variables that were not studied in this study.

E) Inner Model Testing

The result of bootstrapping is

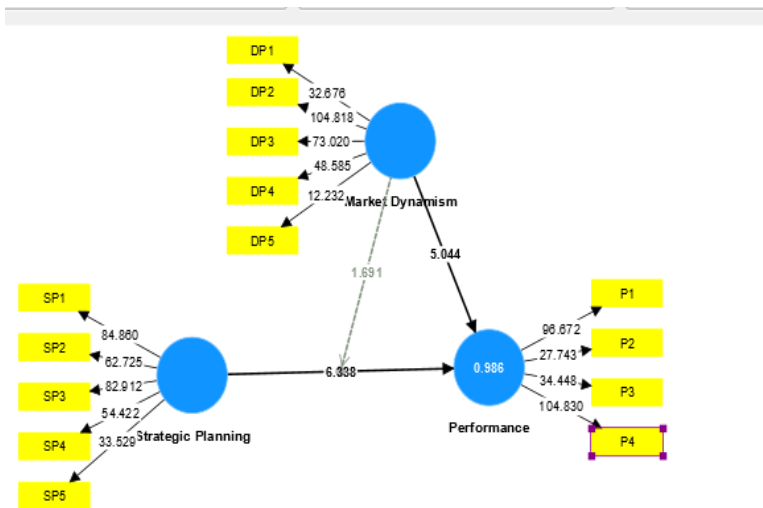


Figure 2. Bootstrapping Test Results

Based on the results of the bootstrapping test, which are shown in Figure 2, a summary of the findings is provided in Table 4 to explain them.

Table 5. Bootstrapping Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics	p-values
Strategic planning -> Business Performance	0.571	0.581	0.090	6.338	0.000
Market Dynamism->Business Performance	0.443	0.431	0.088	5.044	0.000
Market dynamism x Strategic planning -> Business performance	0.025	0.023	0.015	1,691	0.091

According to the results of the above hypothesis test, the following test results are discovered

1. The p-value for the path demonstrating the relationship between strategic planning and business success is 0.000 with a statistical T of 6,338 and a positive conspicuous path coefficient of 0.571. Strategic planning has a positive and significant impact on business success, as shown by the p-value of the < path being 0.05, statistical T being >1.96 and the path's coefficient being designated as positive. This shows that the study 1 hypothesis, which states that "Strategic planning has a positive and significant influence on business performance," is true.
2. In the path that shows the influence of market dynamism -> business performance, the p-value obtained is 0.000 with a statistical T of 5,044 and a positive marked path coefficient of 0.443. It may be deduced that market dynamism has a positive and significant impact on business success because the p-value of the positive marked the < path is 0.05, the statistical T is >1.96 and the coefficient of the positive marked path. This shows that the study 2 hypothesis—that "market dynamism has a significant positive influence on business performance" is true.

3. The p-value for the path that demonstrates how market dynamism modifies the relationship between strategic planning and SME performance is 0.091, with a statistical T of 1.691 and a positive marked path coefficient of 0.025. Given that the path's coefficient is positively marked, the statistical T < 1.96, and the > path's p-value is 0.05, it can be said that marketing dynamics cannot regulate the relationship between strategic planning and SME performance. This indicates that the research's third hypothesis—that "market dynamism moderates the influence between strategic planning and SME performance" is unaccepted.

V. DISCUSSION

SMEs are constantly seeking methods to improve performance. Strategic planning and marketing dynamics play a significant impact in influencing firm performance. Strategic planning, according to Bryson (2011), let's all members of the organisation know where the company is going and where they are spending the majority of their time. Through strategic planning procedures, it will form a systematic, rational, and logical organizational strategy in achieving the right decisions and achieving the goals that have been set. In addition, the company can expose threats and opportunities in the future. Strategic planning offers advantages, and the underlying ideas can eventually be turned into greater corporate performance, according to Arasa and K'Obonyo (2012). One of the key regular actions for all strategic planning processes, according to Freeman and Wilmes (2009), is leading strategic analysis and constructing strategic paths. Another regular activity is action planning, which entails carefully defining how strategic goals will be achieved. Strategic planning is proposed by Arasa and K'Obonyo (2012) as a means of pursuing higher performance. The unifying goal of all strategic systems is to enhance corporate performance and make it more intense in relation to their rivals in the same competitive environment (Porter and Kramer, 2002). Once a proper planning strategy is in place, it reflects how well the organisation performs in terms of cost-cutting, satisfying customer demands, and completing production processes on schedule (Gunasekaran et al., 2004). The earlier findings lend support to this study's results, which demonstrate a considerable and favourable impact of strategic planning on the performance of SMEs.

By considering the industry's power as dynamic, which can have an effect on performance, businesses can push themselves to be more proactive and innovative. The dynamic nature of the corporate environment, according to Oyewobi et al. (2013), has prompted the majority of organisations to create and take a proactive attitude in reaction to change. As a result, businesses are able to seize the opportunities present in their working environment. In order to adapt plans and programmes to changing consumer needs and environmental conditions, SMEs can benefit from flexibility. Acquaaah et al. (2008) assert that market dynamism encourages excellent performance. The results of this study support those of earlier studies. This study shows that market dynamism significantly and favourably affects business success.

The study by Chan et al. (2012) found that the impact of business practises on performance is influenced by the level of market rivalry. The performance of SMEs is impacted by this interaction between market dynamism and strategic planning. The strategic activities that must be taken are thus determined by the market's dynamic nature. Additionally, the evolving nature of strategic planning offers more room for creativity when deciding on an organization's course for success in the face of market dynamism and competition. In order to address dynamism and uncertainty in an operating environment, complicated innovation tasks are made easier by the design of strategies (Wang et al., 2007). The process of developing a systematic strategy becomes more challenging as a result of increased company volatility brought on by changes in the competitive landscape and uncertain market conditions. Due to shifting consumer tastes and changes in technical, political, and economic developments, small businesses must make decisions on which organisational competences will be important in the future (Wennekers and Thurik, 1999). When implementing the integration of management actions into an overall formalised business strategy, small businesses are better served by a flexible strategy because it enables quick response to operating environment instability and the capacity to adapt to market complexity. The outcomes of this study, however, contradict the earlier conclusions. The study revealed no evidence that the relationship between strategic planning and SME success was altered by market dynamism. Therefore, strategic planning can affect business performance without being connected to the existence of market dynamism.

VI. CONCLUSIONS AND SUGGESTIONS

The following conclusions are drawn from the study's findings:

1. The performance of SMEs is positively and significantly impacted by strategic planning. As a result, it can be seen that the research's initial hypothesis—that "strategic planning has a significant positive influence on business performance"—is true.
2. Market dynamism positively and significantly affects how well businesses succeed. In light of this, it may be concluded that the research 2 hypothesis, which states that "market dynamism has a significant positive influence on business performance," is "accepted."

3. Market dynamics cannot act as a moderator in the relationship between strategic planning and the success of SME. This suggests that the third hypothesis of the study, which states that "Market dynamism moderates the influence between strategic planning and SME performance," is untrue.

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