# The Relationship between Business Environment and Management Strategy

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**Abstract---** *The paper used the structured formula to examine the relationship between business environment and management strategy over the data of 177 questionnaires collected from respondents in Thanhhoa province-Vietnam. The empirical results indicated some points as: first, the business environment including technological strength, competitive strength, government support policy, and financial support had a significant impact on management strategy; second, management strategies had a significant impact on business performance. This means that in order for an entity to settle in the market, it is essential to establish a discriminatory management strategy in various business environments.*

**Keywords---** *Business environment, Technological strength, Competitive strength, Government support policy, Financial support policy.*

## I. INTRODUCTION

Companies need to utilize the changed environment to achieve and maintain their unique competitive advantage in the global market. Changes in the market environment can help companies secure more opportunities. As the business environment changes, management strategies are diversifying and changing. In an open system, all corporate activities are conducted in constant interaction with the internal and external environment. Environmental changes pose a threat to the survival of companies and also provide opportunities for growth. Changes in the environment surrounding businesses give profound influence on the establishment of management strategies and the achievement of management performance.

Companies should look for changes in management strategies to adapt to environmental changes. Companies should consider a holistic approach through organizational change. Various efforts and investments are made to combine environmental changes with the internal elements of the organization, taking into account overall factors including market conditions, strategies, organizational structures and information systems. The entity should carefully establish its management strategy in order to survive in the market. To secure competitiveness in a complex environment, proper management strategies and diverse systems must be established. Management strategies should be designed in response to convert management markets. The information provided in the business environment is used for various purposes of business strategy (Miles et al., 1974). To date, there have been various studies that emphasize the importance of business strategy for the success of a company (Porter, 1985). Empirical analysis shows that companies that implement management strategies to cope with converting of business markets exhibit outstanding management (Zajac et al., 2002; Joseoh, 2012).

The purpose of enquiry is to analyze the influence of management circumstance factors on the diversifying of management strategy and the increasing of business performance. As a result of reviewing prior research, many studies focused on technological strength and competitive strength in the business environment and organizational performance, government support policy and financial support, focusing on the diversifying of management strategy and the increasing of business performance. Therefore, this study conducted an empirical analysis as reviewing earlier studies on management

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markets, the diversifying of management strategy and the increasing of business performance. Technological strength, competitive strength, government support policy and financial support were adopted like factors of the business environment. In this study, management performance was divided into nonfinancial performances and used as a single variable. The purpose of this study is as follows. First, the purpose of the empirical analysis is to analyze whether the management environment gives significant influence on the diversifying of management strategy, and second, it is to analyze whether the increasing of management strategy give significant effect on the increasing of management performance.

## II. LITERATURE REVIEW

### Technological strength and competitive strength

Technology is the key to organizational success. The development of technology is inevitable even in an industry with low technical skills. Technological innovation brings economic results to the enterprise and is an important issue in performance management (Bhadoria, 2015). Technological innovation includes the development of new products in the high-tech industry, and involves improving products, logistics, distribution and marketing capabilities in all industries (Bronwyn and Rosenberg, 2010). In this respect, technology intensity is summarized as research and development and commercialization of the product developed topical researches have defined technological advance as technological strength from a broad perception, including technology expansion and expertise commercialization (Batrol and Martin, 2003). Efforts are being made to systematize it (Lee and Jeong, 2010). Technology commercialization includes all aspects of idea extraction, new technology development, production of new products through technology, and marketing.

Competitive strength includes the number of competitors, the launch of new products, frequency of technological changes, and ease of entry into the industry. The relationship between competitive strength and business performance was looked at in a number of studies (Xiaoqing et al., 2019). In general, increased competition has improved organizational performance, and positive relationships have emerged between organizations. If market competition gets fiercer, the intention of developing effective management strategies to maintain competitiveness grows. The efficiency of a management strategy provides a positive explanation for the relationship between competitiveness and organizational performance. In a study on the localization strategies of South Korean companies entering the North American market, whether the business environment (technological strength, competitive strength, market expansion and marketplace instability) plays a position as a variable in their performance was studied (Lee et al., 2015; Chandler and Hanks, 1993).

### Government support policy and financial support

The activities from small and medium enterprises are left to the general trend of market. It is complicated for SMEs to stay alive naturally in market environment. The government support policy helps them with diverse policies for development and expansion. The government provides a multiplicity of support to facilitate the  reorganization of SMEs and to improve their manufacturing competitiveness (Shon and Kim, 2014). Government support policy includes management safety support, start-up sustain and management incubator support (Hwang et al., 2003). Because the resources of an enterprise are finite, the success or failure of management activities depends on the capabilities of internal resources. In resource-based theory, the efficient use of finite resources is critical. Therefore, the ability to use internal resources, such as financial assets, facility assets, trademarks, technical skills, marketing capabilities, and organizational operations, determines whether a competitive advantage is acquired. Human and physical resources within a company are key factors for securing a competitive advantage and achieving management performance (Mungunzul and Chang, 2016). Whether to secure outside funds is very important for SMEs that lack internal finance. The types of government-funded funds that Korea's SMEs can receive include start- up funds, purchase of facilities and raw materials, and establishment of factories. To this end, the  government or public institutions provide part of the expenses to SMEs free of charge, such as loans entrusted to banks, technology development costs, education and training costs, and overseas exhibitions.

**Management strategy**

Depending on the management strategy pursued by the company, there are differences in views on future uncertainties. The management strategy will have a different impact on the performance of the company. It should make bold human and material investments from a future-oriented perspective and actively utilize research and advertising costs. For leading companies, the propensity of a trusted manager can have a helpful result on future act (Park and Hahm, 2016). A management strategy can be defined as an important decision to allocate management resources and to secure and maintain a firm's competitive advantage. Chandler is explained that the definition of management strategy is the choice of operating procedures and resource allocation necessary to determine a company's long- term goals and achieve those goals (Chandler and Hanks, 1993). A company's management strategy is defined as "a plan that integrates the company's main objectives, policies and activities into one". Management strategy is defined as a kind of comprehensive and integrated plan designed to attain the basic goals of corporate. It is defined the ability of an enterprise to maintain a profitable position among many factors that determine its competitive advantage within the industry (Porter, 2014). Competitive strategies focus on the analysis of the impact of the industrial structure on corporate behavior and on the performance of management. Factors such as competitors, suppliers, buyers, new entrants and proxies should be considered in order to add permanent aggressive benefit within the existing industry.

**Business performance**

Business performance can be defined in a variety of ways, such as the productivity or profitability of an enterprise, the achievement of an organization's goals, and the organizational capabilities within and outside an enterprise. It is generally a process of measuring the efficiency and effectiveness of management activities, and can be divided into financial and nonfinancial performance as a result of management activities. Business performance measures typically focus on financial performance, such as net profit, median profit, return on investment, sales and market share. Financial performance is limited in not accurately reflecting the intangible value of a company. Nonfinancial performance is subjective and therefore not suitable for short-term management and indicators because of its wide range of measurement (purchaser viewpoint, inside procedure viewpoint, and education and expansion viewpoint). However, financial problems can be remedied because they are measured on a long-term and diverse basis (Lee and Kim, 2019).

Business performance is assessed and measured based on the organization's vision and achievement of goals. In the short term, it can be seen as strengthening financial performance, and in the long term, strengthening market dominance. Such measures imply a process of improving organizational efficiency with the introduction of competition principles and quantifying the effectiveness of management activities. Previous studies have used various financial indicators to measure the financial performance of firms. The growth rate of sales, return on investment, total assets, operating profit ratio, cost of sales and net profit ratio are the variables commonly used to measure financial performance.

## III. RESEARCH DESIGN

**Research model**

This paper focuses on analyzing the relationship of the business environment (technological strength, competitive strength, government support policy, and financial support) to the diversifying of management strategy and the increasing of business performance. Based on the previous research, the research model is presented in Figure 1.

Figure 1: Research model
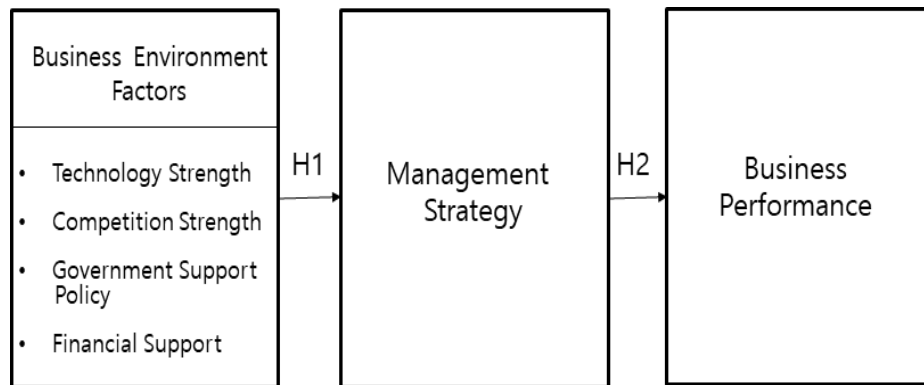


Source: Author's compilation

**Research hypotheses**

**Hypothesis on business environment and management strategy**

The business environment is divided into four categories: technological strength, competitive strength, government support policy, and financial support. There are various studies on the diversifying of management strategy and the increasing of business performance (Miles et al., 1974; Porter, 1985). Based on the existing research, the following hypotheses were established:

Hypothesis 1: The business environment will give significant influence on the diversifying of management strategy.

H1-1: Technological strength will give significant impact on the diversifying of management strategy.

H1-2: Competitive strength will give significant impact on the diversifying of management strategy.

H1-3: Government support policy will give significant impact on the diversifying of management strategy.

H1-4: Financial support will give significant impact on the diversifying of management strategy.

**Hypothesis on management strategy and business performance**

A management strategy is a comprehensive and integrated objective that provides guidance for determining the content and direction of a company's activities to achieve its objectives (Chandler and Hanks, 1993). A management strategy is a strategic decision that determines a company's activities. Strategic decision making should be made through the harmony between the internal and external environments of the enterprise. After identifying the opportunity and threat elements of the business activities by analyzing and predicting the external environment, the internal environment is analyzed and evaluated to identify the strengths and weaknesses of the company (Lee and Kim, 2019). An enterprise must choose an opportunity that can leverage its strengths, compensate for its weaknesses, and also choose a strategic alternative to avoid threats. Based on previous studies, the following hypotheses were established.

Hypothesis 2: The diversifying of management strategy will give significant impact on the increasing of business performance.

**Empirical results**

**Data collection and sample characteristics**

The survey was conducted on 200 people over the age of 20 working for companies in different ownerships in Thanhhoa province-Vietnam. The survey was conducted for 45 days from November 20, 2019. A totality of 200 questionnaires was spread for study. 177 respondents without inadequate respondents were utilized in order to data investigation. Data shows the results that men is more than women (91.8%). The figure was 47.7% for those aged 50 or older. About 42% of the

respondents work in the manufacturing sector, with 30.6% at or above the level of managers. The respondents' monthly income was between 4 million won and 5 million won (33.5%).

**Data analysis**

SPSS 22.0 for the calculating of basic statistical package was utilized to analysis data. Smart PLS 2.0 was utilized for hypothesis testing. In general, when Cronbach's α coefficient was greater than 0.7, the reliability was high. Validity was divided into concentration validity and discriminant validity. Concentration relevance takes into account loading values, composite reliability (CR), and average variance extracted (AVE). In general, the reliability of measurement variables is regarded to have been secured when the Cronbach's α coefficient is 0.6 or higher, the CR value is 0.7 or higher, or the AVE value is 0.5 or higher. The discriminant validity should be higher than all correlation coefficients with square root AVE. Table 1 and Table 2 show that the questionnaire has reliability, concentration validity and discriminant validity.

Table 1: Reliability and Internal Consistency

| Variables | Factor Loading | AVE | C. R. | Cronbach's α |
|---|---|---|---|---|
| Technology Strength | 0.822 0.778 0.781 | 0.590 | 0.821 | 0.745 |
| Competition Strength | 0.799 0.848 0.813 0.781 | 0.654 | 0.867 | 0.832 |
| Government Support Policy | 0.811 0.734 0.789 0.767 | 0.644 | 0.843 | 0.812 |
| Financial Support | 0.723 0.689 0.811 | 0.611 | 0.829 | 0.721 |
| Management Strategy | 0.887 0.834 0.776 | 0.634 | 0.842 | 0.756 |
| Business Performance | 0.844 0.898 0.712 | 0.587 | 0.835 | 0.745 |

Source: Author's estimation

Table 2: Correlation and Discriminant Validity

| Variables | AVE | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| Technology Strength | 0.59 | 0.77 | | | | | |
| Competition Strength | 0.65 | 0.49 | 0.80 | | | | |
| Government Support Policy | 0.65 | 0.32 | 0.51 | 0.80 | | | |
| Financial support | 0.58 | 0.45 | 0.50 | 0.41 | 0.76 | | |
| Management strategy | 0.67 | 0.50 | 0.56 | 0.50 | 0.49 | 0.82 | |
| Business Performance | 0.58 | 0.54 | 0.51 | 0.44 | 0.43 | 0.50 | 0.76 |

Source: Author's estimation

### Verification of research model

The hypothesis was verified using Smart PLS 2.0. The path factor and determinant ($R^2$) values were derived. The goodness of fit can be indicated as "high" when the $R^2$ value is 0.26 or higher, as "moderate" when the $R^2$ value is 0.26–0.13, and as "low" when the $R^2$ value is 0.13 or lower (Cohen 1998). Figure 2 presents the upper suitability of the determinant values in the management strategy (0.419), but the determinant values in the business performance (0.191) show moderate suitability.

Figure 2: Verification of research model
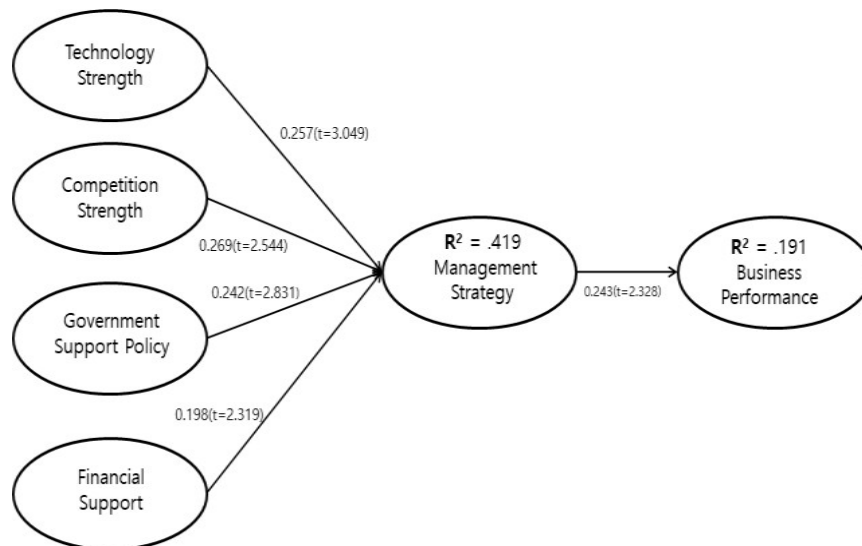


Source: Author's estimation

Hypothesis 1 shows that the business environment gives significant influence on the diversifying of management strategy. In other words, technological strength, competitive strength, government support policy, and financial support give significant influence on the diversifying of management strategy. In H1-1, the technological strength was shown to give significant influence on the diversifying of management strategy ($\beta=0.257$, $t=3.049$, $p<0.05$). Technological strength means new technology changes, difficulties in investing in technology, and good products. In H1-2 it was shown that competitive strength to give significant influence on the diversifying of management strategy ($\beta=0.269$, $t=2.549$ and $p<0.05$). Competitive strength means the plenty of competitors, rivalry in the marketplace, outside threat factors and difficulties in price struggle. In H1-3, it was shown that government support policy to give significant influence on the diversifying of management

strategy ($\beta$=0.242, t=2.831, p<0.05). Government support policy means obvious and reasonable work of supporting agencies, different sustain projects, simple admission to foreign operate and related data, and lawful maintain of supporting company. Hypothesis 1–4 shows that financial support give significant influence on the diversifying of management strategy ($\beta$=0.198, t=2.319, p<0.05). Financial support means management support funds, the possibility of management support funds, bank loans. Hypothesis 2 shows that the diversifying of management strategy give significant influence on the increasing of business performance ($\beta$=0.243, t=2.328, p<0.05). Management strategy means promotion of advertising/sales, expansion of market share, analysis of competitive areas and strategies.

## IV. CONCLUSION

In this study, we identified the relationship between the influence of the business environment on the diversifying of management strategy, and the increasing of business performance through an empirical study. Demonstrative study has shown that a company's business market plays a central position to improve its business performance.

The outcome of these observed lessons can be summarized. First, the business environment (technological strength, competitive strength, government support policy, and financial support) give significant influence on the diversifying of management strategy. Hypothesis 1 was adopted. Second, the diversifying of management strategy gives significant influence on the increasing of business performance. Hypothesis 2 was adopted.

Focusing on these results, this study suggests the following implications. First, business environment factors such as technological strength, competitive strength, government support policy, financial support are influenced on diversifying of management strategy. This means that it is essential for a company to establish a discriminatory management strategy in various business environments in order to settle in the market. Active use of management strategy is needed to measure the development and performance of a company. Because the business environment (technology change, market competition) changes rapidly, continuous monitoring of the market is needed. In order to improve business performance, a Competitive Strategy is needed to understand the management strategy accurately and respond actively to the market. An entity must focus on its management strategy. This means that companies should use various strategies to strive to gain a competitive advantage. Second, management strategy has affected business performance. The environmental factors of a company cause uncertainty in its management performance. Uncertainty refers to a condition in which management does not have sufficient information to understand the environment and to predict the needs and changes of the environment. The management strategy to cope with such environmental uncertainty should be compatible with the company by adapting it to the environment or by affecting the environment. In other words, managers must effectively manage environmental uncertainties. Strategies for adapting to changes in the environment should include collecting information with market research to ensure a smooth relationship with customers or suppliers. In addition, efforts should be made to generate profits for the company through contact with customers or transactions. Strategies that affect the environment and are compatible with companies should create new demand for corporate products by enhancing consumers' image of companies through advertising or promotional activities. Efforts should be made to change the environmental factors that cause problems with activities that affect government legislation or regulation. In this study, we looked at the relationship between the influence of management environment factors on the diversifying of management strategy and the increasing of business performance. The study presented a research model for the business environment, management strategy, and business performance of a company and it is meaningful to verify the results of the research by analyzing it empirically.

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