

Original Article

The Influence of Restructuring and Strategic Change on Firm Performance using Environmental Dynamism as a Mediation Variable

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Abstract - This paper aims to analyze whether restructuring and strategic change directly influence firm performance and whether restructuring and strategic change mediated by environmental dynamism affect firm performance. The total sample of 45 people representing the company with criteria has the position of Manager, Director, or President Director who has worked in the company for at least 5 years in LQ 45 companies. The analysis method used for this study used PLS-SEM with Smart PLS Application. The results showed that restructuring, strategic change, and environmental dynamism individually significantly affected firm performance. Then restructuring and strategic change individually had a significant positive effect on environmental dynamism. Indirectly, the restructuring and strategic change variables significantly and perfectly affect firm performance through environmental dynamism.

Keywords - Restructuring, Strategic Change, Firm performance, Environmental dynamism.

I. INTRODUCTION

The theory of dynamic capabilities strongly emphasizes the importance of reorganization. In other words, the key to achieving sustainable profit growth is how an organization's ability to combine and configure assets and organizational structures in accordance with the development of industry, markets, and technological changes (Girod and Whittington, 2017). Companies must be able to adapt to changes if they want to maintain the sustainability of their business. This is inseparable from the rapid technological developments that make things easy. If a company does not make changes or adaptations to the environment, the company will certainly be replaced by another company.

This dynamic environmental change can also occur in companies with high liquidity, capitalization, and trading frequency and is incorporated in the LQ 45 index. For example, the PTPT Matahari Department Store's performance decline is 67%. When viewed from its corporate actions during 2017, PTPT Matahari Department Store has opened 7 Matahari Department Store outlets and 1 Nevada outlet. It has closed two outlets located in Pasaraya Blok M and Pasaraya Manggarai. Then PT Global Mediacom 2017 experienced a performance increase of 40%. The increase was inseparable from the company's reconfiguration, namely, MNC Shop, in collaboration with City Call Indonesia, launched the latest tablet based on smartphones with the name City Call Tawakal. Besides that,

in 2017, PTPT Indika Energi and PT Barito Pacific recorded performance that increased by 40% and 42%, respectively. This condition occurs because the world commodity market improved in 2017.

Adaptation carried out by the company is inseparable from the role of corporate leaders in taking quick action in a turbulent environment (Herrmann & Nadkarni, 2014). Companies must also have dynamic capabilities that emphasize the ability of companies to realize new opportunities in their environment and then take advantage of these opportunities by adapting, integrating, and reconfiguring their main assets and activities (Teece, 2007). Organizations conceptualize dynamic capabilities as organizational routines (Schilke, 2014). Therefore, failure to overcome environmental changes can negatively impact company performance (Wang, Senaratne & Rafiq, 2015). Many studies have found that dynamic capabilities contribute to company performance, especially high-tech companies (Yung-Chul, 2013).

II. RESEARCH FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Drawing upon the previous literature, this study proposed 7 hypotheses for the research framework, as shown in Figure 1 below. Dynamic capability theory emphasizes the benefits gained when companies can keep their organizational structure in line with environmental change demands (Teece, 2007). Restructuring harmonizes the demands of changing the environment with changes in fundamental organizational design principles, such as increasing or reducing organizational structures or layers (Girod & Whittington, 2017). Restructuring usually also involves other changes, such as expenditure and reward budgets and career structures. With the restructuring, the company will automatically improve its organization to be more efficient and effective to realize optimal profits and will later make a better company performance. However, restructuring usually creates substantial direct costs and additional costs associated with budget changes, careers, and incentives. Delays are very expensive in a dynamic environment with short opportunities and urgent threats. The restructuring may be too rare for a dynamic environment. Based on the description above, the researcher proposed a hypothesis:

H1: Restructuring has a positive effect on firm performance.



H3: Restructuring has a positive effect on environmental dynamism.

H6: Environmental dynamism positively mediates the relationship between restructuring organizations and performance firms.

Strategic change becomes positive and negative for company performance because the effects are adaptive and disturbing. Adaptive when strategic change can help companies avoid the tendency to reject change to adapt and innovate effectively (Zajac & Kraatz, 2000). On the other hand, strategic change can also be disruptive because it causes inefficiencies and waste of resources that can hinder company performance (Zajac et al., 2000). Strategic change can also show how managerial behavior makes strategic changes to emotional factors that affect the business results of a company (Ashkanasy, Humphrey, & Huy, 2017; Helfat & Martin, 2015). Strategic change can also help a company's inertia and enable them to adapt and innovate effectively. Companies with a high level of strategic choice and low environmental constraints will improve company performance well. This shows that the implications of the company's performance from strategic change depend on the choice of the situation (Muller & Kunisch, 2017). Based on the description above, the researcher proposed a hypothesis:

H2: Strategic change has a positive effect on firm performance.

H4: Strategic change has a positive effect on environmental dynamism.

H7: Environmental dynamism positively mediates the relationship between strategic change and firm performance.

Then dynamic managerial capabilities provide a focus on the organization in dealing with strategic changes to impact firm performance (Helfat & Martin, 2015). In this study, environmental dynamism is used to measure how a company's response to changes in its environment can then have an impact on firm performance. When a company can adjust to its dynamic environment, it will run very well. So the researcher put forward a hypothesis:

H5: Environmental dynamism has a positive effect on firm performance.

The research method used in this study is a quantitative method with survey techniques. This study also tested the hypothesis to explain the causal relationship between the research variables. The population in this study was LQ45 companies in Indonesia. The researcher used the census method. This method is used because researchers take all populations to be used as samples. The company sample is 45 companies incorporated into the LQ45 index. The total sample of 45 people represents each company. The selection of 45 informants was based on a purposive sampling technique, namely Managers, Directors, or President Directors of companies in LQ 45. They had worked for more than 5 years because the informant had sufficient knowledge to determine the company's strategy.

The questionnaire data used has 5 Likert scales, which indicate that scales were rated 1 (greatly decreased) to 5 (greatly increased). Restructuring is measured using a structural change ratio, the absolute value of the differences in each position group (horizontal & vertical) for two consecutive years (Girod & Whittington, 2017). Environmental dynamism is measured by a standard error of the rate of change in annual subsectoral industry sales classified by the Jakarta Stock Industrial Classification (Boyd, Gove, and Hitt, 2005). At the same time, the questionnaire to measure environmental dynamism using a previous research questionnaire, namely Chan, HK, Yee, RWY, Dai, J & Lim, (2016). Then firm performance is measured using a stock market base, namely Tobin's Q (Kor and Mahoney, 2005) and measurement of firm performance for the questionnaire following Mohd, Idris & Momani's (2013) research.

After the data is collected, researchers use data analysis methods using Smart PLS 3 software. PLS (Partial Least Square) is a variant-based structural equation (SEM) analysis that can simultaneously test measurement models and structural models.

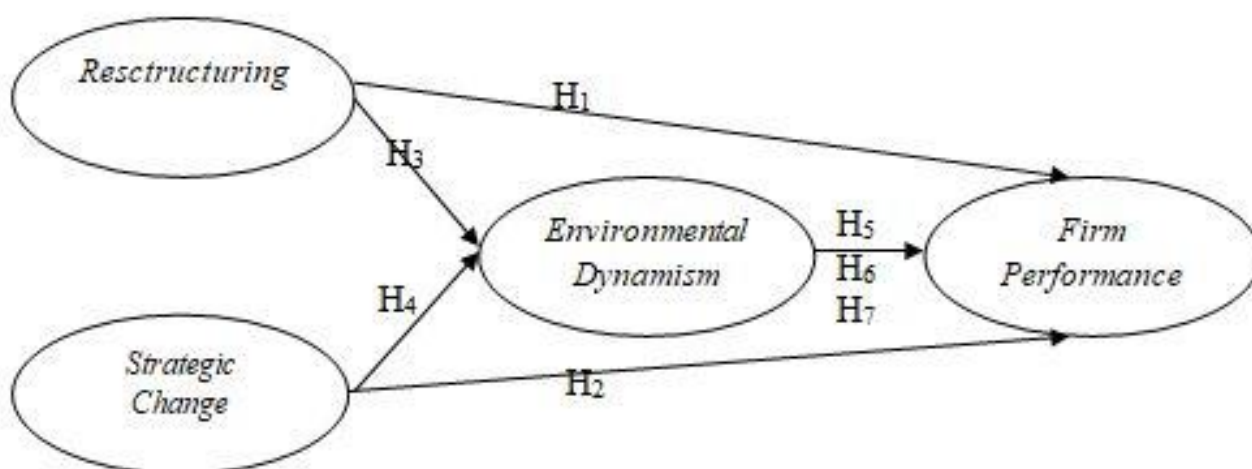


Fig. 1 Research Framework

III. RESULTS AND DISCUSSION

The results obtained from testing validity show that the variable reconfiguration, strategic change, and environmental dynamism show AVE numbers of 1,000, 0.578, and 0.655. While the value of the loading factor indicator RES = 1,000, SC1 = 0.853, SC2 = 0.825, SC3 = 0.857, SC4 = 0.838, and SC5 = 0.790. The validity test results show that all AVE numbers of the tested variables are above 0.5, and the number of loading factors is also above 0.7, so it can be concluded that the variables tested are valid and meet the validity requirements. The reliability test shown by composite reliability numbers of each variable is restructuring = 1,000, strategic change = 0.870, environmental dynamism = 0.898, and firm performance = 0.895 is greater than 0.6, so the results obtained can be concluded that the variables tested are reliable.

This significant influence illustrates that corporate restructuring can improve company performance because companies tend to increase operational effectiveness, increase sales, improve management, minimize asymmetric information management, and increase business profits (Teece, 2007). These results follow the hypothesis proposed by the researcher, and previous studies, namely, the right company restructuring, will impact the company, especially in terms of finance and company performance (Capron & Mitchell, 2009 Helfat & Peteraf, 2014). This shows that the restructuring carried out by the company is indicated by the change in the organizational structure through the number of directors, the number of functions of directors, and the number of functions of an organization that will have a positive impact when a company can adjust to its environment. Adjustment to the environment can not be separated from changes in the face of competitors, changes in consumer demographics, or changes in government regulations. All adjustments to the environment make restructuring more efficient and effective in improving company performance ultimately. This research is not in line with the research revealed by Girod & Whittington (2017), who revealed that restructuring usually incurs large direct costs, plus challenges related to budgets, careers, and changes in incentives. These different results confirm that restructuring will improve company performance if financial and non-financial measures measure the company's performance.

This significant positive influence illustrates that the strategies carried out by management provide positive results on company performance. This strategy can be seen in the renewal of plant and equipment, increasing selling, general, and administrative expenses, inventory turnover, or increasing corporate debt to implement new strategies that later aim to improve company performance. Management strategies in dealing with competitors are reflected by aggressiveness, seeking new solutions, changes in the introduction or presentation of new products, and the costs of research and development will increase the company's value. Adaptive good when strategic change can help companies avoid the tendency to reject change to adapt and innovate effectively (Zajac & Kraatz, 2000). Similar results reveal that the expertise and experience of top management

in implementing change strategies toward existing market share will produce excellent company performance (Bjornali et al., 2016 & Shin et al., 2012). This significant positive influence illustrates that the change strategy in allocating company resources will change the industrial environment in which the company is located. Especially when those who make a change strategy have a large market capitalization, besides that, changes in aggressiveness in facing competitors, changes in solutions and ways to provide products, and allocation of research and development costs will make changes in production methods, consumer demographics, government regulations, total expenses for research and development costs, and the number of competitors in an industrial subsector.

Variable environmental dynamism has a significant positive effect on firm performance. This significant positive influence illustrates that the company will compete and try better to deal with its competitors in a competitive and dynamic environment. This means that when there is an increase in performance, most companies in the sub-sector will also experience the same thing in the sub-sector. The alignment between environmental dynamism and performance firms in the LQLQ 45 environment can be caused by trends which means bringing all companies in the same business together to get better. This is positive and similar to the research conducted by Helfat (2015), who said that the industrial environment, which is becoming a trend with varied and flexible demand, makes the potential of new entrants to enter more, and the results of new entrants will make a company performance mostly will increase too.

IV. CONCLUSION

Management must make a change in strategy, both strategies in allocating financial resources or strategies to change aggressiveness in facing competitors, changes in solutions, and changes in providing and offering products, especially in a dynamic environment that is done well and correctly, will have a very positive impact on firm performance. The results of this study are also strongly supported by Zhou and Wu (2010) and Li et al. (2017). They confirm that the flexibility of strategic change made by an organization will increase innovation and create new products that will affect the company's performance. The significant positive influence of environmental dynamism on firm performance also illustrates that the company will compete and try better to deal with its competitors in a competitive and dynamic environment. This means that when there is an increase in performance in one industry sector, most companies in that sector will also experience the same thing. The industrial environment, which is becoming a trend with varied and flexible demand, makes more potential new entrants enter. If the newcomer has the expertise and experience, the company will likely succeed in the industrial sector (Helfat, 2015).

This paper has also contributed to the strategic management of literature by different results. This gives new meaning to the development of the theory of dynamic capabilities. Dynamic capability in this study uses

environmental dynamism with primary data and secondary data. Primary data is obtained from questionnaires that show more about how companies adjust to their environment, while secondary data see changes in sales that occur in similar sub-sectors. Restructuring in a broader sense can improve company performance in a dynamic environment and more flexible management. This conclusion also confirms that the costs and benefits that are feared to make the company's performance decline are also undeniable. The study also shows that restructuring has a greater performance effect, both in general and dynamic environments. Then this study found that strategic change has a significant and positive effect on firm performance directly or mediated by environmental dynamism. The process of strategic change shows that companies can act aggressively or passively in running a company. Not only do decision-makers have to overcome their own emotions to face challenging situations, but they also have to pay attention to the emotions of other stakeholders, such as employees and investors, to maintain or gain support of these stakeholders. This research identifies and explains the behavior that decision-makers can use in the context of strategic change to regulate their own emotions and other stakeholders to productively overcome and overcome difficult business conditions to achieve better corporate performance.

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