



## Factor influencing the marketing performance of Indonesian palm oil companies

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### Abstract

The concept of marketing performance is still not widely studied empirically, especially in the emerging markets such as Indonesia. This study aims to gain a deeper understanding of the relationship between the external business environment, internal business environment, marketing strategy, and marketing performance. This study uses a survey method to obtain data about four variables studied in this study. The sample involved in this study included 112 oil palm companies, located in the North Sumatra province, Indonesia. The main analysis method used in this study is Structural Equation Modeling (SEM) analysis. The results showed that the influence of the external business environment on the marketing strategy and marketing performance was positive and significant. The internal business environment was also found to be positively and significantly impacted on the marketing strategy and marketing performance. The findings of this study add to the knowledge of the simultaneous relationship between the external business environment, internal business environment, marketing strategy, and marketing performance. This finding implies that companies must pay more attention to the three items of the external business environment: the national economic condition, the technological change and development, and competitive conditions as well as three items of the internal business environment: organizational size, financial condition, and human resources.

**Keywords:** external & internal business environment, marketing strategy, marketing performance, Indonesian palm oil companies

### 1. Introduction

Literature generally recognizes that the main purpose of operating a company is to obtain an increasing profit from one period to the next because the increased profits will support the sustainability of the company. It was stated that this increased profit depends on the performance of the company itself through its functional performance, such as marketing, financial, and human resource performance. This combination of functional performance will determine the company performance. Furthermore, the literature agrees that the company performance is strongly influenced by various factors such as the external business environment, internal business environment, and marketing strategies the company implement (David, 2015) <sup>[6]</sup>.

One important sector of the Indonesian economy is the plantation sector, including the oil palm plantations. It is widely cited that the plantation sector is one of the sources of the country's economy. The government policy to transfer oil and gas export sector to non-oil and gas as a source of foreign exchange has reinforced the existence of the plantation sector in Indonesia. Therefore, the demands and challenges faced by the plantation sector in the future are becoming increasingly severe because the structural conditions of the supporting communities and their ecological environment have changed (Harsono *et al.*, 2014) <sup>[12]</sup>. The palm oil industry is one of the strategic industries in the national and regional economic development, poverty reduction, and reducing GHG emissions. In the national economy, the palm oil industry plays a strategic role because it has become the largest foreign exchange earner, the driver of the national economy, building energy sovereignty, populist economy, and in absorbing labor. In addition, the palm oil industry is also an important part in reducing GHG emissions both nationally and globally through reducing GHG emissions and CO<sub>2</sub> absorption by oil palm plants from the earth's atmosphere (Mahlia *et al.*, 2001; Tan *et al.*, 2011) <sup>[18, 27]</sup>.

Appiah-Adu *et al.* (2001) <sup>[2]</sup> suggest that an increasingly competitive business environment has necessitated the successful implementation of marketing. Marketing is considered an important force behind strategic planning and business operations, if the company wants to advance in the chosen market segment. Thus, the concept of marketing performance has attracted increasing attention among the researchers and business practitioners. This study considers that marketing performance is an important issue for oil palm companies in Indonesia. Furthermore, the literature generally suggests that marketing performance has an important role for improving company performance Yukselen (1997) <sup>[32]</sup>. Sin and Tse (2000) cited that companies need to identify factors that have the potential to influence their marketing performance. This study focuses on three factors: external business conditions, internal business conditions, and marketing strategy. Meanwhile, Wheelen and David (2012) <sup>[6]</sup> highlighted the importance for companies to have a right strategy to maintain and improve their performance. For this reason, the companies need to develop and implement strategies in accordance with their business environmental conditions. The success of the company in the era of globalization depends on the formulation and implementation of strategies they implement. Therefore, companies need to create and implement relevant strategies to achieve their performance goals. In similar, Sharma (2004) <sup>[23]</sup> stated that the companies are required to develop and implement some relevant marketing strategies to improve their competitiveness in facing the globalization and liberalization era. The authors viewed the marketing strategy as a fundamental tool planned to achieve company goals by developing sustainable competitive advantages. The marketing strategy developed and used can help the company to build and implement its tactics and other activities to improve its performance. In this sense, the company might combine several strategies together to produce the optimal performance.

Furthermore, Gupta (2013) <sup>[10]</sup> suggested that companies need to analyze their business environment to explore the opportunities arise as well as to develop their adaptability to threats might arise. The authors hold that possessing some degree of knowledge about business environment will have a positive impact on the marketing performance. Companies must adapt their marketing strategies with changes occurred in the external and internal business environment. Meanwhile, Tuan (2012) <sup>[28]</sup> emphasized that this marketing strategy adjustment must be supported by sufficient resources to obtain the desired results. The expert believes that the quality of resources and management of environmental factors have an effect on the development process and implementation of marketing strategies. The purpose of this study is to examine the simultaneous relationship between the external business environment, internal business environment, marketing strategy, and marketing performance in the context of oil palm companies in Indonesia.

## 2. Literature review and hypotheses development

### 2.1 Business environment

A number of studies have been conducted to investigate the relationship between internal and external business environment with the marketing strategy and performance. These studies generally argue that internal and external business environment have an impact on planning and determination process of organizational strategies and goals (Hanson *et al.*, 2013) <sup>[11]</sup>.

#### Internal Environment

Internal business environment could be referenced as various things or parties directly related to the daily activities of the organization and directly affect the organization program, policy, and performance. Yu and Ramanathan (2012) <sup>[31]</sup> viewed the internal business environment as a process by which strategic planners examine various internal factors (eg, marketing, distribution, research and development, production and operations, resources and employees, and financial and accounting factors) to determine the company strengths and weaknesses; and take advantage of existing the opportunities in the most effective way, and deal with the threats residing in the environment. The internal environment is also be understood as organizational factors existing in the organization and normally have direct and specific implications for the company. Meanwhile, the internal environment analysis is defined as a strategy planning process examining the marketing, distribution, research and development, production and operations, resources and employees, and financial and accounting factors. The analysis aims to explore the strengths and weaknesses of each division of organization and take advantage of opportunities in the most effective way as well as developing strategies to cope with the threats arise (Gani, 2011) <sup>[8]</sup>. The analysis also aims to identify a number of strengths and weaknesses existing in the internal resources and business processes. Many researchers hold that the internal business resources and processes are classified to be useful factor if they are able to create superior competencies enabling the company to gain a competitive advantage.

#### External environment

External business environment could be understood as various factors outside the organization should be taken into account by the company when they make a decision. External

environment also represents all events outside the company that have a potential to influence the company. External environment is could be referenced as the factors beyond control influencing the company choice, direction, and action: which in turn affects the organizational structure and internal processes. Literature in general argue that the external environment is currently under an uncertain condition. Companies competing in one industry and even across industries is currently have a relatively equal access to the availability of technology to produce new products (Sohal, and Perry, 2006; Chen and Mohamed, 2008) <sup>[26]</sup>.

According to David (2010) <sup>[6]</sup>, an external environment analysis needs to be done to identify the opportunities and threats faced by organization so that the managers are able to develop effective strategies to take advantage of these opportunities and to minimize the impact of potential threats arise. The author states that companies need to pay attention to the five main external factors in carrying out external environmental analysis: i.e., economic, social, political, technological, and competitive conditions. These five conditions have an important impact need to be considered by the companies in analyzing their external environment. According to Gupta (2013) <sup>[10]</sup>, PEST analysis is the most common approach applied in analysing the external business environment. PEST stands for politics, economics, social and technological analysis. PEST analysis describes the framework of macro environmental factors used in the external environmental analysis of strategic management. The notion underlying PEST analysis is that companies is required to react to their external environment changes. This analysis reflects an idea that the implemented strategy requires a conformity between capabilities and the external environment.

### 2.2 Marketing Strategy

The marketing strategy could be referred to as an effort to market a product or service using a specific pattern of plans and tactics so that the number of sales becomes higher; the entire program in determining the target market and satisfying consumers by building a combination of elements from the marketing mix (i.e. products, distribution, promotion, and price); or a marketing mindset will be used to achieve the marketing objectives, wherein there are detailed strategies regarding target markets, positioning, marketing mix, and marketing budget (David, 2010; El-Ansary, 2006) <sup>[6, 7]</sup>. In addition, marketing strategies can be understood as fundamental activities designed to achieve the company goals by developing sustainable competitive advantage through the market entered, and marketing programs used to serve the target market; or an interrelated system aims to determine the product prices, promotion, and distribution (Greenley, (1984) <sup>[9]</sup>.

Furthermore, literature suggests that the marketing strategy has several functions: e.g., increasing motivation to obtain the determined goal; creating an effective marketing coordination; formulating the company goals; and supervising the marketing activities (Hooley *et al.*, 1993) <sup>[15]</sup>. Marketing strategy seeks to motivate the company management to think and see the future in different ways. It is a necessary to maintain the continuity of the company in the future. Every company needs to have its own marketing strategy. This marketing strategy serves to regulate the company operation as well as to build a more effective and targeted coordination team. Business practitioners certainly

want to see clearly what their company aims to do (Shaw, 2012) [24]. The marketing strategy helps business practitioners in determining detailed goals to be achieved in both short and long term in addition to developing the work performance standards of its members. Therefore, management is able to monitor its members activities easily in order to obtain an effective quality work (Koh, 1991) [17].

In general, there are at least four marketing strategy objectives: to improve the quality of coordination between individuals in the marketing team, to measure the marketing results based on predetermined achievement standards, to be a logical basis in the decision making process, and to improve adaptability when changes occur in the marketing strategy (Pehrsson, 2009) [21]. Many marketing experts stated that the ultimate goal of marketing will still lead to achieving customer satisfaction achieved through the following five marketing strategy concepts: market segmentation, market positioning, market entry strategy, marketing mix strategy, and timing strategy (Rundh, 2003; Sharma, 2004) [22, 23].

### 2.3 Marketing Performance

Performance is an indicator of work success or actual work achievement achieved by a person or organization because of carrying out their duties properly. In this sense, marketing performance could be referenced as a measure of achievement obtained from the activities related to the marketing process or a concept used to measure the extent to which the market achievements have been achieved by product/service produced by the company (Akdogan and Durak, 2016; Hendrayati and Gaffar, 2016) [1, 13]. Literature suggests that companies need to build and implement effective marketing strategies to produce a high marketing performance. Marketing performance is a measure of achievement from an overall marketing activity of an organization. High marketing performance can be expressed in three main quantities: increasing the number of sales both in the product unit and in monetary units; consistent sales growth, and increasing market share (Homburg *et al.*, 2012) [14]. According to Vorhies and Morgan (2003) [29], marketing performance is a multidimensional concept. It consists of two dimensions: marketing effectiveness and marketing efficiency. construct commonly used to measure the impact of implementing a marketing strategy. However, the issue of measuring marketing performance is still to be a problem and debate because as a construct, marketing performance is multidimensional concept containing various objectives and types of organizations. (O'Sullivan and Abela, 2007) [20].

Furthermore, literature in general agree that marketing performance is a construct widely used to measure the impact of implementing marketing strategies. Yet, it is important to note that marketing performance is a multidimensional concept. In other words, the measurement of marketing performance should be performed using various measurement criteria. Vorhies and Morgan (2003) [29] underlined that the measurement of marketing performance should be able to provide a comprehensive understanding concerning the actual level of marketing performance. In this perspective, the marketing performance might be measured using sales turnover, number of customers, profits, and sales growth. Marketing performance also could be measured using three main quantities: sales value, sales growth and market share. As an alternative, marketing performance might be measured using three indicators of marketing performance: sales growth, customer growth, and sales

volume (Katsikeas *et al.*, 2016) [16].

### 2.4 Conceptual Framework and Hypotheses

The main purpose of this study is to investigate the effects of internal environment factor, external environment factor, and marketing strategy toward the marketing performance within Indonesian palm oil companies. Figure 1 presents the conceptual framework of this study.

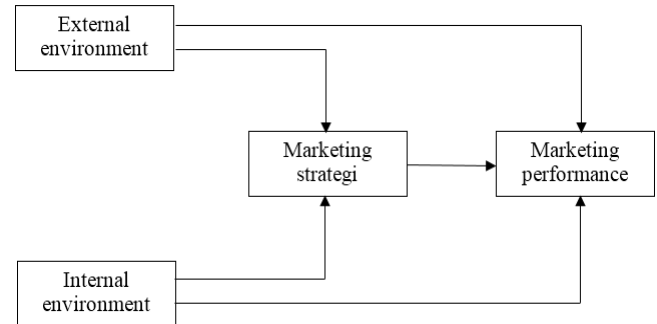


Fig 1: Conceptual framwok of this study

Following the literature review and the conceptual framework, this study proposed five major hypotheses as follows.

Hypothesis 1: The internal environment factors of the company is positively associated with the marketing strategy of Indonesian palm oil companies

Hypothesis 2: The internal environment factors is positively associated with marketing performance of Indonesian palm oil companies

Hypothesis 3: The external environment factors is positively associated with the marketing strategy of Indonesian palm oil companies

Hypothesis 4: The external environment factors is positively associated with marketing performance of Indonesian palm oil companies

Hypothesis 5: The marketing strategy is positively associated with marketing performance of Indonesian palm oil companies

## 3. Research Metodology

### 3.1 Research Design

This study primarily aims to investigate the relationship among external environment factors, internal environment factors, marketing strategy, and marketing performance of Indonesian palm oil companies. Five major objectives were pursued in this study, through the relationship involving the four variables being investigated in this study. This study applied a survey method to collect data pertaining to external environment factors, internal environment factors, marketing strategy, and marketing performance of Indonesian palm oil companies. This study uses Structural Equation Modeling to analyze the relationship between the four variables being investigated in this study.

### 3.2. Data Collection

Aligned with the research design, this study used questionnaire as the main instrument to collect data. The questionnaires were distributed directly to 300 companies operating in palm oil industry. All the surveyed companies are located at the North Sumatera Province of Indonesia. 112 questionnaires out of 300 sent were received. three questionnaires were discarded because of incomplete

answers. In order to increase the reliability of the research, following, the questionnaire was addressed to the marketing director or manager of each companies. The supplementary letter asked the marketing director or manager to participate in the study or to pass the questionnaire to other person who are competent and understand about the variables being investigated in this study.

**3.2 Variables Measurement**

Four variables were being investigated in this study: i.e., external environment factor, internal environment factor, marketing strategy, and marketing performance.

**External business environment**

Following David (2010) [6], this study refers external business environment as various factors outside the organization that should be taken into account by a company when it make a decision. For the purpose of this study, six items have been included in external business environment variable. Table 1 depicts the items included in external business environment variable. Respondents were asked to indicate the importance degree of the external business environment is perceived as an important factor influencing marketing strategy and performance. The response is measured using five-point Likert-type scale, anchored with 1 = (not at all important) to 5 (absolutely important).

**Table 1:** Operationalization of external business environment variable

Coding	Description
X1	National economic condition
X2	National political condition
X3	Social condition within society
X4	Technological change and development
X5	Government policy
X6	Competitive conditions

**Internal business environment**

Referring to David (2010) [6], this study defines the internal business environment as factors that are directly related to the daily organization activities and directly affect the organizational program, policy, and performance. Five items have been included in internal business environment variable. Table 2 depicts the items included in internal business environment variable. Respondents were asked to indicate the importance degree of the internal business environment is perceived as an important factor influencing marketing strategy and performance. The response is measured using five-point Likert-type scale, ranging from 1 = (not at all important) to 5 (absolutely important).

**Table 2:** Operationalization of internal business environment variable

Coding	Description
X7	Organizational size
X8	Financial condition
X9	Operation model
X10	Administrative system
X11	Human resources

**Marketing strategy**

A total of nine items, adoted from Hooley *et al.* (1993) [15], were utilized to assess the variable of marketing strategy. This study applied five-point Likert-type scale ranging from

1 (strongly disagree) to 5 (strongly agree) to measure the respondent agreement with each of these six items. Table 3 depicts the items included in the marketing strategy variable.

**Table 3:** Operationalization of marketing strategy variable

Coding	Description
X12	Maintain the market position
X13	Stable sales growth
X14	Aggressive sales growth to dominates the market
X15	Expand the total market
X16	Enter emerging market segments
X17	Attack the entire market
X18	Attack the selected market segments
X19	Competitive product quality against competitors
X20	Competitive product price against competitors

**Marketing performance**

A total of three items, adopted from Gao (2000), were employed to capture the marketing performance variable. Table 4 presents the items applied to operationalize the marketing performance construct. This study applied five-point Likert-type scale ranging from 1 (strongly disagree) to 5 (strongly agree) to measure the respondent agreement with each of these six items.

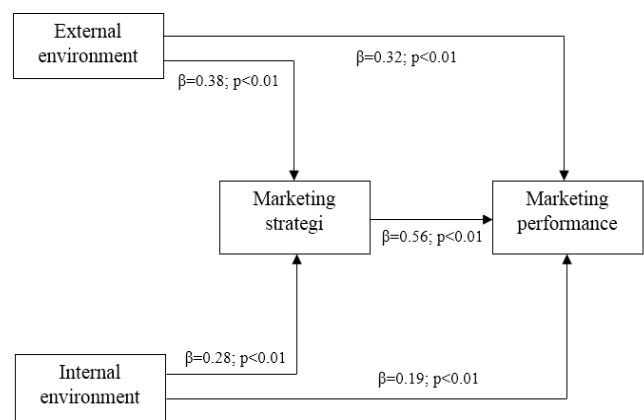
**Table 4:** Operationalization of marketing performance variable

Coding	Description
X21	Sales turnover
X22	Number of customers
X23	Profit and sales growth

**4. Results and Discusion**

**4.1 Structural Model**

Literature generally recognizes that marketing performance has a very important role in supporting the success of a company. Therefore, it is important to examine the factors that have the potential to improve marketing performance. For this reason, this study has developed a structural model representing the simultaneous relationship between external business environment, internal business environment, marketing strategy, and marketing performance. Figure 2 depicts the results of structural equation modelling analysis for the structural model proposed in this study.



**Fig 1:** Structural model of this study

This study perform a principal component analysis (PCA) to assess the validity of items belonging to each variable being investigated. The results of the PCA confirmed that three items of external business environment, i.e., national

economic condition, technological change and development, and competitive conditions were valid to reflect the external business environment variable; three items of internal business environment, i.e., organizational size, financial condition, and human resources were valid to reflect the internal business environment variable: nine items of marketing strategy, i.e., maintain the market position, stable sales growth, aggressive sales growth to dominates the market, expand the total market, enter emerging market segments, attack the entire market, attack the selected market segments, competitive product quality against competitors, and competitive product price against competitors were valid to reflect the internal business environment variable: three items of marketing strategy, i.e., sales turnover, number of customers, and profit and sales growth were valid to reflect the internal business environment variable.

#### 4.2 Test of Hypotheses

The first hypothesis of this study was concerned with the relationship between external business environment and marketing strategy of Indonesian palm oil companies. This study hypothesized that between external business environment would provide a positive effect towards the marketing strategy of Indonesian palm oil companies. This study applied a Structural Equation Modeling (SEM) to test the hypothesis. The results of the test, as can be seen in Figure 2, indicate that external business environment provides a positive effect towards marketing strategy of Indonesian palm oil companies ( $\beta = 0.38$ ). Therefore, Hypothesis 1 is supported.

The second hypothesis of this study was dealing with the relationship between external business environment and marketing performance of Indonesian palm oil companies. This study hypothesized that between external business environment would provide a positive effect towards the marketing performance of Indonesian palm oil companies. This study applied a Structural Equation Modeling (SEM) to test the hypothesis. As can be seen in Figure 2, it was found that external business environment provides a positive effect towards marketing performance of Indonesian palm oil companies ( $\beta = 0.32$ ). Therefore, Hypothesis 2 is supported.

The third hypothesis of this study was concerned with the relationship between internal business environment and marketing strategy of Indonesian palm oil companies. This study hypothesized that between internal business environment would provide a positive effect towards the marketing strategy of Indonesian palm oil companies. This study applied a Structural Equation Modeling (SEM) to test the hypothesis. The results of the test, as can be seen in Figure 2, indicate that internal business environment provides a positive effect towards marketing strategy of Indonesian palm oil companies ( $\beta = 0.28$ ). Therefore, Hypothesis 3 is supported.

The fourth hypothesis of this study was dealing with the relationship between internal business environment and marketing performance of Indonesian palm oil companies. This study hypothesized that between internal business environment would provide a positive effect towards the marketing performance of Indonesian palm oil companies. This study applied a Structural Equation Modeling (SEM) to test the hypothesis. As can be seen in Figure 2, it was found that internal business environment provides a positive effect towards marketing performance of Indonesian palm oil companies ( $\beta = 0.19$ ). Therefore, Hypothesis 4 is supported.

The fifth hypothesis of this study was dealing with the relationship between marketing strategy and marketing performance of Indonesian palm oil companies. This study hypothesized that between marketing strategy would provide a positive effect towards the marketing performance of Indonesian palm oil companies. This study applied a Structural Equation Modeling (SEM) to test the hypothesis. As can be seen in Figure 2, it was found that marketing strategy provides a positive effect towards marketing performance of Indonesian palm oil companies ( $\beta = 0.56$ ). Therefore, Hypothesis 5 is supported.

#### 4.3 Analysis

This study primarily aims to investigate the effect of external business environment on the marketing strategy and performance. For the purpose of this study, six items were included in the external business environment: i.e., national economic condition, national political condition, social condition within society, technological change and development, government policy, competitive conditions. Out of these six items, three items of internal business environment, i.e., national economic condition, technological change and development, and competitive conditions were valid to reflect the external business environment variable. As has been hypothesized in study (Hypothesis 1 and Hypothesis 2), the external business environment was found to have a positive relationship with the marketing strategy and performance. The findings, underline the important role of national economic condition, technological change and development, and competitive conditions in enhancing the marketing strategy of Indonesian palm oil companies. Each of these three items contributed positively to the marketing performance and performance of Indonesian palm oil companies. The findings is in line with previous study results that the external business environment positively impact on the marketing strategy (Azizi *et al.*, 2008; Chimhanzi, 2004) [3, 5].

Moreover, this study also concern the effect of internal business environment on the marketing strategy and performance. This study takes into account five items to address the internal business environment: i.e., organizational size, financial condition, operation model, administrative system, and human resources. However, there were only three items of internal business environment, i.e., organizational size, financial condition, and human resources were valid to reflect the internal business environment variable. As been hypothesized in study (Hypothesis 3 and Hypothesis 4), the internal business environment was found to have a positive relationship with the marketing strategy as well as the marketing performance. The findings support the notion provided by previous studies concerning the positive effects of internal business environment in fostering the marketing strategy and performance (Chen and Mohamed, 2008; Gani, 2011) [4, 8].

Lastly, this study was concerned with the effect of marketing strategy on the marketing performance. This study considers nine items to address the marketing strategy variable: i.e., maintain the market position, stable sales growth, aggressive sales growth to dominates the market, expand the total market, enter emerging market segments, attack the entire market, attack the selected market segments, competitive product quality against competitors, and competitive product price against competitors. As been hypothesized in study (Hypothesis 5), the marketing strategy was found to have a

positive relationship with the marketing performance. The findings support the notion provided by previous studies concerning the positive effects of marketing strategy in fostering the marketing performance (Homburg *et al.*, 2012; O'Sullivan and Abela, 2007) <sup>[14, 20]</sup>.

## 5. Conclusion

This study primarily aims to examine the simultaneous relationship between the external business environment, internal business environment, marketing strategy, and marketing performance. This study suggests that the external business environment has a positive relationship with marketing strategies and marketing performance. This study also predicts that the internal business environment has a positive relationship with marketing strategies and marketing performance. In addition, the marketing strategy itself is also thought to be positively related to marketing performance. The sample involved in this study includes oil palm companies located in South Sumatra Province of Indonesia. The results indicate that three items of external business environment, i.e., national economic condition, technological change and development, and competitive conditions play an important role in enhancing the marketing strategy and performance of Indonesian palm oil companies. Next, three items of internal business environment, i.e., organizational size, financial condition, and human resources were found to be valid to reflect the internal business environment variable. These three items is also positively associated with the marketing strategy and performance of Indonesian palm oil companies. Lastly, it was found that nine items of marketing strategy: i.e., maintain the market position, stable sales growth, aggressive sales growth to dominates the market, expand the total market, enter emerging market segments, attack the entire market, attack the selected market segments, competitive product quality against competitors, and competitive product price against competitors; and the marketing performance are positively related.

The results implicate that oil palm companies in Indonesia need to monitor continuously their external business conditions in order to determine their performance benchmarks and to anticipate the changes might occur. If the external business environment is in good condition, the company can proactively anticipate it; if not, companies need to anticipate it in other ways. This process can be outlined in the marketing strategic plan. Companies must also have a proper understanding of the business competition situation they face, both individually and as a member of the industry, especially issues relating to the availability of inputs such as raw materials, process machinery, labor, finance, and technology. In addition, companies need to anticipate the substitutes pressures and the entry of new competitors, and if possible, companies need to cooperate with other companies in the same industry to minimize the market pressure and require it to be implemented.

From the internal side, the company is required to develop a marketing strategy by referring to the existing corporate strategy and taking into account the conditions of each management function. Every function should provide adequate information so that it can be used as input in determining the marketing strategies. The quality of marketing strategies is determined by how data and information from the existing environment are used and analyzed. In addition, the work programs prepared must have clear objectives such as in terms of determining the market

segments, targets and programs related to products, promotions, distribution and prices. Finally, companies need to have the right instrument to measure their marketing performance. The use of these instruments should be adapted to the available resources and be adjusted to their external and internal conditions.

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