

The Influence of the External Environment on Organizational Performance: A Literature Review from the Perspective of Strategic Management

M. Ayyanhar Arifin Djafar¹, M. Rivai Faruk², Rabiah Al Adawiyah³, Alhusain Bin Syeh Abubakar⁴ ✉

^{1,2,3,4} Program Studi Magister Fakultas Ekonomi dan Bisnis Manajemen Universitas Khairun

Abstract

This study aims to analyze the influence of the external environment on organizational performance from the perspective of strategic management through a literature review approach. The external environment refers to factors beyond an organization's control that nevertheless have a significant impact on the achievement of organizational goals. This study employs a descriptive qualitative method using content analysis of various relevant scholarly literature sources. The findings indicate that external environmental factors, such as economic conditions, political dynamics, social changes, technological development, and the level of industry competition, influence organizational performance both directly and indirectly. Furthermore, strategic management serves as an adaptive mechanism that enables organizations to identify opportunities and threats and formulate appropriate strategies in response to external environmental dynamics. These findings affirm that an organization's ability to understand and respond to changes in the external environment is a key factor in improving performance and sustaining competitive advantage.

Keywords: External Environment; Organizational Performance; Strategic Management; Literature Review.

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✉ Corresponding author :

Email Address : teamayyanharivairabiah@gmail.com

INTRODUCTION

In the contemporary era of globalization, organizations operate within an increasingly complex, dynamic, and uncertain business environment. Rapid changes in economic conditions, government policies, sociocultural patterns, technological development, market turbulence, and competitive intensity have created both strategic challenges and opportunities for organizations. These external environmental factors are beyond the direct control of organizations, yet they significantly influence organizational survival, strategic direction, and performance outcomes. Recent studies emphasize that environmental dynamism does not affect organizations in a uniform manner; rather, its impact depends on the organization's ability to interpret, respond to, and align internal capabilities with external changes (Arici & Gok, 2023; Biswakarma & Bohora, 2025; Kim et al., 2025; Liang et al., 2024; Ubaidillah et al., 2026).

From a strategic management perspective, the external environment is a crucial element in determining how organizations formulate, implement, and evaluate strategies. Strategic management enables organizations to conduct environmental scanning, identify opportunities and threats, allocate resources effectively, and develop adaptive strategies in response to changing environmental conditions. In this regard, external environmental analysis is not merely an administrative activity, but a fundamental process for strengthening strategic fit between organizational capabilities and environmental demands. Organizations that are able to understand market changes, technological shifts, regulatory pressures, and competitive forces tend to be more capable of developing strategies that support sustainable performance (Clauß et al., 2021; Reed, 2021; Rêgo et al., 2022; Sari, 2024).

Specifically, the external environment influences organizational performance through several key dimensions. Economic instability may affect financial performance, purchasing power, investment decisions, and operational efficiency. Political and regulatory changes may reshape organizational policies, compliance requirements, and strategic priorities. Social and cultural changes may influence consumer behavior, stakeholder expectations, and organizational legitimacy. Meanwhile, technological development and digital transformation have become major external forces that encourage organizations to innovate, redesign business processes, and improve competitiveness. Therefore, organizational performance is no longer determined only by internal resources, but also by the organization's responsiveness to external environmental pressures and opportunities (Gaglio et al., 2022; Guo & Xu, 2021; Lissillour et al., 2023; Matarazzo et al., 2021; Peng & Tao, 2022).

The phenomenon underlying this study is the increasing difficulty faced by organizations in maintaining stable performance amid environmental turbulence. Many organizations experience declining competitiveness because they fail to anticipate changes in market demand, technology, policy, and industry competition. In contrast, organizations that possess strategic agility, digital capability, innovation capability, and dynamic capabilities are more likely to adapt effectively to external changes. Studies show that environmental turbulence can strengthen or weaken the relationship between strategic agility, innovation, and firm performance, depending on the organization's internal readiness and strategic response mechanisms (Arici & Gok, 2023; Clauß et al., 2021; Reed, 2021; Singh et al., 2021).

The relevance of this research lies in the need to understand how external environmental factors shape organizational performance within the framework of strategic management. Previous studies have highlighted that dynamic capabilities, absorptive capacity, organizational ambidexterity, digitalization capability, and strategic agility play important roles in helping organizations respond to environmental changes. These capabilities allow organizations to sense external opportunities and threats, seize strategic opportunities, and reconfigure resources in order to maintain competitiveness. Thus, the relationship between the external environment and organizational performance should be examined not only as a direct relationship, but also through the adaptive mechanisms provided by strategic management (Biswakarma & Bohora, 2025; Feng et al., 2022; Kim et al., 2025; Liang et al., 2024; Yu et al., 2022).

Although many studies have examined the relationship between environmental dynamism and organizational performance, the findings remain inconsistent. Some studies indicate that external environmental changes can stimulate innovation and improve performance, while others show that excessive turbulence may disrupt coordination, increase uncertainty, and weaken organizational outcomes. These inconsistencies suggest that the influence of the external environment on organizational performance depends on organizational context, industry characteristics, strategic orientation, leadership, and internal capabilities. Therefore, there is a need for a more integrative literature review that synthesizes previous findings and explains how external environmental factors affect organizational performance through the lens of strategic management (Kim et al., 2025; Lissillour et al., 2023; Ubaidillah et al., 2026).

The research gap in this study is that most previous research has focused on specific empirical contexts, such as SMEs, manufacturing firms, digital industries, or crisis-affected organizations. As a result, the existing literature remains fragmented and has not fully provided a comprehensive conceptual understanding of the relationship among the external environment, strategic management, and organizational performance. In addition, previous studies often examine environmental dynamism, strategic agility, digital transformation, or dynamic capabilities separately, rather than integrating these concepts into a unified strategic management framework. This gap indicates the importance of conducting a literature review that can synthesize various perspectives and clarify the theoretical linkages among these constructs (Nadkarni & Prüg1, 2021; Rêgo et al., 2022; Sari, 2024; Shiferaw, 2024; Ubaidillah et al., 2026).

The novelty of this study lies in its effort to develop an integrative conceptual understanding of how the external environment influences organizational performance from the perspective of strategic management. Unlike previous studies that tend to focus on direct empirical relationships, this literature review emphasizes strategic management as an adaptive mechanism that connects external environmental changes with organizational performance outcomes. This study positions environmental scanning, opportunity–threat identification, strategic agility, dynamic capabilities, digital capability, and innovation capability as essential elements in explaining how organizations respond to external pressures and maintain sustainable competitive advantage. Therefore, this study contributes to the strategic management literature by offering a synthesized framework for understanding organizational performance in dynamic external environments (Biswakarma & Bohora, 2025; Clauß et al., 2021; Kim et al., 2025; Liang et al., 2024; Rêgo et al., 2022).

Based on the above explanation, this study aims to analyze the influence of the external environment on organizational performance from the perspective of strategic management through a literature review approach. This study seeks to synthesize previous research findings related to external environmental factors, strategic management mechanisms, and organizational performance outcomes. The findings of this study are expected to provide theoretical contributions to the development of strategic management studies and practical implications for

organizations in formulating adaptive, responsive, and sustainable strategies in the face of external environmental dynamics.

RESEARCH METHOD

This study employed a qualitative approach with a descriptive method through a literature review. The qualitative approach was selected because the study aims to understand the phenomenon in depth by analyzing various relevant sources of information rather than testing hypotheses statistically. The descriptive method was used to provide a systematic explanation of the relationship among the external environment, strategic management, and organizational performance. This approach is in line with Sugiyono (2017), who states that qualitative research is used to understand meanings, phenomena, and relationships among variables in a particular context in depth.

The research design was based on a literature review using secondary data obtained from various sources, including international and national scientific journals, textbooks, and other academic publications relevant to the research topic. The selection of data sources was conducted selectively by considering their credibility and relevance to the main variables examined in this study, namely the external environment, strategic management, and organizational performance. Data were collected through documentation study by gathering, reviewing, and examining literature related to the research topic. This technique enabled the researcher to obtain comprehensive information from previous studies and academic references (Sugiyono, 2017).

The data analysis technique used in this study was content analysis. This technique was carried out by reviewing, classifying, interpreting, and synthesizing information from various literature sources to obtain a comprehensive understanding of the research topic. Content analysis was used to identify patterns, relationships, themes, and tendencies found in previous research findings (Krippendorff, 2018). Through this analytical technique, the study is expected to produce systematic and in-depth conclusions regarding the influence of the external environment on organizational performance from the perspective of strategic management.

RESULT AND DISCUSSION

The Influence of the External Environment on Organizational Performance

The findings of the literature review consistently indicate that the external environment has a significant influence on organizational performance, although the degree of influence may vary depending on organizational characteristics and industrial sectors. The external environment includes various factors outside the organization that are dynamic and cannot be directly controlled, yet they have a substantial impact on organizational success in achieving its goals. Economic factors, such as inflation rates, economic growth, and consumer purchasing power, can affect organizational financial performance and long-term operational stability. In addition, political and regulatory factors also play an important role in determining organizational policy directions, particularly in relation to regulatory compliance and business continuity.

Technological development is one of the external factors that significantly affects organizational performance. Technological advancement not only promotes operational efficiency but also creates opportunities for innovation that can strengthen organizational competitiveness. Organizations that are able to adopt technology effectively tend to achieve better performance than those that are slow to adapt. Conversely, organizations that fail to keep pace with technological development may experience a decline in performance, both in terms of productivity and service quality (Raysharie et al., 2024). This indicates that an organization's ability to respond to technological change is a key factor in maintaining sustainable performance.

In addition to technological factors, the level of industry competition also has a strong influence on organizational strategy and performance. In highly competitive environments, organizations are required to develop competitive advantages in order to survive and grow. Porter's Five Forces model explains that competitive pressure within an industry is influenced by several factors, including the threat of new entrants, substitute products, and the bargaining power of suppliers and buyers (Porter, 2008). Therefore, organizations need to formulate appropriate strategies to deal with such pressures in order to improve performance sustainably.

Furthermore, the influence of the external environment on organizational performance is not always direct, but may be mediated by the strategies implemented by the organization. Organizations that are able to analyze the external environment accurately will be better positioned to identify opportunities and threats, allowing them to formulate adaptive and responsive strategies. This is consistent with the concept of dynamic capabilities, which emphasizes the importance of an organization's ability to adjust its resources and strategies in response to environmental change (Teece, 2018).

These findings indicate that the external environment plays a crucial role in determining organizational performance. Organizations that are able to understand and respond effectively to external environmental dynamics have greater opportunities to improve performance and maintain competitive advantage in the long term. A study conducted by Sherly et al. (2025) shows that external environmental analysis through the PESTEL approach can help organizations identify opportunities and threats and develop adaptive and sustainable strategies. This confirms that understanding external factors is an essential foundation in the strategic management process.

Moreover, Widodo et al. (2022) found that the external environment has a significant effect on organizational performance, both directly and through the mediating variable of competitive advantage. These findings suggest that the influence of the external environment is not always direct, but may occur through the organization's ability to build competitive advantage. Furthermore, a literature review conducted by Ikhsan and Pirade (2026) revealed that organizational strategy has a significant influence on organizational performance, particularly when the strategy is implemented in an integrated manner and supported by effective resource management. This strengthens the argument that strategic management serves as a link between external environmental conditions and the achievement of organizational performance.

These findings can be explained through several theoretical perspectives in strategic management. First, the concept of absorptive capacity explains that an organization's ability to identify, absorb, and utilize knowledge from the external environment is a key factor in improving performance (Dess et al., 2020). Organizations with strong absorptive capacity are more adaptive to environmental changes. Second, the theory of dynamic capabilities

emphasizes that organizations must be able to integrate, reconfigure, and develop their internal resources in response to external environmental changes (Mintzberg et al., 2009). Thus, environmental change can be transformed into a strategic opportunity. Third, the resource-based view argues that organizational competitive advantage depends on the utilization of internal resources that are valuable, unique, and difficult to imitate (Porter, 2008). However, the effectiveness of these resources is still influenced by the organization's ability to adapt to the external environment.

Therefore, it can be concluded that the relationship between the external environment and organizational performance is complex and interrelated. The external environment not only acts as a factor influencing organizational performance but also serves as a strategic source of information that can be utilized to create competitive advantage and improve organizational performance sustainably.

The Role of Strategic Management in Managing the External Environment

Strategic management plays a central role in dealing with dynamic and uncertain external environmental changes. The continuously changing external environment requires organizations not only to be reactive but also proactive in anticipating various changes that may occur. Therefore, organizations need to conduct systematic environmental analysis to identify opportunities and threats that may affect organizational sustainability and performance.

In this context, strategic management functions not only as a planning process but also as an organizational adaptation mechanism in response to environmental change. Continuous strategic analysis enables organizations to obtain relevant strategic information that can be used as a basis for sound decision-making. Accordingly, organizations can formulate strategies that are not only aligned with internal conditions but also responsive to external dynamics.

The concept of dynamic capabilities explains that organizations must be able to adjust, integrate, and develop internal competencies in order to respond effectively to environmental changes (Porter, 2008). This capability is particularly important in unstable environments because organizations with strong dynamic capabilities are more flexible in modifying strategies and utilizing emerging opportunities. In addition, this capability enables organizations to manage resources more efficiently in response to competitive pressures. Thus, strategic management enables organizations to anticipate environmental changes earlier, formulate adaptive and flexible strategies, enhance competitiveness in facing industrial competition, and optimize organizational performance sustainably.

Therefore, this study reinforces the view that the external environment functions not only as an influential factor but also as a strategic source of information that can be utilized to improve organizational performance sustainably. Through appropriate strategic management, organizations are able to transform environmental pressures into strategic opportunities that support long-term competitiveness and performance improvement.

Literature Synthesis and Conceptual Model

Based on the literature review, the relationship among the variables in this study demonstrates a systematic linkage between the external environment, strategic management, and organizational performance. The external environment serves as a factor that influences the direction and process of organizational strategy formulation, while strategic

management functions as a mediating mechanism that integrates such influence into organizational policies and actions. Conceptually, the relationship among the variables can be explained as follows: the external environment influences organizational strategy, strategic management acts as a mediator, and organizational performance becomes the final outcome.

This model indicates that the influence of the external environment on organizational performance is not always direct, but may occur through the strategic management process as an intervening variable. This is in line with the resource-based view, which states that organizational competitive advantage depends on the ability to manage and utilize internal resources effectively in response to external environmental conditions (Barney, 1991). Therefore, the integration of external environmental analysis and appropriate strategic management implementation becomes a key factor in improving organizational performance.

Organizations that are able to manage this relationship effectively will have stronger competitive advantages and greater capacity to survive in competitive and dynamic environments. In this regard, strategic management acts as a bridge between external environmental pressures and organizational performance outcomes. By identifying external opportunities and threats, aligning internal resources, and formulating adaptive strategies, organizations can improve their performance and sustain competitive advantage in the long term.

CONCLUSION

Based on the literature review that has been conducted, it can be concluded that the external environment has a significant influence on organizational performance from the perspective of strategic management. External factors such as economic conditions, technological development, government policies, social dynamics, and the level of industry competition have been shown to affect an organization's ability to achieve its goals and maintain sustainable performance. Organizations that are able to understand external environmental changes accurately tend to be more adaptive in formulating strategies and utilizing opportunities that emerge amid business environmental uncertainty. Conversely, organizations that are less responsive to environmental changes may experience a decline in competitiveness and organizational performance.

This review also indicates that the influence of the external environment on organizational performance is not always direct, but may be mediated by the implementation of strategic management. Strategic management functions as an organizational adaptation mechanism that integrates external environmental information into the processes of planning, decision-making, and strategy implementation. The perspectives of dynamic capabilities, absorptive capacity, and the resource-based view explain that an organization's ability to manage resources, absorb external information, and adjust strategies flexibly is an important factor in creating competitive advantage and improving organizational performance sustainably. Therefore, the integration of external environmental analysis and adaptive strategy implementation is a key determinant of organizational success in facing the dynamics of the modern business environment.

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