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Submission date: 27-Aug-2021 02:08PM (UTC+0700)
Submission ID: 1636712134
File name: ity_and_Innovation_Strategy__An_Empirical_Study_in_Indonesia.pdf (323.11K)
Word count: 5489
Character count: 31357

Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi:10.13106/jafeb.2021.vol8.no6.1121

Measurement of Sustainable Competitive Advantages Through Digital Capability and Innovation Strategy: An Empirical Study in Indonesia

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Received: March 05, 2021 Revised: May 08, 2021 Accepted: May 15, 2021

Abstract

The study finds out how digital capability adoption has the influence to increase sustainable competitive advantage through the innovation strategy of the small food business in Pekanbaru, Indonesia. This study is based on resources that cannot be directly converted into the sustainable competitive advantage of companies but must go through an entrepreneurial process and offer new insights into the use of digital technology innovation as valuable corporate resources. This is quantitative research and the research population is 36 small food businesses in Pekanbaru Indonesia. The sample was taken using random sampling. The data is processed with the Structural Equation Modeling with Partial Least Squares approach. The results show that digital capability has a significant effect on sustainable competitive advantage, the digital capability has also a significant effect on innovation strategy. Then, innovation strategy has no significant effect on sustainable competitive advantage. This indicates that digital capability in small food businesses can be directly converted into a competitive advantage through innovation strategy. To develop an innovative strategy, small food businesses must improve their digital capabilities, especially their digital technology infrastructure.

Keywords: Sustainable Competitive Advantage, Digital Capability, Innovation Strategy

JEL Classification Code: F63, M31, M15, M21, O33

1. Introduction

The era of the industrial revolution 4.0 has changed the strategy of every company to innovate. Innovation in Industry 4.0 technologies has accelerated quickly worldwide in the last decade. Digital technology in industry 4.0 makes companies more competitive. Technology has been playing a huge role in many aspects of human life. Right from the moment we wake up to the moment we go back to bed at night, technology surrounds us (Sasono et al., 2021). The spread of the coronavirus (Covid-19) is still a hot issue in the international world, including Indonesia. With this pandemic, the world situation has changed both in the economic, social, educational, and other fields. Given the current spread of the disease, advisories have been issued to stay at home and not to step out unless absolutely necessary. The COVID-19 pandemic has accelerated the shift towards a more digital world. Therefore mastery of technology is very important in this era (Pramono et al., 2021). Technological change is certainly a challenge in the future. That will require companies to create innovations in design, product development, production, distribution, consumer communication, and marketing (Sunarjo et al., 2021).

Along with the impact of globalization and the emerging new technologies, companies must manage the change

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by perceiving it as an opportunity to be able to sustain, grow and compete in a rapidly changing environment and respond to change with innovation. Innovation reflecting the perspective of companies on change creates value through change. In today's business world, there are true opportunities for the ones that can manage the process of change well. At this point, a company desiring to create value and maintain a sustainable competitive advantage should use innovation strategically. A strategic perspective on innovation leads the organization to look at the whole system beyond the product and the process to create value (Febrian et al., 2018).

Innovation can create a sustainable competitive advantage, and it must be attended because future competition will be more competitive due to globalization, technological innovation, and a dynamic business environment. Successful companies in innovation deal with it in a holistic and systematic approach by developing a fully integrated innovation strategy with its mission and objectives and by making organizational culture and organizational systems compatible with the strategy. Strategic innovation is a future-oriented concept that contains a creative discovery (Febrian et al., 2018).

Facing global competition, innovation strategies and the ability of companies to adopt digital technology have become priorities since the business environment is increasingly competitive. Empirically, it is known that companies that have adopted digital technology and created innovation will be more responsive to facing rapid changes in business confusion (Li et al., 2008). Companies in developed countries are faster in adjusting to the changing dynamic business environment. Companies in developing countries face different conditions, where they strive to align existing resources by attending to the latest technology. Indonesia is a developing country with many digital media users in Asia (Sunarjo et al., 2021).

The large use of digital media is forcing producers to focus more on exploring opportunities for consumers. Therefore, the power of marketing with digital media has the potential to displace conventional marketing. Then, companies should develop digital marketing to get consumers (Tiago & Veríssimo, 2014). The development of digital information media has greatly helped companies in shaping brand aura and creating intimacy between the company and consumers (Tiago & Veríssimo, 2014).

Innovations in industrial revolution 4.0 have changed the concept of competition in the field of strategic management. The relationship between the ability to create innovation strategies in the company is significant with the measurement of sustainable competitive advantage indicators (Febrian et al., 2018).

Therefore, based on the literature review, innovation in digital capabilities is focused on using measurement of sustainable competitive advantage as a tool to improve company performance. According to Barney (1991), a company that uses a balanced investment strategy creation approach will more quickly accelerate a dynamic market than just using a financial measurement approach. Innovation strategy is one resource that is difficult to imitate by competitors (Barney, 1991; Febrian et al., 2018).

The concern on small business in Indonesia is very important as a form of government support for people's economic system. Small business in Indonesia is unique it is based on the family principle and home industry. This paper focuses on small food businesses in Pekanbaru, Indonesia. Based on empirical studies, the ability of small food business to make innovation strategy through digital capability adoption are more responsive to rapidly changing the social environment. Small food businesses with digital capabilities will be able to change raw materials into valuable products (Mihalic & Buhalis, 2013).

2. Literature Review

This paper is based on a systematic mapping study on sustainable competitive advantage in small businesses. Mapping was carried out in the last 10 years by reviewing previous literature published in trusted publishers such as Scopus, Springer, Elsevier, Emerald Insight, and others. Selec-tion of articles refers to the topic under study and catego-rizes findings based on suggestions by Banaeianjahromi and Smolander (2014). The findings showed that the most discussed topics are firm resources and capability, and innovation as antecedents of sustainable competitive advantage. The efforts to create a sustainable competitive advantage in small businesses are related to the creation theory of entrepreneurial action (Alvarez & Barney, 2007). The theory of entrepreneurship, namely the entrepreneurial value creation theory, explains the entrepreneurial experience in its fullest form, from the entrepreneurial intention and the discovery of an entrepreneurial opportunity to the development of the entrepreneurial competence, and the appropriation of the entrepreneurial reward (Barney, 1991). This is also a guideline for using the resource-based view (RBV) theory to understand the sustainable competitive advantage of small businesses. RBV states that internal resources encourage the creation of competitive advantage (Wernerfelt, 1984). One of them is digital capability as the ability of small businesses to create innovation. The digital capability in this paper is explained in 6 dimensions, such as ICT proficiency, critical use, creative product, participating, learning, and self-actualizing.

At its core, digital innovation is the use of digital technology and applications to improve existing business processes and workforce efficiency, enhance customer

experience, and launch new products or business models. Digital capability and innovation are compatible as a source of sustainable competitive advantage because sustainable competitive advantage has characteristics such as valuable products, rare resources, inability to be imitated, and non-substitutable (Barney, 1991). Hence the paper proposes the following hypothesis (see Table 1):

H1: *Digital capability has a significant effect on innovation strategy.*

H2: *Digital capability has a significant effect on Sustainable Competitive Advantage.*

H3: *Innovation strategy has a significant effect on Sustainable Competitive Advantage.*

3. Research Methods

This research uses Structural Equation Model (SEM) analysis with Partial Least Square (PLS) approach. Covariant-based SEM requires a large sample size that can include hundreds or even thousands of observations. PLS-SEM is enough for a small sample size (Hair et al., 2016). The number of samples taken was 90 small food businesses in Pekanbaru, Indonesia.

The 90 questionnaire packages were distributed personally to micro and small businesses around the Durian and Ahmad Dahlan streets in Pekanbaru City. We explained the aims and objectives of the study and explained the questionnaire to be filled in by respondents. Each respondent received a questionnaire package and was taken back by the researcher two days after the questionnaire was distributed. But we also conducted a survey and respondents filled out the questionnaire directly on the spot. The researcher also ensured the anonymity of the respondents when retrieving the completed questionnaires. Of the 90 questionnaires distributed, 36 questionnaire packages were returned and filled out completely. This indicates that the response rate in this study was 40%.

When using SmartPLS for data analysis there are three indicators to measure the outer model, which are Average Variance Extracted (AVE), Cronbach Alpha, and Composite Reliability (Hair et al., 2016). And to measure the inner model three indicators are used which are coefficient of determination (R^2); Predictive Relevance (Q^2); the Goodness of Fit Index (GoF) (Hair et al., 2016). Hypothesis testing is measured by the bootstrapping process to get the *t*-value. If the *t*-value is greater than the *t*-statistic with a confidence level of 95% (>1.96) then the hypothesis is significant (Hair et al., 2016).

4. Results

This research uses the Structural Equation Model (SEM) analysis technique with Partial Least Square (PLS). SEM analysis with PLS is carried out in three stages, that is the outer model analysis, the inner model analysis, and the hypothesis testing.

4.1. Analysis of the Outer Model

Construct reliability testing was measured by composite reliability and Cronbach's alpha. Constructs are reliable

Table 1: Antecedents Sustainable Competitive Advantage

Antecedents Sustainable Competitive Advantage	Researchers
Entrepreneurial Orientation	(Álvarez & Barney, 2007; Barney, 1991; Febrian et al., 2018; Martins, 2016; Mihalic & Buhalis, 2013; McAdam et al., 2008; Sunarjo et al., 2021; Wynarczyk, 2013)
Environmental	(Chen & Zhang, 2015; Ferenhof et al., 2014; Reyes-Rodríguez et al., 2016; Hilmi et al., 2011; Auken et al., 2008; Ferenhof et al.,2014; Wernerfelt, 1984; Pramono et al., 2021)
Firm Performance	(Auken et al., 2008; Hilmi et al., 2011; Leal-Rodríguez & Albort-Morant, 2016; McAdam et al., 2008; Tjahjaningsih et al., 2017; Wernerfelt, 1984; Wynarczyk, 2013)
Firm Resources & Capability	(Gelbmann, 2010; Hilmi et al., 2011; Auken et al., 2008; McAdam et al., 2008; Reyes-Rodríguez et al., 2016; Álvarez & Barney, 2007; Sasono et al., 2021; Zahra et al., 2009; Wernerfelt, 1984)
Innovation	(Auken et al., 2008; Álvarez & Barney, 2007; Barney, 1991; Febrian et al., 2018; Martins, 2016; Chen & Zhang, 2015; Hilmi et al., 2011; Tjahjaningsih et al., 2017; Ferenhof et al., 2014; Pramono et al.2021; Hilmi et al., 2011; Leal-Rodríguez & Albort-Morant, 2016; Reyes-Rodríguez et al., 2016; McAdam et al., 2008; Wynarczyk, 2013; Zahra et al., 2009)

Table 2: Cronbach's Alpha, Composite Reliability and Average Variance Extracted

Cut-off Value		Digi_Cap	Inno	SCA	Explanation
Cronbach's Alpha	>0.6	0.872	0.678	0.763	All aspect of Small food business meet the required standard
Composite Reliability	>0.7	0.901	0.858	0.840	
Average Variance Extracted (AVE)	>0.5	0.567	0.752	0.512	

if they have composite reliability values above 0.70 and Cronbach's alpha values above 0.60. Constructs are valid if the average variance extracted (AVE) values are above 0.5 (Chen & Zhang, 2015). The following is an analysis table of the research outer model.

Table 2 shows that all the 3 criteria of the outer model are fulfilled so that it can be concluded that the research data has good validity and reliability, therefore we can proceed to analyze the inner model.

4.2. Analysis of the Inner Model

Analysis of the inner model/structural model is conducted to ensure that structural models are built robustly and accurately. Robust regression was first introduced by Andrews (1972). Robust regression is a form of regression analysis designed to overcome some limitations of traditional parametric and non-parametric methods (Chen & Zhang, 2015). Regression analysis seeks to find the relationship between one or more independent variables and a dependent variable. This method is an important tool for analyzing data influenced by outliers so that it produces a model resistant to outliers.

The inner model evaluation can be seen from several indicators which include a coefficient of determination (R^2); Predictive Relevance (Q^2); Goodness of Fit Index (GoF). The following is a presentation for each indicator.

4.2.1. Coefficient Determination (R^2)

The following is the value of R^2 output software smartPLS 3 (Table 3).

If the R square value is 0.67 it is (strong), 0.33 (moderate) and below 0.19 (weak). This research model is categorized to have a strong relationship between the variables being analyzed (Chen & Zhang, 2015). In this research, there are two endogenous variables namely Organizational Agility and Competitive Advantage, and two exogenous variables. Based on R square and adjusted R square values, there is a strong relationship between exogenous variables both independently as well as together.

Table 3: Value R^2 of Output Software

	R Square	*R* Square Adjusted
Innovation strategy	0.241	0.219
Sustainable Competitive Advantage	0.616	0.593

4.2.2. Predictive Relevance (Q^2)

To calculate Q^2 the following formula can be used

$$Q^2 = 1-(1-R^{12})(1-R^{22}).....(1-R^{n2})$$
$$Q^2 = 1-(1-0.241)(1-0.616)$$
$$Q^2 = 0.709\,(1)$$

This test is conducted to determine the predictive capability with the blindfolding procedure. If the value obtained is 0.02 then the model has a small predictive capability. If the value obtained is 0.15 then the model has a mediocre predictive capability (Real-Rodríguez & Albort-Morant, 2016; Hair et al., 2016). And if the value obtained is 0.35 then the model has a large predictive capability. If the calculation of the Q^2 value is 0.709, then the model has a large predictive capability.

4.2.3. Goodness of Fit Index (GoF)

GoF values in SEM with PLS are calculated manually (Tenenhaus, Vinzi, Chatelin, & Lauro, 2005) with the following formula:

$$GoF = \sqrt{AVE}\,2 \times R^2$$
$$GoF = \sqrt{0.610} \times 0.429$$
$$GoF = 0.781 \times 0.429$$
$$GoF = 0.335(2)$$

According to McAdam et al. (2008) and Hair et al. (2016), small GoF value = 0.1, medium GoF value = 0.25

and large GoF value = 0.38. Based on the calculation of the GoF value, the model has a large GoF value so that the inner model represents the real phenomenon.

4.3. Hypothesis Testing

The test of hypotheses in SEM PLS is done with a bootstrapping process that produces *t*-statistics values. If the *t*-statistics value is greater than that of the *t*-statistic with a 95% confidence level (>1.96) then the hypothesis is significant. Here are the results of bootstrapping. To find out how much influence exists between the variables, we find out the value of the loading factor of the original sample output. This can be seen in the path coefficients table on the smartPLS output. Table 4 presents the Path Coefficients.

Based on Table 4, three hypotheses have a value of *t*-statistics above 1.96, and one hypothesis has a *t*-value below 1.96. This means that from the three research hypotheses, two hypotheses proved to have a positive and significant influence. While one hypothesis is not significant. Then, to summarize the results of the hypothesis test, Table 5 is presented and the results are summarized for the research hypothesis test.

5. Discussion

The results of this research confirm the findings of previous studies that digital capability is positively related to innovation in small businesses (Barney, 1991; Febrian et al., 2018). Thus, there is a tendency that innovation will increase when digital capability processes have been good in small businesses (Higón, 2012).

In this context, the analysis shows that digital capability acts primarily to achieve a firm's efficiency. Digital capability adoption by small food businesses helps in achieving sustainable competitive advantage through new product innovations, analytical attitude, futuristic, commitment, and literacy in technology development when dynamic market conditions (Chen & Zhang, 2015; Ferenhof et al., 2014).

Digital capability is the ability possessed by business actors to utilize digital media/information technology to support the running of the business. Digital technology is a set of technologies used by an organization to produce, process, and disseminates information in every form. Therefore, digital technology provides support for small food business operations (Frambach et al., 2003). Digital technology is useful to reduce costs in business activities, especially for small businesses that require a budget allocation for other uses (Chen & Zhang, 2015; Hilmi et al., 2011; Leal-Rodríguez & Albort-Morant, 2016; McAdam et al., 2008).

Small food businesses in both developed and developing countries operate in highly uncertain and dynamic market conditions (Frambach et al., 2003). According to Frambach et al. (2003), such market conditions along with technological turbulence force small food businesses to look for alternative ways to survive and grow. For many people, the use of digital technology has been considered the main source of organizational agility both when dealing with suppliers and with consumers.

Based on previous research (Mihalic & Buhalis, 2013; Wernerfelt, 1984; Higon, 2012; Ferenhof et al., 2014) information and communication technology (ICT) has a positive effect on business agility. ICT will affect the agility of small businesses because the adequate digital capabilities will be able to provide many business opportunities, relationships with customers, and resources.

The digital capability allows sustainable competitive advantage through external collaboration platforms, supply chain systems, and management systems of customer relations, which enables a fast and up-to-date flow of information between the buyers, sellers, partners, and competitors (Martins, 2016; McAdam et al., 2008; Wamarczyk, 2013).

The digital capability will create good conditions for organizations to explore and exploit opportunities due to the following reasons. First, innovativeness facilitates the organizations to explore and exploit new ideas and help adjust to change (Frambach et al., 2003; Chen & Zhang, 2015; Hilmi et al., 2011). Second, technological innovation and progress increasingly become an important component of competing strategies for many companies (Leal-Rodríguez & Albort-Morant, 2016; Tjahjaningsih et al., 2017) Third, with the ability to maintain effective corporate

Table 4: Path Coefficients (Mean, STDEV, *T*-value)

Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	*T*-statistics (|*O*/STDEV|)	*P*-values
Digital Capability → Sustainable Competitive Advantage	0.616	0.609	0.204	3.012	0.003
Digital Capability → Innovation Strategy	0.491	0.481	0.205	2.391	0.017
Innovation Strategy → Sustainable Competitive Advantage	0.270	0.269	0.158	1.715	0.087

entrepreneurship, innovation provides an attractive source of competitive advantage if it creates positive synergy for the company (Mihalic & Buhalis, 2013; Wernerfelt, 1984). Last, if the innovation process or innovation results are difficult to replicate, an effective company makes innovation an increasingly important factor to maintain sustainable competitive advantage (Álvarez & Barney, 2007; Sasono et al., 2021; Zahra et al., 2009).

Cakmak and Tas (2012) examined the influence of digital capabilities on competitive advantage and indicated that digital capability has no significant effect on competitive advantage. The results of previous studies conducted by Powell and Dent-Micallef (1997) showed that information technology has a positive effect on the competitive advantage of an organization. The difference in this study from other studies is the sample taken. This study uses small food businesses as the sample, while the previous research (Cakmak & Tas, 2012; Higón, 2012; Powell & Dent-Micallef, 1997) examines large companies. Therefore, there are differences in the role of resources that can create a sustainable competitive advantage. Capability can identify highly competitive market opportunities and make small businesses more adaptable to adapt to the conditions in their business environment.

This research shows that the creation of capability in the company must be able to be repeated. This is in accordance with the results of previous research (Gelbmann, 2010; Hilmi et al., 2011; Auken et al., 2008; Reyes-Rodríguez et al., 2016) who stated that digital capability as a company resource cannot be changed directly into the competitive advantage if it cannot be repeated. The market competition that occurs continuously requires companies to be able to deal with the internal and external environmental pressures continuously. Therefore, small businesses must have the capability to reconfigure and collaborate with other resources. In such a process it will require the mediation of other variables so that capability can be a resource input for achieving competitive advantage (Sasono et al., 2021; Zahra et al., 2009). The mediation variables proposed in this research are innovation strategy (Wynarczyk, 2013).

The results of this research (H3) show innovation strategy has no significant effect on sustainable competitive advantage. This is acceptable because the emphasis in this research is the ability to use digital technology not the information technology aspect to overcome the problem but focus on the human aspect as an ICT user. The technology used may have been up-to-date with the latest developments, but it does not necessarily encourage small food businesses to create innovation, because ICT users who have the ability to operate ICT are limited. Small food businesses have not yet focused on increasing the ability to use ICT for their employees. Therefore, small food businesses may not be able to create a sustainable competitive advantage.

The results confirmed the publication of OECD 2004 which states that one of the weaknesses of small businesses lies in the limited capability and aggressiveness either from the owners or from small business workers to maximize business opportunities by utilizing digital media. Several factors can hinder the usage of the Internet in small businesses, among which are the incompatibility of business processes, limited knowledge in terms of Internet use, limited managerial skills in Internet use, a limited number of computers and Internet connections, lack of trust and security in Internet usage, and the high cost in computer development and maintenance (OECD, 2004).

Based on the research results, it is proven that the variable digital capability influences sustainable competitive advantage and influence innovation strategy. Small food businesses are currently required to have speed in responding to short product cycles and changes in consumer demand. In the perspective of dynamic capability, speed and flexibility in responding to market changes is a form of achieving organizational agility. Speed and flexibility in responding to these market changes can be the heart of dynamic capability (Bagheri et al., 2013). Finally, digital capability and innovation strategy will create agility, and become a source of sustainable competitive advantage and makes it difficult for competitors to compete and imitate. Organizational agility is the source of achieving competitive advantage (Febrian et al., 2018).

6. Conclusion

Small food business needs to improve digital capability, especially improve the digital technology infrastructure to create an innovative strategy, then, business operations can reach a wider market not only locally but also global. Besides, digital capability helps small food businesses to improve efficiency and effectiveness in business operations, so that small businesses' sustainable competitive advantage can be improved.

To strengthen the results of this research it is necessary to research different places with an expanded population such as the population in Indonesia. To strengthen and confirm the relationship between variables to become a well-established theoretical concept, for future research, it is recommended to use different variables not included in this study even though the locus and focus of the research are the same.

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