

## Dynamic Capabilities Elaboration For Indonesia Smes Culinary Performance In Indonesia

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### Abstract

Dynamic capability is an elaborative study considering that its elaboration will produce various capability constructs. This study will study the role of integrative capabilities, learning capabilities, networking capabilities, and marketing capabilities for the performance of SMEs. This study uses quantitative research using SmartPLS on 198 respondents of SMEs in the culinary sector in Indonesia. Culinary actors in Indonesia are 6.6 million and for sampling questionnaires were distributed to 500 culinary actors online in September 2020 in various cities using the purposive sampling method. This study resulted in the findings that networking capabilities and marketing capabilities positively affect performance, while integrative capabilities and learning capabilities do not affect performance. The capabilities selected in this research are limited to only four capabilities considering that this study must choose the most contextual capabilities for entrepreneurship development in Indonesia. Through these findings, culinary SMEs in Indonesia can focus on developing networking capabilities and marketing capabilities because they are proven to affect performance. While integrative capability and learning capability are thought to require a mediating variable, these two variables influence performance in other contexts

**Keywords:** Integrative Capabilities, Learning Capabilities, Networking Capabilities, Marketing Capabilities, SMEs Firm Performance

### 1. Introduction

Dynamic capability is an elaborative concept both in concept development (Eisenhardt & Martin, 2000), construct (Wang & Ahmed, 2007), and context (Zahra et al., 2006). This theme becomes research orientation in the context of strategic management (Teece et al., 1997) and entrepreneurship (Zahra et al., 2006). In general, dynamic capability is a resource development concept with a theoretical approach to the resource-based view of the company (RBV) for the existence of business excellence (Teece et al., 1997; Ambrosini et al., 2009). So, of course, it is not easy for SMEs with limited resources to develop business advantages based on dynamic capabilities.

Dynamic capabilities need to be developed sustainably because a business advantage can be eroded through market demand stability, replication, and imitability (Teece et al., 1997). Excellence in a business is important to maintain business performance. At the SME level, dynamic capabilities have been studied in various contexts that include competitive advantage (Adeniran & Johnston, 2016), innovation strategy (Hermawati, 2020), internationalization (Swoboda & Olejnik, 2016), adoption of industry 4.0 (Garbellano & Da Veiga, 2019), and performance (Nedzinskas et al., 2013; Eikelenboom & de Jong, 2019). Through the development of this previous research, it can be concluded that dynamic capabilities are also relevant to be applied in the context of SMEs.

SMEs themselves need to ensure their business performance amidst their limited resources, unique conditions, and needs for the next business scale (Darcy et al., 2014). Dynamic capabilities can be an option for performance development solutions even though the results in several studies have not been stable (Pezeshkan et al., 2016) and consider the need for mediator variables (Protogerou et al., 2012). Some of the things that are considered for implementing a dynamic capability include the dynamics of the business environment (Ringov,

2017), age and business scale (Arend, 2014), and conditions of organizational inertia (Nedzinskas et al., 2013). The development of dynamic capabilities as a determinant of SME performance is relevant to be oriented, considering that it becomes a consolidated power of internal readiness to adapt to external dynamic conditions (Zahra et al., 2006; Ambrosini et al., 2009).

Dynamic capability is an elaborative concept presenting various constructs (Battistella et al., 2017). This empirical elaboration has been carried out by various researchers such as Jiang et al. (2015), Zacca et al. (2015), Prieto & Revilla (2006), and several other researchers. This research intends to develop dynamic capabilities as an antecedent of SMEs' performance. Construct elaboration will be carried out based on the condition of SMEs in Indonesia who are active in learning (Nawangpalupi et al., 2016), networking behavior (Acs et al., 2017), ability in marketing (Kamboj & Rahman, 2017), and understanding the ability to integrate resources into their business organizations (Teece et al., 1997). The direction of this research is to produce constructs of integrative capabilities, learning capabilities, networking capabilities, and marketing capabilities, which are oriented as antecedents for the performance construct of SMEs.

In general, Global Entrepreneurship Monitoring (GEM) states that the motivation of SMEs in running their business is driven by necessity rather than opportunity-driven (Bosma & Kelley, 2019). SMEs in Indonesia are the backbone of the national economy because the number of business actors is dominant (99.9%), which generates GDP (Gross Domestic Product) of 60% worth 4,869 Trillion with a growth rate of 6.4% per year (Bank Indonesia, 2015). The creative economy sector ranks second, contributing to a GDP of 7.8% with the employment of 16.9 million (Bekraf, 2019). The industry chosen in this research is culinary because it is the primary preference of business actors in Indonesia (Bosma & Kelley, 2019) and is a leading sector in the creative economy (Bekraf, 2019). Culinary formal business actors reach 1,249,106, and culinary actors who run their business non-formal reach 5,434,047, both of which can absorb a national workforce of 7,983,259 (Bekraf, 2019).

## 2. Literature Review

In general, dynamic capabilities are described as internal actions to adapt to external conditions (Teece et al., 1997) both in a stable business environment through incremental dynamic capabilities, a dynamic business environment through renewing dynamic capabilities, and company conditions that are already highly irrelevant through regenerative dynamic capabilities (Ambrosini et al., 2009). The initial direction of dynamic capabilities was about integrating, developing, and reconfiguring company competencies to be adaptive (Teece et al., 1997). Furthermore, Wang & Ahmed (2007) stated that dynamic capabilities could be applied to business organizations through adaptability, absorption capability, and innovation capability. Empirically, the development of the dimensions and indicators of this dynamic capacity variable has also been the direction of many researchers' growth. In their study, several researchers employ Teece's (2007) constructs of sensing, seizing, and reconfiguring. However, various researchers have also developed this construct with various elaborations, such as Jiang et al. (2015), Jerez-Gomez et al. (2005), Walter et al. (2006), which align with the premise of dynamic capability as a concept with a multi-dimensional elaboration direction (Battistella et al., 2017).

SMEs are early companies that have limited resources (Woschke et al., 2017). Through dynamic capability development, resources can be developed, integrated, and placed (Eisenhardt & Martin, 2000). Although it is a challenge for SMEs to develop dynamic capabilities (Nedzinskas et al., 2013; Arend, 2014), given the characteristics of SMEs that are informal and have not become strategic business organizations (Darcy et al., 2014). Through dynamic capabilities, performance development for SMEs will encourage SMEs to become strategic (Zahra et al., 2006).

The primary premise of the dynamic capability research direction is performance (Wang et al., 2007), including in SMEs (Zahra et al., 2006; Protogerou et al., 2012; Zacca et al., 2015; Ringov, 2017; Eikelenboom & De Jong, 2019). Despite several research, the effect of dynamic capabilities on performance has not been consistent (Pezeshkan et al., 2016), and the function of mediating variables is also an orientation to affect performance (Protogerou et al., 2012). Business organizations' dynamic capabilities and performance are present in very diverse constructs and perspectives (Roberson et al., 2017). Performance in a business can be measured by financial, non-financial measures, both and through marketing measures (Prieto & Revilla, 2006; Jiang et al., 2015).

### 2.1 Integrative Capabilities and SMEs Firm Performance

Integrative capability is part of dynamic capability elaboration that configures resources and capabilities to reach market opportunities for superior performance (Helfat & Campo-Rembado, 2016; Pang et al., 2019; Eikelenboom & De Jong, 2019). Integrative capacity has been investigated empirically as a predictor of business performance (Jiang et al., 2015; Pang et al., 2019), so this is also needed to be investigated at the SME level. For

SMEs, integrative capabilities are the direction to make their business strategic and entrepreneurial (Teece et al., 1997; Zahra et al., 2006). Indeed, empirical research on integrative capability construct is still limited, and some are still case studies (Helfat & Campo-Rembado., 2016; Golgeci & Gligor, 2017). Although Europe is now beginning to create integrative capacity research for SMEs (Eikelenboom & De Jong, 2019), this study is still relevant because the fundamental element of dynamic capabilities is resource management (Teece et al., 1997; Wang et al., 2007; Ambrosini et al., 2009). The following are the hypotheses carried out:

H1: Integrative capabilities affect the firm performance of SMEs

## **2.2 Learning Capabilities and SMEs Firm Performance**

Learning capability is the development of organizational learning through acquisition, dissemination, interpretation, and institutionalization both from internal and external sources for the presence of performance (Huber, 1991; Jerez-Gomez et al., 2005), which is part of the elaboration of dynamic capabilities (Zollo & Winter, 2005). Empirically, learning capability acts as a moderator in the link between entrepreneurial orientation constructs and performance (Mantok et al., 2019) as well as the relationship between altruistic leaders and performance (Mantok et al., 2015). Furthermore, at the corporate level, learning capability becomes an antecedent for performance (Prieto & Revilla, 2006). However, the elaboration of the relationship between these two constructs still needs to be developed, considering that learning is an option that SMEs can develop in the midst of limited resources. Since SMEs in Indonesia have high learning objectives, this research is highly important regarding SMEs in Indonesia (Nawangpalupi et al., 2016). Specific learning will make business organizations adaptive to a dynamic business environment (Zahra et al., 2006; Eisenhardt & Martin, 2000). The following hypotheses are tested based on these conditions:

H2: Learning capabilities affect the firm performance of SMEs

## **2.3 Networking Capabilities and SMEs Firm Performance**

The capacity of a corporate organization to establish, create, and use connections with diverse business stakeholders is referred to as networking capability (Walter et al., 2006; Mitrega et al., 2012; Zacca et al., 2015). Networking capabilities are part of the elaboration of dynamic capabilities, and through networking, resources can be developed (Alinaghian & Razmdoost, 2018). Networking itself is needed by SMEs in every phase of their business growth (Martinez & Aldrich, 2011). The essence of networking will certainly be closely related to the relationships that exist in business organizations. Empirical evidence suggests that networking capabilities influence the correlation between suppliers and consumers (Mitrega et al., 2012). Furthermore, networking skills influence the university spin-offs' performance (Walter et al., 2006) and SMEs' performance (Bengesi & Roux, 2014; Zacca et al., 2015). SMEs in Indonesia is in an intentional networked condition (Acs et al., 2017), so the following are the hypotheses carried out in this study:

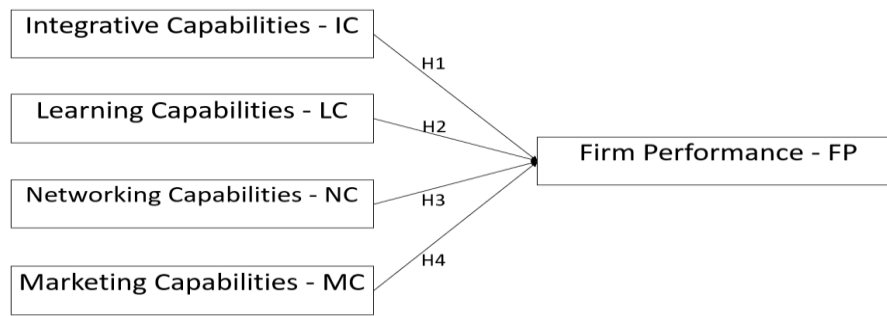
H3: Networking capabilities affect the firm performance of SMEs

## **2.3 Marketing Capabilities and SMEs Firm Performance**

Marketing capabilities is the ability to carry out marketing formulations based on synergistic market knowledge regarding the business environment and resource readiness, which is part of developing dynamic capabilities (Bruni & Verona, 2009; Santos-Vijande et al., 2012; Hernández-Linares et al., 2021). Integrating the concept of capability and marketing becomes an important synthesis in research development (Kamboj & Rahman, 2017). Empirically, marketing capabilities affect the performance of SMEs at the B2B level (Merrilees et al., 2011) and the development of new businesses on an international scale (Martin & Javalgi, 2016). The development of marketing capabilities in a business organization will require resource alignment (Santos-Vijande et al., 2012) and will differentiate the performance of each business (Wang et al., 2007). The culinary sector in Indonesia as a leading business sector (Bosma & Kelley, 2019) is suspected of having marketing capabilities to maintain its performance, so the following hypotheses are carried out:

H4: Marketing capabilities affect the firm performance of SMEs

In general, this is an elaboration of dynamic capabilities research to find relevant capabilities for developing SMEs' performance in Indonesia in the culinary business sector. Based on the hypothesis above, the following is the modeling carried out in this research:



Picture 1: Research Model

3. Research Methodology

The respondent's profile was developed based on resource management intentions, learning intentions, networking intentions, and marketing intentions. The population of culinary actors in Indonesia is 6.6 million (Bekraf,2019). The researcher distributed an online questionnaire in September 2020 with a purposive sampling approach to 500 culinary actors in various major cities in Indonesia. The researcher uses only the data which passed the criteria.

This study uses smartPLS, which is relevant for theory elaboration (Sarstedt & Cheah, 2019) in business research development (Hair et al., 2014), where it elaborates the concept of dynamic capabilities for the presence of several constructs (Roberson et al., 2017; Battistella et al. al., 2017) as a predictive variable for SMEs performance (Pezeshkan et al., 2016). This is a structural equation modeling research with a partial least squares (PLS-SEM) approach. This study's Likert scale ranges from "one" strongly disagree to "five" strongly agree. The reliability and validity tests for the pilot test were tested on 49 initial respondents. The measurement model (outer model) and structural model (inner model) were then evaluated using smartPLS. The following is the development of indicators in this study:

Table 1: Research Variable and Indicator

Variable	Indicator	References
Integrative Capabilities	IC1: Opportunity from customers	Pang et al., 2019
	IC2: Production capacity readiness	
	IC3: Opportunity from the change of competition	
	IC4: Optimize resources with the environmental	
	IC5: Business environment adaptation	
Learning Capabilities	LC1: Openness to new ideas	Jerez-Gomez et al., 2005
	LC2: Appreciate the information	
	LC3: Knowledge development for business	
	LC4: Attend business training	
	LC5: Teamwork development	
	LC6: Employee development	
Networking Capabilities	NC1: Ability to good relation with suppliers	Walter et al., 2006
	NC2: Ability to good relation with customers	
	NC3: Relationship orientation with potential partners	
	NC4: Relationship orientation with potential customers	
	NC5: Relationship orientation with potential investors	
	NC6: Affiliate to the business community	
Marketing Capabilities	MC1: Price formulation capability	Pérez-Cabañero et al., 2012
	MC2: Profit formulation capability	
	MC3: Ability to promote products	
	MC4: Ability to promote the company	
	MC5: Quality of business place	
	MC6: Marketing channel capacity	
Firm Performance	FP1: Annual revenue growth	Prieto & Revilla, 2006
	FP2: Annual profit growth	
	FP3: Consumer growth every month	
	FP4: Customer satisfaction to repurchase	
	FP5: Brand recognition growth	

#### 4. Results and Discussion

Respondents who were processed were 198 culinary business actors in Indonesia by taking a survey in September 2020. Comprehensively, the following are the stages of reporting this research. First, the statistical pilot test findings to determine the viability of the questionnaire will be reported in this study. Second, reporting the respondent's profile to be a descriptive picture of the respondent's condition. Third, examine the quality of latent variables by evaluating the measurement model (outer model). Lastly, the fourth assesses the structural model (inner model) to examine the hypothesis test outcomes.

##### 4.1 Pilot Test Statistic

The pilot test was carried out so that the questionnaire in this study was reliable and valid when distributed to all respondents. Here are the results of the pilot test:

**Table 2:** Pilot Test Results

Variable	Reliability (Cronbach's Alpha)	Validity	
		Sig	KMO
Integrative Capabilities	0,666	0,000	0,697
Learning Capabilities	0,886	0,000	0,813
Networking Capabilities	0,775	0,000	0,790
Marketing Capabilities	0,848	0,000	0,755
Firm Performance	0,904	0,000	0,778
N: 49			

The questionnaire was evaluated on 49 initial responders and will be considered reliable when the Cronbach's alpha is above 0.60 and valid when the Bartlett's significance value is below 0.05, and the KMO is greater than 0.5 (Malhotra et al., 2002). At this stage, five latent variables are reliable and valid (Table 2), with 26 of 28 indicators that can be used (two indicators are invalid and reliable). Through these findings, it can be concluded that the development of research variables and indicators is appropriate for use in the entire sample required.

##### 4.2 Respondent Profile

Respondents in this study amounted to 198 respondents of culinary actors from various regions in Indonesia. The following is the profile of respondents in this study:

**Table 3:** Respondent Profile

Data	Profile	Total	%	
Resource Management Intention	Business Scale	Small	136	67%
		Medium	62	33%
	Business Period	Under One Year	25	12%
		1-3 Year	45	23%
Educational Intention	Owner Education	Above 3 Year	128	65%
		Senior High School	24	12%
		Bachelor Degree	121	61%
	Training for Manager	Master Degree	53	27%
		Not	62	31%
		One	46	23%
		Two	18	9%
	Training for Employee	Three and More	72	37%
		Not	67	34%
		One	59	30%
		Two	27	14%
	Networking	Community	Three and More	45
Not			75	38%

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Intention	Participant	One	50	25%
		Two	23	12%
		Three and More	50	25%
Marketing Intention	Number of Places	One	89	45%
		2-5 Place	74	37%
		Six Place and More	35	18%
	Number of Menus	1-10 Menu	43	22%
		11-20 Menu	66	33%
		21-30 Menu	89	45%
Respondent Place (N:198)		Main City	100	51%
		Second City	98	49%

Based on resource management intentions, it was found that culinary actors were still dominated by small-scale businesses (67%), although in general, this business had been run for more than a year on both business scales (88%). In general, the constraints for SMEs are limited resources (Darcy et al., 2014; Woschke et al., 2017). Based on the condition of educational intentions, it was found that the condition of SMEs was in good condition with indications that business actors were graduates (88%), actively involved their managers in training (69%), and actively involved their employees in training (66%). The intention of networked culinary actors can also be seen from their involvement in a fairly large business community (62%), where this finding is in line with the general profile of Indonesian SMEs who are intentional in networking (Acs et al., 2017). Culinary SMEs also have marketing intentions, as indicated by their ability to make more than eleven menu variants and above (78%) and ownership of more than two places of business (55%). In general, it can be concluded that this profile is in line with the research direction that uses the latent variables of integrative capability, learning capability, networking capability, marketing capability, and SME performance.

### 4.3 Measurement Model Evaluation (Outer Model)

The measuring model (outer model) was evaluated using convergent validity, internal consistency (Table 4), and discriminant validity (Table 5). The following are the data found in this study:

**Table 4:** Result of Measurement Model Evaluation (Outer Model)

Variable	Indicator	Outer Loading	AVE	CR
Integrative Capabilities	IC3	0,807	0,546	0,855
	IC4	0,778		
	IC5	0,848		
Learning Capabilities	LC1	0,812	0,650	0,917
	LC2	0,840		
	LC3	0,859		
	LC5	0,810		
	LC6	0,823		
Networking Capabilities	NC1	0,790	0,582	0,890
	NC2	0,835		
	NC3	0,883		
	NC4	0,877		
Marketing Capabilities	MC1	0,804	0,643	0,915
	MC2	0,795		
	MC3	0,881		
	MC4	0,827		
	MC5	0,814		
Firm Performance	FP1	0,882	0,720	0,928
	FP2	0,868		
	FP3	0,806		
	FP4	0,824		
	FP5	0,862		

It was found that twenty-two indicators had an outer loading of 0.7 and above through convergent validity and the AVE of the five variables was 0.5 and above (Hair et al., 2014). The composite reliability (CR) of the five variables was determined to be greater than the reference value of 0.708 during the internal consistency evaluation (Hair et al., 2014). Furthermore, it was discovered that the five latent variables were in a pretty strong

position to measure the variables in the assessment of discriminant validity via discriminant validity (Fornell-Larcker).

**Table 5:** Discriminant Validity

Discriminant Validity (Fornell-Larcker)					
	Firm Performance	Integrative Capabilities	Learning Capabilities	Marketing Capabilities	Networking Capabilities
Firm Performance	0,849				
Integrative Capabilities	0,562	0,739			
Learning Capabilities	0,559	0,734	0,806		
Marketing Capabilities	0,750	0,609	0,697	0,802	
Networking Capabilities	0,659	0,748	0,774	0,727	0,763

Through the above assessment, it can be concluded that this research has a good research model. The use of variables and indicators in this study is good.

**4.4. Structural Model Evaluation (Inner Model) and Hypothesis Testing**

The structural model (inner model) will be evaluated at this stage based on the quality of the link between exogenous and endogenous factors, and the relevance of the hypothesized variables. The following is the data collected:

**Table 6:** R-Square

Endogenous Variable	R-Square
Kinerja	0,598

In this research, the relationship between the four exogenous variables, which include integrative capabilities, learning capabilities, networking capabilities, and marketing capabilities, to the performance variable as endogenous, was found to have a R-Square of 0.427. In general, the R Square will be considered strong if it exceeds 0.25 (Hair et al., 2014). Therefore, it can be concluded that the correlation between exogenous variables and endogenous variables in this study is a strong relationship and deserves to be hypothesized because it has a R-Square value above 0.25.

Next is to see the significance of the structural model (inner model), which is also a hypothesis test of this research. The relationship between latent variables will be considered significant if it has a t-statistic above 1.65. The following is the data generated in this study:

**Table 7:** Path Coefficient and Hypothesis Test Results

Paths	T-Statistic	Conclusions
Integrative Capabilities → Firm Performances	1,288	Not Accepted
Learning Capabilities → Firm Performances	1,500	Not Accepted
Networking Capabilities → Firm Performances	2,437	Accepted
Marketing Capabilities → Firm Performances	6,983	Accepted

In this study, the first hypothesis about the effect of learning capabilities on performance is not accepted because it has a t-statistic of 1.288 (below 1.65). The second hypothesis, concerning the influence of learning capability on performance, is rejected since the t-statistic is only 1,500. (below 1.65). Because it has a t-statistic of 5.023, the third hypothesis concerning the influence of networking capabilities on the performance of SMEs

is accepted (above 1.65). Likewise, the fourth hypothesis about the effect of marketing capabilities on performance is accepted because it has a t-statistic of 6.983 (above 1.65).

Integrative capabilities in this study do not affect the performance of SMEs, and this can be understood through the limited resources of SMEs. This condition is different at the corporate level, which has strong resources so that integrative capabilities can be carried out and affect performance (Pang et al., 2019). The learning capability in this study does not affect SMEs' performance, which is different from various premises and empirical findings. This finding is significant in light of the characteristics of Indonesian SMEs with a desire to learn (Nawangpalupi et al., 2016), which are also reflected in the descriptive profile in this study. It is hypothesized that current learning is not aligned with performance development, has become a performance burden, or necessitates the function of a mediator variable in the connection between these two constructs. In line with the uniqueness of Indonesian SMEs that intend to network (Acs et al., 2017), in this study, networking capabilities affect the performance of SMEs. This finding becomes a strategic option for developing network-based resources for SMEs. In this study, marketing capabilities also affect performance, which will make the business sustainable, which explains a large number of culinary business people in Indonesia (Bosma & Kelley, 2019). Although only two antecedent variables affect performance and the other two antecedent variables have no effect. Indeed, the development of dynamic capabilities in affecting performance has not been consistent with other study findings in general (Pezeshkan et al., 2016) and the need for various mediating variables (Protogerou et al., 2012).

### 5. Conclusion

This research has several theoretical implications. First, a dynamic capabilities is an elaborative and relevant concept at the SME level. Second, networking capabilities and marketing capabilities can be predictors of performance at the SME level. Third, the application of integrative capabilities to SMEs does require resource alignment. Fourth, although it has become a strong premise as a predictor for the performance construct, learning capabilities seems to require a mediating variable to influence the performance construct in the context of culinary SMEs in Indonesia.

In managerial terms, this research also has several implications. First, develop networking capabilities so that SMEs continue to grow strategically through their business stakeholders. Second, to continue to develop marketing capabilities because this research proves culinary SMEs have marketing capabilities that affect performance. Third, it is not easy for SMEs to carry out integrative capabilities for SMEs that have limited resources, but try to develop integrative capabilities even in the midst of limited resources to understand business at a strategic level. Fourth, develop learning that focuses on the presence of performance and not a burden on performance.

The study includes limitations in terms of the construct's development, a homogenous setting in the culinary SME sector, and research methods that do not include mediating factors. The following are suggestions for future research. First, considering the elaboration of construct elaboration in the concept of dynamic capability, further exploration of the potential of existing constructs. Second, in the context of Indonesia, develop research up to the level of the creative economy, which has 16 sub-sectors so that research results can produce comparative studies to become major generalizations at the level of the creative economy sector. Third, develop mediating variables.

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