

# Study of Relationships between Companies' Digitalisation, Resources and Capabilities on Competitive Advantage of Small and Medium Enterprises in Indonesia

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## Abstract

The importance of this study is to examine the factors that could influence Indonesian SMEs in term of their competitive advantages in the international market. Some research on international entrepreneurship shows resources, capabilities as the drivers of SME internationalisation that relate to competitive advantage. However, the evidence where resources, capabilities, and digitalisation will lead SMEs competitive advantages in international market requires more discussion, particularly in developing countries such as Indonesia. This paper examined resources, capabilities, and digitalisation direct and indirect relationships with competitive advantages in international markets. The directory of DGNED is being utilised in this study on zooming at Indonesian exporting SME. This study is a quantitative study methods where convenient sampling was used in getting the sample through online survey questionnaire. There were 50 samples responded to this study. The study utilised SmartPLS software to analyse the data. The findings showed that digitalisation and capabilities significantly and positively influence competitive advantages in international markets. Management international resources contribute to price advantage, international capabilities contribute to product and service advantages, while digitalisation has no direct effect to any of these competitive advantages. Nevertheless, these two constructs are important for SME internationalisation owing to their indirect effects on product and service advantages. This research contributes to Indonesian SMEs that possess the desire to internationalise and enhance their presences in the international market. With understanding on the basis of evidence on capabilities, resources, and digitalisation, SMEs may make haste on its internationalisation in an less difficult method on risks, capital and time. Therefore, SMEs should get and improve the suitable resources, capabilities to gain competitive advantages by creating their international capabilities in the international markets. Future

research should replicate this study with bigger sample size, longitudinal study and across continents for better understanding on international competitions.

**Keywords:** Competitive Advantage, Digitalisation, Resources, Capabilities, SME Indonesia.

### **Introduction**

There are programmes from the government to assist Indonesian SMEs in advancing its progress and contribute more to the country's economy including export, such as People's Business Credit in helping to provide loan with the subsidy interest from seven up to 12 percent every year (Setiawan & Yulianto, 2021). The aid is being delivered by government through Indonesian Export Financing Agency (LPEI) in Indonesia. Digitalisation would encourage SME to perform better and embrace the international markets (Vahlne & Johanson, 2017).

International markets may be accessed through the digital environment; however, it is more competitive and transparent (Lee et al., 2019). As stated by Pettersson (2021) Inability to adapt would lead SMEs to stay in a position without attempting to expand into the overseas market, which is very dangerous and risky since the ventures from other countries will eventually enter the domestic market and shrinking the local businesses. Digitalisation may increase the chance of survival or growth in the international market (Vahlne & Johanson, 2017).

Planning on resources and capabilities due to the influence of digitalisation would need to be given a thought by SMEs. Based on one literature, Indonesian SMEs has the need to increase their capital in order to start digitalising properly (Muchsinati & Yulianingsih, 2021).

### **Problem Statement**

Majority of Indonesian SMEs are still struggling in competing locally and not ready to explore the international market in exporting, although government has been encouraging them through capital assistance that reaches Rp500,000 up to 30 million per year, guarantees and funds in banks (Setiawan & Yulianto, 2021).

As stated by Muchsinati and Yulianingsih (2021), that the need for SMEs to receive funds is evidencing that SMEs in Indonesia are not ready for international markets. Lacks education is one of the major issues that influence this outcome. Further understanding on the influence of capabilities as a mediator for digitalisation and resources with international performance strength in developing country would be beneficial. Thus, study on digitalisation, resources and capabilities may bring forth the way on leading SMEs to obtain competitive advantages by speeding up internationalisation (Hultman et al., 2021).

### **Research Questions**

This study attempted to answer the research questions as per below

1. What resources and capabilities are linked to enterprise's competitive advantages for Indonesian SMEs internationalisation?
2. Are resources, digitalisation and capabilities linked with enterprise' competitive advantages to promote Indonesian SMEs internationalisation?
3. Are international capabilities serve as a mediator (a) between resources and competitive advantages? (b) between digitalisation and competitive advantages?

**Underlying Theories**

One research conducted by Fitriyah et al (2021), focused on Indonesia SMEs found that involvement in international business leads SMEs into higher performance. It presented notable considerations for SMEs to internationalise, and reasons on why government support should this. In most cases, academicians would use five theories in research of SME internationalisation. There are Resource Based View (RBV), Dynamic Capability View (DCV), Network and Entrepreneurship theories (Alon & Øyna, 2018).

A study on Indonesian SMEs on e-commerce adoption, Lubis et al (2021), it was discovered that the common internationalisation theories are relevant. While a number of enterprises may follow the International New Venture (INV) or Born Global (BG) theories, other models such as the network approach and Uppsala model are also relevant. Another finding indicated that exporting is commonly utilised internationalisation entry strategy by SMEs (Chong et al., 2019).

**Digitalisation**

In digitalisation, SMEs and BG are rising on e-commerce which to enhance their technologies and expand networks in many countries (Kosasih et al., 2020). E-commerce has been the channel for international marketing, facilitating innovation and change by way of information sharing, and advancement of communication (Hånell et al., 2021). E-commerce is a virtual marketplace to source, interact and do transaction, it can be used to minimise the selling process and create high sales efficiency for the businesses (de Rijke et al., 2020).

In maximising the opportunity, company may assess the factors around it, such as the demand of their products and services in the e-commerce, if whether the firm has the marketing and sales transaction effectiveness. Then, the enterprise's management should allocate the resources for its e-commerce activities in the building up its presence in the virtual market and create the demand on the target market (de Rijke et al., 2020).

Based on the literature of Krammer, Strange and Lashitew (2018), digitalisation escalate SMEs' export tendency. The digital world assists businesses to lower down their cost in the market, enabling them to have better chance of survival by exporting and compete in the international market than only the local market. In digitalisation, the marketing capabilities have direct influence on the efficiencies on the dissemination, communication, and export performance (Gregory et al., 2019)

In spite of the potential outcomes that may be derived from digitalisation, there are certain steps of preparation before adopting the new technologies in their routines. The enterprise needs to think of the internal, management, resources and external factors. The availability of time, financial and human resources may make SMEs need to consider more before embracing the changes (Briel et al., 2018). Digitalisation is also about facilitating the creations of technical knowledge, marketing, process automation, product development, etc (Edvardsson & Grimsdottir, 2018).

As stated by Pagani and Pardo (2017), the influences of digitalisation may be categorised into. First, activity-links-centred when digitalisation enhance the current activities. Second, resource-ties-centred when it eases the inputs to develop new activities. Third, actor-bonds-

centred when it is employed to develop or maintain network among the business partners (Pagani & Pardo, 2017).

In adopting digitalisation, the cost, opportunities and risks are there. SMEs need to choose the best strategy to gain the benefits. Adapting to the changes of global digital trend e-commerce is the best thing to do to create competitive advantages in international markets (Choshin & Ghaffari, 2017).

### **Resources**

Resources input for production process that are needed for international performance and put them as concepts to manage the international resources. An enterprise with adequate resources needs to possess certain characteristics, some are strong management, strong and robust network with business partners and the related institutions, carry necessary international knowledge in any possible way to explore internationalisation process (Baumgartner et al., 2018; Kazancoglu, Kazancoglu & Sagnak, 2018; Sariatli, 2017). The three concepts of international knowledge, network and management characteristics may be found in studies of forces influencing SME speedy internationalisation (Falahat et al., 2018; Langseth, O'Dwyer & Arpa, 2016; Falahat et al., 2019).

Based on the literature written by Hong, Hou and Zhu (2019), the management needs to explore and exploit the available international resources to assure the survivability and sustainable return of the internationalisation activities. Still, firms need to have the management, networking skills, and the knowledge of international market to be able to apply its resources and capabilities for the internationalisation process effectively and efficiently.

Moreover, according to Dimitratos, Elbanna and Nakos (2019), SMEs networking may result in strategic alliances from the influence of international market orientation activities on international performance. The international market orientation is required to guide SMEs in altering the internal management of the company and recognise their own limitation. In return, SMEs may adapt according to the environment of the international market. Literatures that support the resources are presented in following section.

As stated by Bamiatz et al (2018), ventures may allocate the resources may be utilised in technological innovation to have intangible resources to attain superior performance. Moreover, using the available technology, firm may achieve more export performance by creating higher quality products, due to quality and export performance are directly related (Aziz et al., 2018). In addition, the business model is also one thing to be considered as it contributes to the enterprise sustainable competitive advantage and increase the company's performance (Anwar, 2018).

### **Capabilities**

Capabilities are underlined theory on the basis of resource-based view, it contributes to international performance. The capabilities may be complex enough to prevent other ventures from imitating and transfer them, which helps them in outperforming the other competitors (Karami & Tang, 2019).

Al-Rejal et al (2018) advised that adaptability and the ability to acquire information are prominent. It is the venture's capability to answer the need of customer in the foreign market by creating product according to the request with control over the price. These approaches are more on customer-oriented industry where the business needs to keep on innovating and learning. Product innovation and development grant enterprise to have more control on the products and become more flexible in the changes of price and demand (Kartika & Mutamimah, 2019). Al-Rejal et al (2018) discovered that even though some capabilities can be within the VRIN criteria, one of them is the adaptive capability that may become one sustainable competitive advantage.

There are some capabilities for SME which is on the process of internationalisation to be international performance. In here, it becomes international capability where venture need to have strong innovation capability in innovating its product and process to control the product specification, quality, productivity, and cost to flexibly adjust the price (Karami & Tang, 2019). Another capability is the marketing to effectively bring exposure of the products in the market. In dynamic capability, company need strong learning ability to react with the changes in international requirement within the market. Companies should use new technology to innovate products and processes. In one study, marketing capability is considered as dynamic capability (Alon & Øyna, 2018). The literature supports for the rationale of inclusion of these capabilities are presented in following section.

### **Competitive Advantages**

The internationalisation of a company, the BG performance. For new venture, the return on investment may requires longer time as it focuses more on speed and scope of international activity than the financial return (Joensuu-Salo et al., 2018). Kamasak (2017) stated that most SME internationalisation connected resources and capabilities with international performance to achieve competitive advantage. International performance is influenced by financial or strategic international performance to measure the results of input on resources and capabilities with competitive advantages to enable comparison through performance evaluation (Chavez et al., 2018). Moreover, this was emphasised by Alexy et al (2018); Chiarvesio and Romanello, (2019) and Liu (2017) who uncovered that international performance and competitive advantage are positively linked.

SME performance in the international market may be measured. However, the method of measurement may influence the research outcomes. Normally, perceptual measures are preferable due to the factor of variety industry or market factors, and also influenced by the diversity in financial and accounting practices (Bennouri et al., 2018).

Kaleka and Morgan (2017) demonstrated that there are dimensions for export competitive advantage, they are product, service and cost advantages. This research measures the aftermath of capabilities, resources and digitalisation link with competitive advantages in international markets.

Chavez et al (2018) defines competitive advantage as the capability of a company to do better in resources, capabilities, and digitalisation advantages, compared to competitors in international markets. This can be in the form of price, product, adaptability, quality,

customisation, service, product and service accessibility and customer satisfaction (Chiarvesio & Romanello, 2019).

One research conducted by Kaleka and Morgan (2017), explained that resources, capabilities and international performance are not always to be directly connected. The ability to develop product and customer relationship with export performance are significantly related to competitive advantage. Success in financial and strategic are the objectives of internationalisation strategy. Deeper understanding on resources, capabilities and competitive advantages would provide more insight for planning on resource allocation that has become the main concern for the study on product, service advantage, and price. If resource or capability are not positively related to competitive advantage, then it is also not related to performance (Falahat & Migin, 2017).

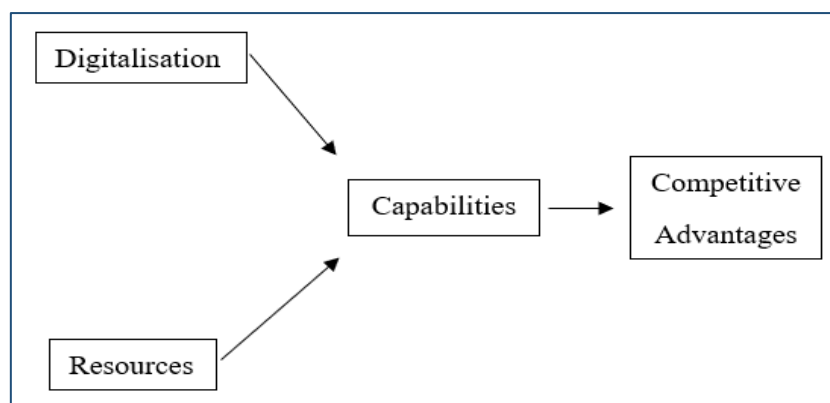


Figure: Conceptual Model

On the foundation of investigations in regard to the SME internationalisation drivers, one research model that contains of international capabilities, management international resources digitalisation and competitive advantages in international market is manufactured and tested. The table below summarises all the hypotheses.

**Summary of Hypotheses**

#	Hypotheses
H 1	Resources are positively related to competitive advantages
H 2	Digitalisation is positively related to competitive advantages
H 3	Capabilities are positively related to competitive advantages
H 4	Resources are positively related to capabilities
H 5	Digitalisation is positively related to capabilities
H 6	Capabilities mediate the proposed relationship between resources and competitive advantages
H 7	Capabilities mediate the proposed relationship between digitalisation and competitive advantages

### **Methodology**

Companies involved with SMEs that are exporting, mostly manufacturer are selected as the sample in this study due to majority of items being exported are manufacturing goods. The selection of exporting SME manufacturer is in alignment with most research on internationalisation (Falahat & Migin, 2017). Hence, exporting SMEs that are manufacturer received the questionnaire.

Quantitative method is to be utilised to analyse the relationship between the variables through the use of survey questionnaire for managerial staff that do export activities in the active exporting companies. The number of exporting SME is unidentified due to the absence of data on this group. Within the official directory, there are Directorate General for National Export Development (DGNED) and Ministry of Industry of Republic of Indonesia. The second official platform consist of all the exporting enterprise regardless of the size. It is the one that provides the most complete information. Therefore, Ministry of Industry of Republic of Indonesia directory is the suitable directory (Alisjahbana et al., 2019).

This study will apply unrestricted or simple random sampling method, where the respondents are those that are randomly sent the link to answer the questionnaire for the exporting Indonesian SMEs. This is a probability sampling since all the enterprises within the population have equal chance of being sampled. This method is applicable due to the actual information on the exporting SMEs is available. Based on the data in Ministry of Industry of Republic of Indonesia directory, there are 1159 exporting ventures. Although not all of them are listed as SMEs (Schindler, 2018).

### **Internal Consistency and Reliability**

Constrasting Cronbach's Alpha with internal consistency and reliability on composite reliability (CR). This is due to Cronbach's Alpha has higher sensitivity to item quantity and the value is prone for better result with increased number. Likewise, CR shows internal consistency and reliability when it is higher than 0.7 (Hair et al., 2017).



Table 1

*Internal Consistency and Reliability*

	Cronbach's Alpha	Composite Reliability
Resources	0.749	0.826
Management Characteristics	0.904	0.922
International Knowledge	0.87	0.92
Network	0.837	0.881
International Capabilities	0.925	0.942
Learning Capability	0.947	0.959
Innovative Capability	0.935	0.947
Marketing Capability	0.969	0.977
Digitalisation	0.92	0.938
Competitive Advantages		
Price Advantage	0.869	0.938
Product Advantage	0.703	0.834
Service Advantage	0.888	0.918

Reliability values are the middle value of Cronbach's Alpha and composite reliability (Hair et al., 2017).

**Hypotheses Testing**

Both t-values and p-values are the foundation to evaluate the significance for path coefficients' hypothesised relationship. This research is using p-Value to display the significance. Utilising two-tailed test with five percent confidence level to target significant relationship where the p-Value is lower than 0.05. Furthermore, value added outputs interpretation may be obtained from bootstrapping confidence due to the stability. Significant relationship needs both upper and lower boundaries not to have zero in the confidence interval. Afterward the significance assessment, the relationship significance is then examined (Hair et al., 2017).

The study uses SmartPLS software to complete the accelerated bootstrap and bias-corrected for bootstrapping procedure, path weighing scheme, and p-Values was calculated for relationships within the model.



Table 2

*Hypotheses Testing(H1 to H5)*

#	Descriptions	Standard error	Beta value	p-Value	95% Confidence Intervals	Result
H1	Resources -> competitive advantage	0.653	0.232	0.196	[13.728, 16.352]	Not supported
H2	Digitalisation -> competitive advantage	2.082	0.258	0.024*	[-8.152, -6.968]	Supported
H3	Capabilities -> competitive advantage	0.283	0.415	0.000*	[-5.308, -4.172]	Supported
H4	Resources -> capabilities	0.665	0.356	0.112	[18.444, 21.116]	Not supported
H5	Digitalisation -> capabilities	0.279	0.106	0.438	[-3.382, -2.258]	Not supported

Note: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

The significance for path coefficients is in Table above. The Beta value for H2 is 0.28, reflecting weak influence of resources in predicting competitive advantage. H3 Beta values is 0.283, representing weak influence of capabilities on competitive advantages. Beta values for H1, H4 and H5 are 0.232, 0.356 and 0.106, displaying weak influences on resources and digitalisation toward capabilities.

Any p-Values higher than 0.05 displaying that resource does not influence competitive advantages, making H1, H4 and H5 become not supported. Although some studies discovered positive influence from resources toward international performance, the current output give the hint that one mediator need to be thought-out in order to assure there is consistency for the outcomes between competitive advantages and resources.

Such findings present an insight where one mediator can be prominent to ensure the consistency of competitive advantages and digitalisation relationships. Such outcome is not in alignment with general competitive advantage construct or contrary to international performance.

### Mediating Effects

In testing the influence of mediation, capabilities are the mediator variable (Hayes & Rockwood, 2016). Bootstrapping method is highly suggested to test it in PLS-SEM context (Hair et. al., 2017).

Assessing measurement and structural models are necessary preceding to testing mediation. Measurement model was evaluated on the validity and reliability, while structural model was evaluated on the non-existence of multicollinearity issues. Mediator test outputs is shown in Table below.

Table 3

*Mediator Test (Special indirect effects)*

#	Hypotheses	Beta value	p-Value	95% Confidence Intervals	Result
H6	Resources -> Capabilities -> Competitive Advantages	0.041	0.427*	[-0.075, 0.160]	Not supported
H7	Digitalisation -> Capabilities -> Competitive Advantages	0.147	0.174*	[0.021, 0.301]	Not supported

Note: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

In accordance with the procedure in analysing mediation, resources strongly influencing competitive advantages is not significant. Hence, H6 is not supported. Then resources do not significantly influence competitive advantages. In addition, the indirect influence for both resources and digitalisation are insignificant as well (Carrión et al., 2017).

In disparity with resources, digitalisation does not directly influence competitive advantages. Thus, the analysis recommends digitalisation influence on competitive advantages is insignificant, H2 is not supported. Nevertheless, capabilities as the mediator between competitive advantages and digitalisation with complete mediation influence are supported, H5 is supported.

Table 4

*Summary of Analyses results for 7 hypotheses.*

#	Hypotheses	Beta value	p-Value	Results
H 1	Resources are positively related to competitive advantage	0.232	0.196	Not supported
H 2	Digitalisation is positively related to competitive advantage	0.258	0.024*	Supported
H 3	Capabilities are positively related to competitive advantage	0.415	0.000*	Supported
H 4	Resources are positively related to capabilities	0.356	0.112	Not supported
H 5	Digitalisation is positively related to capabilities	0.106	0.438	Not supported
H 6	Capabilities mediate the proposed relationship between resources and competitive advantage	0.041	0.427*	Not supported
H 7	Capabilities mediate the proposed relationship between digitalisation and competitive advantage	0.147	0.174*	Not supported

Note: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

**Conclusion**

The aim of this research is to present an awareness on SME internationalisation's drivers. It investigates capabilities, digitalisation, and resources to inform their influence for a company's competitive advantages in the international markets. Specifically, the findings of

this study reveal the influence of digitalisation and capability toward competitive advantages for firms that are engaged in international markets. The study also included the influence of capabilities as a mediator for resources, digitalisation, and competitive advantages. It was found that capability does not mediate resources and digitalisation to competitive advantages.

On the basis of this study's outputs, exporting SMEs may wish to suit their digitalisation and capabilities with their strategies in obtaining competitive advantage. An enterprise that possesses adequate technology has higher chance of success and perform better than competitors in the international market. Whereas, if the firm is restricted on resources, it may still consider its competitive advantage while closely overseeing and enhancing its capabilities by investing in digitalisation. The outcomes of this study describe the causes of failure in the development of international performance, even though they have invested on digitalisation. As they invest in digitalising the business, it should be on capabilities than immediately toward competitive advantage and international performance for the key performance indicator.

This research adopted digitalisation within the model and attempted to present the initial guidance that the characteristic of digitalisation is akin to the resources which influence capabilities for firms that are successful in the international markets. Although, in developing the business, managers should perceive the most supporting means according to its business context. The findings show the unique structure and the choices available for managers to focus on the particular parts.

### **Managerial Implications**

This exploration displays the influence of digitalisation, resources, and capability on SME internationalisation. Besides the advantage from differentiation strategy for desirable market positioning, an enterprise would need competitive advantage within the real business operational situation. On the foundation of previous research findings, the relationships between capabilities and resources with many types of competitive advantages may be more comprehend by managers. Network, international knowledge, and management characteristic are the mandantory resources to create capabilities (Øyna & Alon, 2018).

In overall, this research discusses the elements that would contribute to the success of exporting SMEs that wish to explore the international market through the assessment of their readiness in terms of resources and capabilities. Afterward, they may target on investing on resources and capabilities that is in accordance with their operational strategies. In addition, ventures may think about digitalisation as their intension to develop their capability. The findings from the study contribute to justify the needs to create capabilities and resources for internationalisation, particularly for the managers or proprietor of the business who do not have exporting experience.

### **Policy Implications**

Exporting SMEs are in intense competition from other developing countries, for example, Vietnam and China (Wang et al., 2017). SMEs are not taking opportunities from innovation enough in their competitive advantages (Astrini et al., 2020). The outcome was the export contribution of Indonesian SMEs below 15 percent in 2017 (Hambali et al., 2019). This is in defiance of the attempt from Indonesian government that provides credit funds in the form

of loan to encourage export (Vahlne & Johanson, 2017). The inclination for SMEs to adopt digitalisation would also be depending on the success stories, as these SMEs are striving to survive in the international market.

Government may consider supporting the awareness on the value for building capabilities by way of growing skills and competencies alongside the attempt to boosting export. More capability reinforcement by providing aid for SMEs to promote their learning, innovation, and marketing capabilities by utilising agencies as the platforms. Supplying provision from programmes to assist SMEs may work as well to expand digitalisation development of capabilities. Both programmes on capital assistance and awareness may raise SMEs' digitalisation.

### **Research Limitation**

Some limitations exist within this research. First, the analysis for the findings was applying cross-sectional data. This is while dynamic capability view explains that the competitive advantage of a company is only sustainable when it is capable to advance within the ever-changing environment. The concept of an enterprise's capabilities is dynamic, and that is what permit it to sustain its performance in business for years. Data obtained from cross-sectional data does not present convincing prove on the sustainability of international performance, although learning capability is within the evaluation criteria for a company's ability in its reaction toward changes. Due to that, method to expose the relationship between capability, performance and resource in dynamic environment may be feasible if using longitudinal experiment research and system.

### **Recommendation for Future Research**

This research describes the system on the influence of resources, digitalisation and capabilities toward competitive advantages in the international markets. Digitalisation and capabilities are positively related to competitive advantages. Future research may expand the research model by doing more exploration on the type of competitive advantages that would enable firm to gain greater international performance. Investigations that provide greater understanding on competitive advantage for higher international performance in the emerging market is still restrained.

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