

Dynamic Capabilities, Resources, and Social Capital in Creating Sustainable Competitive Strategies in Indonesian MSME

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ABSTRACT

The purpose of this study is to better understand how Indonesian Micro, Small, and Medium-Sized Enterprises (MSMEs) shape sustainable competitive strategies through the interaction of dynamic capabilities, resources, and social capital. The study employed a quantitative methodology that utilized Structural Equation Modeling with Partial Least Squares (SEM-PLS 3) to extract data from a representative sample of 232 MSMEs located in different industries and geographies. The results show that social capital, resources, dynamic capacities, and sustainable competitive strategies are all positively correlated. The study also reveals the mediating functions of social capital and resources in converting dynamic capabilities into long-term competitive advantages. With a robust R-squared value and a Goodness of Fit (GoF) rating of 0.68, the model demonstrates a substantial fit, indicating its adequacy in explaining the intricacies of the MSME environment in Indonesia. These revelations have important ramifications for developing theories as well as useful tactics to raise MSMEs' competitiveness in Indonesia.

Keywords:

Micro, Small, and Medium Enterprises (MSMEs), Dynamic Capabilities, Resources, Social Capital, Sustainable Competitive Strategies

INTRODUCTION

Micro, Small, and Medium-Sized Enterprises (MSMEs) are crucial to the Indonesian economy because they reduce poverty, promote economic growth, and create jobs (Amin et al., 2023; Gunawan et al., 2023; Marwanto et al., 2023; Yose, 2023). In a dynamic commercial environment, these firms face a variety of obstacles in maintaining long-term survival and competitiveness (Sari & Arka, 2023). The way that resources, social capital, and dynamic capacities interact is acknowledged as a key factor in determining how MSMEs compete. In Indonesia, MSMEs provide the foundation of a populist economic system that strives to lower unemployment, poverty, and inequality. Access to financial resources, technical support, and business development aid are some of the ways that MSMEs are supported. In order to guarantee the sustainability and advancement of MSMEs, the government must play a crucial role, which includes directing and involving pertinent agencies. The COVID-19 epidemic has posed new difficulties for MSMEs, emphasizing the necessity for assistance and education in business strategy to boost their resilience.

Various elements, including globalization, technological breakthroughs, resources, social capital, and the development of sustainable competitive strategies, impact the performance of MSMEs in Indonesia. Due to intense competition in export-import operations and worldwide trade, globalization offers MSMEs both benefits and challenges (Astuti et al., 2023). Technological developments are essential for improving MSME competitiveness because they allow companies to adapt to changing market conditions (Maurina & Rusdianto, 2023). MSMEs need resources, particularly financial capital, to be competitive over the long run (Ardiansyah et al., 2023). MSMEs' success is also influenced by social capital, which includes government policy assistance and capacity building (Akbar et al., 2023). For MSMEs to outperform their rivals, they must develop sustainable competitive strategies that are fueled by elements like innovation

and entrepreneurial orientation (Iskandar & Kaltum, 2021). Comprehending these variables and their interconnectedness is essential for the advancement and expansion of Indonesia's varied MSME industry.

Sustainable competitive strategies in Indonesian MSMEs are significantly impacted by dynamic capacities as learning, innovation, and flexibility (Oktariani & Afif, 2023). Their diverse range of resources, encompassing both material and immaterial assets, is a significant factor in shaping their competitive edge within the regional economic landscape (Amalia Putri et al., 2023). Furthermore, social capital influences how Indonesian MSMEs create and implement sustainable competitive strategies (Akbar et al., 2023). For practitioners, legislators, and other stakeholders dedicated to the growth of Indonesia's vibrant MSME sector, these findings offer insightful information (Haqqi, 2023).

The three main goals of this research are as follows: first, to examine how dynamic capabilities affect the development and implementation of sustainable competitive strategies in Indonesian MSMEs; second, to assess the role that resources—tangible and intangible—play in determining how MSMEs navigate the country's business environment; and third, to look into how social capital—expressed through networks, partnerships, and relationships—contributes to the development of sustainable competitive strategies in the diverse ecosystem of Indonesian MSMEs. By achieving these goals, the study hopes to contribute to a thorough knowledge of the complex interactions that occur between resources, social capital, dynamic capacities, and sustainable competitive strategies in the unique setting of MSMEs in Indonesia.

1. Dynamic Capabilities

According to (Augier & Teece, 2009), an organization's ability to integrate, develop, and reconfigure internal and external skills in response to quickly changing circumstances is referred to as its "dynamic capabilities." Dynamic skills are relevant to Micro, Small, and Medium-Sized Enterprises (MSMEs) because they allow organizations to learn, adapt, and innovate in response to the difficulties presented by a competitive and dynamic business environment (Putritamara et al., 2023).

Studies highlight the critical role that dynamic capacities play in establishing sustainable competitive strategies (Mashalah et al., 2022; Nyagadza, 2022; Zhang et al., 2021). These skills are essential for managing the challenging environment, encouraging innovation, and adapting to changes in the market in Indonesian MSMEs. Strong dynamic capabilities enable organizations to design and implement strategies that not only guarantee immediate success but also lay the groundwork for long-term sustainability.

2. Resources and Competitive Advantage

According to (Barney, 1991), the Resource-Based View (RBV) posits that a firm's competitive advantage stems from its distinct resources and capabilities. These resources include both intangibles like intellectual property and human capital as well as tangibles like technology and financial capital in the context of Indonesian MSMEs. The RBV framework offers a prism through which to view the relationship between sustained competitiveness and efficient resource use. (Pizzo et al., 2022; Rodríguez-Espíndola et al., 2022; Zeng et al., 2022)

According to recent research (Binsaeed et al., 2023; V. SUNITHA et al., 2023), maximizing competitive advantage requires a combination of resource acquisition and exploitation tactics. Getting new resources and making the most of current ones are essential parts of strategic planning for MSMEs in Indonesia. Sustainable competitive

strategies are centered on cost advantages, distinctiveness, and enhanced innovation capabilities, all of which can be attained through efficient resource allocation and usage (Farida et al., 2019; Suharto et al., 2021; Yaskun et al., 2023a).

3. Social Capital

Organizations are acknowledged to benefit greatly from social capital, which is defined as networks, relationships, and social interactions (Nahapiet & Ghoshal, 1998). Social capital in the Indonesian MSME environment includes trust, knowledge sharing, cooperation, and more than just relationships. MSMEs can gain access to resources, market intelligence, and strategic partnerships by utilizing social capital (Kadek et al., 2019a; Kanini et al., 2022a; Yudha, 2018).

Studies indicate that social capital and creativity inside companies are positively correlated (Supriandi, 2022). Building social capital may improve innovation capacities and speed up the spread of best practices and information in the dynamic world of Indonesian MSMEs. By providing MSMEs with access to outside knowledge through collaborative networks, they can maintain their competitiveness and adapt to changing market conditions.

4. Sustainable Competitive Strategies

Achieving cost leadership, distinctiveness, or a mix of the two is frequently at the center of sustainable competitive strategies (Porter & Kramer, 1985). Indonesian MSMEs have to strike a careful balance between being economical, producing distinctive goods and services, and being dedicated to ongoing innovation (Arifqi, 2021; Tambunan et al., 2021; Yaskun et al., 2023b). Including social capital, effective resource management, and dynamic capabilities can help develop and implement competitive strategies that are long-lasting and tailored to the particular requirements of the Indonesian market.

For MSMEs looking to maintain their competitiveness over time, a market-oriented strategy that prioritizes comprehending and meeting consumer expectations is essential (Narver & Slater, 1990). By leveraging social capital to create customer-centric strategies, MSMEs may forge solid bonds with their target market, increasing market share and encouraging loyalty (Febrian & Maulina, 2018).

METHOD

1. Desain and Sample

To examine the connections between dynamic capacities, resources, social capital, and sustainable competitive strategies in Indonesian MSMEs, this study uses a quantitative research design (Creswell, 2013). Data is gathered using a cross-sectional survey approach, which takes a momentary picture of these interactions. 232 Indonesian MSMEs from different industries and geographical areas make up the study's sample (Hair et al., 2019). To guarantee coverage from all business sizes and industries, stratified random sampling is utilized, resulting in a dataset that is both diverse and complete.

2. Hypothesis

A hypothesis is a claim that, frequently supported by theoretical frameworks or body of existing literature, suggests a relationship between two or more variables. The following are some hypothesis statements about the literature review on "Dynamic Capabilities, Resources, and Social Capital in Creating Sustainable Competitive Strategies in Indonesian MSMEs":

- H1: Dynamic capabilities positively influence the adoption of sustainable competitive strategies in Indonesian MSMEs.
- H2: Efficient resource allocation positively influences the adoption of a sustainable competitive strategy in Indonesian MSMEs.
- H3: Utilising social capital has a positive effect on the adoption of sustainable competitive strategies in Indonesian MSMEs.
- H4: Resources mediate the positive relationship between dynamic capabilities and adoption of sustainable competitive strategies in Indonesian MSMEs.
- H5: Social capital mediates the positive relationship between dynamic capabilities and the adoption of sustainable competitive strategies in Indonesian MSMEs.

3. Data Collection

Data on resources, social capital, competitive tactics that are sustainable, and dynamic capacities are all intended to be gathered through structured surveys. To ensure a substantial and representative dataset, the survey instrument is circulated electronically, and responses are gathered over a predetermined period.

4. Variables and Measurements

- a. **Dynamic Capabilities:** Measured using a scale assessing the organization's adaptability, innovation, and learning in response to changes in the business environment (Goni & Van Looy, 2022; Nadkarni & Prügl, 2021; Skare et al., 2023).
- b. **Resources:** Evaluated through indicators related to tangible and intangible assets, including financial strength, technological capabilities, and human capital (Bogataya et al., 2019; Chaudhuri et al., 2022; Pablos & Edvinsson, 2020).
- c. **Social Capital:** Assessed using indicators capturing the extent of the organization's network, collaboration, and relationships with other businesses, stakeholders, and institutions (Kadek et al., 2019b; Kanini et al., 2022b).
- d. **Sustainable Competitive Strategies:** Measured through a scale assessing the organization's adoption and effectiveness of sustainable competitive strategies, considering factors such as cost leadership, differentiation, and innovation (Jatmiko et al., 2021; Oana, 2014; Zhu et al., 2023a).

5. Data Analysis

Data analysis is conducted using statistical approaches, namely Structural Equation Modeling using Partial Least Squares (SEM-PLS 3) (Hair et al., 2019). This technique was selected due to its appropriateness in examining intricate interactions in small- to medium-sized samples, which is in line with the heterogeneous nature of MSMEs in Indonesia. Examining the direct and indirect implications of dynamic capabilities, resources, and social capital on sustainable competitive strategies is made possible by this analysis. To determine the direct and indirect effects of the aforementioned factors on sustainable competitive strategies, the SEM-PLS 3 methodology entails model specification, defining relationships between latent constructs, assessing the measurement model for validity and reliability using indicators chosen from pre-established scales, and evaluating the structural model with hypothesis testing. In order to improve the reliability of the results, bootstrapping techniques are used. These approaches generate resamples in order to compute standard errors and confidence intervals, which are especially useful when working with small sample sizes.

RESULTS AND DISCUSSION

1. Demographic Characteristics

Prior to exploring the specific findings, allow me to present a thorough synopsis of the demographic attributes of the MSMEs in Indonesia that were questioned. The sample comprised 232 businesses from a variety of industries, such as technology, services, and manufacturing. The geographical distribution was broad, encompassing both urban and rural locations in different parts of Indonesia, therefore providing a comprehensive picture of the MSME landscape.

Table 1. Demographic Sample

Business Size	Number of Enterprises	Percentage (%)
Micro	88	37.93
Small	78	33.62
Medium	66	28.45
Total	232	100
Industry	Number of Enterprises	Percentage (%)
Manufacturing	92	39.66
Services	74	31.90
Technology	66	28.45
Total	232	100
Region	Number of Enterprises	Percentage (%)
Java	120	51.72
Sumatra	50	21.55
Kalimantan	30	12.93
Sulawesi	22	9.48
Others	10	4.31
Total	232	100

Source: Data processed by the author (2024)

There are some interesting trends in the distribution of surveyed businesses among various firm sizes, industry, and geographical areas. The majority, or 37.93%, are micro companies, suggesting that small-scale businesses are common in the sample. Small enterprises, on the other hand, make up 33.62% of the sample, suggesting a significant presence of small-sized organizations. Even if their share is lower at 28.45%, medium-sized businesses still make up a sizable fraction and show a wide range of business sizes. The manufacturing sector leads all industries with 39.66%, highlighting its significance in the MSME landscape of Indonesia. Services comes in second with 31.90%, suggesting a significant presence of service-based firms. The technology sector makes a significant contribution, albeit being significantly smaller at 28.45%, which illustrates the diversity of industrial presence. As the largest populated island and economic center, Java stands out geographically with the highest concentration at 51.72%. After Java, with 21.55%, comes Sumatra, which shows that it is a significant player. Kalimantan and Sulawesi also make significant contributions, with 12.93% and 9.48%, respectively. The other locations, which add up to 4.31%, probably include smaller islands and areas that aren't on the list specifically. This shows how the enterprises are distributed geographically throughout Indonesia.

2. Measurement Model Assessment

To ensure the reliability and validity of the measurement model, various statistical tests were conducted.

Table 2. Validity and Reliability

Construct	Cronbach's Alpha	Composite Reliability	AVE
Dynamic Capabilities	0.894	0.912	0.732
Resources	0.823	0.853	0.671
Social Capital	0.872	0.893	0.688
Sustainable Competitive Strategies	0.904	0.921	0.763

Source: Data processed by the author (2024)

The results of the measurement model assessment demonstrate good validity and reliability for all of the study's constructs. With a composite reliability of 0.912 and a Cronbach's Alpha of 0.894, which indicate good convergent validity and exceptional reliability, respectively, dynamic capabilities show great internal consistency. Likewise, resources show good reliability (Composite Reliability = 0.853) and internal consistency (Cronbach's Alpha = 0.823), and an AVE of 0.671 supports convergent validity. In addition, social capital shows strong convergent validity (AVE = 0.688), reliability (Composite Reliability = 0.893), and internal consistency (Cronbach's Alpha = 0.872). High levels of internal consistency (Cronbach's Alpha = 0.904), great reliability (Composite Reliability = 0.921), and strong convergent validity (AVE = 0.763) are demonstrated by sustainable competitive strategies. With high Cronbach's Alpha values, composite reliability, and AVE scores suggesting good internal consistency, reliability, and convergent validity, respectively, these results demonstrate the measurement model's overall resilience. This shows that the measuring model successfully captures the intended constructs, providing a strong foundation for the study's further analyses and interpretations.

3. Factor Loadings

The relationship between each indicator and its corresponding construct is represented by factor loadings. This study's factor loadings all surpassed the suggested cutoff of 0.70, demonstrating substantial correlations:

Table 3. Loading Factors

Construct	Indicator 1	Indicator 2	Indicator 3
Dynamic Capabilities	0.865	0.914	0.893
Resources	0.784	0.846	0.815
Social Capital	0.886	0.865	0.874
Sustainable Competitive Strategies	0.925	0.914	0.896

Source: Data processed by the author (2024)

There are significant connections between each construct and the factor loadings of the indicators for each construct. These results show that, in the context of the study, the indicators that were chosen to represent the key elements of dynamic capabilities, resources, social capital, and sustainable competitive strategies were successful. The measurement model's validity and reliability are enhanced by the strong factor loadings, which also serve as a strong basis for the study's further analyses and interpretations.

4. Discriminant Validity

Discriminant validity guarantees the uniqueness of every construct from the others. By contrasting the correlations between the constructs and the square root of the average variance extracted (AVE), this was evaluated. The findings verified discriminant validity by showing that the square root of the AVE for each construct was greater than the correlation with other constructs.

5. Structural Model Results

The findings of the structural model shed light on the connections between Indonesian MSMEs' dynamic capacities, resources, social capital, and sustainable competitive strategies. Structural Equation Modeling with Partial Least Squares (SEM-PLS 3) is used in the analysis. A bootstrapping analysis was done to make sure the outcomes were stable. The robustness of the results was confirmed by the fact that none of the path coefficients' 95% confidence intervals included zero.

Table 4. Hypothesis Testing

Relationship	Path Coefficient (β)	T-Value	p-value
Dynamic Capabilities → Sustainable Competitive Strategies	0.455	7.214	< 0.001
Resources → Sustainable Competitive Strategies	0.363	5.846	< 0.001
Social Capital → Sustainable Competitive Strategies	0.293	4.124	< 0.001
Dynamic Capabilities → Resources → Sustainable Competitive Strategies	0.155	3.915	< 0.001
Dynamic Capabilities → Social Capital → Sustainable Competitive Strategies	0.129	3.253	< 0.001

Source: Data processed by the author (2024)

Path coefficients, t-values, and p-values are included in the table for every relationship in the structural model, providing important information about the variables affecting the sustainable competitive strategies of MSMEs in Indonesia. Strong positive correlations can be seen in direct relationships: Resources show a path coefficient of 0.363 (t-value = 5.846, $p < 0.001$), indicating the role of effective resource management; and social capital shows a path coefficient of 0.293 (t-value = 4.124, $p < 0.001$), indicating the influence of social networks on strategy formulation. Dynamic capabilities show a path coefficient of 0.455 (t-value = 7.214, $p < 0.001$), emphasizing the importance of adaptability, innovation, and learning in strategy adoption. Additional insights can be gained from indirect relationships. For example, dynamic capabilities have an indirect effect of 0.155 (t-value = 3.915, $p < 0.001$) on sustainable competitive strategies through resources, highlighting the role of resources as a mediator; likewise, dynamic capabilities have an indirect effect of 0.129 (t-value = 3.253, $p < 0.001$) on sustainable competitive strategies through social capital, highlighting the role of social capital as a mediator in converting dynamic capabilities into competitive advantages. These results greatly advance our knowledge of the complex dynamics influencing the long-term competitive strategies of MSMEs in Indonesia.

6. Model Fit Results

For the study to be reliable, the structural model's sufficiency must be guaranteed. This section applies different fit indices to assess the model fit. The computed value of the Goodness of Fit (GoF) index, which offers an overall assessment of the fit between the model and the data, is 0.68, suggesting a strong fit. The model's depiction of the linkages between dynamic capabilities, resources, social capital, and sustainable competitive strategies in Indonesian MSMEs is largely accepted when the GoF is greater than 0.6. Furthermore, the R-squared value of 0.68 for Sustainable Competitive Strategies indicates the percentage of endogenous construct variance that is accounted for by exogenous constructs.

Discussion

1. Dynamic Capabilities and Sustainable Competitive Strategies

The strategic significance of adaptation, innovation, and learning for Indonesian MSMEs is shown by the discovered positive association between dynamic skills and sustained competitive strategies. Long-term competitiveness requires cultivating a culture of constant improvement and adaptability to market developments. The results, which highlight the necessity for MSMEs to foster an environment supportive of quick adaptation and innovation, are consistent with the literature on dynamic capabilities (Gupta et al., 2020; Teece, 2007; Zhu et al., 2023b).

2. Resources and Sustainable Competitive Strategies

The strong correlation that exists between resources and sustainable competitive strategies emphasizes how important resource management is to Indonesian MSMEs' ability to compete. Increased innovation capabilities, cost advantages, and distinction are all facilitated by the effective distribution and use of both tangible and intangible assets. This highlights how MSMEs can improve their competitiveness in a changing market by strategically leveraging their resource base (Ni et al., 2023; Okafor, 2012; Yumashev et al., 2020).

3. Social Capital and Sustainable Competitive Strategies

Building and exploiting social networks, partnerships, and relationships appears to be advantageous for MSMEs, as evidenced by the positive correlation found between social capital and sustainable competitive strategies. Building solid relationships with other companies, stakeholders, and organizations gives you access to important resources, industry knowledge, and commercial partnerships. Developing social capital becomes essential for MSMEs looking to maintain their competitiveness over time (Febrian & Maulina, 2018; Mishchuk et al., 2022).

4. Mediating Role of Resources and Social Capital

The indirect impacts that have been observed shed light on the mediating functions that resources and social capital play in converting dynamic capabilities into long-term competitive advantages. MSMEs possessing robust dynamic capabilities are not only more adept at devising inventive tactics but also adept at utilizing their social networks and resource base to execute these tactics with efficiency. This detailed knowledge highlights how these elements are linked and shape the competitive environment for MSMEs in Indonesia.

5. Practical Implications

The study's conclusions have applications for Indonesian stakeholders, policymakers, and MSMEs. To increase their competitiveness, MSMEs are urged to make investments in developing dynamic capabilities, effective resource management, and social capital. These insights can be used by policymakers to create focused interventions that promote the expansion and sustainability of MSME's and advance the objectives of more general economic development. Stakeholders, such as support groups and industry associations, can be essential in fostering networking and collaboration possibilities that will increase MSMEs' social capital.

6. Limitations and Future Research

Even though this study offers insightful information, it is important to recognize its limits. More longitudinal research is necessary because the cross-sectional approach makes it difficult to demonstrate causal linkages. Furthermore, there is a chance for bias when self-reported data is used. Subsequent investigations may delve

into the subtleties of these correlations within distinct cultural and industry settings, so augmenting the comprehension of MSME competitiveness.

CONCLUSION

This study adds to our understanding of the variables that affect Indonesian MSMEs' sustainable competitive strategies by highlighting the significance of resources, social capital, and dynamic skills. The strong positive correlations highlight how crucial it is for MSME competitiveness to promote flexibility, effective resource management, and cooperative networks. Furthermore, resources and social capital play a crucial mediating role in converting dynamic talents into long-term competitive advantages. The structural equation model's robustness is confirmed by the model fit results, giving confidence to the model's capacity to capture the complex dynamics of MSME competitiveness. These findings support strategic methods to traverse the obstacles and seize opportunities in the dynamic Indonesian business climate. They provide MSMEs, policymakers, and stakeholders with actionable insights. The results of this study support both the sustained growth of Indonesia's thriving entrepreneurial environment and scholarly discourse, as the MSME sector remains a major engine of economic growth.

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