



DYNAMIC CAPABILITIES AND INNOVATION IMPLICATIONS FOR BUSINESS SUSTAINABILITY

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The aims of this study are to: 1) test and analyze the effect of dynamic capabilities on innovation 2) test and analyze the effect of capabilities on business continuity 3) test and analyze the effect of innovation on business continuity 4) test and analyze the effect of dynamic capabilities and innovation on business continuity. The research was conducted on Micro, Small and Medium Enterprises in Indonesia with a sample of 93 respondents. This research is quantitative of research by distributing questionnaires to Micro, Small and Medium Enterprises entrepreneurs. The sampling technique uses the saturation technique. Methods of data analysis using descriptive analysis and path analysis. The results of the study show that: 1) dynamic capabilities have a positive and significant effect on innovation 2) dynamic capabilities have a positive and significant effect on business continuity 3) dynamic capabilities have a positive and significant effect on business continuity 4) dynamic capabilities and innovation have a significant positive effect on continuity business.

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INTRODUCTION

The impact of the Covid-19 pandemic, namely the stability of economic growth multiplied by a decline, has changed many aspects of life, both educational, social, and economic Rachmawati, Y. (2019), this impact was also felt by MSME actors who experienced a decline in economic activity. In Indonesia, one of the growing business entities.

In Indonesia, one of the business entities that is growing and developing is MSME or micro, small and medium enterprises, namely productive businesses carried out by someone regardless of age, education, and business capital. The role of micro, small, and medium enterprises can contribute to the gross domestic product and be able to provide new opportunities and employment so that they can reduce poverty (Junedi and Arumsari, 2021).

In doing business, especially in MSMEs, it is very important to carry out product innovations, marketing innovations, and

management innovations need to be carried out to continue to attract buyers. Apart from being needed to compete in the market, innovation also plays a role in developing a business so that it can create the characteristics of a brand. The company must also have the dynamic ability to adapt to the rapidly changing environment. In innovating, understanding the market situation to be able to produce what products are currently needed by the community is one of the strategies in business sustainability.

Business continuity can provide opportunities for business actors, especially MSMEs, to be able to increase productivity, and income and provide welfare that can be achieved by having adequate business capabilities. MSMEs are also required to have the ability and effort to make strategies to maintain the continuity of their business. Business continuity can be identified from an increase in capital, an increase in income, an increase in sales volume, an increase in business production output if the business is self-produced, and an increase in the number of

employees of the business being run (Suriani et al., 2022). To make the creative economy successful, of course, it is necessary to improve the quality of human resources, new creativity, and innovation, develop broad networks and access to increase dynamic capabilities, develop knowledge management, develop an entrepreneurship orientation, and innovate so that MSMEs can compete in the global market. The company's human resources are believed to be an important source of sustainable competitive advantage. This is especially the case for companies operating in a complex and dynamic competitive environment where the ability to quickly acquire and assimilate new markets and technological capabilities is key to maintaining an advantage over competitors according to Barney (Cabral, 2010).

In the business world, including micro, small, and medium enterprises (MSMEs), there is rapid competition in line with the growth of the national economy. This condition is due to the market faced by developing companies and companies must be able to create differences by innovating. Companies must be able to create products or services according to the needs of consumers who are increasingly intelligent in choosing products and services. Research on the importance of dynamic capabilities and innovation in micro, small, and medium enterprises has implications for business or business sustainability.

A sustainable business is a business that has benefits for both short-term benefits and long-term benefits and is sustainable in nature, not just from time to time. A business is said to be sustainable if the company can achieve the goals that exist in its business, can increase value in the long term, and has consistency in maintaining what it has achieved. Steven & Bahar (2022) business continuity or sustainable business is a process of ongoing action or a form of consistency from the conditions of a business, where this sustainability is the maintenance of processes, actions, and good business which includes growth, development, strategies to maintain business continuity so that it can continue to operate and develop in the long term.

Indicators of business continuity are financial and profit: long-term economic growth without impacting negatively the other aspect, people: occupational health and safety, faster community investment, social diversity, interaction, and planet: management of the physical environment, support of the living within ecological limits. protection of natural resources. Research on business sustainability has been researched by R. Lynch (2019); Fitriati, T. K., Purwana, D., & Buchdadi, A. D. (2020) to contribute new knowledge by identifying and expanding the innovation strategy relationship between dynamic capabilities and sustainability

strategy. It offers theoretical insight into the nature of that relationship in the context of firms from developed and developing economies.

The dynamic capability has become an organizational routine and managerial expertise and is the company's ability to integrate, build and reconfigure internal competencies that are following current environmental conditions with a changing business environment. The strength of a company's dynamic capabilities is key to its ability to sustain long-term profits including redesigning or adjusting business models (Teece, 2018). Dynamic capability is something broad from dynamic resources, processes, and capabilities in which a company must continuously build, adapt and reconfigure internal and external competencies to adapt to the development of the business environment. Dynamic capability functions as the company's capability for its partners. Development and coordination of company resources and corporate partners to make changes in the market and business environment. The strength of the company's dynamic capabilities determines the speed and level of ability of the company's resources in adjusting its business model according to the needs and aspirations of customers, this can be achieved by observing opportunities periodically and changing aspects and culture of the company to be more proactive towards new threats and opportunities along with business development/business (Teece, 2018).

Dynamic capability according to Teece (2018) in the business model consists of three components, namely: sensing is identifying opportunities by always observing the environment and looking for opportunities that arise within or outside the company's boundaries. Seizing is when there is an opportunity then its potential and value are captured to be learned by choosing the right technology or better understanding of the target customers. Transforming/Reconfiguring is when opportunities are perceived and captured then the company reconfigures resources to adjust to changes and opportunities in the corporate environment. Research on dynamic capabilities was researched by Chatterjee et al (2022); Fitriati, T. K., Purwana, D., Buchdadi, A. D., & Subagja, I. K. (2020) the results of his research indicate that organizational dynamic capabilities have a considerable impact on business sustainability. In addition, this study confirms that SCRM has a significant moderating role in the relationship between organizational dynamic capabilities and business sustainability.

Innovation is an idea, practice, or object/object that is recognized and accepted as a new thing by any person or group to be adopted (Martinez & Guzman, 2013). Innovation is the process and result of developing the

utilization/mobilization of knowledge, skills, and experience to create or improve new products, processes, and systems that can provide significant value. Innovation consists of indicators namely product innovation, process innovation, marketing innovation, and management innovation.

Research by Al-Shaikh et al (2022); Bruna (2020); Subagja, I. K., Astuti, W., & Darsono, J. T. (2018). states that product innovation and service innovation have a significant positive impact on business sustainability. The results further confirm that process innovation is critical to achieving business sustainability. Finally, the results verify that marketing innovation has a significant impact on business continuity. The results confirm the importance of innovation capabilities in helping entrepreneurs in SMEs to maintain their business and increase competitive strength. Likewise with the research of Dhyanasaridewi, I. G. A. D & Augustine, Y. (2021); Eikelenboom & Gjalte de Jong (2019), empirical results show that sustainability innovation has a significant direct or indirect influence through sustainable competitive advantage on company performance. Whereas E-business only has a significant relationship with company performance while mediated by sustainable competitive advantage.

Continuous innovation and shift from company operations to E-business will affect company activities and have the potential to create a competitive advantage among its competitors, which in turn will affect the achievement of better performance. The implication of this research is to make management as a policy maker in an organization aware of the urgency to create sustainable innovations and switch to e-business, in order to be able to compete and also achieve better corporate performance. Likewise, the research by Irikefe and Alli (2019) explains that there is a significant relationship between innovation and business sustainability.

Sari et al (2022): de Cabral (2010) found that the ability to innovate and environmental factors carried out by the MSME sector had a significant positive effect on innovation, both product innovation and process innovation. This study concludes that innovation capability and environmental factors in the MSME sector can enhance innovation and impact MSM sustainability. The contribution of this research is that innovation capabilities and environmental factors can increase innovations made by SMEs.

H₁ : Dynamic capability has a positive and significant effect on innovation

H₂ : Dynamic capability has a positive and significant effect on business sustainability

H₃ : Innovation has a positive and significant effect on business sustainability

H₄ : Dynamic capability and innovation have a significant positive effect on business sustainability

METHOD

This type of research is a type of quantitative research. According to Creswell J (1994), the definition of quantitative research is a type of research that explains phenomena by collecting numerical data that is analyzed using math-based methods, especially statistics. Statistical-based methods must be supported by the use of data analysis tools, research designs, and appropriate data collection instruments. The research was conducted on Micro, Small and Medium Enterprises in Indonesia with a research sample of 93 respondents. Data collection techniques used primary data in the form of questionnaires which were distributed to Micro, Small, and Medium Enterprises entrepreneurs with as many as 03 respondents. The sampling technique uses a saturated technique. The data analysis method uses descriptive analysis and path analysis.

According to Sugiyono (2015), descriptive statistics are statistics that function to describe or give an overview of the object under study through sample or population data as it is, without conducting analysis and making general conclusions. In this descriptive statistics, ways of presenting data will be presented, using regular tables or frequency distributions; line or bar graphs; pie charts; pictograms; group explanation via mode, median, mean, and group variation via range and standard deviation. Path analysis is used to describe and test the relationship model between variables in a causal form (not in the form of an interactive/reciprocal relationship). Thus in the model of the relationship between these variables, there are independent variables which in this case are called exogenous variables, and dependent variables which are called endogenous variables (Sugiyono; 2015).

RESULT AND DISCUSSION

The results of the regression analysis on the effect of dynamic capability on innovation can be seen in the following table.

Table 1. Regression Coefficient of Innovation

		Coefficient ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,689	1.182		3.967	.000
	Dynamic Capability	1.185	.117	.716	10,099	.000

a. Dependent Variable: Innovation

Based on Table 1, the results of the t-test for the dynamic capability variable obtained a t-count = 10.099, and a t-table of 1.660. This means t-count > t-table (10.099 > 1.660) which means H0 is rejected and H1 is accepted. This gives the conclusion that dynamic capabilities affect innovation. Thus the first hypothesis is tested and proven. The results of this study are in line with

the research of R. Lynch (2019), which explains that there is a relationship between dynamic capabilities and the strategy of sustainability.

The results of the regression analysis on the effect of dynamic capability on innovation can be seen in the following table:

Table 2. Regression Coefficient of Creative Business Sustainability

		Coefficient ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.609	2.014		2.785	.007
	Dynamic Capability	1.417	.101	.832	14.082	.000

a. Dependent Variable: Business Sustainability

Based on Table 2, the results of the t-test for the dynamic capability variable obtained a t-count = 14,085, and a t-table of 1.660. This means t-count > t-table (14.085 > 1.660) which means H0 is rejected and H2 is accepted. This gives the conclusion that dynamic capabilities affect business sustainability. Thus the second hypothesis is tested and proven. The results of this study are in line with research conducted by Chatterjee et al (2022), the results of his research

indicate that organizational dynamic capabilities have a considerable impact on business sustainability. In addition, this study confirms that SCRM has a significant moderating role in the relationship between organizational dynamic capabilities and business sustainability.

The results of the regression analysis on the effect of dynamic capability on innovation can be seen in the following table:

Table 3. Regression Coefficient of Creative Business Sustainability

		Coefficient ^a				
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.380	.995		6.412	.007
	Dynamic Capability	1.417	.050	.590	7.195	.000

a. Dependent Variable: Business Sustainability

Based on Table 3, the results of the t-test for the dynamic capability variable obtained a t-count = 7,195, and a t-table of 1.660. This means t-count > t-table (10.099 > 1.660) which means H0 is rejected and H3 is accepted. This gives the conclusion that dynamic capabilities affect innovation. Thus the third hypothesis is tested and proven. The research results are in line with research from Al-Shaikh et al (2022); Bruna (2020); Dhyanasaridewi & Augustine, Y. (2021),

there is a significant relationship between innovation and business sustainability.

According to Ghazali (2006), the path coefficient uses a standardized regression coefficient. The results of the regression analysis of the influence of competence and motivation on employee performance can be seen in the table below:

Table 4. Simultaneous Test Results of Dynamic Capability and Innovation on Business Sustainability

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.721 ^a	.520	.510	2.31212

a. Predictors: (Constant), Dynamic Capability, Innovation

b. Dependent Variable: Business Sustainability

Based in Table 4, shows the value of R2 (R Square) of 0.520. This R2 value is used in calculating the value of the e1 coefficient. The coefficient e1 is a sustainable business variance that is not explained by dynamic capabilities and innovation.

Magnitude: Coefficient e1 So

$$= \sqrt{(1 - R^2)} = \sqrt{(1 - 0,520)} = \sqrt{0,480} = 0,693$$

Coefficient e1 = 0.693

Table 5. Coefficient Business Sustainability Regression Analysis Results

Model	Coefficient ^a				
	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	6.380	.995		6.412	.007
Dynamic Capability	1.417	.050	.590	7.195	.000
Innovation	1.136	.163	.872	6.992	.000

a. Dependent Variable: Business Sustainability

Based on the Table 5, it can be seen that the regression equation is as follows:

$$X_3 = b_1X_1 + b_2X_2 + e_1$$

$$X_3 = 0,745X_1 + 0,872X_2 + 0,693e$$

The equation shows that:

- Every 1 increase in dynamic capability will be followed by an increase in innovation of 0.745.
- Every time there is an increase of 1 unit of innovation, it will be followed by an increase in business sustainability of 0.872.

Based on Table 5, it can be seen that if dynamic capability increases, innovation will increase. Likewise, with increased innovation, business sustainability will increase. Which means H0 is rejected and H4 is accepted. This gives the conclusion that dynamic capabilities and innovation affect business sustainability. Thus the fourth hypothesis is tested and proven. This research is in line with research that has been conducted by Eikelenboom & Gjalte de Jong

(2019); Sari et al (2022); de Cabral (2010) which states that sustainability innovation has a significant direct or indirect influence through sustainable competitive advantage on company performance.

CONCLUSION AND RECOMMENDATION

To further enhance dynamic capabilities in the Micro Small Medium Enterprise in

Indonesia through indicators of seizing capabilities, namely the ability of the five senses to see challenges and opportunities in business, seizing capabilities, namely when there is an opportunity and then capturing its potential and value to study by choosing the appropriate technology. appropriate to understand the target customer/consumer, the transforming capabilities indicator is when an opportunity is perceived and captured by the company reconfiguring resources to adjust to changes and opportunities in the company's environment, to produce maximum dynamic capabilities.

The application of innovation to the will further enhance innovation. Product innovation, namely the introduction of goods or services that are new to consumers as a product renewal that has gone through a significant increase in terms of the characteristics and use of the product. Process innovation, namely the application of production methods that are completely new and have gone through significant improvements. Management/organizational innovation, namely the application of new organizational methods to business practices of workplace organizations, and company external relations. Marketing innovation, namely the application of new marketing methods or significant improvements to packaging or product design, product placement, product promotion, and pricing.

Business sustainability is the maintenance of processes, actions, and good business which includes growth, development, and strategies to maintain business continuity so that it can continue to operate and develop in the long term. Indicators of business continuity are financial and profit: long-term economic growth without impacting negatively the other aspect, people: occupational health and safety, faster community investment, social diversity, interaction, and planet: management of the physical environment, support of the living within ecological limits. protection of natural resources.

Based on multiple linear regression analysis, it shows that dynamic capabilities and innovation contribute to the business sustainability of the Micro Small, and Medium Enterprises in Indonesia. The biggest support for increasing innovation is business sustainability. Based on the results of multiple linear regression analysis, shows that dynamic capabilities and entrepreneurial innovation can provide support for improving business sustainability. Based on the results of a simple regression analysis, shows that dynamic capability and innovation can provide support for improving business sustainability. Based on the results of path analysis, shows that innovation can provide support for increasing dynamic capabilities to the business sustainability of Micro Small, and Medium Enterprises in Indonesia. This research is

on what has been researched by Zollo and Winter (2002) and Helfart (2007). Dynamic capabilities are the ability of companies to integrate, build and reconfigure internal and external competencies to deal with rapidly changing environments (Zollo and Winter (2002). Dynamic capabilities reflect capabilities for organizations to achieve new forms of innovative competitive advantage as a result of (given) path dependencies and market position (Helfat, 2007).

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