



Competitive Advantage as a Bridge to Increase SMEs Sustainability

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ABSTRACT

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Business competition forces companies, especially SMEs, to choose strategies to keep a competitive advantage and business sustainability. This study aims to test whether digitalization and creativity affect competitive advantage. In addition, this study also examines whether competitive advantage affects business sustainability. This research used a questionnaire given to 162 SME owners via Google Forms. The results of the study show that digitalization and creativity affect competitive advantage. SMEs that use digital technology and make products or services more creative will quickly achieve a competitive advantage. In addition, competitive advantage affects sustainability because an efficient business will easily compete and survive for a long time. The COVID-19 pandemic, which is starting to improve, requires SMEs owners to use the right strategy to keep their businesses running. The managerial capabilities of SMEs owners must improve with the rapid changes in the environment to maintain excellence.

1. INTRODUCTION

SMEs have a considerable contribution to the economy because they generate employment and are agents of change for a nation, so the competitiveness of SMEs must be maintained [1]. In Indonesia, SMEs have a significant role because they absorb more than 90% of the workforce and contribute > 60% of the Gross Domestic Product [2-4]. The COVID pandemic, which is starting to decline, requires SME owners to use the right strategy to keep their businesses running. The owner's ability to adapt to environmental changes is the key to maintaining excellence and sustainability [5].

Recently, the amount of environmental damage caused by business operations has made the company become oriented toward sustainability, which has become a critical strategic goal for them [6-8]. The COVID pandemic has made SMEs conscious of their ability to adapt quickly and develop new strategies, especially to create long-term business sustainability [9]. Therefore, it is essential for SMEs not only to increase short-term profitability but also to keep sustainability.

Competitive advantage is significant for SMEs because it reflects the ability to provide better value to consumers by offering lower prices or providing optimal benefits and services [10]. Sustainable competitive advantage plays an essential role in SMEs' long-term resilience and success [11]. Many organizations have attempted to maintain competitiveness by utilizing their capital and potential as valuable resources [12]. Company resources and the ability to

coordinate and combine all assets owned will provide a competitive advantage and affect business performance [13].

A competitive advantage for sustainability that is not easily duplicated by other businesses will impact the growth of SMEs, which are increasingly superior in the longer term [14]. Therefore, the growth of SMEs is highly dependent on their ability to implement viable competitive strategies [15].

SMEs owners must have new ideas since creativity significantly contributes to supporting organizational goals to achieve excellence [10]. Small and medium-sized companies must develop new products to enter the global market to generate long-term prosperity [16]. Creativity has an increasingly significant role in organizations, given today's international forces, and the level of competition is very competitive [17]. Apart from having creativity, the owner must have a good understanding of technology because technology will drive a digitalization strategy which is an area of competitive advantage for SMEs [5, 10]. In this sense, digital innovation can be conceptualized as innovative information technology solutions that integrate digital technology to support business digitization in various sectors [18]. Organizations, especially SMEs, must be able to face the challenge of carrying out rapid technological transformation through cost-effective business models [19].

Several researchers have examined competitive advantage and sustainability [20] but still interesting because, firstly, research results still find evidence that SMEs cannot compete due to low competitive advantage [3, 11]. Second, even though the government has provided excellent support, they still need help, especially with limited services for financial and investment loans [21, 22]. Third, previous findings regarding

competitive advantage and sustainability are still diverse [10, 13, 16, 23-25]. Several studies have attempted to link competitive advantage variables, for example, with performance [3], intellectual capital [4], green advertising [20] business-specific conditions [14]; furthermore, between sustainability and financial performance [15], government support [22], competitive advantage [10], however, research examining the influence of creativity and digitalization on competitive advantage and sustainability in the Indonesian context is still limited.

2. RELATED WORKS

2.1 Resource base view theory

The theory used in this study is the resource-based view (RBV) theory. The RBV theory explains various potential resources to increase competitiveness and business performance [26]. The implementation of this theory explains that business owners will assume that a company's competitiveness does not depend on external factors, such as market and industry conditions, but instead relies on the effectiveness of managing company resources [2]. In this RBV theory, to increase success, organizations must have the potential to provide added value and competitive advantage for the company [6]. From the theoretical perspective of RBV, competitive advantage depends on the accumulation of resources and strategic capabilities in processing so that competitors cannot easily imitate them [27]. RBV theory is also helpful for conceptualizing technology orientation toward new digital technology trends as an essential asset for organizations because they will lose if they don't start using digital [18].

2.2 Sustainability

SMEs have better flexibility and adaptability than large companies due to their compact organizational structure. Even though they are flexible, they are still vulnerable to environmental changes, so they need the right strategy to have sustainability [2]. Sustainability in SMEs reflects the balance between the resources they own (human, financial, and material resources) and the social, economic, and environmental impacts where the company operates [28]. Sustainability is challenging for SMEs because resources are limited, but managing resources effectively can improve performance and sustainability [15]. Not only that, but operational business efficiency also allows SMEs to gain profits and be able to compete, thereby accelerating their path to sustainability [22]. Therefore, the available resources will impact MSMEs' ability to deliver more sustainable results [6].

2.3 Digitalization

SMEs need to have dynamic capabilities in their business to guarantee their long-term performance. One of the capabilities that SMEs must have is to utilize digital platforms or transformations that can help them survive, be flexible and achieve competitive advantage [25]. Findings in Pakistan show that digital orientation for companies can help achieve company growth [19]. Findings in Indonesia show that digitization combined with human resources will result in the ability of SMEs to adapt to environmental changes that ensure

business continuity [5]. In digital innovation, digital capabilities are needed to integrate digital technology with professional talent [18]. Research in Malaysia states that SMEs with technological capabilities can support innovation processes to produce better products and services [23]. Studies in China state that digital strategy is a new opportunity to create value for companies in today's era. Digitalization strategies must be supported by the resources they have to maintain a competitive advantage [29]. Based on several previous findings, the hypothesis is:

H1: Digitalization affects competitive advantage

2.4 Creativity

SMEs can consider a powerful method to generate new ideas through a collaborative process to develop new opportunities and creativity in their business [30]. In addition to creativity to produce products, connecting new ideas and identifying problems has been proven to provide organizational benefits [10]. Findings in South Korea explain that the strategic role played by SMEs in developing and creating innovative new products will create a competitive advantage that leads to increased performance [16]. The concept of creativity presents opportunities for entrepreneurs to collaborate and connect with others to create new works, generate new ideas, and increase productivity and competitiveness [24]. Findings in Portugal state that creative culture in an organization will provide innovative solutions in the face of competitive competitiveness [31]. Based on several previous findings, the hypothesis is:

H2: Creativity affects competitive advantage

2.5 Competitive advantage

Companies can generate two competitive advantages, namely short-term and long-term. Short-term advantages will create greater profits than competitors, while long-term advantages will create better corporate value [12]. Business continuity is meeting the company's competitive needs by increasing organizational capabilities to meet the needs of future business competition [4]. Given the immense economic contribution, the competitiveness of SMEs must be maintained from time to time to achieve excellence because the performance of a business can be seen when the company can gain a competitive advantage in the market [1, 13]. Research in Thailand states that in the face of an uncertain and challenging environment, sustainable competitive advantage is significant in ensuring the survival of SMEs [32]. Competitive advantage is the ability of a business to generate more profits and returns than its competitors in the market [20]. Organizations that can create a competitive advantage will have the strength to compete with other organizations because their products will still be in demand by customers, which will affect better SME performance [21]. Therefore, we propose the following hypothesis:

H3: Competitive advantage affects sustainability

Based on a review of several previous research, this research will build a new model that has never been done, especially in Indonesia. This research will test the variables of digitalization and creativity and their impact on competitive advantage. Moreover, competitive advantage will push the sustainability of SMEs. Several previous findings state that implementing technology will increase the company's strength

to become more competitive. At the same time, new ideas in producing products and services will also increase the company's ability to compete in the market. Therefore, this research proposes a new model that examines the relationship between digitalization, creativity, competitive advantage, and sustainability of SMEs. Based on this explanation, we propose the following research model (Figure 1).

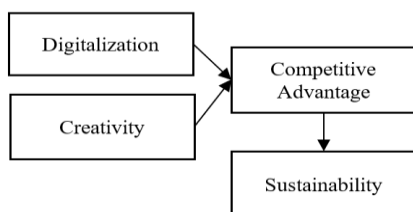


Figure 1. Research model

3. METHOD

This quantitative research uses a questionnaire to obtain data from respondents. Questionnaires were obtained from several indicators used by previous research and then developed into questions according to the research variables. Several questions were modified and refined after receiving advice from research students, SMEs owners, and experts.

This study used a questionnaire with a Likert scale of 1-5, namely strongly disagree, disagree, neutral, agree, and strongly agree. This research expands the object of study throughout Indonesia because it is impossible to send it directly, so this questionnaire is distributed using Google Forms. The questionnaire consists of 3 sections; the first is an introduction, which explains that respondent data are confidential and only used for research purposes. The second is the respondent's identity, which asks whether the respondent uses social media. If they do, they can continue to section three. The third section contains several questions about creativity, digitalization, competitive advantage, and sustainability variables. Based on the time and research plan, as many as 194 respondents have participated. Then an analysis was carried out on the completeness of the respondents' answers, and only 162 questionnaires could be used.

This study uses purposive sampling with the criteria of SMEs using digital media to promote their business. Furthermore, the criteria for SMEs refer to Law No. 20 of 2008; for example, the number of employees is 1-100. In this study, hypothesis testing uses the SmartPLS. Methodologically, this research is different from previous research because previous researchers only analyzed one region in Indonesia, namely Madiun [4], Makassar [26], Bandung [13]. This study expands the research object to make the results more easily generalizable (Table 1).

Table 1. Variable measurement

Variable	Indicators
Digitalization [19]	1) We are committed to using digital technology in developing our new product solutions (to manage our social, economic, and ecological business problems);
	2) Our solutions are powered by digital technology;
	3) New digital technologies are readily accepted in our organization;
	4) We are always looking for opportunities to use digital technology in our company.
Creativity [16]	1) The company always empowers employees and encourages new ideas;
	2) Company employees tend to implement new methods and innovative ideas to improve their daily tasks;
	3) Company employees often solve problems creatively;
	4) Employee creativity makes a positive contribution to the company's overall performance;
	5) Our team is hailed as a good role model for creativity;
	6) New product novelty;
	7) New product significance.
Competitive Advantage [26]	1) Efficiency in the use of the budget which is illustrated through the selection of appropriate technology to cut variable costs;
	2) The power of SME businesses to provide faster and more responsible shipping access;
	3) SME internal business expertise in providing detailed descriptions of products marketed to consumers;
	4) Provision of more trusted e-commerce accounts for consumers with transaction requirements.
Sustainability [6]	1) Social sustainability;
	2) Sustainability criteria for new product developments;
	3) Measure the progress of new products on sustainability;
	4) The future importance of the sustainability type criteria;
	5) Developing a sustainability policy;
	6) Manage the waste of the product;
	7) Using the Triple Bottom Line for product planning;
	8) Include sustainability in their product development budget.

4. RESULT AND DISCUSSION

This research uses research objects on MSME owners throughout Indonesia, which consists of several islands. Researchers distributed questionnaires from October 2022 to December 2022. Researchers collected 194 questionnaires, but only 162 samples could be tested.

Table 2 shows the analysis results on the description of the respondents divided into six major islands in Indonesia. The

analysis results show that the data distribution is on Java, Kalimantan, and Sumatra islands. The results of Table 2 are not surprising because the island of Java is a trading center. Then what is interesting is that most business actors are women, with a total of 95; this is interesting to be tested in more depth because some previous research has explained that the involvement of women is very limited. Furthermore, the type of business with the highest percentage is the culinary category, which is 40%.

After analyzing the next respondent's description, test the instrument's validity and reliability; the first validity test uses the AVE value (Table 3) with a cutoff > 0.5 , then the outer loading value (Table 4) with a cutoff > 0.7 . The next validity test uses the cross-loading value (Table 5); the question is valid if the cross-loading value on the target variable is greater than the other variables. Furthermore, reliability testing with Cronbach's alpha & composite reliability (Table 3) with a cutoff of > 0.7 .

The structural model test uses the R square on the competitive advantage and business sustainability variables (Table 6). The test results show the R square value in the competitive advantage equation (0.476) and the business sustainability equation (0.550). The next test is to use a VIF value with a cutoff < 3 (Table 7).

The next test is hypothesis testing (Table 8 and Figure 2) using the bootstrapping technique with a p-value of 5%. The test results for hypothesis 1 prove that digitalization affects

business continuity. Digitalization is a helpful strategy for SMEs because through digital innovation, it will be easy to achieve business growth [19]. Digitalization will provide convenience in managing a business because, with digital innovation, companies can save time and be more efficient. However, organizations need resources with digitalization capabilities to avoid mistakes that result in operational failures, thereby slowing down decision-making. The efficient use of resources can strongly impact maintaining a competitive advantage in a business [29]. Not only that, competent resources will make it easier for organizations to accelerate digitization so that it will have an impact on business [19]. This result is in line with findings in China which say that digital strategy is a new opportunity in the digital economy era that can create corporate value to maintain a competitive advantage [29]. Companies must also adapt to the digital environment, taking advantage of new technologies to gain an edge over their competitors [18].

Table 2. Respondent description

	Java	Sumatera	Kalimantan	Sulawesi	Nusa Tenggara	Bali	Total
Gender:							
Male	53	2	2	-	-	-	57
Female	88	2	5	6	2	2	95
Education:							
High school	67	2	3	1	2	2	77
Bachelor	76	1	4	4	-	-	85
Using of e commerce:							
≤ 1 year	46	3	3	4	2	1	59
1 – 3 year	49	1	1	-	-	1	52
3 – 5 tahun	8	-	-	-	-	-	8
≥ 5 year	43	-	-	-	-	-	43
Running of business:							
< 3 year	87	2	6	5	1	1	102
3 – 5 year	34	1	-	-	-	1	36
> 5 year	23	-	-	-	1	-	24
Type of business:							
Culinary	60	2	2	-	1	-	65
Agriculture	5	-	-	-	-	-	5
Fashion	25	-	2	-	-	-	27
Art	1	-	-	-	-	1	2
Farm	5	1	-	-	-	-	6
Furniture	2	-	-	1	-	-	3
Event organizer	1	-	-	1	-	-	2
Tours & travels	2	-	-	-	-	-	2
Craft	8	-	2	-	-	-	10
Beauty	6	-	-	-	1	-	7
Other	30	-	1	1	-	1	33

Table 3. Construct reliability and validity

	Cronbach's Alpha	Rho-A	Composite Reliability	Average Variance Extracted (AVE)
Digitalization (X1)	0.800	0.806	0.870	0.625
Creativity (X2)	0.899	0.901	0.920	0.622
Sustainability (Y)	0.903	0.906	0.923	0.599
Competitive Advantage (Z)	0.783	0.783	0.860	0.606

Table 4. Outer loading

Digitalization (X1)	Creativity (X2)	Competitive Advantage (Y)	Sustainability (Z)
	X2.1: 0.772		Z.1: 0.771
	X2.2: 0.809		Z.2: 0.792
X1.1: 0.775	X2.3: 0.765	Y.1: 0.755	Z.3: 0.729
X1.2: 0.751	X2.4: 0.858	Y.2: 0.800	Z.4: 0.796
X1.3: 0.814	X2.5: 0.814	Y.3: 0.792	Z.5: 0.770
X1.4: 0.820	X2.6: 0.735	Y.4: 0.765	Z.6: 0.718
	X2.7: 0.760		Z.7: 0.846
			Z.8: 0.760

Table 5. Cross loading

Indicators	Digitalization (X1)	Creativity (X2)	Competitive Advantage (Y)	Sustainability (Z)
X1.1	0.775	0.553	0.528	0.529
X1.2	0.751	0.432	0.400	0.354
X1.3	0.814	0.524	0.469	0.459
X1.4	0.820	0.603	0.511	0.446
X2.1	0.510	0.772	0.467	0.429
X2.2	0.516	0.809	0.531	0.473
X2.3	0.534	0.765	0.429	0.362
X2.4	0.563	0.858	0.531	0.461
X2.5	0.527	0.814	0.516	0.509
X2.6	0.548	0.735	0.519	0.461
X2.7	0.522	0.760	0.569	0.539
Y.1	0.509	0.526	0.755	0.557
Y.2	0.477	0.482	0.800	0.621
Y.3	0.492	0.539	0.792	0.553
Y.4	0.415	0.477	0.765	0.577
Z.1	0.412	0.395	0.527	0.771
Z.2	0.403	0.406	0.539	0.792
Z.3	0.436	0.379	0.585	0.729
Z.4	0.398	0.380	0.546	0.796
Z.5	0.470	0.537	0.613	0.770
Z.6	0.426	0.441	0.524	0.718
Z.7	0.472	0.503	0.646	0.846
Z.8	0.511	0.594	0.589	0.760

Table 6. R square

	R square	Adj. R square
Competitive Advantage (Y)	0.476	0.469
Sustainability (Z)	0.550	0.547

Table 7. VIF testing

	Competitive Advantage (Y)	Sustainability (Z)
Digitalization → Competitive Advantage	1.835	
Kreativitas → Competitive Advantage	1.835	
Competitive Advantage → Sustainability		1.000

Table 8. Hypotheses testing

	Beta	Mean	SD	T Statistics	P Value
Digitalization → Competitive Advantage	0.313	0.320	0.081	3.844	0.000**
Creativity → Competitive Advantage	0.439	0.438	0.086	5.083	0.000**
Competitive Advantage → Sustainability	0.742	0.746	0.044	16.698	0.000**

**Sig <1%

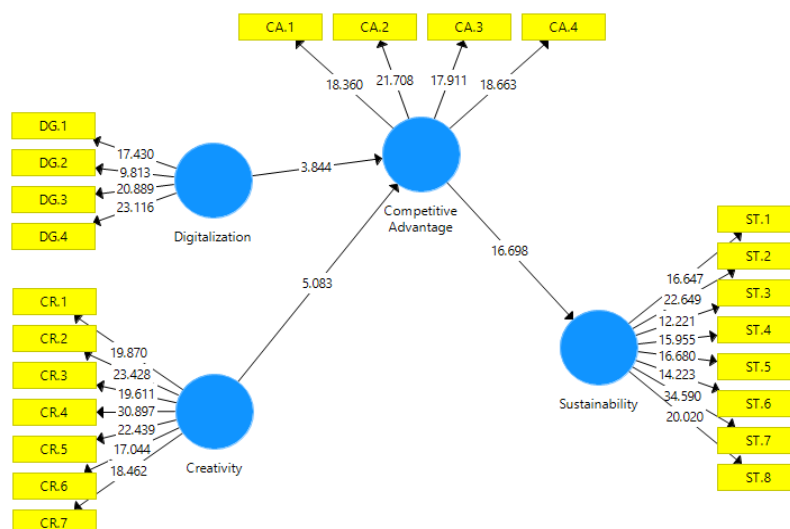


Figure 2. Hypotheses testing

The test results of the second hypothesis state that creativity has a significant effect on competitive advantage. These results are consistent with Portugal's findings, which state that an organization's creative culture will provide innovative solutions in the face of competitive competitiveness [31]. In business, creativity is a strategic key in encouraging companies to develop. To increase business growth, organizations must explore strategies that lead to competitive advantage to improve business continuity. SMEs owners must be able to follow changes in consumer demand quickly and optimize expenses so that the cost of creating new ideas is more petite than income to maintain a competitive advantage [3]. Several organizations carried out an exploratory plan by redesigning work to make it more efficient to encourage better performance and positively impact the company [17].

Finally, the third hypothesis states that competitive advantage significantly affects business continuity. This is supported by previous research, which explains that in the face of an uncertain environment, competitive advantage is significant in ensuring the survival of SMEs [32]. Therefore, by facing this uncertain environment, competitive advantage will impact MSMEs' long-term resilience and success [11]. Companies can choose various strategies to have more value than their competitors, such as improving after-sales service and providing guarantees on product quality. The technique applied must follow the needs of consumers so that they feel confident that what is obtained is as expected.

5. CONCLUSIONS AND SUGGESTION

The study results show that digitalization and creativity impact increased competitive advantage, which can ultimately create long-term business sustainability. This reinforces that digital strategy implementation can help companies find new opportunities to maintain excellence [29, 31]. In addition, the role of resources in the organization is significant for creating creativity and making new products, which supports the organization in winning the competition. Creativity within the organization will provide solutions for environmental uncertainties and increase competitiveness [16]. Finally, that competitive advantage significantly impacts the sustainability of SMEs. By maintaining product quality and maintaining a good image in front of customers, companies will be able to keep business so that SMEs sustainability will be achieved [4].

This study has several limitations; namely, first, SMEs owners need to be differentiated based on the type of leadership. This is a challenge for further research to test the type of leadership because, in large companies, the type of leadership is related to the ability of the organization to achieve competitive advantage [12]. Second, this research needs to take into account the dimensions of digitization. Suggestions for future research can examine four dimensions of digitization: organizational digitization strategy, digital processes and governance, digital technology, and employees' digital capabilities [5]. The implications of this research can provide new insights into the SMEs governance literature because it can be used to understand various strategies and sustainability to achieve long-term strategic goals [28].

The results of this research can provide suggestions for two entities, namely SME owners and the government. SME owners must increase their creativity and capabilities in technology to maintain business continuity. Furthermore, the government can provide support through policies, for example, free software that SMEs can use to digitize their businesses.

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