

## Sustainable Development Innovation: “Increasing SME Competence in Resources Aspects”

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### Abstract

*One of the main problems in the development of the Creative Industry in Indonesia is the lack of competent Human Resources (HR) in the process of utilizing existing resources. This is because there is no innovation model for sustainable organizational competency development where the influence and impact can be measured and used as a guide in the future. The main purpose of this research is to produce a Sustainable Development Innovation model, especially in the field of Organizational Competence in Small and Medium Enterprises (SMEs) in Serang, South Tangerang, Tangerang City, and Cilegon areas. This model contains a matrix of continuous innovation that will make organizational competencies can be fulfilled properly. The sample of this research is SMEs in the potential craft sector. Research data were collected through in-depth interviews, documentation studies, and using secondary data from the local Koperindag Office (Cooperative, Industrial, Trade, Market and Mining Office). Based on the data that has been collected, then the data analyzed and made a matrix model of Sustainable Development Innovation based on various existing sustainable development theories and one of the results is an organizational competency analysis framework for SMEs. The model from this research is expected to be an efficient framework that is useful for analyzing the direct and indirect consequences of various inputs in the SME world, both in Serang, South Tangerang, Tangerang City, and Cilegon as well as throughout Indonesia.*

### Keywords

innovation; organizational competence; HR; sustainable development; small and medium enterprises (SMEs)



## I. Introduction

Changes in the organizational environment are increasingly dynamic, uncertain and increasingly difficult to predict (Temouri et al., 2020). Technological developments, climate change, global pandemics that occurred at the beginning of the 21st century, revolutionized the way people live and challenged how businesses adapt and seize opportunities for change (Bernstein et al., 2019; George et al., 2020; Xu et al., 2020). Covid 19 pandemic caused all efforts not to be as maximal as expected (Sihombing and Nasib, 2020). The outbreak of this virus has an impact especially on the economy of a nation and Globally (Ningrum et al., 2020). The Covid-19 pandemic not only poses a health threat, but also has an impact on the economic, social and cultural environment of the community. Technological developments, natural disasters and larger pandemics are unpredictable and are also likely to occur again in the future (George et al., 2020). Companies need to always align their resources with technological developments, market tastes, competition, and other developments in the external environment.

People with various sectors of life must live in times of uncertainty in the current pandemic situation. In conditions of uncertainty, every organization needs to have a dynamic capacity (Teece, 2018) to adapt, learn to understand the behavior and developments of the internal and external environment, solve problems creatively and innovatively in capturing opportunities for change. Dynamic capabilities are the organization's ability to emphasize renewing resources, to integrate, build, and reconfigure them into new capabilities and competencies (Teece, 2018). Small-scale changes do not change the strategy, structure, organizational processes much because environmental changes are still within the company's control. Organizations only need to add modules for adaptation, through: technology, control and process. Large-scale changes often force organizations to change their strategy, culture, and core competencies. Competent organizations that are experts in producing certain products will be forced to transform their core competencies due to changes in market demand and tastes, scarcity of raw materials and technological changes.

The slim size makes small and medium scale enterprises (SMEs) have the advantage of flexibility of change (Callaway et al., 2009). The slim size gives SMEs the advantage of reconfiguring (insert, upgrade, delete, hybrid, combine, blended) resources to capture opportunities for changing environments (Callaway et al., 2009; Singh et al., 2013). However, SMEs, especially in developing countries, generally have management capacity constraints due to their size (economy of scale). The dynamic capabilities of SMEs need to be supported by easy access to resources (Temouri et al., 2020). Major changes often lead to financial crises, so SMEs need to have the financial capacity to survive in crisis conditions. Major changes often force organizations to transform their production and operational processes, so that the dynamic capabilities of SMEs need to be supported by access to technology and innovation, such as: health protocol modules, service delivery modules, technology and innovation for new products (Bogers et al., 2019). Information technology also facilitates SMEs for collaboration in overcoming the efficiency constraints of economies of scale (Temouri et al., 2020). Market changes require the capacity of SMEs to access market information. The small scale of the organization provides efficient limitations of economies of scale, so the dynamic capabilities of SMEs need to be supported by collaboration capacity. In some conditions SMEs can work independently, in other conditions SMEs can collaborate with other organizations both in vertical and horizontal alliances to be adaptive and innovative to change.

In addition to management capacity, knowledge resources are an important resource for SMEs to be adaptive and seize opportunities for change. SMEs need to have the ability to learn from a dynamically changing market environment, technology and competitors. SMEs need to have organizational learning capabilities on an ongoing basis, both at the individual and organizational levels. Organizational learning is an important driver of innovation and performance (Chien & Tsai, 2012; Garrido & Camarero, 2009; Ghasemzadeh et al., 2019; Jimenez-Jimenez & Sanz Valle, 2011; Luxmi, 2014; Majuri & Halonen, 2019; Patky, 2020; Soomro et al., 2020). The relationship between organizational learning, innovation and performance has been widely described in the theoretical and empirical literature. However, studies of the relationship between organizational learning and dynamic capabilities are still limited (Chien & Tsai, 2012), so they need to be enriched. This is the motivation of this research, one of which is looking for the best formula for how organizational competence in an SME should be formed, enriched, strengthened, and continues to develop dynamically following the times and conditions of the business world both now and in the future.

One of the main problems in the development of Creative Industries or SMEs in Indonesia is the lack of competent Human Resources (HR) in the process of utilizing

existing resources. This is because there is no innovation model for sustainable organizational competency development, where the influence and impact can be measured and used as a guide in the future.

From the explanation above, our main goal of this research is to produce a Sustainable Development Innovation matrix model, especially in the field of Organizational Competence in Small and Medium Enterprises (SMEs) in Serang, South Tangerang, Tangerang City, and Cilegon areas. This model contains a matrix of continuous innovation that will make the organization's competence in the HR aspect to be fulfilled properly.

## **II. Review of Literature**

### **2.1 Small and Medium Enterprises (SMEs)**

SMEs mostly compete based on a narrow focus and specialization, unlike most large companies. This relates not only to products, markets, and customers (Berends et al., 2014), but also to prices, costs, and manufacturing capabilities (Cagliano et al., 2001). Much of the value of SMEs is assigned to quality of design and production, speed of delivery and dependability, and flexibility and responsiveness to customer needs (Cagliano et al., 2001). SMEs are known for their simple organizational structure with multiple layers of management (Hudson Smith & Smith, 2007), enabling closer interaction of employees and innovative responsiveness to competitors' moves so that they are flexible in responding to changes in the general business environment (Papazov & Mihaylova, 2016). Hudson Smith & Smith (2007) confirm this view and add that SMEs do have to react and adapt to market changes as they are largely unable to drive the market.

Usually smaller organizations (SMEs), have various advantages such as agility, quick decision making, sharing a clear vision, informal culture, flexibility, etc. (Arbussa et al., 2017). All of this can help them become more innovative. Innovation is important for all companies because it affects their size, capacity and performance (Ristovska, 2015). According to (Salavou et al., 2004) SMEs that are learning-oriented facing strong competition have a tendency to be more innovative and resilient in the market. One form of microeconomics that can combine large amounts of labor with small capital is small and medium micro enterprises (Ulfha, 2019).

Innovative entrepreneurs/managerial and personalities play a key role in the adoption of SME innovation. On the other hand, we also have external factors such as globalization. In today's global economic market, SMEs will not only compete with traditional rivals but they will also face competition from global rivals. As stated by (Gunasekaran et al., 2011) to remain competitive, SMEs need to rethink their operating strategies, be ready to accept and adopt changes and use them to their advantage against their competitors.

### **2.2 Organizational Competence**

Good organizational competence is not only able to survive in normal times, but is always changing and adapting to all the possibilities that exist. The philosopher Aristotle said that nothing does not change, except change itself (Müller-Merbach, 2005). However, the changes have different scales. Minor changes are often within the organization's span of control. Other changes are dynamic, large-scale and change the way people live, work, and business processes are run. Uncertainty is seen as a lack of information, and knowledge in decision making. Uncertainties include: macro-environment uncertainty, competitive uncertainty, market uncertainty, and technological uncertainty. Organizations adapt to environmental changes through various strategic orientations. Some organizations

are more of a defensive strategy with internal efficiency, others are more waiting and reactive, while still others are more proactive to change. In conditions of dynamic environmental change, organizations need managerial capacity to think and act strategically (Temouri et al., 2020). This managerial capacity to think and act strategically (Temouri et al., 2020) is what every SME desires.

### 2.3 Dynamic Abilities

Dynamic capability is one of the company's strategic bases developed from the Resource Based View (RBV). These dynamic capabilities are a source of sustainable competitive advantage, especially in a dynamically changing environment. Dynamic capabilities as the company's ability to sense opportunities and threats from the environment (sensing), integrate and build resources (seizing), and reconfigure (transform) internal and external competencies to respond to a rapidly changing environment (Teece, 2018; Kump et al., 2019). Sensing covers many aspects such as identification, development, codification of resources and technology in relation to customer requirements. Seizing involves mobilizing resources to respond to needs, seizing opportunities. Transforming is the activity of maintaining a competitive advantage through enhancing, combining, protecting and configuring tangible and intangible resources.

Each organization has a different set of resources to be adaptive and responsive to change (Zapata-Cantu et al., 2016). Some unique and valuable resources to support the ability to manage the dynamics of the environment and a source of competitive advantage. This unique and valuable resource lies in the tacit knowledge of the SME owner-manager. These owner-manager competencies are often valuable and difficult to imitate (talent, character, basic motivation, creativity, experience and persistence in a particular field). Owner-manager core competencies are often embedded in employee knowledge, skills, experience and culture. Some other valuable resources are useful for supporting dynamic capabilities but these resources are also owned by other companies. The second resource is in general management and open innovation capabilities (Bogers et al., 2019).

The dynamic capabilities of SME owner-managers require management capacity support for resource access. Empirical studies find that resource access supports dynamic capabilities. These resources consist of: access to knowledge information resources (Bamel & Bamel, 2018; Chen et al., 2007), social and networking resources (Bamel & Bamel, 2018; Harvie, 2004), access to financial resources (Harvie, 2004). Abundant resources can increase the dynamic ability of an entrepreneur (Wu, 2007). Bamel & Bamel (2018) through the RBV approach and the company's dynamic capability perspective observes two types of organizational resources, namely technical and social resources. Data were collected from 23 family-owned SMEs using a 37 item questionnaire. The results of the study found that social resources and information technology resources had an effect on dynamic capabilities both directly and through the ability of knowledge management processes. Another study conducted through a survey of 132 store managers at fast-food restaurants in Taiwan found the influence of knowledge resources on dynamic capabilities (Chien & Tsai, 2012).

The results of previous studies also found that knowledge information resources (Bamel & Bamel, 2018; Chen et al., 2007) are an important source of dynamic ability. In the digital era, information and knowledge management also facilitates access to other resources such as access to financial resources and markets. Knowledge resources also facilitate collaboration (Hao & Feng, 2018) such as in innovation, financial support and market access. However, the organization's internal and external information and knowledge is always evolving. The organizational environment is always developing from

time to time. Likewise, organizational capabilities and core competencies are also always developing from time to time. With this research, we formulate a dynamic business innovation that can be one of the company's strategies in meeting the competence of its organization.

### **III. Research Methods**

#### **3.1 Types of Research**

This study uses a qualitative descriptive method, which describes the nature of something that is ongoing at the time of the research and examines the causes of a particular symptom.

#### **3.2 Population Identification and Research Samples**

This study uses the population of the handicraft sector in 4 locations in the city of Banten. Sampling of SMEs in the handicraft sector in these 4 cities was carried out using a purposive sampling technique, namely: based on certain considerations that were estimated to be representative of the population. The selected sample is creative industry SMEs that have a business capital of Rp. 50 million – Rp. 500 million, and MSMEs that earn between 20 million -50 million. Based on these criteria, craftsmen who represent each region will be selected with one potential craftsman, namely the cities of Tangerang, South Tangerang, Serang, and Cilegon. Furthermore, the application of product innovation is carried out with a pilot project in the creative craft industry with the most potential to be developed.

#### **3.3 Data Collection Procedure**

There are several ways to collect data, including literature studies, direct observation, interviews, secondary data from other sources, or a combination thereof. Because the data needed are primary and secondary data, this study uses a combination of several methods. To identify the demographic process of SMEs/MSMEs, their resources, creative potential, competitive advantage, sustainable creative economy development. Data collection was done by observation and interviews. As for the development of the model and its application design, it is guided by existing theories from previous research, interviewing resource persons for SME owners and managers, and secondary data, including conducting Focus Group Discussions (FGD) with related parties.

#### **3.4 Data Analysis**

This study uses qualitative and quantitative analysis. The results of observations and documentation studies were analyzed quantitatively to get an overview of the current conditions of the handicraft sector SMEs in the 4 research areas. The following analysis is qualitative in nature, and it focuses on building organizational skills such as human resource development, energy resource development, and environmental resource development, based on prior research and through a process of applied activities. This process will produce a matrix model of organizational competency development for SMEs in the craft sector.

## **IV. Results and Discussion**

### **4.1 Results**

This research was conducted in 4 cities in the province of Banten. Covering the city of Serang, Cilegon City, Tangerang City and South Tangerang City. Samples of creative products in the field of handicrafts include: Batik, shell crafts, banana fronds, bamboo, handicrafts, knitting bags, embroidery bags, water hyacinth leather. Crafts made from recycled material and so on.

The number of respondents or research subjects involved in this study were 55 SMEs in the handicraft sector in 4 research areas. Each SME is represented by a respondent consisting of 61.6% women and 38.4% men including 10 sources (8 men; 2 women) who were interviewed in this study.

The results of the questionnaire from the respondents showed unsatisfactory results where 81% of respondents said they were not involved in the process of increasing organizational competence and about 43% of respondents said they did not know whether the process of increasing organizational competence existed in the SMEs where they worked. This is compounded by the results of documentation and observation studies which do show the lack of application of organizational competence, especially in human resources, energy resources, and environmental resources in the craft sector SMEs in the 4 research areas. These SMEs tend to ignore the improvement of organizational competence. For example, for HR, it is enough to only be able and able to make products that SMEs sell to the market, nothing more than that.

The results of interviews with 10 owners-leaders of the handicraft sector SMEs in the Serang, South Tangerang, Tangerang City, and Cilegon areas also get an up-to-date picture of the current condition of SMEs. During the current pandemic, almost 70% of the interviewees said that human resource development, energy development or energy efficiency, and environmental resource development have not been achieved. Furthermore, 90% (9 out of 10) SME owners-leaders-managers agree that the problem of developing organizational competence is a classic problem that until now they have not been able to conquer and find a solution.

If this is the case, then it is necessary to have a clear mechanism or framework in realizing organizational competence to improve the sustainable development of existing craft SMEs

### **4.2 Discussion**

According to the Resource Based-View (RBV), any company is considered an unlimited resource, capability, and competence (Freiling et al., 2008). The resources, capabilities and competencies provided to the company distinguish this company from other entities, which allows the company to operate in the market in a different way from its competitors. This way of operating is then transformed into an organizational structure from a general to a more distinctive form, defining the heterogeneity of the company, and thus its competitive position. Then the RBV is followed by the Competence-Based View (CBV) (Freiling, 2004; Freiling et al., 2008), which states that companies must acquire and modify their resources, as well as capabilities that allow their use from time to time, always evolving and sustainable (Wright, 2007).

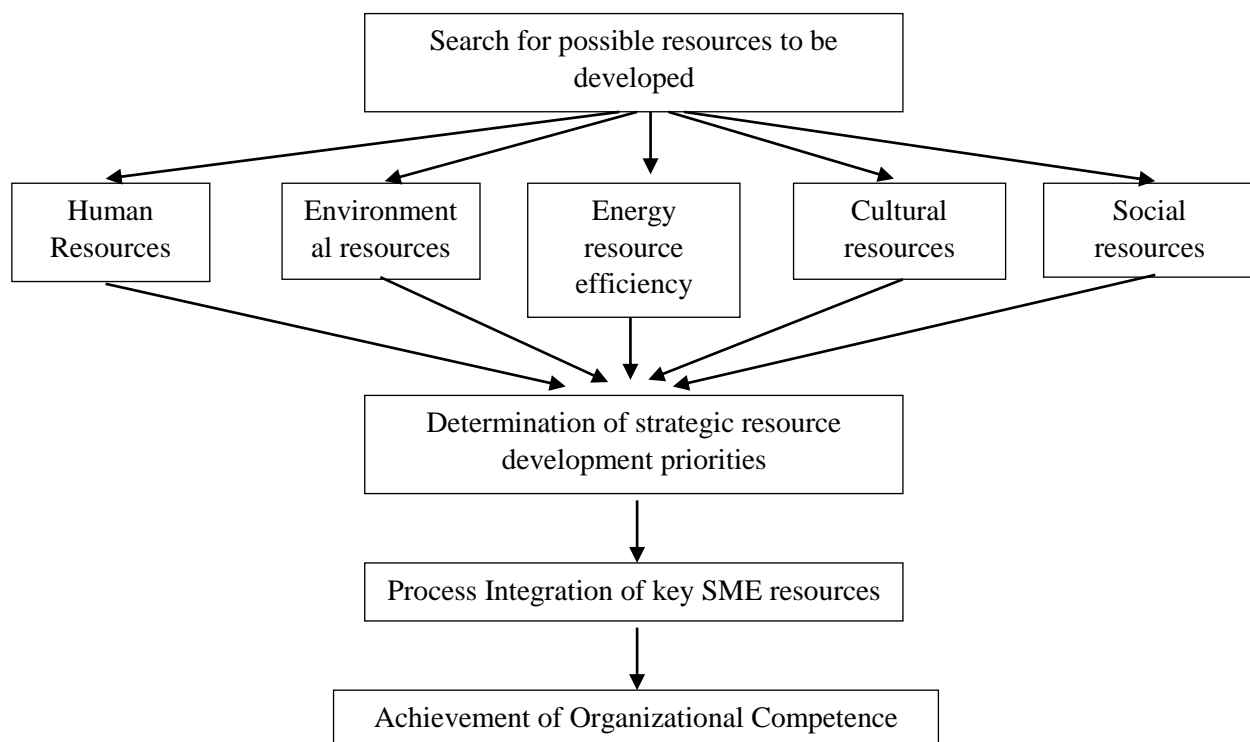
The dynamics emanating from the process of transforming these defined resources may be directly related to the entrepreneurial process. Many researchers provide various models of the entrepreneurial process (Shane, 2004; Kuratko & Hodgetts, 2004; Vohora et al., 2004; Mazzarol, 2011), which are different to deal with various problems. But the

essence of it all lies in seizing opportunities and turning those opportunities into resource-based market offerings that are under the control of an entrepreneur. Thus, it is defined in the context of the identification and exploitation of market opportunities, as well as the acquisition, configuration and integration of resources to meet market needs. Within the framework of this activity, market offerings are developed based on resources integrated into the company's organizational competencies. From the perspective of RBV and CBV, knowledge of market opportunities can be considered a corporate resource (not typical because certain market opportunities may be equally perceived by other market participants, although they may have different values for them (Braunerhjelm et al., 2010), and the strategic processes used to turn these opportunities into competitive market offerings are typical of the company's capabilities (Purwanto, 2020).

Based on the theoretical approach presented both in the discussion section and in the literature review section, the process of developing innovative small companies, in this case SMEs, has been explained based on three distinct but closely interrelated layers of processes, one of which is the development of organizational competence, assuming transformation of resources into organizational competencies that are used to propose market offerings, use capabilities related to resource search, resource configuration and development of market offerings.

The framework or matrix model produced in this study assumes the perspective of the entrepreneurial process with the resources and capabilities used and the outputs generated from the activities carried out which will determine the competitiveness of the company (Łobacz and Glodek, 2015).

The matrix model in this study includes several stages that change existing resources or new resources to become more valuable as the process or stages are carried out and later lead to the final result of producing organizational competence. Overall, this model will be a general guide for how an SME manages and determines what resources can be utilized for the sustainability of the SME. This matrix model starts with finding new resources or updating previously neglected resources around the SME. After the resource is found, it is sorted and selected to enter what type of resource. After entering the right types of resources, the SMEs begin to determine the main and strategic resources that really need to be developed, if it is felt that all types of resources can and are able to become the main resources, then go straight to the next step, namely the integration of the main resources into whole resources, all of which are developed and explored to their full potential and minimized the negative impact on the SMEs concerned. By going through all these processes, it is believed that an SME will be able to compete with other, larger SMEs, even with companies with large capital. When all these processes are implemented properly in an SME organization, that's when the organizational competence will be achieved as most of the existing SMEs dream of. The following is a simple chart or matrix model with which it is hoped that it can help the development of SMEs towards sustainable development.



The separation of influence and impact models has important consequences in showing the involvement of a series of business processes that have been carried out in relation to strategic decisions and thus clear directions for the development of innovative small companies or SMEs.

Furthermore, this model also provides a transparent framework for the analysis of the direct and indirect consequences of the processes or stages undertaken in achieving appropriate organizational competencies and long-term effects. Following matrix logic, it is possible to analyze each form separately or within specially defined limits. This is especially important when small, innovative companies are considering the sustainability of their company in the future.

## V. Conclusion

The results of this study in general find that good organizational competence is believed to have a significant effect on the dynamic ability of the organization either directly or indirectly. The influence of the management capacity of the owner-manager of SMEs is very large, because this is directly related to the activity of finding resources which are then configured properly until they can be integrated into the main resource. From that process, it will produce good resources as well as in the future become strategic resources which in the end will become organizational competencies. With this result, SMEs will be ready to compete with other business units and also realize and improve new innovations that support sustainable development programs. The results of this study provide theoretical implications that the development of dynamic capabilities of SMEs in the midst of a dynamic changing environment requires the support of the management capacity of the owner-manager of SMEs in terms of market information access capacity, financial access capacity, cooperation capacity and technology and innovation access capacity. The development of SME management capacity will be more effective if the

resources can be utilized optimally to become a sustainable organizational competence. Sustainable organizational competence means that SMEs must be more independent to respond to opportunities and constraints from environmental changes. capacity for access to finance, capacity for cooperation and capacity for access to technology and innovation.

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