

# The Analysis of the Digital Transformation-Based Dynamic Capabilities to Support the Sustainability of The Business

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## Abstract

This study aims to analyze how SMES build dynamic capabilities in applying transformation digital-based Dynamic Capabilities to support sustainability efforts. This type of research is case study. Methods pengumpulan data through the archives, interviews, questionnaires, and direct observation to the object intended. Researchers use case study multi case study because the researcher used two research object between the large-scale industry and of industry in the small scale enterprises (SMES). Researchers will examine two types of industries , namely large-scale industry (established companies) and medium industrial enterprises (SMES), which will be the object of the research comes from the field of Food and Beverage. This research was conducted in the industry Coklat Monggo, Brownies Amanda and Bakpia Kencana. The results of the study showed that the industry Coklat Monggo do a dynamic capabilities to support the digital transformation while industri Amanda and Bakpia Kencana only do the digital transformation course and a little bit involves the role of the dynamics of the capabilities as elements that support the success of the process of implementing a digital transformation which they run. Pengaruh dynamics capabilities in the process of applying a process of digital transformation in a company can help the company in the map an the things that can help companies in the adjustment of existing technologies as well as help companies see the opportunities that can be used by the company in gaining a competitive advantage.

**Kata Key:** Transformation Digital, Dynamic Capabilities, Industry

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## I. Introduction

Digital transformation is a strategy in which an implementation utilizing a digital technologies to change a pattern in business, both in operation and in serving the consumer, from some of the companies that implement digital transformation, usually stakeholders drastically change the ways or old patterns that are done with the hope to provide better results. Rogers (2016) argues that digital transformation is not about technology but about strategy. Senior leadership team or the manager should be able to find a way to harness and use it to create an innovation and can create a new business model and can also optimize the needs and the customer experience.

Dynamic capabilities that must be owned by all stakeholders in the exercise or enforce an innovation that is used to improve the capabilities possessed by the internal in an organization. Teece (2007) argue that dynamic capabilities consist of three major groups: (1) *perceive the* opportunities (and threats), (2) *seize* opportunities, and (3) *change the* business model of the organization and the resource base that is wide. Previous research about how a company that came to power in traditional industries are able to build dynamic capabilities to the digital information, on the research are explained *step by step* which is carried out by the company until they are able to and managed to apply a digital transformation in business line.

The experiments that have been carried out in a company, the results obtained that the company failed in implementing digital transformation is a company that in the early stages of the experiment, are not able to maximize the use of the capabilities of the digital and then replace it with the digital technology with the aim to replace a collaborative approach and to refresh the culture of the organization. These findings are also aligned with said by Yoo (2010) that a digital transformation of the original is the process of using digital technologies that are sustainable in the life of the organization day-to-day and contribute to a business model and digital literature as well as can provide a context that is rich with studies of change strategy that is owned. In addition, the awareness of an organization that is sensitive to the change will help an agency or company in the process of adoption of a digital technology and is able to reduce the possibility of stiffness or miscommunication at a time when technology is applied (Li, 2019).

Digital transformation is still a tough task for large companies engaged in traditional industries. They have to make changes in the existing structure of the business strategy that the original business using the traditional method of turning into business processes using digital technology. In accordance with the opinion delivered by Bharadwaj, El Sawy, Pavlou, & Venkatraman (2013) about the alignment in the context of digital strategy challenging for several reasons. First, organizations find it difficult to articulate fully digital strategy for them in advance in the face of the dynamics of the environment. Therefore, alignment is a continuous process, and align to the target moving from a strategy that appears. Second, the digital strategy is inherently multi-functional and alignment requires the development and reconfiguration of simultaneous IT and business resources in the various processes of the organization

The findings obtained from previous studies described that digital transformation is a process of fusion of business processes with digital technology (Lucas, Agarwal, Clemons, El Sawy, & Weber, 2013). The transformation of the kind that involves a fundamental change in the business (Venkatraman, 1994), the routine operational and organizational capabilities (Tan, Pan, Lu, & Huang, 2015), as well as entering a new market or out of market today (Dehning, Richardson, & Zmud, 2003).

The author will do a research about how a small and medium-sized enterprises (SMES) can develop *dynamic capabilities* that they have the specialized ability of *sensing*, *sejong* and *capable reconfiguring* to do digital transformation. To find out we conducted an analysis of the SMES in the area of Yogyakarta.

The contribution of SMES in advancing the economy of Indonesia is the contribution in the national economy from year to year, as well as the growth increased in the year 2010, the contribution made by SMES by 56,22% greater than the contribution made by the great effort of 43,78%. SMES to be one contributor to the economic development in Indonesia compared with the effort of others. SMES also contribute to the absorption of labor. In 2010 the absorption of labor just \$ 6.447. 260 and development experience in the year 2013 amounted to 9.734.111. From these data shows that SMES are able to create a field of work can also support the economy in terms of the reduction of the poverty rate and the number of unemployment in Indonesia

## **II. Literature Review**

### **The Perspective Of Digital Transformation**

Digital transformation has been explored extensively in various academic fields and domains, so as to produce an overview of the field. We present a perspective of the digital transformation that is different from that found in the literature of the previous. Digital transformation emphasizes a fundamental change in the world on the pervasive nature and the proliferation of digital technology (Anderson & Lanzolla, 2010). We have reached the industrial revolution the fourth, which is built on top of the previous three, but using new digital technology with "full force", where the development and the diffusion of innovation is much faster than the previous (Schwab, 2016). The new economy is characterized by dynamism, customization and intense competition, while the development and the foundation for success involves the planting of knowledge, technology and innovation into products and services (Atkinson, 2005).

Industry perspective highlights how the troubling nature of a digital technology that has undergone a revolution with the way the industry operates and how the traditional boundaries can be separated so as not to disturb from the revolution to happen. The manufacturing industry has been gaining popularity with a new concept that they use is the concept of "Industry 4.0", "factory smart", and "advanced manufacturing" with the aim to allow an industry to navigate his way through digitization through the use of systems cyber - physical internet network of production and service orientation on the traditional industrial (Lasi, 2014) and (Blau & Gobble, 2014). The new technology also emphasize the network that changed the dynamics of the center of the organization to accommodate customers who are involved in the digital world, where consumers and the community could work together in creating a value and order in a digital ecosystem (Gray, 2013).

### **The transformation that Enabled IT**

The Domain IS has expanded the concept of the transformation of the business with a full investigation of the competitive potential of information technology and their role in IT and in the transformation to which it is possible (Venkatraman, 1994). The transformation is perceived as changes caused by information technology transformational, where the power of transformational IT must be shown in at least three dimensions, among others: the process, a new organization, relations, user experience, market, customers and disorders (Lucas et al., 2013).

Many researchers have to understand the basics of the rules and criteria of transformation in accordance with IT. Dehning et al (2003) said that the concept of information technology is transformational if they basically change the traditional way in the business to redefine the capabilities, processes and relationships.

They should also be able to involve between strategic acquisitions in obtaining a new ability or entering new markets. The use of IT should also be dramatically changed the way his job in allowing the company to operate differently in the market, serving different customers so that it will have the advantage of being large

enough. This is in accordance with the Gouillart & Kelly (1995), that the transformation that allows IT categorized into four construction transformation:

- Reframe the views of the company about itself and the perception of the business;
- The restructuring of the internal configuration of the organization to allow more flexibility;
- Revitalize the organization along the alignment of the value chain with market opportunities; and
- Update problem-based people in terms of improving skills.

### Digital Transformation

Opinions about the digital transformation arises from the fusion between IT personal and corporate environment as well as summarized in the effect of transformational of new digital technology such as social, mobile, analytics, cloud, and Internet of Things (SMACIT) (Kane, 2017).

Another definition also describes as the integration of digital technologies and business processes in the economy of the digital (Liu, Chen, & Chou, 2011). A wide view or a partner take it as the use of technology to improve the radial performance of the reach of the company (Westerman, Bonnet, & McAfee, 2014).

Digital transformation in a literature further shows that the level of complexity obtained from realization of digital transformation possible in the use of IT before. This is supported by the statement that the DT is considered as one of the main challenges in all industries in the last few years without exception (Schuchmann & Seufert, 2015), they still face many obstacles that inhibit to start, let alone benefit from digital transformation.

### Digital transformation by SMES

The development of technology is increasing along with the change of current market developments, technologies such as *e-commerce* and social media has been quickly used by the company. The transformation that comes with the development of technology-oriented external. (Besson & Rowe, 2012) far beyond the change in internal business processes; they include drastic changes to the business model (Berman, 2012), the strategy and the culture of the organization (Chen & Huang, 2008), and build a business alliance (Ash & Burn, 2003).

A large company can easily to build a digital platform of their own. Equipped abundant resources and with reliable capability so that they can manage the resources they have to improve and develop the critical capabilities that will allow them to overcome the inertia of the national as well as a rejection of a change that will occur (Chen & Pan, 2015). Most of the SMES have to rely on a digital platform third party (Banerjee & Ma, 2012).

### Research Methods

The type of research conducted by the author is a qualitative research using case studies (*case studies*). Researchers use case study *multi case study*. The author examines about how an SME can use the capabilities of dynamic to perform a digital transformation. This study uses the stages of exploration, build theory, development theory, the selection of the design case study that consists of industry large-scale (well-established companies and medium enterprises or SMES).The process of data collection will be carried out is to do the interview to the owner or manager and also to the *staff floor* for at the small industry. The industrial part of the magnitude of the researcher will conduct interviews with managers and staff responsible for the strategy pursued by the company. The next step researchers undertake triangulation to obtain valid data.

## III. Results and Discussion

### Business Model

In running the business PT. Anugrah Mulia Indobel, PT. Amanda Brownies and PT. Bakpia Kencana apply the business model canvas with the 9 important points contained in it, among them the following.

**Tabel 1:**the Business Model of PT. Anugrah Mulia Indobel, PT. Amanda Brownies and PT. Bakpia Kencana

No	Strategy Business Model	of PT. Anugrah Mulia Indobel (Coklat Monggo)	PT. Amanda Brownies	PT. Bakpia Kencana
1	<i>Customer Segments</i>	Berfokus on the area of the pulau Java and surrounding areas, and are trying to expand to the outer Islands and foreign countries.	Focuses on adults or older (individuals or institutions) who love to hold an event.	Apply segmentasi berdasarkan range of age to konsumernya.
2	<i>Value proposition</i>	Do strict selection in raw material selection and use recycled material in its packaging.	Has the hallmark of a brownie with a soft texture and not so sweet as well as provide warranty new products, if in the brownies are purchased, there are foreign objects.	Make bakpia with a soft texture, a sense of fitting on the tongue and is not so sweet, providing packaging that can be used to travel much or as by memories of Jogja.
3	<i>Channels</i>	Using online media such as	Using the help of social media.	Using the help of social media.

		Facebook, Instagram as well as some of the advertising media of the other.		
4	Customer Relationship	Provide services faqs and purchase products online through whatsapp.	Always mt repair of the product and improve the quality of service in <i>online</i> and <i>offline</i> .	Serve an online purchase or a question about the product ssuch as a storage means that the products can be long-lasting and so on.
5	Revenue Streams	benefit from the sale of products such as B2C ( <i>Business to Customer</i> ) and B2B ( <i>Business to Business</i> ).	Benefit from the sale of products such as B2C ( <i>Business to Customer</i> ).	Benefit from the sale of products such as B2C ( <i>Business to Consumer</i> ).
6	Key Resources	Have resources employees, a few shops and warehouses used to perform the sale and storage of raw materials and products.	Have resources employees, some shops,warehouses and production sites.	Have the resources employees, production equipment as well as outlets that can support the activity of the company
7	Key Activities	<ul style="list-style-type: none"> <li>Do selection strictly on raw material brown fruit that is perfectly ripe</li> <li>pay Attention to the raw material production process</li> <li>Perform the process of packaging that add more value to the product Coklat Monggo than brown other</li> <li>monitor and pay attention to all activities with the better so that quality is maintained.</li> </ul>	<ul style="list-style-type: none"> <li>Do proses selection of raw material is flour, food flavorings and various <i>topping</i></li> <li>Attention to the raw material process of production</li> <li>Done packaging that add more value to the product Brownies Amanda than other brownies.</li> <li>Pay attention and monitor all the activities with the better so that quality is maintained.</li> </ul>	<ul style="list-style-type: none"> <li>Do the activities of production, such as pks raw material, production process and distribution of products.</li> <li>These activities must be done by qualified resources and quality, so the quality of the products produced in accordance with standards established by Bakpia Kencana.</li> </ul>
8	Key Partnership	Working with <i>e-commerce</i> and the expedition and some of the vendors of raw materials othernyes.	Working with multiple vendors of raw materials, packaging box, farmers ' groups wheat, and some of the expedition.	Working dith some vendors of raw material and box packing, as well as Gojek and Grab that cater to purchase with scale online.
9	Cost Structure	the Cost of production includes the cost of purchase of raw materials, labor and cost of product distribution to multiple stores from Coklat Monggo.	The cost of the public issued covering the cost of care tool production and maintenance of the store, employee salaries, and the cost of purchase of raw material.	The cost of the public issued covering the cost of care tool production, care of the store, the salary karyawan, the cost of purchase of raw materials and the cost of promotion.

The business model is a major key in the success of a business. In addition, the business model is also a element that become a benchmark to measure or determine the direction of the business will be executed. The business Model can also be used to detect a condition of the market or opportunities that can be used by the company to take a consumer's attention, which will concern the use of the company to issue a new product or can also be used to increase the value of the value of the company.

### Innovation Business Model

Innovation is a process of change that is made by a company to achieve a competitive advantage. In the digital era like right now, as businesses are required to make a new breakthrough in business either in terms of management, products, and marketing process. In this case PT. Anugrah Mulia Indobel, PT. Amanda Brownies and PT. Bakpia Kencana take a step by applying some of the innovations.

- PT. Anugrah Mulia Indobel (Coklat Monggo)

First, mengantisipasi and respond to changes in the internal and external environment with ways to market their products to some of the *e-commerce* such as Tokopedia, Bukalapak, and Shopee as well as they are also marketing their products in some social media abroad in order to broaden the scope of marketing. In addition to that, Coklat Monggo also do the same work with some business types, such as Gojek and Grab as transportation services purchase Coklat Monggo. Second, mp business by applying technology to the sustainability of the business by implementing an application that can provide the data in *real time* so as to facilitate the performance of employees. On the part of the production, they use some of the technology robot machine that works to improve the production process becomes more and can also maintain the quality standards of the products produced.

- PT. Amanda Brownies

First, do the communication between the stakeholders and all the ranks within the organization with always involve all people in terms of freedom of speech with the aim to perception so that the miscommunication between the ranks can be avoided. For example, at a time when the team from R&D to perform an innovation in their products, they always do the communication with the leader of the interests and the marketing about the prospects of this product in the future and how to market conditions after the product is released.

Second, menerapkan mindset of sustainability to all parts of the organization by doing observation and

modification of the business strategy adopted by competitors. It also Amanda always do a research to setiappesaing are there, they will first identify a change or pattern made by pesaingapakah the pattern can be implemented into the business or even they can do the same work and some other products. Third, fokus on the application of innovation and technology for the development of the sustainability of the business with do a research of how the public response to the product was made, after doing a *survey* and got good results, then the data is communicated to the stakeholders to be considered will be used whether or not the data tersebut. Aside from doing an innovation in products, Amanda also apply some of the technology in production with the aim to increase the number of production and to maintain the taste. In addition to applying the technologies in the production Amanda also apply the technology in the management system that is integrated directly into all divisions and also can monitor the line distribution of products to stores are located in Indonesia.

- PT. Bakpia Kencana

First, menjalin cooperation with some of the parties to the sustainability of the business dijalandengan do online sales by working with companies such as Gojek and Grab. Second, membangun trust among team internally to give a training course with the aim that the employee has qualified ability in serving the customers, because bakpia kencana really puts the quality of the services they provide. Third, mengantisipasi as well as respond to changes in the business environment there waswith using current technology, can help as well as raise the performance of the management bakpia kencana and also can create bakpia kencana so more advanced and developed to be better.

### Building Dynamic Capabilities for Digital Transformation

Dynamic capabilities have three basic elements, namely *sensing*, *seizing*, and *transforming*. Each of these elements has an important role in its application. *Sensing* is a process activity to identify what is happening in an environment, which is then set into the environment of the organization (*seizing*), so that the company make a change or transform with varying environment (*transforming*).

*The dynamics of capabilities* will help the company to perform a process of identifying the opportunities and threats present in the environment both in the scope of the internal and external to the company. To maintain the stability of the business carried on, some of the creative industry is to do a digital transformation. From each industry transformation that is different in accordance with the lines of business that they run. Here are some types of digital transformation, which is done to the face of industry 4.0. Here are some of the findings obtained from each of the companies, among others:

**Tabel 2:**Sensing, seizing and *transforming* capabilities for digital transformation

Dimension	Indicator	Action		
		Coklat Monggo	Amanda Brownies	Bakpia Kencana
<i>Sensing</i>	Establish communication with the stakeholders and all the parts in the organization	√	√	
	Mengantisipasi and sensitive to environmental changes and critical thinking.	√	√	√
	The process penereapan digital transformation inside organizations	√	√	√
<i>Seizing</i>	Apply the business model are new to the sustainability of the business	√		
	Applying the technology or system in the line of business being run.	√	√	
	Working together for business continuity	√	√	√
<i>Transforming</i>	Doing the update of the business model by applying the technology in this line of business	√	√	
	Applying system dynamics capabilities to the sustainability of the business	√	√	
	develop creative ideas and innovation to business models and to improve the service to the customer	√	√	√

Based on the above table can be seen that of all the instruments contained in the *dynamic capabilities*, Coklat Monggo apply all the instruments of the sensing up to transforming so it can be concluded that Chocolate Monggo have the readiness that lebihdalam applying the technology in a line of business that is run, compared to Amanda brownies and Bakpia Kencana.

### Sensing

- Establish communication with the stakeholders and all the parts in the organization

At this stage established a good communication between the employees in all divisions on stakeholders, while also applying a freedom in a democracy or freedom of speech for all members of the organization. According to we are so going to be a lot of brilliant ideas which will be present who can build the company. The system

openness of this we always apply when the decision-making process on when you want to do an innovation or the adoption of a new strategy in the company.

- Mengantisipasi and sensitive to environmental changes and critical thinking.

The cycle of changes in the activity of the consumer (resource consumption or purchasing power) makes the a business to respond more quickly to make a business they way to stay afloat. Hand in hand bergeseran culture (shopping online), making businesses to change the system of purchase which is usually carried out offline now slowly abreast of the times with the online system with the objective to follow the development and also to enrich consumers and can also widen the reach of the market owned by the company.

- The process penereapan digital transformation in organizations

With the advancement of today's technology make all lines of business to perform the overhaul of the business model that they do, such as by applying some of the systems and technology in business models that they do, the first start of the marketing process, the purchase up to the management process was already using the technology. Although actually very helpful for a company but requires qualified HUMAN resources in this field and have a long enough time for the process of adjustment.

### **Seizing**

- Applying the business model are new to the sustainability of the business

At the beginning of starting a business all the companies studied using the power of seniors (workers) of the process of mixing the raw materials, manufacturing processes, *packaging*, along with the development and increasing demand we are experiencing overwhelmed in meeting the consumer demand, the resulting product is always less until eventually we bought a production machine with the aim to increase the number of production and also to meet consumer demand.

- Applying the technology or system in the line of business being run.

To improve performance of management, Coklat Monggo and Amanda Brownies implement a system that can be integrated into all divisions in the company, so all the data contained in the company can be accessed by all employees within the company. The purpose of the application of a system in the organization is to improve the performance so that the work can be more effective and efficient again.

- Working together for business continuity

The process of the seller, we only focus selling offline through store-store that we have, and some of the *resellers*. So in recent years we see a change from the style of the transaction from the consumer, namely by conducting a transaction through online, where we can perform transactions without having to interact directly, see the changes that we decided to apply it to the lines of business that we run with the aim to increase sales and income of the company.

### **Transforming**

- Perform an update of the business model by applying the technology in this line of business

With the development of age at the time of this very easy for us to expand into glass international and national. As we do this we already started to sell to *e-commerce* the outside and are some of the social media of other, as of this moment we have started to brown export our to Singapore, Malaysia and some countries in Asia other. It is also run by Amanda Brownies, the difference is Amanda Brownies are still focused on domestic sales and develop new business unit in each of the regions.

- Applying system dynamics *capabilities* for sustainability

The first step we do is to create competent HUMAN resources is to do a series of training that will upgrade the skills they have, with such as providing training in completing a case study, the purpose of this training is to make the employee be able to think critically, response in response to the changes that occur so that the company can address any changes that occur quickly.

- Develop creative ideas and innovation to business models and to improve the service to the customer

Creativity is one of the most important in the sustainability of a business in the food industry such as this, by having high creativity can support the success of the resulting product, as well as can be an attraction of consumers to the product. In this case, each company innovation which vary according to the type of their business. On Brown Monggo do an innovation by creating product variants chocolate with unique packaging design and a new flavor variant, while the brownies Amanda made two variants of the product brownies that steamed brownies and baked brownies and use toppings and the presence of features of the contents in the brownies. For bakpia kencana they make a new variant of the bakery is to create a bakpia with black and with different production process that is by steaming it.

### **Build The Capabilities Of Digital Sensing**

Build a the ability to run a digital transformation is necessary, because this ability that will help us in the process of introduction to the process of applying later. *Sensing* is a process to look back on the

opportunities in front of the organization. In other words, *sensing* an element that is needed by the stakeholders to see and observe any changes that occur as well as with alacrity to find an opportunity that can be used by the company to take a step that is where these measures can have an impact that is significant to the development and growth of the company.

These opportunities can occur in two things, the first opportunity occurs because an organization to obtain any information the same from the point of view of different sources or organization gain knowledge and new information. Of the two things that will form an opportunity that will be used an organization in conducting a mapping of the information which will be a new opportunity for the organization.

The role of *sensing* in dynamic capability is to help the leader of the interests in directing how the company directs its resources to respond to an external changes, or a result of the internal pressure of the company. In addition, the capability of dynamic is also seen as an important thing in a context of change because of the capability of dynamic can help stakeholders in the process of value creation through innovation. So by building the capability of dynamic *sensing* will help the ability of interest in managing the internal and external environment and also helps to create a value of innovations carried out by the organization from creating a competitive advantage.

#### IV. Conclusion

The concept of a digital transformation can be applied in the creative industries with the use of a planning and preparing some point-point that is needed in its application. Of the three types of industries studied, Coklat Monggo to do a *dynamics capabilities* to support the digital transformation that they do, while the industry such as Amanda and bakpia kencana only do the digital transformation course and a little bit involves the role of *the dynamics of the capabilities* as elements that support the success of the process of implementing a digital transformation which they run.

Based on the results of the data obtained from the field and the results of the analysis obtained, that the influence of *the dynamics of the capabilities* in the process of applying a process of digital transformation in a company can help the company in the map an the things that can help companies in the adjustment of existing technologies and can help companies see an opportunity that can potentially increase a value or imperfections that can be used by the company in gaining a competitive advantage. A lot of companies that benefit from digital transformation, which they did, starting from the more able to maximize the performance of HUMAN resources or management they have, improve the quality, as well as the amount of production that can increase the amount of turnover from the sale of products, and the most important thing is to be able to dilate the market share they have, so it can make the company become more developed and has a *value proposition* that is well again.

In this study, the researchers tested how the elements contained in the micro the capability of dynamic sensing in three companies engaged in the food industry in the city of Yogyakarta. The capability of sensing is likely to lead to a capability manager for mengkonseptualisasikan all circumstances or situations that occur in the business environment in order to become more explicit. Needs such as this requires a deep understanding of the sensing. From the analysis it can be concluded that there are elements of the micro sensing. That of the third element of the micro found two companies that actually implement all the elements are there, is one company only apply two element only. So on the chapter discussion of the researcher only focuses to discuss the elements of the *sensing* course.

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