

Exploring the Dynamic Capabilities Pattern in Small and Medium-sized Enterprises (MSMEs): A Phenomenological Study of MSME stagnancy in Indonesia

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Abstract

The objective of this research is to explore the Dynamic Capability Pattern, furthermore to observe how motivational and sociological factors impact the occurrence of stagnancy of MSMEs in Indonesia. Design/Methodology/Approach – A qualitative approach is applied with Open Questions Interviews towards 10 (ten) MSME actors in Indonesia who represent a range of industries including food and beverage, fashion retail, and the chemical raw materials sector. The findings of this study underscore several key points: SMEs consistently exhibit dynamic capabilities, particularly in the stages of sensing and seizing opportunities, however they frequently encounter challenges when striving to advance to a transformational stage. Continuous engagement in sensing and seizing cycles is crucial for MSMEs to prosper and progress to the next level of development. However, underdeveloped SMEs encounter challenges in re-engaging these cycles effectively. Mentorship from experienced communities or business groups can enhance SMEs' willingness and ability to pursue further development. Motivational and sociological factors play a significant role in influencing dynamic capabilities within Micro, Small, and Medium Enterprises (MSMEs) in Indonesia. Research Limitations - As a qualitative study, this research used a limited sample of participants from the Food & Beverage, and Fashion retail sectors to acquire insights. Therefore, it is highly recommended that future research be conducted on a larger scale, involving a more diverse range of participants from various business sectors, to validate the cyclical patterns and factors influencing the Dynamic Capabilities of MSMEs in Indonesia. To the best of the author's understanding and knowledge, employing a qualitative approach in this research marks an early effort to thoroughly comprehend the consistency of Dynamic Capability Pattern, motivational and sociological forces that shape the decisions of MSMEs regarding their potential transformation.

Keywords: Dynamic Capability Patterns, Consistency, Continuous Engagement, Mentorship, Motivational-Sociological Factors, Entrepreneurial Mindset

Introduction

Micro, Small and Medium Enterprise (MSME or Usaha Mikro Kecil dan Menengah/) are essential business sectors in Indonesia that promote Indonesia's economic

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growth. In 2019 MSME contributed 9,580 trillion rupiahs or 60.51% of the total GDB that was produced from all business sectors with a CAGR of 11.4% from 2015 to 2019. MSMEs also absorb around 97% of workers or 120 million workers. With these significant numbers, unfortunately, the contribution of GDB and worker utilization is concentrated in the micro business segment and showed a stagnant percentage figure for the small and medium business segment (Brenner, 2018)(Hernawan, Savandha, Karsa, Asikin, & Fadilah, 2024).

Micro segment GDB portion remains the same from 2015 to 2019 at around 37 – 38% of total MSME GDB. The worker utilization also shows the same figure at around 89% of total MSME workers. Looking at the number of business growth from 2015 to 2019, the micro-segment showed growth of 6.1 million companies but only 117 hundred thousand small businesses and 6 thousand medium businesses (Kemenkopukm, 2016 - 2019). These data show a tendency that each business segment almost stays the same and each segment does not grow up to a higher segment during the period of business.

There was extensive research on MSME that focused on the factors of MSME growth and sustainability. explained that MSMEs rely on differentiation compared to big companies to gain an advantage over big companies and contribute to their growth (Sulestiyono, Aresteria, & Lestiani, 2021). Innovation also has been proposed by Hanasya et al. as the factor that contributes to sustainability of MSME. Innovation has been proven as a significant factor in MSME sustainability and improves their competitive strengths (Mustikarini, 2022);(Umar, 2001);(Stock & Lambert, 2001).

On the other hand, Saah found that human capital education is the key to MSME success. The study on MSME in South Africa showed workers on MSME need a certain educational level and certain necessary skills, knowledge, and competencies to run the business. Education is important to all employee levels. Furthermore, Saah mentioned that managers and business owners also need to have an education level that helps them to formulate management goals and cope with several challenges including laziness and financial constraints (AlQershi, Mokhtar, & Abas, 2022).

Furthermore, Dynamic capability theories also make valuable contribution and meaningful impact on business growth, sustainability, as well as survival. Recent studies on start-ups by mentioned that dynamic capabilities can reform business for business survival during turbulent eras (Wang, Niu, Mansor, Leong, & Yan, 2024). They found that iteration and personalization of dynamic capabilities help start-ups optimize their organization to cope with the crisis.

In regards to competitiveness, Rashidirad and Salimian found a strong relationship in how MSMEs can derive value from dynamic capabilities by defining their competitive strategy. Recent updates on dynamic capability implementation on MSME found that MSME applies DC to run their business. Engelmann's study on services industries showed the implementation of DC to reconfigure their established routines (Engelmann, 2024). Additionally studies that the dynamic capability evolves through learning mechanisms that are focused on the selections of various experiences.

Regardless of many findings on MSME growth and sustainability, there is a lack of study on how DC implication on MSME growth (Engelman, 2024). The study also emphasized a certain group on MSME especially in developed countries (Engelmann, 2024). Further study across business areas, especially in Indonesia is needed to understand the problem of MSME in Indonesia to grow to a further level. This research henceforth aims to explore how the patterns of dynamic capabilities (DC), social contexts, and the real-life experiences of MSME participants impact both the development of dynamic capabilities and the occurrence of stagnation within MSMEs in Indonesia.

A qualitative approach is therefore employed to investigate the importance and interpretations of the phenomena being studied. To this end, we gather interviews with open questions towards 10 (ten) MSME actors in Indonesia who represent a range of industries including food and beverage, fashion retail, and the chemical raw materials sector (Bajaj, Boo, Sim, Lum, & Lye, 2023). This method allows researchers to gain a deeper and contextual understanding of MSME experiences as well as cyclical patterns in relation to Dynamic Capability Model (Cheng, Chen, & Zhang, 2022).

Small-and-Medium Sized Enterprises (SME) contribute significantly to economies worldwide (Federation of Small Businesses, 2022; OECD, 2023). However, they are often considered vulnerable economic agents, facing high failure risk due to resource constraint and poor strategic management (Friedman, Carmeli, and Tishler 2016; Lefebvre 2020). Therefore, there is a growing interest in understanding how SMEs develop and exercise Dynamic Capabilities (DCs) to adapt and innovate (Evans et al., 2017);(Weiss, 2021);(Soelaiman & Ekawati, 2022).

Dynamic Capabilities related to and handling continuous renewal and innovation (Rashidirad & Salimian, 2020). When possessing dynamic capabilities, firms will sense dynamic environments, seize new opportunities by redefining their business models, and ultimately orchestrate their resources to design and hone their business models and generate hard-to-achieve competitive advantages (Ferreira & Coelho, 2020).

According to C.E. Helfat et al., dynamic capability is the capacity of an organization to purposefully create, extend, or modify its resource base (Anderson, Jafari-Sadeghi, Sukumar, Dana, & B, 2022). Jawad (2021), in particular relates entrepreneurship to the ability of “sensing and understanding opportunities, getting things started, and finding new and better ways of putting together (p. 1398). This kind of entrepreneurial management, as embedded in dynamic capabilities, is not aimed at maintaining and improving existing routines, but instead is utilized to discover the future big opportunity and learn how to deal with it (Raco, 2019). “Seizing” involves mobilizing and inspiring organizations to develop a readiness to take the opportunities and reduce risk. Among the key activities within its framework, one can point out, among others, drawing up a business analysis and communicating it, raising capital, planning the implementation of the strategy, and implementing innovative business models (Barringer, 2015);(Saiz-Alvarez & García-Vaquero, 2018).

Dynamic Capabilities involve repeatable patterns that only evolve over time (Jena, 2020). This means that dynamic capabilities are relatively “stable phenomena” and the term “dynamism” refers to a dynamic environment, wherein the resource base is changed by dynamic capability (Shatnawi, Hanefah, & Eldaia, 2019). Environmental adaptability is considered one important aspect of such dynamic capabilities (Putri, 2021).

Teece, Pisano and Shuen (1997) define dynamic capability as a “firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (p. 516). Responding to the growing discussions on dynamic capabilities, Teece (2007) developed one of the most prominent models that describes its micro-foundation in detail. The model theorizes dynamic capability as multi-faceted and composed of three capabilities; sensing, seizing, and transforming or reconfiguring. Sensing capability refers to identifying and capturing both opportunities and threats by analyzing the environment and interpreting any changes that have occurred.

Seizing capability refers to designing and refining business models by orchestrating the assets and developing new products or processes. Seizing capability depends on the managerial competencies in assessing the business model, its boundaries, and organizational design. Existing literature suggests that firms should have sufficient resources to build initial operational capabilities as their foundation for developing dynamic capabilities, where they can continuously search and seize opportunities.

The critical role of dynamic capabilities is to work on the firms’ resources by transforming them into new configuration of resources so that the firms can gain competitive advantage. Additionally, there are two other literatures stream addressing how SMEs develop and exercise DCs. The dominant stream suggests DCs manifest in functional domains such as innovation, portfolio planning, and customer management.

These studies identify various DC’s and expand understanding of which functional DCs support SME’s resources reconfiguration (Koryak et al. 2015). However, they implicitly assume the existence of functional DCs without explaining what contributes to their development. Consequently, they neglect to investigate how SME’s Practitioners’ (i.e managers and employees) perform sensing, seizing, and transforming as part of their strategy work.

This is a problem because SME practitioners’ strategy work has been characterized as unstructured, personalized, and between doors (Gibb and Scott 1985; Jennings and Beaver 1997). Smaller SMEs, in particular, rely less on analytical methods such as setting long-term goals, conducting environmental analyses, and establishing formal planning. Because sensing, seizing and transforming are integral to “entrepreneurial management that is strategic in nature” (Teece 2007, 1344), developing a deeper understanding of how SME practitioners engage in these sets of activities is crucial for both theory and practice.

Amidst various theories, the researchers still continue to observe and shed light a deficiency in comprehensive study addressing the impact of the cyclical nature of Dynamic Capabilities theories, alongside motivational and sociological factors, on the

stagnation of micro, small, and medium enterprises (MSMEs) in Indonesia. Researchers perceive this as a gap opportunity to empirically investigate the phenomenon.

In this context, a collective of 10 (ten) MSME's were chosen for open questions Interviews, the participants selected for this study mostly come from the F&B (Food and Beverage) sector, whilst others from fashion retail and chemical raw material businesses. They typically hold bachelor's degrees in fields like economics and finance. Their educational backgrounds vary, and they are aged between 25 and 45, hailing from different cities such as Kuningan, Bandung, Tangerang, Jakarta, and Dumai. We opt to conduct the interview using the open-question approach, which enables respondents to offer elaborate and customized answers with their experiences, thoughts and feelings. The interview comprises to therefore respond on the two research questions.

This study employed a qualitative approach to gain a deeper understanding of the social realities and lived experiences of MSME actors. This approach allowed the researchers to delve into the meanings and interpretations of the research phenomena from the participants' perspectives which enabled researchers to eventually observe MSME Patterns in dynamizing the DC theories. By adopting a qualitative methodology, the researchers aimed to obtain a comprehensive and contextual understanding of the various aspects influencing MSMEs, including the cyclical patterns of the capability dynamizations, internal organizational dynamics, interactions with the external environment, and the subjective experiences of stakeholders.

This approach emphasized descriptive, exploratory, and contextual research, enabling the researchers to grasp the complexities and unique contexts in which MSMEs operate. Accordingly, the qualitative approach facilitated the identification of patterns, motives, and factors that might not be readily discernible through quantitative methods alone. Additionally, it allowed the researchers to gain deeper insights into the perspectives and experiences of MSME stakeholders, thereby facilitating the development of more relevant and sustainable policies, strategies, and practices.

Literature Review: The study incorporated a comprehensive review of relevant literature to establish a theoretical framework and inform the research methodology. The relevant literature serves as our framework for conducting interviews, and it was pre-tested to ensure its alignment with the research questions. The Interviews were purposed to explore the evolving process of the Dynamic Capabilities concept and delve. Teece's framework (Teece 2007), delved deeper into: (i) how and why a particular initiative was initiated (i.e sensing); (ii) how decisions around that initiatives were made (i.e. seizing); and (iii) how decisions within this initiative led to the development of new resources and operations or reconfigurations of existing ones (i.e transforming).

The protocols comprise three questions in relation to "Dynamic Capabilities ": 1) What drives the founder to establish the business, what are the objectives and how does the founder identify the opportunity (Sensing, Seizing, Motivational factor). 2) How does the founder oversee the business operation, what are the shortcomings of business founders in executing strategies to develop their businesses to become sustainable? (Seizing, Transforming). 3) What elements lead business founders to hesitate in

embracing transformation (Transforming). 4) To what extent does the business founder perceive the influence of the business communities in enhancing development (Motivational and Sociological factor).

In-depth Interviews: In-depth interviews were conducted with 10 MSME actors selected through purposive sampling. The interviews were conducted using open questions focused on their experiences, motivations, challenges, and strategies in running their businesses. 10 (ten) total Interviews were conducted both online via Zoom and through WhatsApp chats. The interviews averagely consumed about 60 minutes each.

Participant Observation: Researchers actively engaged in the daily activities of MSME actors to observe firsthand how they operate their businesses and interact with their surroundings. This involved observing the motivations, business strategies, digital and financial literacy, and strategies employed by MSME actors to sustain and grow their businesses. Participant observation played a critical role in the researchers' understanding of MSME operations. Researchers actively immersed themselves in the daily activities of these businesses, gaining insights that interviews alone could not provide. This immersion allowed them to observe subtle behaviors, implicit strategies, and influential contextual factors shaping business decisions.

The researchers focused on observing motivations, business strategies (including digital and financial approaches), and the overall methods used by MSMEs to sustain and expand their operations. To preserve these observations, they likely maintained comprehensive field notes and potentially utilized video or audio recordings where appropriate. Ultimately, participant observation complemented the interview data by providing a deeper understanding of the environment in which MSMEs operate and how they implement strategies and theoretical concepts in the real world.

Table 1: MSME information

MSMEs	Code	Business' age	Type of business
Asia Chemie Cemerlang	CH1	3 Years	Chemical Trading
Kleine Baby & Kids	FS1	10 Months	Baby's Swaddle &Clothing
Nibiya Cake Business in the Field of Cake and Bread	BK1	7 Years	Bakery/Patisserie
Kedai Kopi Triple A	RT1	1 Month	Restaurant/café
Kelemon (Contemporary Herbal Drinks)	BK2	2 Years	Traditional Snack
Jasa Maklon Olahan Pangan	BV1	1 Year 9 Months	Traditional Beverage
Riskavebrie	FP1	9 Years	Home Production
Manna Bread	FS2	8 Years	Ethnic Clothing
Ngelobi	BK3	17 Years	Bakery/Patisserie
	RT2	5 Years	Coffeeshop

The collected data was checked through discussions between the researchers and with the participants through phone calls or emails after the interviews. All the Interviews were recorded and transcribed into manuscript. Along with the data collection, we analyzed the data as soon as the Interviews transcript were ready. In other words, the data collection and analysis were intertwined (cf. Bryman and Burgess 2002). For the data

analysis, an iterative approach was conducted. Data analysis is an iterative process of moving between the initial main findings and the data (Glaser and Strauss 1967). This approach enabled verification and revisions based on additional information from the respondents through follow up phone-calls, zoom meetings, WhatsApp conversation which were mixed with the researcher's personal reflection. Researchers integrate different theories and abstract them into broader themes by analyzing how and why these concepts contribute to sensing, seizing, and transforming.

Thematic Analysis: Thematic analysis is also employed to identify and categorize recurring themes within the data, allowing for the construction of a comprehensive understanding of the research phenomena. David J. Teece in his 2007 paper titled "Explicating Dynamic Capabilities: The Nature and Micro foundations of (Sustainable) Enterprise Performance," discusses the themes of sensing opportunities, seizing opportunities, and transforming organizations to sustain competitive advantage. Thematic analysis in this context explores how these themes are represented in case studies of companies, the process and routines firms develop to adapt to changes, and the impact of leadership and organizational culture on dynamic capabilities. Teece's framework provides a thematic structure that can be used to analyze how firms dynamically adapt to changes and sustain competitive advantage, illustrating how thematic analysis can be applied to study dynamic capabilities in various organizational contexts.

This research analysis employs a systematic approach, following the method outlined by Saunders et al. (2015), to identify emerging patterns or themes within the dataset and to provide detailed descriptions or explanations. Initially, all interviews undergo a coding process, where similar content is grouped into concepts. These concepts are then synthesized and refined into broader themes, considering their contributions to the processes of sensing, seizing, and transforming, as per dynamic capability theory (Miles and Huberman, 1994). This iterative and non-linear process involves the systematic integration of empirical evidence, existing theory, and insights from the cases studied (Asikin, Fadilah, Saputro, Aditia, & Ridzki, 2024).

Additionally, as the analysis progresses, new issues arising from the data are categorized as "emerging categories" or "convergence elements," such as "business model assessment" and "organization reconfiguration," along with "alignment mechanisms" like "company mission," "profitable growth," and "learning mechanisms." Throughout this process, the data is carefully deconstructed to maintain the integrity of its constituent elements and their relationships. This study applied multiple data sources to fulfill triangulation purpose which could increase the data validity by controlling the subjective individual judgement of each researcher. By triangulating the data from diverse sources of perspectives, researchers can mitigate the limitation of any single method or source, thus enhancing the credibility and robustness of their findings. The subsequent section outlines the examination of the research findings.

Result and Discussion

Dynamic Capabilities in Sensing and Seizing Stages: The study consistently revealed that MSMEs possess dynamic capabilities, particularly in the sensing and seizing stages. The sensing stage was approached by MSMEs through two paths: the convergence of needs and expertise, as demonstrated in the following quotes; (BK3 Quotes..."...I stopped working and then I became really serious...") and the identification of business opportunities ("...I started it casually... it's a pity it wasn't continued..."). The seizing stage was also executed effectively.

Continuous Sensing and Seizing Cycles: The study found that MSMEs need to continuously engage in sensing and seizing cycles to navigate their business growth dynamics. This emerged as a key factor in their success and ability to upgrade. MSMEs that experienced limited growth faced challenges in re-entering the sensing and seizing cycle. These challenges stemmed from the self-managed or family-run nature of their businesses, leading to business decisions based on personal satisfaction or family circumstances. (BK2 Quotes ..."Definitely..., because my husband works in finance, he's really into it, so he's the one who's really strict about it, like I have to make a certain amount per week. For example, now he has set a minimum target of 5 million in sales per week because it's Ramadan.

That's how it is. If it were up to me, I would just let it flow as long as the team gets paid. That's the type of person I am. But my husband can't operate like that in business; there has to be a target. So now the target is set at a minimum of 5 million in sales per week. So when we talk about targets, it's definitely necessary, especially now since we have to pay the employees. There are many considerations, unlike when I was just starting out by myself....") Q28, Q30 - Q36 (Sociological Factor).

(BK2 Quotes..." I hope so, because this is actually my dream, not just for myself. I've already thought about it, because our team is still family, so I repeatedly say, our snack business belongs to you all, not just to Ika. I really want our snack business to grow, so that when the kids grow up and don't want to work in an office, they can continue this business. I always say this to those who are with me, who knows, this could become a family business with greater benefits. Even if I don't continue or something happens, it can be a livelihood for them, and our kids can continue and develop it further. Actually, for example, regarding the target, there was someone who offered to open in another place with profit sharing. After discussing with my husband, we decided not to do it yet (...)) Q34 – Q42, Q44 – Q46 (Sociological Factor).

These quotes literally reveal the family-run nature of businesses and its circumstances influence the future business decisions

The Role of Mentorship: The study highlighted the positive impact of mentorship from more established communities or business groups on MSMEs' capabilities and willingness to continuously evolve. (BK3 Quotes "...we started collaborating with hospitals, some hospitals affiliated with Acs Aero food Catering Service"). (Sociological factor and significance of mentorship). **Financial Strategies:** Interview findings emphasized the importance of financial strategies in MSMEs' seizing capabilities.

Sound financial strategies enabled MSMEs to expand their capacity and seize growth opportunities

BK3 Quotes... (“...So when demand definitely comes, the next step in execution is to add supporting facilities to meet the accepted demand. An entrepreneur should also improve other skills such as; 1. The ability to negotiate to obtain working capital by requesting a down payment for ordered goods or by asking for an official work order to ensure that the received order is valid. The work order can later be used as collateral when borrowing money from certain financial institutions (there are financial institutions that are willing to provide loans with work orders as collateral). 2. The Skill to manage financial administration. (They must calculate profit and margins and ensure a normal balance). Company finances should be separated from personal finances. (The Owner should take a salary for personal needs). Then from the profits, it is advisable to allocate a portion of the profits for future investment “....)

The Sensing Phase

Sensing capabilities are about scanning the external environment and creating, learning, and interpreting activities (Teece, 2007). This initial stage, whether consciously recognized or not, is essential for entrepreneurs of any business size. It involves the Sensing Phase, where entrepreneurs enhance their ability to identify and capture opportunities and threats by analyzing the environment and interpreting changes in their market segment. This includes understanding market behaviors, generating alternative solutions, and exploring external technologies and potential suppliers.

The SME literature offers further insights into how practitioners approach the development and exercise of DC. Macpherson et al. (2015) find that practitioners seek guidance from actors in their close proximity to identify the opportunity as highlighted in the following quotes: BK2 Quotes” ...basically I am addicted to the authentic traditional sticky-rice-cakes that nowadays are very difficult to find in the modern market. Coincidentally found the good one with the gorgeous packaging might be an interesting commercial opportunity” (Sensing)

FS1 Quotes “...I saw a friend who already had and produced these items. I looked at their Shopee account and saw that their sales were really good, so I asked them, “Why do you produce baby wraps? Not many people want to go into that business.” Then they said, “Well, every pregnant mother needs them, so baby wraps are necessary.” That got me interested. They showed me more and told me how they started with a capital of 300,000 IDR for buying fabric and now they have many resellers. I became interested in becoming one of their resellers.

They told me to learn first, to learn about Shopee and things like that. I had been wanting to start a business but wasn't sure what kind. Then I met my friend, and I looked at the products to see what they were like. I thought they were good, so without thinking much, I decided to join. Initially, I just tried it out by creating an account before buying anything. I thought about what to name my online shop. After that I looked at the products again, and without much hesitation, I decided to become a reseller. I started by buying 10 pieces of baby wraps with one design, spending around 450,000 to 500,000 IDR as initial

capital (Sensing, Seizing, Sociological Factor). SMEs in Indonesia also exhibited motivational occurrences to initiate home businesses, often sparked by fortuitous social situations that inspire them to venture into entrepreneurship.

The Seizing Phase

Seizing is defined as “.....where action and commitment enter the picture while accounting for the genuine-risk of pursuing dead-end strategies based on incomplete or bias information ..”(Day and Schoemaker, 2016, p. 63) . Seizing capabilities depends on managerial competencies in assessing the business model, its boundaries, and organizational design. Seizing theory, as articulated by David Teece (2007), focuses on firms' capacity to mobilize resources effectively to capitalize on identified opportunities. It involves the dynamic allocation and deployment of resources to exploit market opportunities and create value.

This theory underscores the proactive and strategic actions that firms must take to seize opportunities and gain a competitive advantage in dynamic environments. Depending on the business complexities, the duration of the seizing process varied between the SMEs. Some SMEs showed their ability to iteratively test the business ideas faster than the others, then making decisions to pivot them. The actions taken during the seizing phase showed their efforts to be resilient during the crisis by quickly assessing their business model and making strategic decisions to pivot (cf. Martinelli, Tagliazucchi, and Marchi 2018).

Quotes from “BK2”: At that time, everything was handled by myself because I oversee production now. I have a production manager, a store manager, and a business-to-business manager. It's only been two years since this arrangement, ma'am. Before 2022, I once had a manager in 2019 for a year, but because it didn't work out, I got bored. I mean, I didn't want to use a manager, so I managed everything by myself as much as I could....only in 2022 did I find someone suitable. This has been quite enduring until now, 2024. During that time, everything was done by myself. Since 2008, when I got married, my wife has been assisting me. She helps with financial supervision, cash flow, petty cash, and overseeing the store, meaning everything from its appearance and all. I handle things from behind the scenes, and when it comes to meeting people, I try to handle it as best as I can.

The Transforming Phase

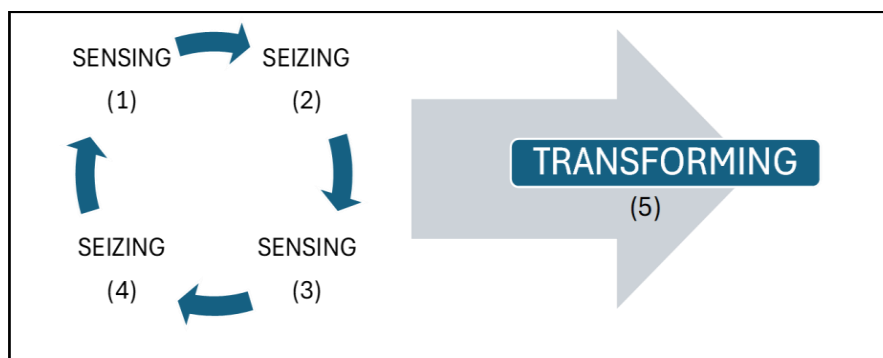
Transforming Capabilities help SMEs realize the potential of strategic change and are needed to put into practice the opportunities that have been created and discovered by sensing and seizing. Souza-Zomer (et al. 2020) argue that transforming capabilities is about the ability of SME's to transform their business models and resource, that is, to put the strategy into action. An SEM with transforming capabilities “is one with entrepreneurial mindset cultivated within the firm” (p. 1108). Such capabilities depend on the culture and structure of SME's (Souza-Zomer et al. 2020; Dubey et al, 2023; Warner and Wager, 2019). Small and Medium Enterprises (SMEs) in Indonesia typically lack strong motivation or impetus for transformation due to their business scale.

Transformations within these SMEs often arise in reaction to external pressures and individual fulfillment. The subsequent quotations exemplify the theories;

RT2 quotes "... we don't have any entity or any legal document until 2007, because at that time we need to supply with Harapan Kita Hospital and the business organization should be legalized...". BV1 quotes "...Yes, due to concerns about exceeding the budget or getting stuck in situations where expenses are incurred for nice-to-have items that don't necessarily lead to a significant increase in revenue "...Nevertheless, we observe in few cases which reveals transformation aids MSMEs in establishing a more professional organizational structure, including job division to facilitate business expansion. BK2 quotes...".. last year we hired an employee, because in the first year I did everything by myself and was overwhelmed... Eventually I hired one employee to help, because hampers need to be rearranged and write greeting card... so that that I could manage the courier (schedule). In the second year I already had a personal courier... now in the third year I decide to hire another 2 employees, so total 3 employees, so that I just need to monitor remotely... To increase revenue, I already hired another corporate employee to manage marketing..." (Transforming)

Discussion

This research identified two distinct groups within the MSME sector. One group comprised businesses that significantly increased their revenue within a year and maintained this new level or achieved even higher revenue, earned recognition for their achievements, expanded their product range, and transitioned from personal management to a professional team approach (e.g., Kudapan Kami, Klein, Triple A, Manna Bread, Tanata). Conversely, some businesses remained stagnant, retaining the same product range, target market, and business practices given the trap of repeated cyclical model or pattern while implementing the DC's concept which subsequently led the inability to undergo transformation (demonstrated in Picture 1). By comparing these growing and stagnant groups, we can pinpoint the factors that contribute to the growth of MSMEs for further classification level.



SME's Dynamic Capability model in Indonesia

Picture 1. Trap of cyclical DC's model or pattern in Stagnant SME'S

In times of change, small and medium-sized enterprises (SMEs) are often viewed as economically fragile due to their limited resources (Winter 2018). However, despite these challenges, many SMEs have demonstrated longevity, suggesting their capacity to adapt to evolving circumstances (Jones et al. 2013; Arend 2014). Research highlights the pivotal role of Dynamic Capabilities (DCs) in explaining firms' varying responses to changing demands. This study delves into how SME practitioners enact sensing, seizing, and transforming within their strategic endeavors, revealing these processes as continual and context-specific. Communication emerges as a key facilitator in these practices, shedding light on SMEs' dynamic engagement in sensing, seizing, and transforming at an interactive level.

Regarding sensing, practitioners establish relational structures for external connection (bridging) and engage in internal sensemaking (sharing). This resonates with the notion that sensing is co-created within and outside the organization (Giudici et al. 2018). Engaging in bridging and sharing enhances the capacity for effective identification of opportunities and threats. In terms of seizing, managers and employees create strategic spaces through dialogue and monitoring, enhancing the capacity for decision-making and resource mobilization (Jones, Macpherson, and Thorpe 2010). Anchoring new roles and coordinating initiatives are pivotal for reconfiguring resources and operations, thereby augmenting transforming capacity.

These practices elucidate SME practitioners' strategy work focused on developing and exercising functional DCs. While some of these practices are not entirely novel in the DC literature, organizing them into a coherent set—a practice bundle—and aligning them with sensing, seizing, and transforming processes establishes theoretical consistency in understanding SME practitioners' resource reconfiguration efforts. Future research could explore the implications of this practice bundle further, particularly examining its influence on structuring and formalizing specific functional DCs, such as product development and internationalization.

Sensing, Seizing, Transforming

The study offers novel insights into Dynamic Capabilities (DC) theory by elucidating how practitioners execute sensing, seizing, and transforming processes (Wenzel, Danner-Schröder, and Spee 2020), emphasizing the pivotal role of communication in resource reconfiguration (Salvato and Vassolo 2018). It suggests that the identified practice bundle is energized through distinct communication modes, which not only precede action but also actively shape it, acting as the medium through which changing realities are constructed, sustained, and altered (Ford and Ford 1995, 542). Thus, the study empirically supports the idea that the development and utilization of DCs are, to some extent, influenced by social interactions (Schreyögg and Kliesch-Eberl 2007), highlighting the performative nature of meaning-making around opportunities and threats in ongoing interactions.

The concept of resonance provides a theoretical framework for understanding the significance and quality of spontaneous events and sudden insights during sensing, emphasizing how opportunities and threats are manifested. Resonance underscores the

cognitive and emotional alignment that enhances practitioners' sensitivity to environmental conditions (Jones and Li 2017), revealing the relational and situational contexts in which practitioners are finely attuned to environmental nuances and perceive available affordances (Nayak, Chia, and Canales 2020).

Generativity enriches the comprehension of seizing as a higher-order process "through which an organization can question its own structures" (Hendry and Seidl 2003, 179). It enables practitioners to reassess existing mental models and shape emergent ones, thus accommodating entrepreneurial creativity within the DC framework (Teece 2012). This aligns with the dual-process model of capability dynamization, positing that routine capabilities necessitate ongoing monitoring (Schreyögg and Kliesch-Eberl 2007), wherein monitoring not only serves an evaluative function but also generates new options for future actions. This may entail reflecting on and challenging prevailing norms of thinking and acting.

The communication mode of "call for action" extends the understanding of transforming by underscoring the role of continuous communication in facilitating context-specific problem-solving during resource reconfiguration. It emphasizes that effective transformation relies not only on the ability of entrepreneurial leaders to persuade others to embark on new initiatives (Helfat and Martin 2015), but also on communication dynamics among practitioners, which can either support or hinder resource reconfiguration efforts. Prompt responses to new demands are facilitated by fostering the emergence of interest groups and coordinated communication around specific initiatives.

The Operationalization of Dynamic Capability

The research findings align with policymakers' concerns about the significant obstacle posed by skills shortages in SMEs (EC 2019, 12). Scholars advocate for supporting the cultivation of Dynamic Capabilities (DCs) in SMEs through diverse methods, including training initiatives and instructional materials. We propose that training materials should consider the active aspects of sensing, seizing, and transforming processes. Rather than solely emphasizing the professionalization of strategic activities, training resources could acknowledge the importance of everyday practices like bridging and sharing, recognizing their potential contribution to effective sensing. It's crucial to acknowledge that SME practitioners may adopt distinct approaches to resource reconfiguration compared to larger organizations.

Additionally, this study underscores the importance of proactive management of communication during sensing, seizing, and transforming phases. Managers should be attentive to and encourage communication dynamics that foster emergence and creativity during sensing, encourage opposition and dialogue during seizing, and facilitate concretization and coordination during transforming. Sensitizing managers to these communication dynamics can enhance their ability to address challenges related to resource reconfiguration and promote effective DC development.

Conclusion

Additionally, this study offers practical insights, particularly for the management of entrepreneurial ventures, on adapting to extreme crisis conditions, distinct from environments experiencing rapid but predictable changes. The importance of continually operationalizing dynamic capabilities throughout the entire business journey is emphasized. This enables firms to deploy these capabilities spontaneously in times of extreme crisis, requiring faster yet effective decision-making than in normal situations. Firms are advised to recognize the interconnectedness of different courses of action, with this process occurring iteratively. The study suggests that the full combination of dynamic capabilities has the potential to facilitate the creation of value for firms at an accelerated pace. MSMEs in Indonesia showed incredible resilience despite fast moving business conditions that evolved constantly through technology.

Throughout our studies, we believed that primary factors of determining opportunities to expand their businesses also rely upon external factors. These external factors can be attributed to social aspects and education level of those around them. Factors such as associations of MSMEs and business seminars contribute to their sensing of business opportunities. However, seizing revolves around personal elements such as individual ambitions and personal goals. We learned that most MSMEs are satisfied with where things are as it fulfills their general livelihood needs. These factors come into play to whether they decide to utilize their dynamic capabilities to grow their business.

Despite its contributions, the research has limitations. Firstly, its completion within a short timeframe may only capture a provisional phenomenon. While enhancing understanding of how dynamic capabilities are operationalized in high- turbulence markets, further empirical studies are warranted to delve into the micro-foundations of dynamic capabilities in greater detail. Secondly, the study highlights variations in the speed at which dynamic capabilities are operationalized across cases, potentially influenced by founders' reasoning regarding opportunities and challenges in specific situations.

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