

Impact of Digital Capability on Competitive Advantage and Performance of Tourism SMEs in Indonesia: The Role of Strategic Agility and Absorptive Capacity

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Abstract. The main objective of this research is to examine the role of competitive advantage on the performance of Tourism SME in Indonesia, where in forming a strong competitive advantage digital capabilities, strategic agility and absorption capacity are needed. This study uses a quantitative and qualitative approach. Data were collected from 118 Tourism SMEs in the territory of Indonesia. This study uses Structural Equation Modeling (SEM) analysis, in which the results of the analysis show that there is a significant positive relationship between digital capabilities and strategic agility and absorptive capacity. In addition, strategic agility and absorptive capacity have a significant direct positive relationship to competitive advantage and competitive advantage has a significant direct positive relationship to performance. However, digital capabilities do not have a direct significant effect on competitive advantage. Some of the factors that hinder the digital capabilities of Tourism SMEs include the limited resources they have and the unpreparedness of Tourism SMEs in making direct use of their digital capabilities to become a competitive advantage.

Keywords: Digital Ability; Strategic Agility; Absorbing Capacity; Competitive Advantage; Organizational Performance

1 Background

In order to create a sustainable competitive advantage, companies are increasingly paying attention to their own unique and sustainable resources (Barney, 1991). In other words, business operators must develop resource-based advantages (RBV), in order to overcome the obstacles that occur in their business. Facing this rapid change, companies must adapt and update their knowledge to maintain their competitive advantage (Rademakers, 2005).

Therefore, companies are looking for ways to strengthen and develop their knowledge, so that it can be utilized effectively and efficiently. Knowledge of a company is a determining factor of competence and business boundaries. To prevent imitation or duplication by competitors (Kogut & Zander, 1992). Most companies generally acquire new knowledge from units outside the organization or learn new knowledge introduced from units outside the organization and then integrate this new knowledge with existing knowledge to develop the

knowledge that is specific to the organization. These two measures are referred to as organizational learning and absorptive capacity (Sun & Anderson, 2012).

Through the acquisition of new knowledge and updating of existing knowledge, organizations can have better learning and innovation performance and thus develop a sustainable competitive advantage (Cohen & Levinthal, 1990). Organizations have traditionally focused on orchestrating processes to achieve the desired results and carried out iteratively until they reach the standards set by the organization, where all these activities basically regulate the organization's internal activities. (McLaughlin, 2012). In an organization's efforts to achieve the desired results, a focus on digital capabilities has become important in recent years. Digital capability refers to a company's ability to mobilize and use IT-based resources to increase the value of non-IT resources (Drnevich & Croson, 2013).

Researchers say digital assimilation can help bridge the traditional gap between multiple functions within a company and channel partners, leading to the development of dynamic capabilities and operational capabilities. (Teo, Ranganathan, & Dhaliwal, 2006). Digital assimilation can facilitate knowledge management by using advanced digital applications to support inter-organizational communication and information processing (Malhotra, Gosain, & Sawy, 2005). This capability can expand the range of knowledge and wealth of companies in the supply chain. In addition, digital assimilation helps companies bridge the gap in traditional relationships that exist within the company (Malhotra et al., 2005).

Absorption capacity is related to the company's ability to recognize the value of new information, assimilate it, and apply it to commercial purposes (Cohen & Levinthal, 1990). Absorption capacity enables companies to determine, collect, analyze, understand and creatively use external information and contribute to management in creating customer loyalty and satisfaction (Tzokas, Kim, Akbar, & Al-Dajani, 2015). Absorbing capacity is a dynamic skill that affects the nature and sustainability of a company's competitive advantage (Cohen & Levinthal, 1990).

Another issue that has attracted the attention of researchers in recent years and has a significant place for business success is strategic agility (Demmer, Vickery, & Calantone, 2011). Agility provides the opportunity for businesses to respond quickly to change, be flexible, adapt to change, and implement other actions that control market risk and uncertainty. (Sambamurthy, Bharadwaj, & Grover, 2012). Strategic agility is the sensitive and uninterrupted maintenance of the flexibility, perception, predictability, and strategic sensitivity of management with respect to the internal and external environment. (Kumkale, 2016). From a review of several literatures, it has been identified that digital capabilities are considered as one of the drivers of organizational agility (Cai, Liu, Huang, & Liang, 2017). Digital capability refers to the company's ability to utilize digital resources to support business strategies and work processes (Lu & Ramamurthy, 2011).

An agile organization adapts its organizational culture to market changes, learns about market changes quickly, benefits from these changes, and shapes its products according to personal preferences. (Kale, Aknar, & Başar, 2019). At the same time, these changes can be turned into opportunities by rearranging the system and its strategies in a responsive manner to the changing environment (Sharif & Zhang, 1999). Although the importance of agility is focused in several studies in the tourism literature, it appears that strategic agility has not been extensively addressed (Kale et al., 2019).

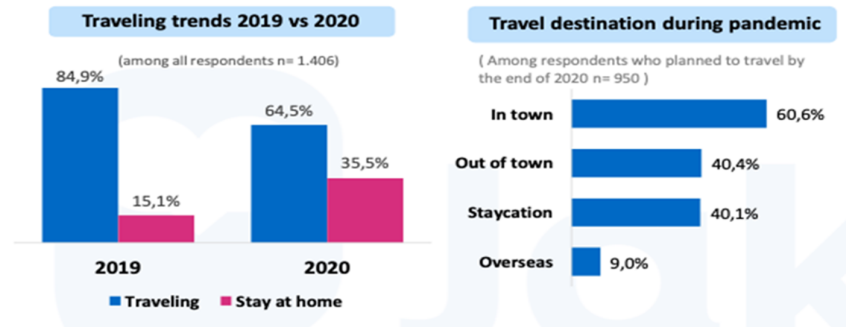
At this time the spread of the Covid-19 virus is still a concern for various countries, especially those that have confirmed positive cases of infection in their countries. According to the real time website Coronavirus COVID-19 Global Cases, the number of Covid-19 cases continues to increase. Although the Covid-19 recovery rate continues to increase, the emergence

of cases of the spread of Covid-19 has also increased, causing global economic uncertainty. Moody's Investor Service predicts Indonesia's economic growth in 2020 will experience a slowdown at 4.8% of Gross Domestic Product (GDP). This value is below the growth in 2019 which was at 5.02%. This economic slowdown is expected to continue in 2021, although accompanied by a slight strengthening, which is only 4.9% growth (Bahtiar & Saragih, 2020).

Since the emergence of the spread of Covid-19, it has had the impact of slowing down the economy both at home and abroad. In the current pandemic conditions, the tourism sector is the sector most affected. The chairman of the Bali Tourism Board (BTB)/Indonesian Tourism Industry Association (GIPI) Bali, Ida Bagus Agung Partha Adnyana, said there had been 40,000 hotel cancellations with losses reaching IDR 1 trillion every month. The sluggish tourism sector has a domino effect on the MSME sector.

Based on data processed by P2E LIPI, the impact of the decline in tourism on MSMEs engaged in the micro food and beverage business reached 27%. Meanwhile, the impact on small food and beverage businesses is 1.77%, and medium enterprises are 0.07%. The effect of the Covid-19 virus on wood and rattan craft units, micro-enterprises will be at 17.03%. For small businesses in the wood and rattan craft sector 1.77% and 0.01% for medium enterprises. Meanwhile, household consumption will also correct between 0.5% and 0.8%. In fact, Micro, Small and Medium Enterprises (MSMEs) have a very strategic role in the Indonesian economy (Bahtiar & Saragih, 2020).

This is due to the decrease in the number of tourist visitors who come due to government policies in limiting community activities, especially in avoiding crowds that are at risk of spreading the Covid 19 disease. This condition has led to a decline in the business of SMEs in the tourism sector, something that must be anticipated quickly with improve their knowledge, especially towards digital knowledge.



Source: JAKPAT Travel Trends 2020

Based on the data above, the implementation of travel warnings that have been carried out by several countries due to COVID-19 has influenced people's decisions to travel. Where currently tourist visitors in Indonesia are dominated by domestic or domestic tourists. The occurrence of the covid-19 outbreak reduced the intention of travelers to travel in 2020, compared to 2019 people who chose to travel decreased by around 20% in 2020. In 2020 the tendency of people to stay at home increased by 20% compared to 2019. Even in epidemic conditions Covid-19 is not over yet, 64.5% of respondents prefer to travel within the city.

The challenge for tourism SMEs in Indonesia today is the ability to adapt to new environmental changes. The implementation of the social distancing health protocol encourages SME players to find some new ideas so that they can remain agile and survive in pandemic

conditions. Increasing the digitalization capability of SMEs during the pandemic is one way for business actors to gain business effectiveness and reach new opportunities. With the increase in their digital capabilities, SME players will be more flexible and faster in adapting. One of the impacts of the COVID-19 pandemic is that it has pushed people's behavior towards digitalization.

There are four obstacles that generally make SMEs fail to implement digitization. The four are lack of digital literacy, lack of knowledge in running a business online, inaccuracy in marketing products, and unpreparedness of the experts. Increasing digital capabilities, strategic agility and absorption capacity of SMEs will be very important to increase competitive advantage. By implementing a different strategy, it is hoped that it will have a positive impact on the performance of SMEs in the future.

2 Theoretical Framework and Hypothesis Development

2.1 Theoretical Framework

Digital capabilities have been considered as very important to sustain the growth of SMEs in the Industry 4.0 era. Through the use of digital facilities, small and medium enterprises can enter the global industrial market. Currently, in only a relatively short time, several small companies have developed into large companies in the world. For example, are several large companies such as Amazon, Yahoo and Ebay, the three companies use digital technology to develop their business to be as big as it is today. Therefore, digital technology has provided proper support for company operations to be more effective and efficient (Permana et al., 2019)

From a review of several literatures, it has been identified that digital capabilities are considered as one of the drivers of organizational agility (Cai et al., 2017). Digital capability refers to the company's ability to utilize digital resources to support business strategies and work processes (Lu & Ramamurthy, 2011). Researchers have identified various benefits of digital capabilities to organizational agility such as speeding up information processing, controlling business processes, and creating product innovations. (Chen et al., 2014). The supportive role of digital capabilities in managing knowledge resources can increase organizational speed and performance in new product markets (Pavlou & Sawy, 2010).

Apart from the positive influence of digital capabilities on organizations, digital capabilities are also suspected of being a trigger for rigidity and unexpected obstacles to organizational agility (Lu & Ramamurthy, 2011). While digital capabilities can increase a company's information processing capacity, the excess of information gained by decision makers can result in a company's failure to respond in a timely manner (Myeong, Kwon, & Seo, 2014). Meanwhile, the integrated enterprise systems generated by digital capabilities are claimed to be the biggest barrier to business process reengineering initiatives to cope with market changes (Lu & Ramamurthy, 2011). Based on these findings, researchers began to question the simple relationship between digital capabilities and organizational agility, so additional research is needed to clarify the relationship between digital capabilities and organizational agility (Lee, Sambamurthy, Lim, & Wei, 2015).

Strategic agility is an organization's ability to make strong strategic commitments. While at the same time maintaining an adequate fleet to manage and adapt to the ongoing changes caused by growing strategic discontinuities and disruptions (Doz & Kosonen, 2016). It consists of processes, actions, structures, culture, attributes, skills, and relationships designed to ensure the organization remains flexible in the face of new developments (Doz & Kosonen, 2016). Strategic agility is the ability to quickly recognize and seize opportunities, change course, avoid collisions and form the basis of a better approach (Ivory & Brooks, 2018).

There is another opinion regarding strategic agility, where strategic agility is the ability of management to constantly and quickly respond to a changing environment, then deliberately make the strategic steps necessary for successful implementation (Weber & Tarba, 2014). Although it has been part of the strategy discourse for about 20 years, strategic agility gained prominence following criticism that concepts such as strategic planning, resource-based views (RBV), and sustainable competitive advantage are too vague, given the extent and complexity of change (Ivory & Brooks, 2018).

The concept of absorptive capacity was created by Cohen and Levinthal. Cohen and Levinthal (1990) argues that the center of R&D is increasing a firm's capacity to identify, assimilate, and exploit new ones. knowledge gathered from the environment. Thus, they assessed absorptive capacity as a three-dimensional concept namely identification, assimilation and exploitation. Zahra and George (2002) define absorptive capacity as a set of organizational routines and processes by which firms acquire, assimilate, transform, and exploit knowledge to produce dynamic organizational capabilities.

Absorption capacity refers to the company's ability to recognize the value of new information, assimilate it, and apply it for commercial purposes (Flatten, Greve, & Brettel, 2011). Absorption capacity involves using information externally through enterprise exploratory learning, transformative learning, and exploitative learning processes. According to Zahra and George (2002), absorbtance consists of two subsets and four dimensions. This subset is the potential absorption capacity and the realized absorption capacity. Absorption potential indicates the acquisition and assimilation of knowledge; realization of absorptive capacity indicates the company's capacity to transform and exploit assimilated knowledge by incorporating it into the company's operations (Flatten et al., 2011).

Competitive advantage is one of the fundamental sources for business actors to achieve higher performance than competitors. Competitive advantage is defined as anything that an organization can do much better than its competitors, by having something that competitors do not have, and the ability to produce better products (Barney, 1991). These advantages can be achieved by utilizing resources that make the products produced more efficient and effective.

When an organization can create selling points and benefits that are better than its competitors, this reflects a competitive advantage (Torres, Ferraz, & Santos-Rodrigues, 2018). Competitive advantage can be measured by several indicators including the ability to minimize production costs, market exploration capabilities, and the ability to win better competition than competitors which are further developed as indicators of competitive advantage (Barney, 1991).

Company performance measurement is a process to measure the efficiency and effectiveness of a company's activities. Performance measurement provides information on how well a company is running, whether the company can achieve the goals that have been set and how effectively improvements have been made (Lakhal, 2009). Measurement of company performance describes information about the company's strengths and weaknesses at that time (David 2017).

This approach to performance measurement cannot simply be used directly from one company to another without considering the context (Greatbanks 2007). The effectiveness of measuring company performance is strongly influenced by the suitability of the measurement approach with the characteristics of the company being measured. Therefore, each company must choose an approach that is in accordance with the measurement objectives that take into account the company's strategy, objectives and activities (Shao, Feng, & Hu, 2016).

2.2 Hypothesis Development

From a review of several literatures, it has been identified that digital capabilities are considered as one of the drivers of organizational agility (Ravichandran, 2018). Digital

capability refers to the company's ability to utilize digital resources to support business strategies and work processes (Lu & Ramamurthy, 2011). Researchers have identified various benefits of digital capabilities to organizational agility such as speeding up information processing, controlling business processes, and creating product innovations (Chen et al., 2014). The supportive role of digital capabilities in managing knowledge resources can increase organizational speed and performance in new product markets (Pavlou & Sawy, 2010).

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Based on the explanation above, the following hypotheses can be generated:

H1: Digital capability has a positive effect on strategic agility

When an organization can create selling points and benefits that are better than its competitors, this reflects a competitive advantage (Torres et al., 2018). Competitive advantage can be measured by several indicators including the ability to minimize production costs, market exploration capabilities, and the ability to win the competition better than competitors, which are further developed as indicators of competitive advantage in this study (Barney, 1991).

One way that organizations can do in dealing with external challenges is to develop their capabilities to build a unique and sustainable competitive advantage (McLaughlin, 2012). There is a broad view regarding digitalization where the value of digital investment does not represent a source of competitive advantage, but the realization of the value of digitization that is realized through the creation and deployment of digital capabilities in the form of organizational digitalization business innovations that drive competitive advantage (Pavlou & Sawy, 2010). Organizational resources are conceptualized as a heterogeneous and specific set of distributed resources, wherein it gives rise to variations in organizational performance over time (Barney, 1991).

Based on the explanation above, the following hypotheses can be generated:

H2: Digital capabilities have a positive effect on competitive advantage.

Digital capability refers to a company's ability to mobilize and use IT-based resources to increase the value of non-IT resources (Drnevich & Croson, 2013). Flexible digital infrastructure refers to the company's ability to build a complete set of technology resources for the development of digital applications. In particular, a flexible digital infrastructure is characterized by (1) connectivity, which is the relationship between digital components and other components within the company and channel partners; (2) compatibility is the company's ability to share all types of information, such as data, video, images, text, and audio, among other things, across digital components within the company or with channel partners; and (3) modularity is the ability to add, modify, and remove infrastructure elements easily and without great overall effect (Liu, Ke, Wei, & Hua, 2013).

A flexible digital infrastructure can increase absorption capacity by increasing the reach and wealth of enterprise knowledge (Liu et al., 2013). In particular, an enterprise's ability to create a flexible digital infrastructure can help enterprises standardize, update, and connect

digital components, thereby facilitating the integration of data sources within and across organizational boundaries. More specifically, digital connectivity enables enterprises to efficiently communicate and exchange knowledge with channel partners, thereby expanding the reach of enterprise knowledge (Liu et al., 2013). In addition, digital connectivity breaks down organizational silos and enables enterprises to transfer and recombine knowledge across functional units.

Digital assimilation refers to the ability to deploy and routine digital applications in business processes within the organization (Shao et al., 2016). Specifically, this capability facilitates enterprise use of advanced digital applications (e.g., e-business technology) in coordinated business activities, such as communications, marketing, procurement, logistics and inventory (Mishra, Konana, & Barua, 2007). Digital assimilation ensures companies give strong attention to digital applications when making strategic collaboration decisions across organizations, such as customer relationship management and supply chain integration (Mishra et al., 2007).

Researchers say digital assimilation can help bridge the traditional gap between multiple functions within a company and channel partners, leading to the development of dynamic capabilities and operational capabilities. (Teo et al., 2006). Digital assimilation can facilitate knowledge management by using advanced digital applications to support inter-organizational communication and information processing (Malhotra et al., 2005).

Based on the explanation above, the following hypotheses can be generated:

H3: Digital capability has a positive effect on absorption capacity

Competitive advantage as a form of superior performance is to be achieved by the company through offering several different products where customers can eagerly pay a premium price for a product without considering offering low-priced products. The rationale behind this view is that the industry or market imposes selective pressures that firms must respond to (Christofi, Kaufmann, Vrontis, & Leonidou, 2013). A company will have a sustainable competitive advantage when it consistently produces products and services with attributes such as price, aesthetics, reliability, and image, which are correlated with the customer's main buying criteria in the market (Christofi et al., 2013).

Quick response can create a competitive advantage, because it creates time value for customers. To reach the top of the market, creating some new stuff and presenting it to customers in a fast manner is a very important requirement. The growth and survival of a company in a profitable way depends on the company's efforts to avoid inertia and become an agile company (Kumkale, 2016)

Based on the explanation above, the following hypotheses can be generated:

H4: Strategic agility has a positive effect on competitive advantage

When an organization routinely transfers knowledge from the external environment, it can enhance the development of the organization itself (Barney, 1991). From a knowledge-based perspective, when an organization has broad knowledge, the organization has more ability to learn (Liao, Chen, Hu, Chung, & Yang, 2017). Therefore, knowledge is a resource that can create a sustainable competitive advantage. For an organization, the knowledge acquisition process will depend on the absorptive capacity of the organization. (Liao et al., 2017). Therefore, absorptive capacity is one of the important sources of competitive advantage (Fosfuri & Tribó, 2008).

Escribano et al (2009) confirms the proposition, in which 2,265 Spanish companies were taken as research subjects to investigate how absorptive capacity has an effect on the external knowledge flow of organizations. The study shows that absorptive capacity is an important source of competitive advantage, especially for most industries where knowledge development

is rapidly changing and has strong intellectual property protection. Absorption capacity will increase with stakeholder experience, flexibility of organizational strategy, network capabilities, and consumer preferences (Escribano et al., 2009).

Based on the explanation above, the following hypotheses can be generated:

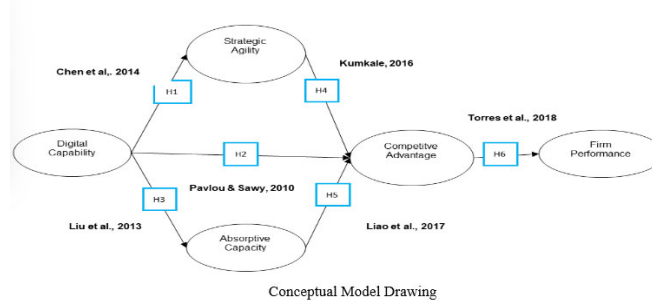
H5: Absorption capacity has a positive effect on competitive advantage.

Competitive advantage is one of the fundamental sources for business actors to achieve higher performance than competitors. These advantages can be achieved by utilizing resources that make the products produced more efficient and effective. When an organization can create selling points and benefits that are better than its competitors, this reflects a competitive advantage (Torres et al., 2018).

The success of the organization can be measured by conducting a performance assessment in achieving its goals. Organizational performance in achieving its goals is influenced by the resources owned by the organization (Sicotte et al., 1998). The resources in question can be tangible or intangible. The concept of organizational performance also describes the organization's ability to provide services to the community and its performance can be measured using performance indicators that have been set by the organization. A high-performance organization is an organization that runs smoothly without any internal pressure. Stability, predictability and control are valued, while information management, communication, and decision making are optimized as key processes.

Based on the explanation above, the following hypotheses can be generated:

H6: Competitive advantage has a positive effect on organizational performance



3 Research Method

This study intends to analyze the impact of increasing digital capabilities on the competitive advantage and performance of Tourism SMEs through the role of strategic agility and absorptive capacity. This study uses quantitative methods, and data collection techniques using a questionnaire survey method via google form. The data to be analyzed is primary data obtained from the results of a questionnaire survey distributed to SMEs.

The researcher will develop a model that describes the relationship between research variables based on the theoretical review that has been carried out in the previous chapter. In this research model, the researcher will also explain several hypotheses to be tested. To support the hypothesis testing, the researcher will explain the measurement of each variable, unit of

analysis and sample, data collection methods, research instruments, and analytical methods used.

This study uses an instrument in the form of a questionnaire using 6 Likert scales to avoid neutral answers from respondents. According to Malhotra (2009) the Likert scale is a detailed rating scale where respondents are given a scale in the form of numbers related to each category and the categories are sorted according to the position of the scale and respondents are asked to choose the specified category. The method of analysis in this study uses Structural Equation Modeling (SEM) analysis. SEM analysis aims to confirm the research model based on empirical data. The aim is to test the hypothesis of the relationship between the research variables. The evaluation of the SEM model is divided into the evaluation of the measurement model and the structural model. The measurement model describes the goodness of the relationship between the variables and their measuring items, while the structural model describes the influence between variables.

The research model is second order, that is, variables are measured by a number of dimensions and dimensions are measured by a number of question items, therefore the evaluation of the measurement model is carried out on the relationship between dimensions and measurement items (first order) and evaluation between variables and their dimensions (second order). SEM is useful as a very useful statistical tool and a must for non-experimental research, where methods for theory testing have not been thoroughly developed (Savalei & Bentler, 2010).

4 Data Analysis and Discussion

4.1 Data Analysis

This chapter includes a description of the results of data collection obtained through questionnaires, and data analysis of respondents' answers to statements and questions in the questionnaire. This chapter also consists of a descriptive analysis that looks at the general description of the respondent or the respondent's profile, and a Structural Equation Modeling (SEM) analysis with a PLS approach to test the research hypothesis.

In addition, this chapter describes a discussion of each analysis result, to provide a review of the results of the study and a review of how the results of this study compared with the results of previous studies at different times and places, as well as a review of the reasons that support or contradict the results of previous studies. at different times and places. The discussion also describes how the ideal conditions or improvements can be made by the hospital to increase the expected results based on the existing literature.

In this study, the results of the evaluation of the structural model are a test of the research hypothesis if the resulting path coefficient has a t statistic above 1.96 then the relationship between variables has a significant influence.

Hypothesis test

Hypothesis	Hypothesis Statement	Path Coefficient	T Statistics	P Values	Description
H1	Digital Ability -> Strategy Agility	0.696	11,040	0.000	Hypothesis Accepted
H2	Digital Capability -> Competitive Advantage	-0.007	0.110	0.912	Hypothesis Rejected
H3	Digital Ability -> Absorption Ability	0.694	11.161	0.000	Hypothesis Accepted

H4	Strategy Agility -> Competitive Advantage	0.336	3.924	0.000	Hypothesis Accepted
H5	Absorption Ability -> Competitive Advantage	0.627	7331	0.000	Hypothesis Accepted
H6	Competitive Advantage -> Performance	0.833	29,172	0.000	Hypothesis Accepted

Based on the results of testing the hypothesis above, it is known as follows:

- The first hypothesis (H1) is the effect of Digital Ability on Strategic Agility with path coefficient (0.696) and T statistic (11.040 > 1.96) or p-value (0.000 < 0.05). Any improvement in digital capabilities will directly increase strategic agility
- Second hypothesis (H2) namely the effect of Digital Ability on Competitive Advantage rejected with path coefficient (-0.007) and T statistic (0.110 < 1.96) or p-value (0.912 > 0.05). Any changes in digital capabilities do not directly increase competitive advantage.
- Hypothesis H3 namely the effect of Digital Ability on Absorption Capacity is accepted with path coefficient (0.694) and T Statistics (11,161 > 1.96) or p-value (0.000 < 0.05). Any changes to digital capabilities will directly increase the absorption capacity.
- Hypothesis H4 is the effect of Strategic Agility towards Competitive Advantage is accepted with path coefficient (0.336) and T statistic (3.924 > 1.96) or p-value (0.000 < 0.05). Changes in strategic agility will significantly increase competitive advantage.
- Hypothesis H5 namely the influence of Absorption Ability on Competitive Advantage accepted with path coefficient 0.627 and T Statistics (7,331 > 1.96) or p-value (0.000 < 0.05). Every change in the absorption capacity is significantly directly increasing the competitive advantage.
- Hypothesis H6 namely the effect of Competitive Advantage on Performance is accepted with a path coefficient of 0.833 and T statistic (29,172 > 1.96) or p-value (0,000 < 0,05). Every change in competitive advantage significantly improves performance.

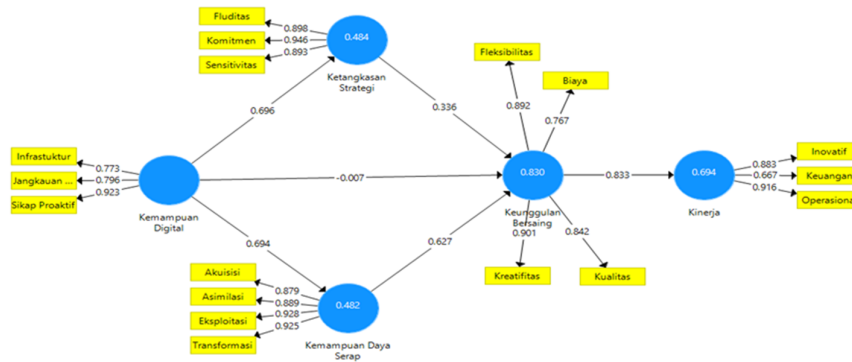


Figure T Statistical Structural Model

Evaluation of the quality and fit of the model means evaluating the entire model. This evaluation consists of R Square and Q Square Redundancy.

Table R square

R Square

Absorption Ability	0.482
Strategy Agility	0.484
Competitive Advantage	0.830
Performance	0.694

Based on the table above, it can be seen as follows:

- The magnitude of the influence of digital capabilities on absorption capacity is 48.2%
- The magnitude of the influence of digital capabilities on strategic agility is 48.4%
- The magnitude of the influence of digital capabilities, absorption capacity and strategic agility on competitive advantage is 83%
- The magnitude of the influence of competitive advantage on performance is 69.4%

Table Q square Redundancy

	Q Square Redundancy
Absorption Ability	0.388
Strategy Agility	0.397
Competitive Advantage	0.590
Performance	0.448

SEM PLS is a variance-based SEM analysis with prediction purposes. Therefore, the size of Q square redundancy is used as a measure to show the goodness of the prediction model produced. According to Hair et al (2017) if the value of Q square redundancy is above 0, the model shows predictive relevance. These results indicate that the influence between the variables built in the model has a good predictive ability.

4.2 Discussion

4.2.1 Digital Capability Affects Strategic Agility (H1 Accepted)

The results of the research that has been conducted on 118 SMEs show that digital capabilities can influence strategic agility, this supports the research that has been carried out by Ravichandran (2018) digital capabilities are considered as one of the drivers of organizational agility. In general, the results of this study support several previous theories related to digital capabilities and strategic agility which show that improving the digital capabilities of SMEs is beneficial in optimizing every new opportunity and opportunity in a constantly changing market.

This is very important because increasing digital capabilities will make it easier for SMEs to innovate products as part of the adaptation process of SMEs in meeting changing market demands. This is in line with the research conducted by Chen et al., (2014) in which the research identified various benefits of digital capabilities on organizational agility such as accelerating information processing, controlling business processes, and creating product innovation.

In this study, the strongest dimension of digital capability in influencing strategic change is the proactive attitude of SME players in enhancing digital capabilities. In a dynamic environment like today, it is necessary to have an initiative and active attitude from SMEs. Today's digital capabilities are very much needed considering the development of technology in the world is accelerating, so that every market behavior will change following technological developments that occur. In addition, considering that the current business climate is unstable

due to the Covid 19 pandemic, forcing every business and business activity to be carried out through digital media.

It is a challenge for SMEs in the tourism sector who are most affected by the Covid 19 pandemic to be able to adapt to environmental changes that occur. The belief of SMEs that by developing the use of digital media can optimize current business processes is very important to do. The limitations in conducting face-to-face transactions in the era of the Covid-19 pandemic certainly encourage SMEs in the tourism sector to be more active in utilizing digital media as part of the business processes that must be carried out. The use of digital platforms to open hotel room reservations, order souvenirs or even be used to replace the tour guide business process has been widely carried out by SMEs in the tourism sector.

The use of digital technology provides convenience in assisting SME players in running their business, besides that the current use of digital technology can increase the business reach of SME players not only limited to domestic customers but open to overseas customers. Some of these things can certainly help SMEs to respond more quickly to any environmental changes that occur. The supportive role of digital capabilities in managing knowledge resources can increase organizational speed and performance in new product markets (Pavlou & Sawy, 2010).
4.2.2 Digital Capability Affects Competitive Advantage (H2 Rejected)

The results of this study indicate that digital capabilities do not affect competitive advantage, this has been explained in a study conducted by Pavlou & Sawy (2010) It has been identified that there is a broad view of digitalization where the value of digital investment does not represent a source of competitive advantage, but the realization of the value of digitization that is realized through the creation and deployment of digital capabilities in the form of organizational digitalization business innovations that drive competitive advantage.

In an organization's efforts to achieve the desired results, a focus on digital capabilities has become important in recent years. Digital capability refers to a company's ability to mobilize and use IT-based resources to increase the value of non-IT resources (Drnevich&Croson, 2013). In his research Permana et al (2019) explained based on the results of research that has been done that the digital capability variable has no significant effect on the competitive advantage variable.

There is a difference in meaning between digital capabilities and digital capabilities themselves. Qosasi & Permana, (2017) define digital capability as the ability of business owners to utilize digital media/information technology to support their business. Information technology itself is a set of technologies used by an organization to create, process, and disseminate information in all possible forms. Therefore, information technology supports the company's operations (Permana et al., 2019).

However, this result is in line with the 2014 OECD publication which stated that one of the weaknesses of SMEs is the limited ability and aggressiveness of SME owners and workers to improve business performance by utilizing digital media. There are several factors that can prevent SMEs from using the internet. These factors are different types of business processes, lack of knowledge in terms of internet operation, lack of internet managerial skills, lack of internet connection and computer availability, lack of trust and internet security, and high levels of trust in computer maintenance and development.

In this study, digital capabilities do not affect competitive advantage because in reality SMEs have not been able to optimize digital utilization optimally. With the rapid development of technology, SMEs are one of the industries that do not take advantage of technological developments to be used as advantages in running their business. Currently, all business actors have utilized digital optimally, both for the development of company operational processes or the development of business networks outside the company.

This is needed so that SMEs can take advantage of every new opportunity in a market that is constantly changing as it is today. The ability of SMEs in carrying out digital transformation to innovate products and services will of course highlight the advantages of the value of the products and services offered compared to other competitors.

In addition, the basic limitation that makes it difficult for SME business actors to make digital capability a competitive advantage is the lack of encouragement to carry out digital transformation so that the level of desire of SME players to increase their knowledge and capital is still very limited. It is common knowledge that SMEs have limited capital and knowledge, both of which are inhibiting factors for the competitive advantage of tourism SMEs. Based on PP no. 43 of 2020, the government created an assistance program for SMEs affected by the Covid 19 pandemic, the assistance provided included the provision of credit funds through the LPDB for SME Cooperatives, loan interest concessions, and a presidential assistance program for SME businesses.

The capital dependence of SME actors on the government is still very large so that SME actors are not able to be flexible in dealing with very fast environmental changes. Competitive advantage can be measured by several indicators including the ability to minimize production costs, market exploration capabilities, and the ability to win the competition better than competitors, which are further developed as indicators of competitive advantage (Barney, 1991). The ease of digital access that has been applied in Indonesia at this time should be used by SME actors to increase their knowledge regarding how tourism SME actors are able to utilize the ease of digital access they get. Through this ease of access, SMEs can easily receive new knowledge and information to increase the value of their products and services.

4.2.3 Digital Ability Has an Influence on Absorption Capacity (H3 Accepted)

The results of this study indicate that digital capabilities affect the absorption capacity of SMEs. This supports the research that has been done by Mishra et al (2007) where digital assimilation refers to the ability to deploy and routine digital applications in business processes within the organization. In particular, this capability facilitates enterprise use of advanced digital applications (e.g., e-business technology) in coordinated business activities, such as communications, marketing, procurement, logistics, and inventory.

In particular, an enterprise's ability to create a flexible digital infrastructure can help enterprises standardize, update, and connect digital components, thereby facilitating the integration of data sources within and across organizational boundaries. More specifically, digital connectivity enables enterprises to efficiently communicate and exchange knowledge with channel partners, thereby expanding the reach of enterprise knowledge (Liu et al., 2013).

Based on the results of this study, it shows that the proactive dimension in digital capabilities is useful in increasing the knowledge of SMEs in the tourism sector. The confidence of SMEs in utilizing applications and digital media has a positive impact on increasing the level of knowledge possessed by SME organizations, because by utilizing digital media information that can be obtained by all members of the organization can increase. Both information sourced from within the organization or from outside the organization.

Increasing the digital capabilities of SMEs will of course also help organizations provide information and knowledge in innovating products and services. In addition, with the increasing infrastructure and digital knowledge, the potential for information and knowledge that will be obtained by SMEs will be greater and wider. By utilizing applications and digital media, it is easier for SMEs to evaluate information related to the advantages and disadvantages of the products produced, besides that it is also easy for organizations to receive new information and knowledge to increase the value of the products produced.

4.2.4 Strategic Agility Affects Competitive Advantage (H4 Accepted)

The results of this study indicate that strategic agility affects competitive advantage, supporting the research that has been done by Kumkale (2016) where the organization's rapid response can create a competitive advantage, because it creates time value for the customer. The growth and survival of a company in a profitable way depends on the company's efforts to avoid inertia and become an agile company.

The environmental dynamism that occurs in the tourism industry encourages SMEs to compete in offering the best products and services, especially in developing product and service innovations. The level of success of the organization in having superior value in its products and services cannot be separated from the company's ability to move quickly to take advantage of every new opportunity in the market. Strategic agility is very important for tourism SME players considering the current business climate is experiencing a crisis, so that the superior value of the products and services offered is very influential for customers in deciding to purchase products and services.

Based on the results of this study indicate that the dimension of commitment in strategic agility is useful in increasing the competitive advantage of SMEs in the tourism sector. With the creation of cohesiveness and togetherness within the organization, it is easier for organizations to quickly take action in a volatile market. The cohesiveness and togetherness that is grown within the organization can also reduce the occurrence of rejection of new ideas that will be developed by SME organizations. The common purpose in the organization makes it easier for organizations to move and adapt in a new market environment.

Strategic agility is very important in the current crisis, because SMEs are required to keep up with new market demands and developments. With the organization's ability to quickly take action, innovate or change, SME organizations can provide flexibility in the products and services that will be offered to customers. The level of flexibility of the products and services produced will certainly be an added value for the organization and provide a competitive advantage over other competitors. A company will have a sustainable competitive advantage when it consistently produces products and services with attributes such as price, aesthetics, reliability, and image, which are correlated with the customer's main buying criteria in the market (Christofi et al., 2013).

4.2.5 Absorption Capacity Affecting Competitive Advantage (H5 Accepted)

The results of this study indicate that the absorption capacity has an effect on competitive advantage. This supports the research that has been done by Fosfuri and Tribo(2008) where absorptive capacity is an important source of competitive advantage. Therefore, knowledge is a resource that can create a sustainable competitive advantage. For an organization, the knowledge acquisition process will depend on the absorptive capacity of the organization. (Liao et al., 2017).

In this study, the acquisition dimension is the highest dimension of absorption capacity that affects competitive advantage. The attitude of the organization to be active in interacting with stakeholders such as customers, suppliers and competitors in this study is very useful for increasing the knowledge possessed by SME organizations. The new information and knowledge gained through these interactions can be used to improve the quality of products and services through the innovation process.

It is proven that in the current turbulent conditions, SMEs are currently trying to increase their knowledge in the digital field. Digital developments that occur today are unavoidable and force SMEs to learn to increase their knowledge through the information they get from internal and external sources. Currently the use of digital is one of the competitive advantages in the SME industry, companies that still use the traditional method will be far behind in business development compared to SME companies that already utilize digital technology.

In his research Escribano et al (2009) emphasizes that absorptive capacity has an effect on the external knowledge flow of the organization. The study shows that absorptive capacity is an important source of competitive advantage, especially for most industries where knowledge development is rapidly changing and has strong intellectual property protection. Absorption capacity will increase with stakeholder experience, flexibility of organizational strategy, network capabilities, and consumer preferences (Escribano et al., 2009).

4.2.6 Competitive Advantage Affects Performance (H6 Accepted)

The results of this study indicate that competitive advantage affects organizational performance. This supports the research conducted by Torres and Feraz(2018)where competitive advantage is one of the fundamental sources for business actors to achieve higher performance than competitors. These advantages can be achieved by utilizing resources more efficiently and effectively, it can encourage organizations to create better selling value and product benefits.

In addition, the results of this study also support the research that has been done previously by Peteraf and Barney (2003) where an organization that has achieved a competitive advantage has created more economic value than its competitors. Economic value is generally created by producing products and or services with greater benefits at the same cost compared to competitors or the same benefits at lower costs than competitors. Products or services with superior benefits tend to increase customer loyalty and perceived quality (Zou, Fang, & Zhao, 2003).

In this study, the highest dimension of competitive advantage that affects performance is creativity. The creativity of SMEs will increase considering that the development of knowledge in the digital field is very useful to help the operational processes of SMEs. It can be proven at this time where the majority of SME players are currently using digital applications to make it easier for organizations to carry out their operations, in addition to assisting in internal evaluation of the use of digital applications to increase the efficiency and effectiveness of the organization in running its business. In addition, increasing the capabilities and knowledge gained by SME organizations in the digital field is certainly very helpful in increasing product and service innovation on offer.

The impact of today's creative use of digital can help SMEs increase sales and reduce costs. An organization that gains a competitive advantage either in the form of greater benefits at the same cost, or the same benefits at a lower cost will be able to improve its performance in a way that its competitors cannot (Newbert, 2007).

4.2.7 Analysisist

Through the results of this study, it is possible to find updates and support for previous research related to the impact of digital capabilities on competitive advantage and performance of Tourism SMEs through the role of strategic agility and absorption capacity. This study proves that strategic agility and absorptive capacity have a mediating role between digital capabilities on competitive advantage and SME organizational performance.

First, the results of this study support the research that has been carried out by Ravichandran (2018) and Mishra et al., (2007) related to the direct influence of digital capabilities on strategic agility and absorptive capacity. Digital capabilities have an important role in shaping and enhancing strategic agility and absorptive capacity. With the development of digital technology that is very fast, it forces and encourages SMEs to improve their digital capabilities, both from improving digital infrastructure, being pro-active or trying to increase the business reach of SMEs. Where the role of the proactive attitude dimension of the SME organization has the highest role in influencing strategic agility and absorption capacity.

Second, the results of this study support the research that has been done by Kumkale (2016) and Phosphory and Tribo (2008) related to the direct influence of strategic agility and absorptive capacity on competitive advantage. The role of strategic agility and absorptive capacity as mediating the relationship between digital capabilities and competitive advantage is very important for SMEs in increasing the expected performance. Organizational commitment as the highest dimension of strategic agility has an important role in the formation of creativity in competitive advantage.

In addition, the organization's active attitude in interacting with stakeholders, through this research is very useful for organizations to add new information and knowledge. The development of such knowledge is one of the important values in increasing the competitive advantage of the organization and can indirectly affect the performance of the organization.

Third, although the results of this study the formation of digital capabilities does not affect the formation of competitive advantage, it is interesting enough to be used as an evaluation for SME companies in the tourism sector related to the problems that limit the influence of digital capabilities on the formation of competitive advantage. Through this research, it can be explained that the digital capabilities of SME organizations do not automatically have a competitive advantage, it takes the development and dissemination of these digital capabilities in order to create added value for the organization. One of the developments and deployments of digital capabilities is through strategic agility and absorption capacity.

The attitude of commitment and interaction of the SME organization in increasing knowledge can help the digital capabilities that the organization already has to become an added value for organizational excellence. This is very important because to become an advantage, it requires the form of product and service innovation offered, where the innovation process can be assisted through the commitment and active attitude of the organization in seeking new knowledge through interaction with stakeholders.

5 Conclusions and Implications

5.1 Conclusion

This research was conducted to determine the effect of digital capabilities on competitive advantage and performance of Tourism SMEs through the role of strategic agility and absorption capacity. The results of this study prove how important the role of digital capabilities, strategic agility, absorption capacity and competitive advantage on the performance of Tourism SMEs. In today's turbulent environmental conditions, SMEs are still required to survive and produce the expected performance.

Through this research, it can be concluded that organizational performance will be better if it increases its digital capabilities because this variable has an indirect effect (through strategic agility, absorption capacity and competitive advantage) on performance. With this conclusion, it can be interpreted that by increasing the digital capabilities of SMEs, they will be able to directly increase strategic agility and absorption capacity. Increasing strategic agility and absorptive capacity will indirectly improve the strategic renewal process and the expected performance results of SMEs. Where through this research the effect of absorptive capacity is greater than strategic agility in assisting the mediating role between digital capabilities and competitive advantage.

Through this study, it can be concluded that organizational performance will be better if it increases strategic agility and absorption capacity because these two variables have an indirect effect (through competitive advantage) on performance. With this conclusion, it can be interpreted that by increasing strategic agility and absorption capacity, SMEs will be able to

increase the success of the strategic renewal process directly. Increased strategic renewal will indirectly help SMEs in achieving the desired performance results. Organizational performance will be better if it makes an increase in competitive advantage because this variable has a direct influence on performance. It can be concluded that with the increasing success of strategic reform, it can directly help SMEs achieve the desired performance. However, in this study, increasing digital capabilities does not have a direct effect on the organization's competitive advantage. So that to achieve competitive advantage, the formation of digital capabilities of SMEs must go through the mediating role of strategic agility and absorption capacity.

5.2 Managerial Implications

5.2.1 Increasing the Digital Capability of SMEs

Based on the results of this study, an evaluation can be made that SMEs need sufficient resources in forming and improving digital capabilities. Although digital capabilities are already owned by some tourism SME actors in Indonesia, increasing digital capabilities in the form of infrastructure, business reach, and the proactive attitude of SME actors needs to be improved. It should be realized that at this time not all SME players have the ability to carry out sufficient digital transformation, especially in turbulent conditions such as the current digital transformation process is needed to increase the organization's competitive advantage. Awareness of the importance of developing digital capabilities for the digital transformation process of SME actors is currently still very low considering that SMEs in the tourism sector are one of the industries most affected by the Covid 19 pandemic.

The use of digital transformation will greatly assist SMEs in carrying out operational processes and selling products and services. In addition to increasing cost effectiveness and efficiency, the use of digital media can expand the reach of business that can be obtained by organizations in marketing their products and services easily and quickly to customers. At this time, the availability of digital services that are quite easy and can help SMEs in running their business. The availability of digital platforms can be utilized by SMEs as part of developing digital capabilities towards the digital transformation process.

5.2.2 Improved Response and Knowledge

In this study, it is very clearly proven that competitive advantage can increase if it is supported by strategic agility and increased organizational capacity. In such turbulent conditions, it requires a strong commitment from every member of the organization within SMEs to jointly build and strive to achieve common goals. Weaknesses of SMEs in building sensitivity and organizational commitment must be corrected considering that in a turbulent environment, a strong sense of urgency is required. This attitude must be cultivated by SMEs today because market turmoil will lead to changes in opportunities that SMEs can take advantage of by improving and innovating the products and services offered.

In addition to the need to improve attitudes, SMEs need to increase new knowledge through information that can be obtained through interaction with stakeholders or through digital media. The value of the creativity of SMEs can increase if they are equipped with sufficient knowledge. By utilizing digital technology, SMEs should be able to easily increase their knowledge by obtaining some important information through external sources of the organization. In addition, the activeness of the organization in following directions and seminars organized by policy makers is very important to provide information related to new opportunities that can be obtained from market changes that occur at this time.

5.2.3 Strengthening External and Internal Networks

As a tourist destination country, the implementation of new policies due to the Covid-19 pandemic must immediately be adjusted to the direction of focus of foreign tourists who want

to go. The limitations of foreign tourists who are allowed to visit Indonesia should encourage SMEs to switch to domestic tourists. Given the very large population of Indonesia, SMEs should be able to use it well in the tourism sector. One way that can be applied is to collaborate with various companies related to the SME business in the tourism sector.

In addition, studying the habits and interests of domestic tourists by adjusting the product and service offerings to be offered. Both in terms of value needs, price and product quality. Of course, the level of creativity of SME actors in providing value to the products and services offered is very important for the survival of the SME business actors. The more creative the SMEs in offering products and services, the greater the probability that the products and services offered will succeed in the market.

Creative forms of products and services offered, such as giving special discounts to domestic tourists, making souvenirs suitable for domestic tourists, or implementing good health protocol standards to encourage tourists to get comfortable when visiting hotels or kiosks for SMEs. From the internal side, a strong commitment among employees of tourism SMEs is very important for the progress and resilience of SMEs in facing the current crisis. In a crisis, everything becomes more sensitive because sometimes a leader will make decisions that are popular and cannot be accepted by all parties in the organization. However, this decision must be made because it is a process for SMEs in adapting to a new environment. Without a joint commitment, tourism SME business actors will have difficulty surviving in crisis conditions.

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