

# **BUSINESS GROWTH STRATEGY ON TELCO INDONESIA THROUGH DYNAMIC CAPABILITY AND SUPPLY CHAIN MANAGEMENT WITH COMPETITIVE STRATEGY AS DRIVER FACTOR**

**Dani Ramdani, Universitas Padjadjaran  
Ina Primiana, Universitas Padjadjaran  
Umi Kaltum, Universtas Padjadjaran  
Yudi Azis, Universitas Padjadjaran**

## **ABSTRACT**

*Digital technology is a disruptive innovation which has the ability to decrease the income of Telco industry. Most worldwide companies that run in Telco industrial have been experiencing negative growth in business performance. This is also happening in Indonesia. The company is strengthening its supply chain management system and strengthening dynamic capability. The company also conducts various competitive strategies to grow the business performance. Although the effort has been done, but the threat of decreased business performance due to digital technology is still existed and getting stronger.*

*This journal studies how is the influence of strengthening dynamic capability and strengthening supply chain management on business performance. How is the influence of strengthening dynamic capability and supply chain management on competitive strategy? And how is the influence of competitive strategy on business performance.*

*This research uses quantitative method. This study focuses on the company's business Telco industry in Indonesia, whereas 320 managers whose represent 46 business units and its subsidiaries of Telco industry have joined this census of research.*

*The result of this study shows that the business performance of digital Telco industry in Indonesia is significantly influenced by the effort of strengthening dynamic capability, supply chain management and competitive strategy. The results also found that competitive strategy is the biggest factor for growing business performance or as the driver factor for business growth.*

**Keywords:** Business Growth, Supply Chain Technology, Digital Technology.

## **INTRODUCTION**

A disruptive innovation expert, Christensen (2013), has stated earlier that Telco industry is an object of disruptive innovation. The company that runs in Telco services, either mobile phone or fixed pone can experience bankruptcy caused by the player who owned the disruptive innovation. Heinrich (2016) has proved what is delivered by Christensen (2013) indicates a fact. He reported that China Mobile, Deutsche Telekom and Telephonic also lost their income in the amount of \$386 billion due to the presence of these applications: Skype, WhatsApp and etc. (since 2002 until 2008). Telco companies in Indonesia have experienced how the Disruptive innovation negatively affected their business growth.

Disruptive Innovation has made the Telco companies in Indonesia becomes a complex. In one side, company must follow the lifestyles of its digital customers, with the characteristic that is always on line. The quality of service products is demanded to be better, but the rates are getting cheaper. On the other hand, companies must be able to sustain business growth. Production tools must be upgraded with digital technology. The skills of employees and officers must be upgraded to run the digital business.

Business growth is also conducted by performing competitive strategy. Nevertheless, competitive strategy that we already know such as: cost leadership, product differentiation and focus for a particular market segment; seem to be less effective in the environment of this disruptive innovation. A new strategy that is relevant to the digital business environment is still needed.

## LITERATURE REVIEW

Dynamic capability is a manifestation of corporate efforts in improving the ability over the rapid business environment changes, by configuring and optimizing resources, both on the internal and external of companies. This definition was delivered by Teece, Pisano & Shuen (1997), the lecturer of dynamic capability. Then, one of the researchers who also completed it was Winter (2003). He delivered the concept of dynamic capability that includes not only developing or modifying the existing company habits or capabilities, but also creating new things or habits (New Capability).

The relation between dynamic capability and competitive strategy was delivered by Allred et al. (2011). The study of Allred et al. (2011) concluded that dynamic capability is embryo to get competitive advantage. Then the relation between dynamic capability and business performance has been reviewed by some management experts. One of them is Teece (2014). The Teece (2014) study concluded that dynamic capability which is able to improve enterprise's performance is the embryo to achieve competitive advantage.

According to Chopra & Meindl (2001), Supply Chain Management is the success factor of the company in competing, whereas company has the capability to fulfill and adopting the customer requirements by providing the product and services as required, maintaining process quality in every integrated supply chain from the supplier until the customer. While Cohen & Roussel (2004) believed that supply chain management is a core process of a company. According to Cohen & Roussel (2004) the system of supply chain management will be able to improve company performance by applying these:

1. Aligning supply chain management with company business strategy,
2. Developing end-to-end process design,
3. Building the right collaboration,
4. Operating the advanced supply chain management organization,
5. Using the relevant key performance indicators to improve supply chain management performance.

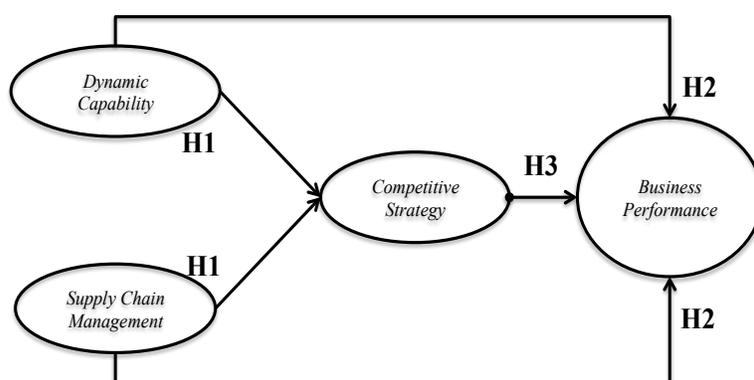
According to Ambe (2010), the fluctuated environmental condition and tight competition, then agile supply chain management is the relevant choice. While the study results of Gonzalez-Loureiro, Dabic & Kiessling (2015) concluded that supply chain management is the key success to develop a competitive strategy.

The relation between business performance and supply chain management has been reviewed by Morash (2001). Morash (2001) who concluded that supply chain management has a positive impact on business performance.

## RESEARCH PARADIGM

Some researchers have conducted studies related to dynamic capability, supply chain management, competitive strategy and business performance. Researchers who have done it include: Allred et al. (2011) has shown a relation between dynamic capability and competitive strategy. Teece (2014) has shown the relation between business performance and dynamic capability. Gonzalez-Loureiro, Dabic & Kiessling (2015) has shown a link between Supply chain management and competitive strategy. And Morash (2001) has shown a relation between business performance and supply chain management.

Referring to some of these studies, then it can be constructed into a paradigm configuration of research that needs further investigation, as in Figure 1. The Paradigm Structure of Research.



**FIGURE 1**  
**THE PARADIGM STRUCTURE OF RESEARCH**

Statistical hypothesis (Ho) and an alternative hypothesis (H) as follow:

- Ho1: The effectiveness of Competitive Strategy is not influenced by the strengthening of Dynamic Capability and the strengthening of Supply Chain Management.*
- Ho2: Business Performance is not influenced by the strengthening of Dynamic Capability and the strengthening of Supply Chain Management.*
- Ho3: Business Performance is not influenced by the effectiveness of Competitive Strategy.*
- H1: The effectiveness of Competitive Strategy is influenced by the strengthening of Dynamic Capability and the strengthening of Supply Chain Management.*
- H2: Business Performance is influenced by the strengthening of Dynamic Capability and the strengthening of Supply Chain Management.*
- H3: Business Performance is influenced by the effectiveness of Competitive Strategy.*

## RESEARCH METHODOLOGY

This research intends to define how is the influence of strengthening the dynamic capability and strengthening the supply chain management on the effectiveness of competitive

strategy. How is the influence of strengthening the supply chain management and dynamic capability on business performance? Also how is the influence of the effectiveness of competitive strategy on business performance? To assure how the interrelation happens, the test is done by quantitative research.

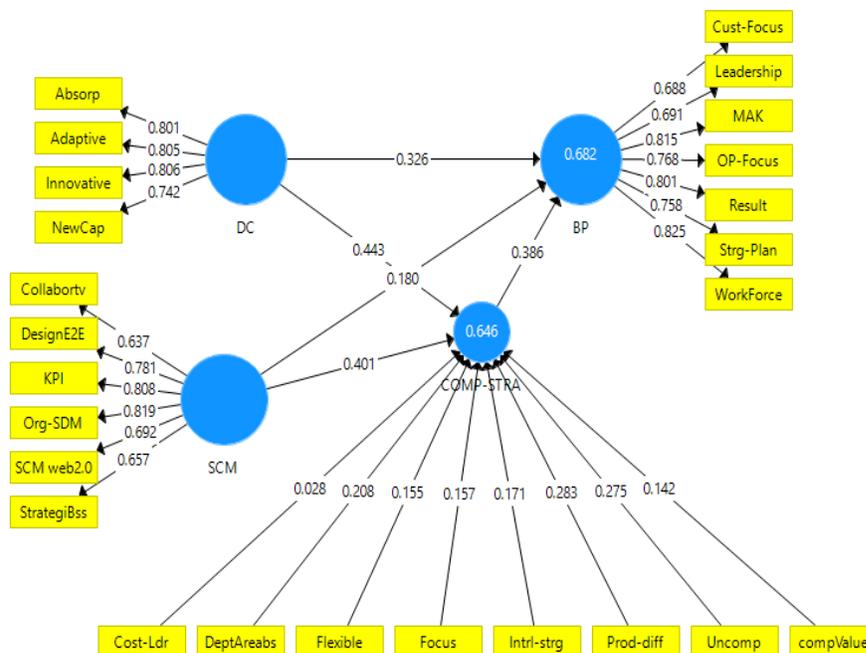
The research is conducted by sampling with spreading questionnaire to 320 managers as the observation unit. The 320 managers come from 46 digital Telco industries as the unit's analysis of all business units or subsidiary of companies that run in digital Telco industry.

The Questionnaire contains how are the condition and the performance of Telco digital company in performing the strengthening of dynamic capability, the strengthening of supply chain management, the use of competitive strategy and the use of evaluation method of business performance. To these questionnaire, the respondents give the act of strongly disagree (1) until agree (7), on the scale of the Likert scale interval.

The Data processing is conducted by using PLS statistics. The result of PLS statistical analysis is evaluated and analyzed by taking parameters of R square ( $R^2$ ) to see whether the studied research structure is appropriate or not and P-value to know the significant interrelation between variables.

### RESULTS

The results of PLS statistical method overcome a path coefficient-structural model as shown in Figure 2.



**FIGURE 2**  
**THE STRUCTURAL MODEL-PATH COEFFICIENT**

This configuration structure has R square ( $R^2$ ) Table 1 as follow:

	<b>R Square</b>	<b>R Square Adjusted</b>
BP	0.682	0.679
COMP-STRA	0.646	0.644

The structure of this research has an R square ( $R^2$ ) value of 0.682. According to Gozali (2008) the structure of research with R square ( $R^2$ ) above 0.67 is strong. It indicates that the test result, which is the interrelation among the variables of dynamic capability, supply chain management, competitive strategy and business performance, is strong. The Path-Coefficient and level of trust on the interrelation among the variables of dynamic capability, supply chain management, competitive strategy and business performance can be seen in Table 2 as follow.

	<b>Original Sample(O)</b>	<b>Sample Mean (M)</b>	<b>Standard Deviation (STDEV)</b>	<b>T Statistics (O/STDEV)</b>	<b>P Values</b>
COMP-STRA -> BP	0.386	0.400	0.068	5.701	0.000
DC -> BP	0.326	0.317	0.070	4.671	0.000
DC -> COMP-STRA	0.443	0.445	0.067	6.616	0.000
SCM -> BP	0.180	0.176	0.061	2.941	0.003
SCM -> COMP-STRA	0.401	0.404	0.065	6.135	0.000

The result of this statistical analysis shows that Ho1 is rejected and H1 hypothesis is acceptable. H1 states an interrelation among competitive strategy variable, dynamic capability variable and supply chain management variable. The effectiveness of competitive strategy is influenced by the strengthening of dynamic capability and supply chain management. The results of this study strengthen and match the results of previous studies. The Study of Allred et al. (2011) has delivered the result that dynamic capability is the embryo to gain competitive advantage. While the study of Gonzalez-Loureiro, Dabic & Kiessling (2015), concluded that supply chain management is the key success in developing competitive strategy.

The Ho2 hypothesis is rejected and H2 hypothesis is acceptable. This means Business Performance is influenced by the strengthening of Dynamic Capability and the strengthening of Supply Chain Management. This result is in accordance with some other studies that have been done before. The study conducted by Teece (2014) concluded that dynamic capability can improve enterprise performance. Similar to Morash's study (2001) which is concluded that Supply chain management has a positive impact on business performance.

The Ho3 hypothesis is rejected and H3 hypothesis is acceptable. This statistical result concludes that the effectiveness of competitive strategy is significantly influenced the business performance. This result strengthens the conclusion from the master of strategic Porter (1980), that competitive strategy is a way to defeat competitor, constantly increasing the company business performance.

Business performance is influenced by three factors, which are: dynamic capability, supply chain management and competitive strategy. Among those three factors, competitive

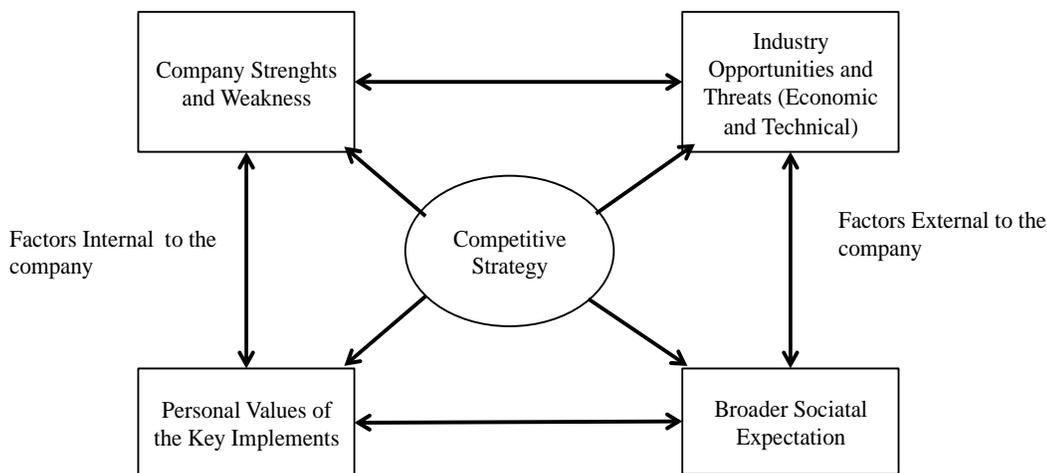
strategy gives the most powerful influence on business performance. It can be seen from the statistical parameter off square ( $f^2$ ) on Table 3 as follows.

<b>Table 3</b> <b>F<sup>2</sup> PARAMETER</b>	
	<b>BP</b>
BP	
COMP-STRA	0.166
DC	0.095
SCM	0.030

The value of  $f^2$  Competitive Strategy is  $0.166 > 0.15$ , which according to Gozali (2008) is strong enough. The value of  $f^2$  Competitive Strategy (0.166) is greater than the value of  $f^2$  on dynamic capability (0.095) and Supply Chain Management (0.03). Thus, the influence of Competitive Strategy is stronger than the influence of Dynamic Capability and Supply Chain Management. Thus, Competitive Strategy plays the role as a driver factor to increase business growth.

**DISCUSSION: DRIVER FACTOR FOR BUSINESS GROWTH**

Porter (1980) has explained about how Competitive Strategy is built by the company as seen on Figure 3.



**FIGURE 3**  
**COMPETITIVE STRATEGY**

To build an effective competitive strategy, the company must consider 4 factors. Two factors come from internal and two other factors come from the external of the company. Internal factors: First thing is the company must be able to identify the company’s strengths and weaknesses, including product and service quality, the use of technology, marketing power, financial strength and others. Secondly, the people factor who performs the operational of the company, including motivation and work spirit, always improving competencies, innovated and others. Two external factors are the constraints and threats both economic and technical, which

suppress the company. Two external factors are social expectation factor between government regulations, social environment and others.

From the explanation of competitive strategy delivered by Porter (1980), it is actually similar with the results of this study. The people factor is the object of dynamic capability. The social expectation broader factor that should be identified by the company is the part of absorption capability. This capability is part of dynamic capability. Then, strength, weakness, opportunity and threats can be controlled well through the company's supply chain management system. Thus, the explanation of Porter (1980) on competitive strategy is in line with Telco industry efforts in Indonesia by strengthening dynamic capability and strengthening supply chain management.

Nevertheless, does the competitive strategy model developed by Porter (1980) is still effective along with the presence of digital technology as disruptive innovation? McGrath (2013) believed that the presence of digital technology as disruptive innovation has caused the competitive advantage of the company would soon be disappearing in a while. This concept is known as the Transient Competitive Advantage concept. This theory says that the theory of competitive advantage that has been used nowadays is no longer relevant when the business environment conditions are fluctuated and rapidly changing. This fluctuating and rapidly changing business environment is affected by the emergence of digital technology as disruptive innovation.

The Telco industry lately has been enjoyed the business of voice mail and SMS services as Cash Cow Company. This voice mail service becomes the largest and most dominant revenue for Telco companies in Indonesia. As soon as digital application offers customers with free registration, free applications and more powerful technology service features than SMS technology, all Telco operators are no longer able to withstand the decline on business performance of this voice mail business services. The same condition happens to SMS services.

The concept of competitive advantage is no longer relevant. Any cost leadership or any type of product differentiation or a strategy focus on any segment, will still not is able to compete digital company. In the rapidly changing business environment, especially in Telco industry in Indonesia, the suggestion of McGrath (2013) to develop new business arena needs to be considered.

The suggestions of McGrath (2013) to always develop a new business arena should be adopted by Telco digital company in Indonesia as part of competitive strategy of the company. Companies that develop new business arena is considered as the company which creating blue oceans. To create the Blue Ocean means creating opportunity to increase business growth.

Companies that only create blue oceans are not enough. Companies that do not provide added value to customers, even though they are blue oceans, they will not attract new customers. Therefore, in addition to develop the development strategies of new business arena, the company should also have a comparative value strategy. This strategy provides added value to users, as well as being a value of excellence compared to its competitors. Therefore, an effective competitive strategy is developing new business arena and developing comparative value.

In this study, the types of competitive strategy that is examined are: Cost Leadership, Product Differentiation, Focus, Flexibility and International strategy, New-Arena Business Development, Comparative Value and Uncompetitive Value. The census results of 320 managers working in Telco industry of Indonesia, has shown that the most widely approved competitive strategy to use by Telco digital companies in Indonesia is as follows (Table 4):

<b>Number</b>	<b>Dimension</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>
1	Comparative Values	2%	3%	95%
2	Development of Business Arena	3%	5%	92%
3	Focus	3%	5%	91%
4	Flexibility	2%	7%	91%
5	Uncompetitive Values	3%	7%	90%
6	Product Differentiation	2%	9%	89%
7	International strategies	8%	11%	81%
8	Cost Leadership	9%	12%	79%

Two choices which are mostly chosen by the respondents are Comparative Value and the Development of business arena. The Strategy of Comparative Value is the company's effort to maintain corporate advantages of the company over competitors. These corporate advantages can be in the form of product and service quality, delivery speed of product's services, speed of customer's demand response, the transaction of payment that facilitates customer and others.

The strategy of developing a new business arena is the company's effort to create products and services, generally in the form of applications. One example of the application is in the field of e-commerce to accommodate a particular business community. This digital application organizes the required information, preparing business transactions, maintaining security system and validation, therefore everything is integrated into one form: one stop service to the business community.

The Strategy of comparative value and the strategy of developing new business arena are expected to guarantee the growth of company's business. So it is considered natural if this competitive strategy becomes the driver factor to grow business.

## CONCLUSION

By the presence of digital technology, Disruptive innovation has the ability to offer similar product of Telco industry and intensively able to decrease the income of Telco industry. The presence and impact of digital technology is also happening in Indonesia and able to suppress the growth of Telco business in Indonesia into negative. Although The Indonesian Telco companies have done business transformation, whether in the field of organization, people, corporate culture or customer experience, but the pressure of disruption innovation digital technology remain stronger. For that reason, the effort to improve business performance is still performed by the company continuously with the encouragement of company's innovative capability.

A relatively new digital business environment for Telco companies in Indonesia, there are two fundamental things for companies that are necessary to be strengthened, which are Dynamic Capability and Supply Chain Management. The effort to improve the company's ability to adapt to digital business is part of strengthening the dynamic capability. The effort to improve customer experience is through end-to-end process digitalization, so the companies enable to give on-line services to their customers is part of strengthening the Supply Chain Management Systems.

The results of the study that was conducted on Telco companies in Indonesia, has shown that the effectiveness of competitive strategy is influenced by the strengthening of dynamic

capability and the strengthening of supply chain management. The effectiveness of competitive strategy influences business growth. Likewise, the strengthening of dynamic capability and the strengthening of supply chain management have positive influence on improving the company's business performance.

Comparative Value will guarantee the company to be able to provide added value for users. Comparative Value maintains the value of corporate advantage compared to its competitors. Similarly to the development strategy of business arena will ensure the growth of the company's business. The development of a new business arena will create a new blue ocean. Therefore, Comparative Value, Development Strategy of business arena as part of competitive strategy will be the driver factors to grow business.

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