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RESEARCH ARTICLE

DETERMINANTS OF COMPETITIVE ADVANTAGE OF CONVECTION SMES TOWARDS DIGITAL TRANSFORMATION (CASE STUDY IN WEST JAVA PROVINCE)

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Abstract

This study aims to develop competitive advantage in order to improve competitiveness and maintain its competitive position against competitors, both with imported and domestic products. The research examines and analyzes the influence of organizational culture, business environment, innovation, raw material requirements, on digital transformation and competitive advantage. Digital transformation is not only an independent variable on four independent variables, but also an independent variable when testing and analyzing its effect on competitive advantage.

The sample in this study were the owners of convection SMEs in West Java. To determine the effect between variables, the analysis used is the Structural Equation Model (SEM) with the Partial Least Square (PLS) approach. The research concludes that organizational culture and innovation have no significant effect on digital transformation. The business environment and the need for raw materials have a significant effect on digital transformation. Organizational culture, innovation, and the need for raw materials have a significant effect on competitive advantage. In the business environment, digital transformation has no effect on competitive advantage.

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Introduction:-

Since the enactment of the ACFTA (ASEAN China Free Trade Area) free trade policy, the trend of the volume of textile imported products and apparel products has continued to rise. In 2017 it reached 21,907 tons. In 2018 it rose by 31% to 28,706 tons, and in 2019 it increased by 19.7% to 34,357 tons (Source from The Ministry of Industry). Industry Research data sources show the trend of the volume of textile and apparel imports that has continued to rise since 2005 -2019 (Figure 1.1).

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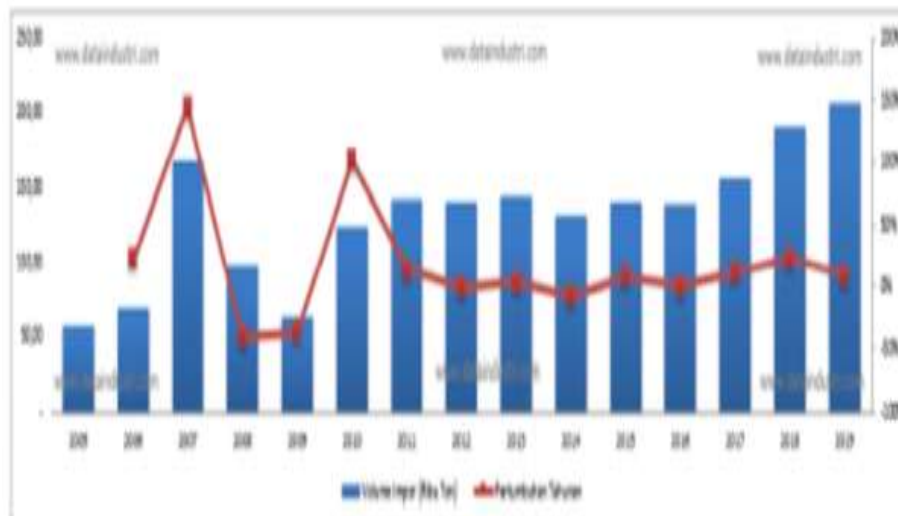


Figure 1.1: Import Volume (Thousand Tons) Annual Growth.

Interesting conditions occur in West Java Province, in addition to imported products directly from the importing country, many convection products from West Java are exported without barcodes in certain countries, then branded and re-entered West Java as imported products. This allows imported products to seize the market share of convection Small and Medium Enterprises (SMEs). Other data shows that 10-15 percent of convection SMEs in West Java shift their business originally to become distributors of imported products (Governor of West Java). The ease with which imported products enter Indonesia has an impact on the high competition in the apparel business (Safitri, 2020). Supported by buyers who tend to be interested in imported products because of quality, cheaper prices and models that are more trend-following (Ahda, et al., 2019).

In this digital world, consumers have many choices. Changes in consumer behavior limiting physical interaction and reducing activities outside the home provide greater opportunities for Small, Medium, Large Enterprises and even imported apparel products that are already connected to the digital ecosystem to survive or even advance amid strong competition (Rizal, 2020).

The main problem faced by convection SMEs is competition. The problem is how convection SMEs are able to win the competition. Where the consequences of increasingly fierce competition have a tendency to cause the level of profit obtained by the company to decrease if not anticipated properly.

The explanation above, shows that convection SMEs are currently under three pressures; customers, competition and change. The first pressure comes from customers, where customers currently have easy access to information on the goods and services they want. This is in line with changes in customer behavior that are getting closer to information technology. The second pressure comes from the competition between companies. Business competition is getting sharper, making companies have to do new and innovative things in the face of change. The third pressure comes from change, markets, products, services, business environment, technology is constantly changing and developing rapidly. This requires companies to be able to adapt to all forms of change, in order to be able to survive and win the competition. These three pressures have encouraged a change in business from a traditional system to a digital-based system. this process of change is known as digital transformation. Digital transformation is generally described as the integration between information technology and business being single and aligned. As the pace of business competition increases, companies must change their strategy, from product orientation to consumer-oriented strategy (Uncles, 2002).

How to win the competition, convection SMEs can use competitive strategies that are relevant to the development of the conditions of their business environment in order to maintain a sustainable competitive advantage over similar businesses and continue to exist in their business environment. This strategy can generally be interpreted as a company's process of building and developing various strategy resources that have the potential to generate a

competitive advantage. Competitive advantage is used as a corporate strategy. Competitive advantage is understood as the activity that a company carries out in designing, producing, marketing, handing over, selling (Porter, 1998).

Competitive advantage is the ability obtained through the characteristics and resources of a company to have higher performance than other companies in the same industry or market (Wikipedia, 2020). One of the company's resources that encourages the improvement of company performance is organizational culture. Organizational culture contributes to the success of competition (Kotter and Heskett, 2006). Organizational culture makes a significant contribution to the achievement of goals (Nayak & Barik, 2013). Organizational culture becomes an approach offered in the face of the complexity of competition. Competitive advantage can be created through organizational culture (Flatt & Kowalczyk, 2008). Nevertheless, research (Titi and Sahetapi, 2018) in West Java Province shows that convection SMEs have never built a culture consciously within their companies. The business environment also contributes to competitive advantage. (Setyowati, 2015; Novitaet al, 2020) shows that the company's external and internal environment has a significant effect on competitive advantage. However, because so far convection SMEs are still considered unable to overcome weaknesses and obstacles in improving their abilities, insights, skills and knowledge, so they are still not ready to take advantage of the opportunities and strengths of their business environment.

Several studies state a relationship between competitive advantage and innovation, including: Martim de Contoet al. (2016), business actors who have a competitive advantage and must have the ability to think creatively and innovatively. The results of the study support the results of previous research, that companies without creativity and innovation will not be able to compete and survive in the era of increasingly high competition (Larsen et al., 2007).

In this study, the author makes inbound logistics activities as a supporting activity in planning raw material needs as a value chain in developing competitive advantages. This supports value creation, the greater the value created and given to customers (Porter 2001), the more profitable the operational activities are because it is able to build a competitive advantage. In order to be able to obtain quality apparel products that are in accordance with customer and market perceptions, every convection SME player must recognize the process of work, raw materials and information needed and what standards of apparel products will be produced and their requirements (SNI 7887:2013 – BSN).

The strength of the traditional market in retailer centers in West Java is the achievement of competitive advantage for convection SMEs collectively. This is due to the increasingly fierce competition in the market. Facts show that SME owners in apparel trading centers compete not only with fellow business actors, imported products, but also with modern shopping centers and e-commerce. The current phenomenon shows that SMEs are convection in traditional markets in West Java, joining e-commerce from big brands such as Lazzada, Shopee, Tokopdeia, Bukalapak, Kas-kus, and others. This shows that convection SMEs in the apparel retail trade have realized the importance of digital transformation to generate a competitive advantage to support their business.

Gap Phenomenon. Taking into account the development of digital transformation and the condition of convection SMEs, not all SMEs can immediately transform into digital. Because not all SMEs are ready to run a business digitally. Data from the Ministry of Cooperatives and MSMEs in 2020 there are 64 million MSME players, and only around 8 million or around 13% are already connected to the digital world (D. Andriani 2020). In the Digital Readiness Index compiled by the Katadata Insight Center (KIC), it is known that the digitization of SMEs is strongly influenced by perceptions of optimism and competence in using the internet. In addition, the level of comfort and security is also not too high. there are 34% of consumers who are not yet able to use the internet. Then there are 18.4% who complain about the poor telecommunications infrastructure they use (Katadata Insight Center, 2020). Meanwhile, internally, the main obstacles are knowledge of running an online business (online) by 23.8% and the unpreparedness of the workforce to use the internet as much as 19.9%. From the explanation above, both the background, as well as the latest developments in the digital world, the weakness of convection SMEs and consumers has the same problem in utilizing digital technology. SMEs are expected to immediately prepare themselves to welcome the digital era by preparing digital infrastructure and increasing internal resources. In terms of strategy management, the author proposes this study in implementing a competitive strategy, testing and analyzing strategic resources against the competitive advantage of convection SMEs both directly and through digital transformation.

Referring to the background that has been described, the identification of problems in this study is the management of organizational culture, lack of attention to the environment, creativity and innovation in accordance with the dynamics of competition, management of supply chain planning for raw material needs, and digital transformation as an effort to harmonize between information technology and business, the author is interested in conducting the research "Determination of Competitive Advantage of Convection SMEs towards digital transformation (Case Study in West Java Province)".

In this study, the authors tested and analyzed strategy resources that have the potential to generate a competitive advantage. The author chose to include digital transformation to be equally tested and analyzed by strategic resources that have the potential to produce competitive advantages, namely organizational culture, business environment, innovation and raw material needs to create a competitive advantage.

Theoretical background and hypotheses

The Influence of Organizational Culture on Digital Transformation

Digital transformation is not only related to the technical aspects of technology, but also cultural aspects. Organizational culture in convection SMEs must be able to develop a digital culture in their environment. Because digital culture is a prerequisite in carrying out digital transformation because the application of digital culture is more about changing the mindset in order to adapt to digital developments (Nayak & Barik, 2013).. Convection SMEs that can survive in today's digital era are not the most powerful, but those that can be adapted (<https://marketplus.id>). Digital transformation is flowing and unlocking boundaries. This means that between work units in convection SMEs must work collaboratively not fragmentedly. The organizational culture of convection SMEs that builds collaborative, adaptive, and efficient work will be able to handle digital transformation that ultimately boils down to increasing the competitive advantage of SMEs. This can be interpreted as organizational culture can influence digital transformation. Based on the above, the hypothesis proposed in this study is

Hypothesis 1: There is a positive and significant influence of organizational culture on digital transformation in convection SMEs in West Java Province.

The Influence of the Business Environment on Digital Transformation

There are 4 driving factors for the occurrence of digital transformations. These factors are (a) regulatory changes; (b) changing competitive landscapes; (c) a shift/change to the digital form of the industry; (d) changes in consumer behavior and expectations (Osmundsen et al., 2018). The dynamics that occur in convection SMEs, if aligned with the driving factors for digital transformation, can be categorized in the first factor category, namely changes in regulations. The globalization of trade has caused the government to issue new regulations and its negative impact on convection SMEs must answer that challenge by changing its strategy to be able to increase competitiveness in the face of highly competitive dynamics. To remain a good citizen or company convection SMEs inevitably have to follow the regulation by developing new competitive strategies. This means that the business environment affects digital transformation. Based on the above, the hypothesis proposed in this study is

Hypothesis 2: There is a positive and significant influence of the business environment on digital transformation in convection SMEs in West Java Province

The Influence of Innovation on Digital Transformas

The application of digital transformations will have both positive and negative impacts. For the positive impact, it will definitely provide many benefits for the organization, but the negative impact needs to be overcome by creating new opportunities while striving to adopt new trends in the development of the organization's human resources skills/ skills. (Sousa dan Rocha, 2019).

The main purpose of carrying out digital transformation by the organization is related to the digital readiness of the organization. That is, organizations that want to ensure that they are ready to enter the digital world and are ready to change whenever needed (Osmundse, 2018). Some things that can be seen as evidence of the digital readiness of the organization are to produce better product innovations, explore and develop new business models that are disruptive in order to remain competitive and generate profits. Based on the above, the hypothesis proposed in this study is

Hypothesis 3: There is a positive and significant influence of innovation on digital transformation in convection SMEs in West Java Province

The Effect of Raw Material Needs on Digital Transformation

Another thing that is the purpose of carrying out digital transformation is to increase distribution channels or owned businesses to be more digital, get closer to consumers through digital channels so that they can better understand their desires. No less important is to deliver services or products digitally so that customer satisfaction increases and triggers them to reuse the resulting product/service. Convection SMEs still have difficulty in obtaining raw materials, because they only have a limited list of suppliers. To overcome this problem, digital transformation and supply chain management is an integration that helps SMEs in the apparel industry build a network of suppliers, buyers, sellers or exchanges of goods. When viewed from the perspective of digital transformation services by utilizing e-commerce (Turban, & King, 2002), digital transformation through e-commerce provides raw materials, services, information or payments through computer networks or other electronics. From this aspect, it can be concluded that the need for raw materials affects digital transformation. Based on the above, the hypothesis proposed in this study is

Hypothesis 4: There is a positive and significant influence of raw material needs on digital transformation in convection UKM in West Java Province

The Influence of Organizational Culture on Competitive Advantage

Schein (2010) states that only companies that have quality human resources will be able to compete in global competition. Sadri and Lees (2001) state that organizational culture is a concept that plays a meaningful role in the company, affecting employees and organizational activities throughout the company. In other words, competitive advantage can be achieved through its relationship with organizational culture, where organizational culture affects competitive advantage. Flatt & Kowalczyk (2008) argues that organizational culture and reputation are intangible assets used to create a competitive advantage to distinguish them from other companies and improve the performance of their companies. Based on the above, the hypothesis proposed in this study is

Hypothesis 5: There is a positive and significant influence of organizational culture on the competitive advantage of convection SMEs in West Java Province

The Effect of the Business Environment on Competitive Advantage

The external environment and the internal environment have a significant effect on competitive advantage. The greatest contribution of influence comes from the internal environment. This is because changes in the external environment are not responded to properly and even as threats so as to determine the competitive advantage. Given the limited knowledge and business insights of UKM entrepreneurs. This can be seen from the products made by UKM that have not touched consumer tastes both in terms of design / model, product color, and the strangeness of ragaman product. In addition, UKM entrepreneurs rarely take advantage of advances in information technology (internet) in marketing their products. Based on the above, the hypothesis proposed in this study is

Hypothesis 6: There is a positive and significant influence of the business environment on the competitive advantage of convection SMEs in West Java Province

The Effect of Innovation on Competitive Advantage

There are various reasons for a company to innovate in the products they market. The first is to win the competition in the market (Dhewanto et al., 2014). Product innovation is the result of the development of new products by an enterprise or industry, whether existing or not. Setiawan (2012) stated that product innovation affects competitive advantage. The ability to innovate is the key productivity of creating a competitive advantage by understanding or exploring new or better ways to compete in an industry and launch it into the market (Porter, 1998). Innovation has become the most important asset that creates a competitive advantage for the company, and a first-mover advantage when gaining the magnitude of market acceptance. In the long run, maintaining innovation is a way to maintain a competitive advantage and drive productivity growth for further corporate competitiveness (Angelmar, 1990). Based on the above, the hypothesis proposed in this study is

Hypothesis 7: There is a positive and significant influence of innovation on competitive advantage in convection SMEs in Java Barat Province

The Effect of Raw Material Needs on Competitive Advantage

Decision purchase is the decision to continue the purchase or not to continue the purchase of a product (Kotler and Keller, 2012), Sumarwan (2008) as the selection of an action from two or more alternative options. A purchasing decision can be interpreted as a process of assessing and selecting various alternatives according to certain interests that are considered the most profitable by establishing a choice (Riyanto, 2018). Competitive advantage is the ability, asset skills, capabilities and others that enable companies to compete effectively in the industry (Sampurno, 2010). Competitive advantage can influence consumers to decide to buy a product. The advantages possessed by the product can affect consumer perception of the product and form a positive brand image in the eyes of consumers. Based on the above, the hypothesis proposed in this study is

Hypothesis 8 : There is a positive and significant influence of raw material needs on competitive advantages in convection SMEs in West Java Province

The Effect of Digital Transformation on Competitive Advantage

Information technology is useful for reducing costs in business activities, especially for SMEs to allocate and store their budgets for other uses (Muafi and Ratna, 2014). A good information technology is a technology that is able to build useful information in building a company's competitive advantage. The results of this study are in accordance with the research that has been carried out by (Cakmak, & Tas, 2012), which shows that information technology has a positive effect on competitive advantage. Digital transformation refers to change and transformation that is driven and built on the foundations of digital technology. In an enterprise, digital transformation is defined as an organization's shift to big data, analytics, cloud, mobile, and social media platforms. While organizations are constantly changing and evolving in response to a changing business landscape, digital transformation is a change built on the foundations of digital technology, ushering in unique changes in business operations, business processes and value creation (Libert et al., 2016). Digital transformation refers to change and transformation that is driven and built on the foundations of digital technology. In an enterprise, digital transformation is defined as an organization's shift to big data platforms, analytics, "cloud", mobile, and social media. While organizations are constantly changing and evolving in response to a changing business landscape, digital transformation is a change built on the foundations of digital technology, ushering in unique changes in. Based on the above, the hypothesis proposed in this study is

Hypothesis 9: There is a positive and significant influence of digital transformation on the competitive advantage of convection SMEs in West Java Province

Methodology:-

This study uses a quantitative approach to determine the relationship between organizational culture, business environment, innovation, digital transformation and competitive advantage in convection SMEs. Structural Equation Modelling (SEM) with Partial Least Square (PLS) approach. The population in this study owned convection SMEs in West Java which amounted to 142 convection entrepreneurs. Source of the Ministry of Industry Office of West Java Province (2016). The study sample based on the Slovin formula obtained a minimum sample size of 105 samples with convection SME owners being tested as a sample of respondents in this study.

Research Results And Discussion:-

Based on the results of the test calculation and discussion, as follows:

The Influence of Organizational Culture (BO) on Digital Transformation (TF)

The calculated value of t for the BO variable against TF gets a calculated t value of 0.214, because $t_{count} (0.214) < t_{table} (1.98)$ then H_0 is accepted. Therefore, it can be concluded that the BO variable has no effect on the TF. So the influence of organizational culture is negatively marked which means that the lower the organizational culture, the higher the digital transformation. The organizational culture variable influences digital transformation by -0.1%. The lack of organizational culture is due to the lack in organizational culture is one of the main obstacles to the success of the company in the digital age. Although cultural change is indispensable for transformation, it is troublesome and time-consuming to achieve it.

The Effect of the Business Environment (LB) on Digital Transformation (TF)

The calculated t value for the variable LB against TF obtained a calculated t value of 8.147, because $t_{count} (8.147) > t_{table} (1.98)$ then H_0 was rejected. Therefore, it can be concluded that the LB variable has an effect on

the TF. The results of this study are in line with Widnyani, (2021) who shows that the main triggers for digital transformation come from external factors, there are not many internal factors that have become a result. Triggers Digital transformation was invented. The transformation carried out is still reactive and tends to follow the steps of transformation that have developed so as not to create the uniqueness of SMEs that have the opportunity to be competitive superior to competitors.

The Effect of Innovation (IN) on Digital Transformation (TF)

The calculated t value for the IN variable against the TF obtained a calculated t value of 1,663, because t count (1.663) < t table (1.98) then H_0 was accepted. Therefore, it can be concluded that the IN variable has no effect on the TF. So the influence of innovation is positively marked artinyathe better the innovation, the better the digital transformation. The innovation variable has an influence on digital transformation by 3.9%. The absence of the influence of innovation on digital transformation is because decision makers often do not understand the big picture so that in planning strategies and business development they often experience difficulty (George, 2014).

The Effect of Raw Material Needs (KBB) on Digital Transformation (TF)

The calculated t value for the KBB variable against TF obtained a calculated t value of 3,077, because t count (3,077) > t table (1.98) then H_0 was rejected. Therefore, it can be concluded that the KBB variable affects the TF. This means that the influence of the need for materials baku is positively marked that the better the need for raw materials, the better the digital transformation. The variable need for raw materials has an influence on digital transformation by 25.9%. The results of this study are in line with research conducted by Hayati, and Fitriyah (2015) showing the application of digital transformation in the proses of providing raw materials up to distribution.

The Influence of Organizational Culture (BO) on Competitive Advantage (KB)

The calculated t value for the BO variable against KB obtained a calculated t value of 2,993, because t count (2,993) > t table (1.98) then H_0 was rejected. Therefore, it can be concluded that the BO variable has an effect on KB. This means that the influence of organizational culture with positive signs will be the better the organizational culture, the better the competitive advantage. The variable of organizational culture influenced the competitive advantage by 9.52%. The results of this study strengthen Rachmayuni (2020) who stated that there is a positive and significant influence of organizational culture on Competitive Advantage.

The Effect of the Business Environment (LB) on Competitive Advantage (KB)

The calculated t value for the variable LB against TF obtained a calculated t value of 0.688, because t count (0.688) < t table (1.98) then H_0 is accepted. Therefore, it can be concluded that the variable LB has no effect on KB. So the influence of the business environment is positively marked which means that the better the business environment, the better the competitive advantage. Business environment variables influenced the competitive advantage by 14.46%. The results of this study are also inconsistent with research conducted by Riyanto (2018) which states that there is a positive and significant influence of the Internal and External Environment on the Competitive Advantage and Performance of Small and Medium Enterprises (SMEs) in Madiun.

The Effect of Innovation (IN) on Competitive Advantage (KB)

The calculated t value for the VARIABLE IN against KB obtained a calculated t value of 3,217, because t count (3,217) > t table (1.98) then H_0 was rejected. Therefore, it can be concluded that the IN variable has an effect on KB. This means that the influence of innovation is positively marked which means that the better the innovation, the better the competitive advantage. The innovation variable has an influence on competitive advantage by 22.48%. Innovation is very helpful for competitive advantage, it is explained that in marketing a product goods or services must be able to understand what consumers need and want, and Innovation is also an important thing where the company must be able to improve product quality, product development, so that the company has the advantage of competing with similar companies.

The Effect of Raw Material Needs (KBB) on Competitive Advantage (KB)

The calculated t value for the KBB variable against TF obtained a calculated t value of 2,793, because t count (2,793) > t table (1.98) then H_0 was rejected. Therefore, it can be concluded that the KBB variable affects kb. This means that the influence of raw material needs is positively marked which means that the better the need for raw materials, the better the competitive advantage. The results of this study are in accordance with research conducted by Wulandari and Ria (2016) which states that there is a positive and significant influence of supply chain management on competitive advantage.

The Effect of Digital Transformation (TF) on Competitive Advantage (KB)

The calculated t value for the variable TF against KB obtained a calculated t value of 0.833, because t count (0.833) < t table (1.98) then Ho is accepted. Therefore, it can be concluded that the TF variable has no effect on KB. this means that competitive advantage is positively marked which means that the better the competitive advantage, the better the digital transformation. The variable of competitive advantage has an influence on digital transformation by 16.77%. The absence of the influence of digital transformation on competitive advantage is due to SME players not utilizing the development of information technology. The results of this study are in line with research conducted by Amrul& Hardy (2010), Chae, Koh&Prybutok (2014) and Ong & Chen (2014) found conflicting results, where they found that information technology capabilities had no effect on company performance.

Conclusion and Recommendations:-

Conclusion:-

Business Environment and Raw Material needs have a significant effect on digital transformation, while Organizational Culture, Innovation do not have a significant effect on digital transformation.

Organizational Culture, Innovation, Raw Material Needs have a significant effect on Competitive Advantage, while The Business Environment and Digital Transformation have no significant effect on Competitive Advantage.

Convection SMEs in West Java still do not prepare themselves for both infrastructure and internal resources in welcoming the era of the digital economy.

Recommendations:-

In order to win the competition by increasing competitive advantage, convection SMEs should involve human resources in empowerment, teamwork,

Capacity building, and being consistent in creating a strong culture. Focus on the customer, as well as the state of the organization. This will encourage convection SMEs to integrate with digital transformation.

Having customer experience information in choosing and determining apparel is the first step to playing the competition. Digital transformation can be utilized to get as much customer information as possible, and with this information convection SMEs can innovate without the risk of developing products that suit customer needs. Customer knowledge is a feedback for convection SMEs to innovate products/services. This is obtained from utilizing digital transformation.

Paying attention to the business environment is very important. Because the information obtained from the business environment is very useful for convection SME strategies in order to win the competition.

In winning the competition, digital transformation can be a response for convection SMEs facing the changing business environment today as a storefront for convection SMEs that are ready to provide the services needed by customers.

SMEsconvection in West Java, especially in order to immediately prepare themselves in welcoming the era of the digital economy by preparing digital infrastructure and internal resources.

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