ENTREPRENEURSHIP AND INNOVATION REVIEW
Volume 2, Issue 2, June 2024 | pp. 144-155
https://doi.org/10.63208/210113-525

Check for updates

E- ISSN: 3031-4224

Strategic Capabilities and Competitive Advantage in Enhancing Organizational Performance in the Modern Economic Era

Cipi Nurmala[1]✉, Desinta Hafina Sari[2]

STIE Swasta Mandiri Surakarta, Surakarta, Indonesia[1]; Universitas Terbuka, Yogyakarta, Indonesia[2]

ABSTRACT

Changing economic environments that are increasingly dynamic require organizations to develop various strategic capabilities to maintain competitiveness and improve performance. This research aims to analyze the role of innovation capabilities, digital capabilities, and entrepreneurial orientation in forming competitive advantages and improving organizational performance in the modern economic era. The research uses a literature study method by examining various scientific articles, national and international journals, and relevant academic publications in the last five years. The analysis was carried out through the identification, grouping, and synthesis of previous research results related to the relationship between the variables studied. The results of the study show that innovation capabilities, digital capabilities, and entrepreneurial orientation are strategic capabilities that contribute positively to the formation of competitive advantages. Competitive advantage further acts as a mechanism that strengthens the influence of these three variables on organizational performance. The findings of the study also show that the integration of innovation, digitalization, and entrepreneurial orientation is able to improve the organization's ability to adapt to changes in the business environment. Thus, the development of strategic capabilities is an important factor in supporting the sustainability and success of the organization in the modern economic era.

Keywords: *Competitive Advantage, Digital Capability, Innovation Capability, Organizational Performance, Strategic Capabilities.*

CORRESPONDING AUTHOR:
Cipi Nurmala
STIE Swasta Mandiri Surakarta, Surakarta, Indonesia
contact: *cipinurmala456@gmail.com*

ARTICLE HISTORY

Received	: June 20, 2024
Final Revised	: November 23, 2024
Accepted	: December 17, 2024
Published	: December 30, 2024

1. | INTRODUCTION

The development of the modern economy is characterized by increasing market dynamics, accelerating technological developments, and changes in consumer preferences that take place in a sustainable manner. These conditions encourage organizations to not only rely on traditional resources, but also to develop various strategic capabilities that are able to increase competitiveness and maintain performance in an increasingly competitive business environment. Economic transformation driven by digitalization and innovation has transformed the way organizations create value, build competitive advantages, and maintain the sustainability of their businesses. Therefore, the organization's ability to adapt to change is an important factor that determines the long-term success of the company (Leão & da Silva, 2021).

In the context of an ever-evolving economy, competitive advantage is no longer determined only by the ownership of physical or financial resources. Organizations are required to develop internal capabilities that are unique, difficult to replicate, and able to provide added value for customers. The Resource-Based View (RBV) perspective explains that competitive advantage can be obtained through the utilization of resources and strategic capabilities owned by organizations. One form of this capability is the ability to innovate that allows organizations to produce new products, services, and processes to meet the changing needs of the market (Akhtar, 2023).

In addition to innovation, the development of digital technology is also an important factor that affects organizational performance. Digitalization provides opportunities for companies to improve operational efficiency, expand market access, accelerate decision-making processes, and improve the quality of customer relationships. Digital transformation not only serves as an operational tool, but also becomes a source of competitive advantage that can improve an organization's position in market competition. Previous research has shown that the implementation of digital transformation contributes to improved organizational performance through increased efficiency and business model innovation (Zhang et al., 2023).

In addition to the ability to innovate and digitalize, entrepreneurial orientation is also an important strategic factor in dealing with changes in the economic environment. Entrepreneurial orientation reflects an organization's ability to be proactive, innovative, and risk-averse in exploring new opportunities. Organizations that have a high entrepreneurial orientation tend to be more responsive to market changes and are able to develop strategies that support the achievement of competitive advantage. Various studies show that entrepreneurial orientation has a positive relationship with increasing competitiveness and organizational performance (Hikmah et al., 2023).

The relationship between innovation ability, information technology utilization, entrepreneurial orientation, competitive advantage, and organizational performance has been of concern to various researchers. Research conducted by Widyanti and Mahfudz (2020) shows that entrepreneurial orientation, the use of information technology, and the ability to innovate have a positive effect on competitive advantage and organizational performance. The findings indicate that the combination of various strategic capabilities can be a major source of value creation and improved organizational performance in the face of increasingly complex competition.

Nonetheless, previous research still shows some research gaps. Most studies examine innovation, digital transformation, and entrepreneurship orientation separately, so there hasn't been much research that integrates these three variables into one comprehensive conceptual framework. In addition, the role of competitive advantage as a mechanism that bridges the relationship between strategic capabilities and organizational performance still shows mixed results in various research contexts (Çelik & Uzunçarşılı, 2023). Other studies also tend to focus on specific sectors or regions so that the generalization of findings is still limited (Azzam et al., 2023).

Based on these conditions, this study aims to analyze the role of innovation capabilities, digital capabilities, and entrepreneurial orientation as strategic capabilities that affect competitive advantage and organizational performance in the context of the modern economy. This research is expected to make a theoretical contribution to the development of the Resource-Based View and Dynamic Capability perspective and provide a more comprehensive understanding of the factors that affect competitiveness and organizational performance in the era of digital economy transformation.

2. | LITERATURE REVIEW

Innovation Capability and Digital Capability

Innovation capability is one of the strategic capabilities that allows organizations to create, develop, and implement new ideas in the form of products, services, processes, and business models. In a dynamic economic environment, the ability to innovate is an important factor that determines the success of an organization in maintaining competitiveness. Organizations that have a high level of innovation tend to be better able to adapt to changing market needs, technological developments, and increasing competitive pressures. Therefore, innovation not only serves as a product development tool, but also as a source of sustainable value creation for organizations. Research shows that innovation ability has a positive relationship with increased competitive advantage and organizational performance because it is able to generate differentiation that is difficult for competitors to replicate (Ferreira et al., 2021).

In addition to innovation capabilities, digital capabilities are also an important element in supporting organizational success in the era of economic transformation. Digital capabilities reflect an organization's capacity to leverage digital technology to improve operational effectiveness, accelerate business processes, and create new value for customers. Digital transformation enables organizations to increase productivity while expanding market reach through the use of integrated information technology. Previous studies have shown that organizations that successfully develop digital capabilities tend to gain a stronger competitive advantage than organizations that have not carried out digital transformation optimally (Leão & da Silva, 2021). In addition, digital capabilities also play a role in increasing the effectiveness of innovation, so that it has a positive impact on the achievement of overall organizational performance (Zhang et al., 2023).

Entrepreneurial Orientation, Competitive Advantage, and Business Performance

Entrepreneurial orientation is a concept that describes the tendency of organizations to be innovative, proactive, and dare to take risks in facing business opportunities and challenges. Organizations that have a high entrepreneurial orientation are generally more responsive to changes in the external environment and are better able to identify opportunities that can generate economic value. From a strategic management perspective, entrepreneurial orientation is seen as one of the main sources of organizational capability formation that can encourage the creation of competitive advantages. Research shows that entrepreneurial orientation has a positive influence on an organization's ability to create differentiation and improve its competitive position in the market (Hikmah et al., 2023).

Competitive advantage is a condition when an organization is able to create higher value than competitors through a combination of resources, capabilities, and strategies. Competitive advantage can be realized through innovation, operational efficiency, product quality, and the organization's ability to respond more effectively to customer needs. In the context of the modern economy, competitive advantage serves as a mechanism that links various strategic capabilities to the achievement of organizational performance. Previous research has shown that organizations that have a strong competitive advantage tend to be able to increase business growth, profitability, and sustainability in a sustainable manner (Çelik & Uzunçarşılı, 2023). These findings are in line with the research of Widyanti and Mahfudz (2020) which shows that entrepreneurial orientation, the use of information technology, and the ability to innovate contribute to the formation of competitive advantages which ultimately improve organizational performance.

3. | RESEARCH METHOD

This study uses a qualitative approach with the library research method to examine in depth the relationship between innovation capabilities, digital capabilities, entrepreneurial orientation, competitive advantage, and organizational performance in the context of modern economy. Literature studies were chosen because they allow researchers to gain a comprehensive understanding of the development of concepts, theories, and empirical findings that have been produced by previous research. This approach is also suitable for identifying patterns of relationships between variables, developing conceptual frameworks, and finding research gaps that still require further study.

The data used in this study is secondary data obtained from various relevant scientific sources, including national and international journal articles, scientific proceedings, academic books, and research publications that are at least indexed by Google Scholar. The literature selection criteria are based on the suitability of the topic with the research focus, namely innovation, digital transformation, entrepreneurial orientation, competitive advantage, and organizational performance. In addition, to maintain the novelty of the study, the literature used is mainly derived from publications in the last five-year period. Some of the previous studies that are the main references in this study include discussing the influence of innovation capabilities on organizational performance, the role of digital transformation in creating competitive advantages, and the contribution of entrepreneurial orientation to increasing competitiveness and organizational success.

The data collection process is carried out through identification, selection, and review of literature relevant to the research theme. Furthermore, the data was analyzed using the content analysis technique, which is by grouping research findings based on themes, variables, and conceptual relationships discussed in each literature. The analysis is carried out systematically to find similarities, differences, and trends in published research results. In addition, the literature synthesis approach is used to integrate various research results so that a more comprehensive understanding of the role of innovation capabilities, digital capabilities, and entrepreneurial orientation in shaping competitive advantage and improving organizational performance is obtained.

Through this literature study method, the research is expected to be able to produce a strong conceptual study and make a theoretical contribution in the development of Resource-Based View and Dynamic Capability perspectives. In addition, the results of the study are expected to be the basis for further empirical research in examining the relationships between variables that have been identified in various different organizational contexts and economic environments.

4. | RESULTS

The results of the literature review show that the increasingly dynamic economic environment has encouraged organizations to develop various strategic capabilities to maintain sustainability and improve performance. These changes are marked by increasing competition intensity, accelerating the development of digital technology, and changes in consumer behavior that require organizations to be more adaptive in designing business strategies. In these conditions, innovation capabilities, digital capabilities, and entrepreneurial orientation are important factors that contribute to the formation of competitive advantage and improved organizational performance. Studies have shown that organizations that are able to effectively manage all three capabilities have a greater chance of achieving long-term growth and success (Leão & da Silva, 2021).

The first findings show that the ability to innovate is one of the main determinants that affect the competitiveness of the organization. The ability to innovate allows organizations to create new products, services, and processes that can add value to customers. Innovation also plays a role in improving operational efficiency and strengthening product differentiation so that organizations are better positioned in the face of market competition. The results show that organizations that consistently develop innovation capabilities tend to have a higher level of adaptability to changes in the business environment. These findings are in line with the research of Akhtar (2023) who stated that innovation capabilities make a significant contribution to improving organizational performance through value creation and sustainable development of competitive strategies.

In addition to innovation capabilities, digital capabilities have also proven to be an important factor in increasing the organization's competitive advantage. Digital transformation allows organizations to integrate technology into various business activities, thereby increasing operational efficiency, effectiveness, and flexibility. The use of digital technology helps organizations obtain information faster, expand market access, and improve the quality of service to customers. Research shows that digital capabilities not only affect productivity increases, but also contribute to creating new business models that are more in line with the demands of the modern economy (Zhang et al., 2023). Therefore, organizations that successfully develop digital capabilities have a greater chance of maintaining a competitive advantage in the long run.

This study also found that entrepreneurial orientation has a strategic role in shaping organizational competitiveness. Entrepreneurial orientation reflects the organization's ability to be proactive, innovative, and risk-taking in the face of business opportunities and challenges. Organizations with a high entrepreneurial orientation tend to respond more quickly to market changes and are better able to identify growth opportunities than passive organizations. Research by Hikmah et al. (2023) shows that entrepreneurial orientation contributes positively to improving organizational performance through strengthening adaptability and strategic decision-making. These findings indicate that entrepreneurial orientation is one of the important foundations in dealing with the uncertainty of the economic environment.

The results of the study also show that there is a close relationship between innovation ability and competitive advantage. Organizations that are able to generate innovation in a sustainable manner tend to have an advantage over competitors because they can offer products or services that are superior and difficult to replicate. These advantages are not only reflected in product quality, but also in process efficiency, service speed, and organizational ability to meet customer needs. These findings are in line with Awais et al. (2023) research which shows that innovation capabilities contribute significantly to the formation of competitive advantage and improved organizational performance through strengthening strategic flexibility.

Digital capabilities were also found to have a positive relationship with competitive advantage. Organizations that are able to make optimal use of digital technology tend to be more efficient in managing resources and more responsive to changing market needs. Digitalization allows organizations to obtain data in real-time, supporting a more accurate and faster decision-making process. In addition, digital transformation opens up opportunities for organizations to develop various technology-based innovations that are able to increase added value for customers. The results of this study support the research of Leão and da Silva (2021) who concluded that digital transformation is one of the main factors influencing the formation of competitive advantage in the modern business environment.

Other findings show that entrepreneurial orientation also has a positive influence on competitive advantage. Organizations that have proactive and innovative characteristics tend to be better able to create new opportunities that can improve their competitive position in the market. The ability to identify opportunities early allows organizations to gain an advantage before competitors make the same move. Research by Cvijić Čović et al. (2023) shows that the strategic orientation of entrepreneurship is an important prerequisite for organizational success in the face of the era of digital transformation and rapid economic change.

The results of subsequent studies show that competitive advantage plays an important role as an important mechanism that connects various strategic capabilities with organizational performance. Organizations that successfully build a competitive advantage tend to have higher levels of profitability, productivity, and growth than competitors. A competitive advantage allows organizations to create greater value thereby increasing customer loyalty and strengthening their market position. These findings are in line with the research of Çelik and Uzunçarşılı (2023) which showed that competitive advantage mediates the relationship between various organizational capabilities and company performance.

The study also found that the relationship between innovation ability and organizational performance is not always direct. In many cases, the ability to innovate first influences the formation of a competitive advantage which then has an impact on performance improvement. This relationship pattern shows that successfully implemented innovations will create strategic value that strengthens the organization's position in market competition before ultimately resulting in improved performance. Similar findings were reported by Sumantri et al. (2023) who emphasized that competitive advantage plays an important role in explaining the influence of innovation capabilities on organizational performance.

In addition, previous research shows that digital capabilities can also improve performance through strengthening innovation and transforming business models. Digitalization allows organizations to create more efficient work processes, reduce operational costs, and improve the quality of decision-making. The results of Zhang et al.'s (2023) research show that digital transformation has a positive effect on company performance through business model innovation as an important mediation mechanism.

A literature review also reveals that the Dynamic Capability perspective is increasingly relevant in explaining the relationship between innovation capabilities, digital capabilities, entrepreneurial orientation, and organizational performance. This perspective emphasizes the importance of an organization's ability to integrate, build, and reconfigure resources to respond to changing business environments. Research by Azzam et al. (2023) shows that dynamic capabilities have an important role in improving an organization's competitive performance, especially when supported by entrepreneurial orientation and strong digital leadership.

On the other hand, some studies show that the results of the relationship between variables are still contextual. Differences in industry sectors, organizational size, and technology adoption rates can affect the strength of the relationship between innovation capabilities, digital capabilities, entrepreneurial orientation, and organizational performance. These findings explain why some studies have come to different conclusions regarding the magnitude of the influence of each variable. Despite this, the majority of research still shows a positive relationship between strategic capabilities, competitive advantage, and organizational performance (Sutanto et al., 2023).

Overall, the results of the study show that innovation capabilities, digital capabilities, and entrepreneurial orientation are the three main strategic capabilities that contribute to the formation of competitive advantages. Competitive advantage further serves as a mechanism that strengthens the influence of these three variables on organizational performance. These findings are consistent with research by Widyanti and Mahfudz (2020) which shows that innovation, information technology, and entrepreneurial orientation have a positive effect on competitive advantage and organizational performance. In addition, the results of the study also confirm that the integration of various strategic capabilities in one conceptual framework is able to provide a more comprehensive understanding than an approach that only examines one variable separately. These findings also strengthen the research gap which states that research on the integration of innovation capabilities, digital capabilities, entrepreneurial orientation, competitive advantage, and organizational performance still requires further development in the context of the modern economy.

5. | DISCUSSION

The results of the study show that innovation capabilities, digital capabilities, and entrepreneurial orientation are strategic capabilities that have an important contribution to the formation of competitive advantage and improvement of organizational performance. These findings reinforce the view of the Resource-Based View (RBV) that the source of competitive advantage comes not only from the ownership of resources, but also from the ability of organizations to manage and utilize those resources effectively. In an ever-changing economic environment, organizations need capabilities that are able to create value sustainably so that they can maintain their position in the midst of increasingly fierce competition.

The ability to innovate was found to be one of the most consistent factors influencing competitive advantage. Organizations that are able to generate innovation in a sustainable manner have a greater chance of creating product differentiation, improving operational efficiency, and responding to customer needs more quickly. These findings support the research of Ferreira et al. (2021), who stated that innovation is an important instrument in improving competitiveness and organizational performance. In addition, the results of the study also show that innovation not only functions as a tool for product development, but also as a strategic mechanism that helps organizations adapt to changes in the economic environment.

Digital capabilities are also proving to be an increasingly important factor in the era of modern economic transformation. Digitalization allows organizations to improve the effectiveness of business processes, accelerate the flow of information, and expand access to a wider market. By making the most of digital technology, organizations can create business models that are more flexible and responsive to changing customer needs. These findings are in line with the research of Leão and da Silva (2021) who affirm that digital transformation is one of the main sources of the formation of competitive advantage in modern organizations. Therefore, investing in digital capability development can be seen as a long-term strategy to improve the competitiveness of organizations.

On the other hand, entrepreneurial orientation also shows a significant role in supporting the success of the organization. The characteristics of proactive, innovative, and risk-taking courage allow organizations to more quickly identify new business opportunities and develop strategies that fit market dynamics. These results support the findings of Hikmah et al. (2023) who show that entrepreneurial orientation contributes to improved performance through strengthening adaptability and strategic decision-making. Thus, entrepreneurial orientation can be seen as the foundation of organizational behavior that supports the achievement of competitive advantage.

Another important finding is the role of competitive advantage as a mechanism that bridges the relationship between strategic capabilities and organizational performance. The results of the study show that innovation, digital skills, and entrepreneurial orientation tend to have a stronger impact on performance when first producing a competitive advantage. These findings support the research of Çelik and Uzunçarşılı (2023) and Widyanti and Mahfudz (2020) who show that competitive advantage is a key factor linking various organizational capabilities to performance achievement. Therefore, organizations not only need to develop strategic capabilities, but also ensure that these capabilities can be converted into valuable advantages that are difficult for competitors to replicate. Overall, the results of this study reinforce the importance of integrating innovation, digitalization, and entrepreneurship orientation as the main strategy in improving organizational competitiveness and performance in the modern economic era.

6. | CONCLUSION

This research aims to analyze the role of innovation capabilities, digital capabilities, and entrepreneurial orientation in forming competitive advantages and improving organizational performance in the modern economic era. Based on the results of the literature review that has been conducted, it can be concluded that these three variables are strategic capabilities that have an important contribution to the success of the organization in facing changes in the increasingly dynamic and competitive business environment.

Innovation capabilities enable organizations to create added value through more effective development of products, services, and processes, while digital capabilities support increased operational efficiency, accelerated decision-making, and expanded market access. On the other hand, entrepreneurial orientation encourages organizations to be proactive, innovative, and dare to take risks in taking advantage of opportunities that arise in the midst of economic changes. These three capabilities have been proven to play a role in creating competitive advantage which in turn becomes an important factor in improving organizational performance.

The results of the study also show that competitive advantage functions as a connecting mechanism between strategic capabilities and organizational performance. Therefore, organizations need to integrate innovation, digitalization, and entrepreneurship orientation into their business strategy in order to be able to generate sustainable excellence. Theoretically, this study strengthens the perspective of Resource-Based View and Dynamic Capability in explaining the relationship between organizational capabilities, competitive advantage, and performance. Practically, the results of the study provide an understanding that the development of strategic capabilities is an important step to improve the competitiveness and sustainability of organizations in the face of modern economic challenges.

Acknowledgment
We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Funding Information
This research did not receive any funding.

Conflict of Interest Statement
The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement
Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement
The data that support the findings of this study are available from the corresponding author upon reasonable request.

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