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Research Article

Enhancing Competitive Advantage Through Digital Capability And Innovation In Small Food And Beverage Businesses

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ABSTRACT

The innovation strategy and the company's ability to adopt digital technology are a priority due to the increasingly competitive business environment in the era of global competition. Empirically it is known that companies that have adopted digital technology and created innovations will be more responsive in facing rapid changes in uncertainty. The research results show that innovation strategies are more often adopted by companies in developed countries, so that they are quicker in adapting to a dynamic and rapidly changing business environment. Meanwhile, companies in developing countries face different conditions, where they try to harmonize existing resources by utilizing currently developing technologies. Therefore, this study examines the importance of an innovation strategy and the ability to adopt digital technology as a sustainable competitive advantage for small businesses. Data collection used a questionnaire which was distributed to 90 small food and beverage businesses. The hypothesis was tested using Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) approach. The research findings indicate that digital capabilities significantly influence sustainable competitive advantage. However, the innovation strategy does not exhibit a significant effect on sustainable competitive advantage. These results highlight the pivotal role of digital capabilities in maintaining a competitive edge, while suggesting that innovation strategies alone may not be sufficient to achieve long-term competitive advantage without the support of strong digital infrastructure.

Keywords: Sustainable Competitive Advantage, Digital Capability, Innovation Strategy.

1. Introduction

The era of the industrial revolution 4.0 has changed the strategy of every company to innovate. Digital technology in industry 4.0 makes companies more competitive (Rai, Patnayakuni, & Seth, 2006). Technological change is certainly a challenge in the future. That will require companies to create innovations in design, product development, production, distribution, consumer communication and marketing (Fiordelisi & Ricci, 2014; Singh, Parker, & Nadim, 2007). Implementing the innovation strategy involves not only transforming and renewing the content and utilization of various resources but also redesigning business processes to align with new advancements in management and the formation of the organizational structure. This comprehensive approach ensures that the company's operations and resource allocation are continuously updated and optimized, fostering an environment that supports sustained innovation and adaptability in changing market conditions. Grimm et al. (2006) stated that innovation can create sustainable competitive advantage, and it must be attended because future competition will be more competitive due to technological innovation, globalization, and a dynamic business environment. This situation forms competition among companies to occur quickly (Febrian, Maulina, & Purnomo, 2018).

Facing global competition, innovation strategies and the ability of companies to adopt digital technology have become priorities since the business environment is increasingly competitive (Cai, Huang, Liu, Davison, & Liang, 2013; Teece & Leih, 2016; Wiklund & Shepherd, 2003). Empirically, it is known that companies that have adopted digital technology and created innovation will be more responsive to facing rapid changes in business confusion (Li et al., 2008; Lumpkin & Dess, 2001; Puranam, Singh, & Zollo, 2006). Companies in developed countries are faster in adjusting the changing dynamic business environment. Companies in developing countries face different conditions, where they strive to align existing resources by attending to the latest technology. Indonesia is a developing country with many digital media users in Asia (Rahmayanti & Dewi, 2016).

The large use of digital media is forcing producers to focus more on exploring opportunities to consumers (Tiago & Veríssimo, 2014). Therefore, the power of marketing with digital media has the potential to displace conventional marketing. Then, companies should develop digital marketing to get consumers. In fact, Qosasi & Permana (2017) said the development of digital information media has greatly helped companies in shaping brand aura and creating intimacy between the company and consumers (Kim Jean Lee & Yu, 2004; Purnomo, Permana, Qosasi, Febrian, & Miftahuddin, 2019).

Innovations in the industrial revolution 4.0 have changed the concept of competition in the field of strategic management. The relationship between the ability to create innovation strategies in the company is significant with the measurement of sustainable competitive advantage indicators (Ardyan, Nurtantiono, Istiyanto, & Rahmawan, 2017). Therefore, based on literature review on innovation in digital capabilities is focused on using measurement of sustainable competitive advantage as a tool to improve company performance. According to Barney (1991) a company that uses a balanced investment strategy creation approach will more quickly accelerate a dynamic market than just using a financial measurement approach (Mihalic & Buhalis, 2013; Zhou, Brown, & Dev, 2009). According to Febrian et al. (2018) an innovation strategy is a distinctive resource that competitors find challenging to replicate. This uniqueness gives companies a competitive edge, as the complexity and originality of their innovation processes make it difficult for rivals to duplicate or surpass. By fostering an innovation strategy, businesses can maintain a sustainable advantage in their respective markets.

The competitive advantage obtained from an innovation strategy lies not only in creative ideas and new product development but also in an implementation process that is unique and specific to the company's context. For example, Barney (1991) emphasizes the importance of the distinctiveness of a company's resources and capabilities in creating sustainable added value, while Fatoki (2011) highlights the role of innovation in building competitiveness through product and service differentiation. Filser et al. (2014) added that successful innovation depends not only on new discoveries but also on integrating innovation into daily business operations. Taylor (2011) argues that companies that can create and maintain a strong innovation strategy will have a superior position in facing market dynamics and intense competition.

The significance of small businesses in Indonesia is crucial as it represents a vital aspect of government support for the nation's economic system (Stel et al., 2005). Small businesses in Indonesia are distinct due to their foundation on family principles and home-based industries. This paper specifically examines small food businesses in Pekanbaru, Indonesia. These businesses possess unique advantages but are also susceptible to rapid changes and can be easily imitated by competitors. These challenges must be addressed with serious consideration. Empirical studies indicate that adopting digital capabilities enables small food businesses to develop innovation strategies that make them more responsive to the rapidly changing social environment (Teece, 2007). Small food businesses with digital capabilities can transform raw materials into valuable products (Alvarez & Barney, 2004). Furthermore, Lumpkin & Dess (1996) found that adopting digital capabilities fosters innovation and equips businesses with the ability to compete aggressively in sustained competition. Thus, enhancing digital capabilities is a critical strategy for maintaining competitiveness and achieving long-term success for small food businesses in Indonesia.

2. Literature review

This research is based on a systematic mapping study designed to investigate the factors contributing to sustainable competitive advantage in small businesses. By systematically reviewing and categorizing existing literature, this study aims to identify key elements and strategies that enable small businesses to maintain long-term competitiveness. The comprehensive mapping process provides a detailed understanding of the various dynamics at play, offering valuable insights into how small businesses can leverage their unique strengths to achieve and sustain a competitive edge in the market (Kitchenham & Charters, 2007).

The mapping process involved a comprehensive review of literature from the past decade, focusing on publications from reputable sources such as Emerald Insight, Scopus, Elsevier, and Springer. Articles were selected based on their relevance to the study topic, and the findings were categorized. The results indicate that the most frequently discussed topics are firm resources and capabilities, as well as innovation, which are identified as key antecedents of sustainable competitive advantage Banaeianjahromi & Smolander (2014). This systematic approach provides a detailed overview of the critical factors contributing to maintaining a competitive edge in small businesses.

Efforts to establish a sustainable competitive advantage in small businesses are intricately linked to the creation theory of entrepreneurial action (Alvarez & Barney, 2007; Sambamurthy, Bharadwaj, & Grover, 2003). This theory suggests that entrepreneurship is not simply discovered but is actively created through innovative processes. It emphasizes the necessity of fostering creativity and proactive development in entrepreneurial endeavors. This perspective also provides a framework for applying the resource-based view (RBV) theory, which helps to understand how small businesses can achieve and sustain competitive advantage by leveraging their unique internal resources and capabilities (Wernerfelt, 1984). By integrating these theoretical approaches, small businesses can better navigate the complexities of the competitive landscape, utilizing creativity and resource management to maintain a robust market position.
Furthermore, according to RBV, internal resources are crucial in fostering competitive advantage, with digital capability being one such vital resource that enables small businesses to drive innovation (Sambamurthy et al., 2003). In this paper, digital capability is elaborated through six dimensions: ICT proficiency, critical use, creative production, participation, learning, and self-actualization (Qosasi et al., 2019). These dimensions collectively illustrate how digital capabilities can empower small businesses to innovate and sustain their competitive edge in a dynamic market environment.

Table 1. Sustainable competitive advantage drivers

Antecedents	Researchers
Entrepreneurial Orientation	(Handoko, Smith, & Burvill, 2014; Hussain, Ismail, & Akhtar, 2015; Martins, 2016; McAdam, Reid, Harris, & Mitchell, 2008; Valentina Della Corte et. al., 2013; Wynarczyk, 2013)
Environmental	(Ardyan et al., 2017; Q. Chen & Zhang, 2015; Dasanayaka & Sardana, 2010; Ferenhof, Vignochi, Selig, Lezana, & Campos, 2014; Reyes-Rodríguez, Ulhøi, & Madsen, 2016)
Firm Performance	(Auken, Guijarro, & Lema, 2008; Iraldo, Testa, Lanzini, & Battaglia, 2017; Leal-Rodríguez & Albort-Morant, 2016; Naidoo, 2010; Piperopoulos & Scase, 2007; Sheehan, 2014; Tjahjaningsih, Handayani, Rozak, & Santosa, 2017)
Firm Resources & Capability	(Chen & Hatzakis, 2008; Cucculelli, Bettinelli, & Renoldi, 2014; Gelbmann, 2010; Hilmi, Ramayah, & Mustapha, 2011; Iturrioz, Aragón, & Narvaiza, 2015; Jahanshahi, Nawaser, Eizi, & Etemadi, 2015; Navickas, Krajňáková, & Navikaite, 2015; Ngah, Wahab, & Salleh, 2015; Rabino, Simoni, & Zanni, 2008; Rizos et al., 2016; Rodriguez, Barcos, & Jesús Álvarez, 2010; Samad, Aziz, Jaidi, & Masoud, 2016; Şerbu & Borza, 2014; Singh et al., 2007; Tajuddin, Hashim, & Zainol, 2016; Valaei, 2017; Widodo & Shahab, 2015; Xie, Zeng, Peng, & Tam, 2013; Yunis, El-Kassar, & Tarhini, 2017; Zahra, Ucbasaran, & Newey, 2009)
Innovation	(Aaltonen, Heinze, Ielpa, & de Tommaso, 2015; Ardyan et al., 2017; Auken et al., 2008; Q. Chen & Zhang, 2015; Cynthia et al., 2014; M F Hilmi et al., 2011; Mohd Faiz Hilmi, Ramayah, Mustapha, & Pawanchik, 2010; Iturrioz et al., 2015; Leal-Rodríguez & Albort-Morant, 2016; McAdam, Moffett, Hazlett, & Shevlin, 2010; Ngah et al., 2015a; Reguia, 2014; Şerbu & Borza, 2014; Valentina Della Corte et. al., 2013; West & Anderson, 1996; Wynarczyk, 2013; X. M. Xie, Zeng, & Tam, 2010; X. Xie et al., 2013; Yunis et al., 2017; Zahra, Ucbasaran, & Newey, 2009b)

Innovation strategies in business organization operations are optimized by leveraging resources that can effectively align operations with identified opportunities. An innovation strategy embodies an analytical, forward-thinking attitude, a strong commitment, and extensive literacy. Digital capability and innovation are synergistic, serving as vital sources of sustainable competitive advantage (Said, Alam, Zulkarnain, & Abdullah, 2016). Sustainable competitive advantage is characterized by the production of valuable products, the possession of rare resources, resistance to imitation, and the lack of viable substitutes (Barney, 1991). Consequently, this paper posits the following hypotheses:
H1: Digital capability significantly influences innovation strategy.
H2: Digital capability significantly influences sustainable competitive advantage.
H3: Innovation strategy significantly influences sustainable competitive advantage.

3. Methodology

The analysis technique employed in this study is Structural Equation Modelling (SEM) using SmartPLS 3. Covariance-based SEM typically requires a large sample size, often encompassing hundreds or thousands of observations. In contrast, Partial Least Squares SEM (PLS-SEM) can be effectively conducted with smaller sample sizes. The minimum requirement for a small sample size in PLS-SEM is determined by the "10 times rule," which stipulates that the sample size should be at least 10 times the number of the most complex structural paths directed toward a specific latent variable within the model. This approach ensures the

robustness and reliability of the analysis even with limited data. The latent variables with the highest number of indicators are ongoing competitive advantages with 4 dimensions (reflective variables) and have 9 formative indicators. 10 times from the magnitude of most formative indicators (9 formative indicators) are 90 samples (Ghozali, 2014; Qosasi et al., 2019; Ringle et al., 2012).

Then, the number of samples taken was 90 small food businesses in Pekanbaru, Indonesia (Ghozali, 2014). We have followed and fulfilled the requirements of the SEM-PLS sample and because of the limitations of the author to take more respondents in an area to be used as research samples.

The 90 questionnaire packages were distributed personally to micro and small businesses around the Durian and Ahmad Dahlan streets in Pekanbaru City. We explain the aims and objectives of the study and explain the questionnaire to be filled in by respondents. Each respondent received a questionnaire package and was taken back by the researcher two days after the questionnaire was distributed. But we also conducted a survey and respondents filled out the questionnaire directly on the spot. The researcher took measures to ensure the anonymity of the respondents when collecting the completed questionnaires. Data was gathered from a single respondent within each business. Out of the 90 questionnaires distributed, 36 were returned fully completed, resulting in a response rate of 40%. This response rate highlights the level of engagement and participation among the selected businesses in the study. The process was meticulously designed to maintain respondent confidentiality while obtaining valuable insights from each business.

The research framework model is generated from the SmartPLS application as shown in Figure 1. The results of data analysis, then confirm the results of the Bootstrapping and PLS Algorithms test. Primary data was collected and a pre-test was carried out before the questionnaire was distributed.

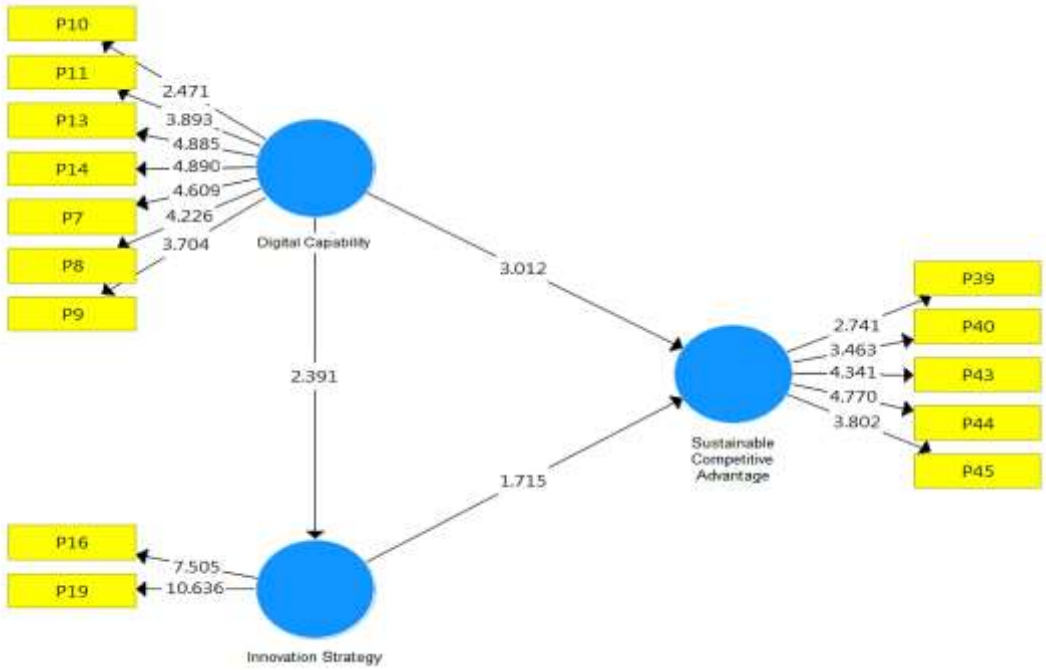

Figure 1. Bootstrapping Results

4. Results and Discussion

This research utilizes the Structural Equation Modeling (SEM) analysis technique, specifically employing the Partial Least Squares (PLS) method. This approach examines complex relationships between observed and latent variables, providing a robust framework for testing the proposed hypotheses and assessing the model's overall fit and predictive capabilities. The study can effectively handle small sample sizes and non-normal data distributions by leveraging PLS-SEM, ensuring comprehensive and reliable results.

The SEM analysis with PLS is conducted in three distinct stages:

a. Outer Model Analysis: This stage involves assessing the reliability and validity of the measurement models. It ensures that the indicators accurately measure the latent variables they are intended to represent.
b. Inner Model Analysis: This phase evaluates the structural model, examining the relationships between the latent variables. It assesses the model's predictive accuracy and the strength of the hypothesized relationships.
c. Hypothesis Testing: In the final stage, the proposed hypotheses are tested to determine their statistical significance. This involves evaluating the path coefficients and their associated t-values to ascertain the validity of the hypothesized relationships within the model.

Together, these stages provide a comprehensive framework for analyzing complex relationships between observed and latent variables, ensuring robust and reliable results. The results of the analysis of the three stages are explained as follows:

4.1 The result of the outer model analysis

Construct reliability testing is evaluated through composite reliability, as outlined by Chin (1998), and Cronbach's alpha, as detailed by Ghozali (2006). For constructs to be deemed reliable, they must achieve composite reliability scores exceeding 0.70 and Cronbach's alpha values above 0.60. Furthermore, construct validity is assessed using the average variance extracted (AVE), with an acceptable threshold being an AVE value of 0.50 or higher (Ghozali, 2014). The following Table 2 provides a detailed analysis of the outer model, illustrating the reliability and validity metrics for the constructs evaluated in this research.

Table 2. The result of the outer model analysis

Cut-off Value		Digi_Cap	Inno	SCA	Explanation
Cronbach's Alpha	>0.6	0.872	0.678	0.763	All aspect of Small food business meet the required standard
Composite Reliability	>0.7	0.901	0.858	0.840	
Average Variance Extracted (AVE)	>0.5	0.567	0.752	0.512	

Table 2 explains that the data output indicates that all the criteria for the outer model have been successfully met. Consequently, it can be concluded that the research data demonstrates strong validity and reliability. This satisfactory result allows for the progression of the analysis of the inner model, ensuring that the subsequent evaluations will be based on robust and dependable data.

4.2 The result of the inner model analysis

The evaluation of the inner, or structural, model is performed to ensure that the constructed models are robust and accurate. Robust regression, a method introduced by Andrews (1972), is employed when the data exhibits abnormal error distributions or includes several outliers that could potentially skew the model (Azwar, 2009). This technique is essential for analyzing data affected by outliers, ensuring the resultant model remains resilient to such anomalies. The assessment of the inner model is based on several key indicators, including the coefficient of determination (R^2), Predictive Relevance (Q^2), and the Goodness of Fit Index (GoF). Table 3 provides a detailed explanation of the R^2 output values, illustrating the model's explanatory power and predictive accuracy.

Table 3. Results of determination coefficient analysis

	R^2	Adjusted R^2
Innovation strategy	0.241	0.219
Sustainable competitive advantage	0.616	0.593

According to Chin (1998), an R^2 value of 0.67 indicates a strong relationship, 0.33 indicates a moderate relationship, and below 0.19 indicates a weak relationship. This research model demonstrates a strong relationship between the variables under analysis. In this study, there are two endogenous variables, innovation strategy and sustainable competitive advantage, and two exogenous variables. The R^2 and adjusted R^2 values indicate a strong relationship between the exogenous variables, both individually and collectively.

Furthermore, the results of the Q^2 calculation show that the Q^2 value is 0.759. This test employs the blindfolding procedure to evaluate the model's predictive capability. According to Chin (1998), a Q^2 value of 0.02 indicates a small predictive capability, a value of 0.15 also denotes a small predictive capability, and a value of 0.35 signifies a large predictive capability. In this study, the calculated Q^2 value is 0.709, which suggests that the model possesses a substantial predictive capability. This high Q^2 value demonstrates that the model is highly effective in predicting outcomes, indicating strong reliability and accuracy in forecasting the relationships between variables. The ability to predict effectively is crucial for the model's applicability in real-world scenarios, as it ensures that the findings and implications derived from the model are robust and dependable. This predictive strength enhances the model's utility for decision-making and strategic planning within the context of the study.

Ultimately, the Goodness of Fit (GoF) value in Structural Equation Modeling (SEM) using Partial Least Squares (PLS) was calculated manually, yielding a value of 0.335. According to Tenenhaus et al. (2005), a small GoF value is 0.1, a medium GoF value is 0.25, and a large GoF value is 0.38. The obtained GoF value of 0.335 falls between the medium and large categories. This indicates that the model has a good fit and represents the real phenomenon effectively. The GoF value serves as a comprehensive measure that evaluates the overall fit of the model, encompassing both the measurement and structural components. A higher GoF value signifies that the

model reliably captures the underlying data structure, providing confidence that the model's predictions and conclusions are reflective of actual relationships. This robustness in model fit is crucial for validating the model's applicability in practical contexts and for ensuring the reliability of the insights derived from the analysis.

4.3 Hypothesis testing

The test of hypotheses in SEM PLS is done with a bootstrapping process that produces t-statistics values. The t-value in hypothesis testing is a critical metric used to determine the significance of the relationships between variables. The hypothesis is significant if the t-statistics value is greater than 1.96 with a 95% confidence level. Table 4 explain the result of hypothesis testing.

Table 4. Path coefficients (Mean, STDEV, T-Value)

Hypotheses	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Digital Capability → Sustainable Competitive Advantage	0.616	0.609	0.204	3.012	0.003
Digital Capability → Innovation Strategy	0.491	0.481	0.205	2.391	0.017
Innovation Strategy → Sustainable Competitive Advantage	0.270	0.269	0.158	1.715	0.087

Table 4 presents the statistical results for three hypotheses tested in the study, providing insights into the relationships between digital capability, innovation strategy, and sustainable competitive advantage.

Firstly, the hypothesis that digital capability positively influences sustainable competitive advantage is supported by an original sample value of 0.616 and a sample mean of 0.609. The t-statistic for this relationship is 3.012, which exceeds the critical value of 1.96, indicating statistical significance at the 95% confidence level. Additionally, the p-value of 0.003 confirms the strong evidence against the null hypothesis, affirming that digital capability significantly enhances sustainable competitive advantage (H1 supported).

Secondly, the hypothesis examining the effect of digital capability on innovation strategy is also supported. The original sample value is 0.491, with a sample mean of 0.481. The t-statistic is 2.391, which again exceeds the threshold of 1.96, demonstrating a statistically significant positive relationship. The p-value of 0.017 further substantiates this finding, indicating that digital capability significantly influences innovation strategy (H2 supported).

Lastly, the hypothesis that innovation strategy positively impacts sustainable competitive advantage does not achieve statistical significance. The original sample value is 0.270, with a sample mean of 0.269. The t-statistic for this relationship is 1.715, which falls below the critical value of 1.96. The p-value of 0.087, being greater than 0.05, indicates insufficient evidence to reject the null hypothesis. Therefore, while innovation strategy may contribute to sustainable competitive advantage, this study does not find it to be a statistically significant factor (H3 not supported).

5. Discussion

The findings of this study corroborate previous research indicating a positive relationship between digital capability and innovation in small businesses. This suggests that as small businesses enhance their digital capabilities, their propensity for innovation tends to increase. When small businesses effectively implement and optimize digital processes, it creates a conducive environment for innovation to flourish. This relationship highlights the critical role that digital capability plays in fostering a culture of innovation, enabling small businesses to adapt to market changes, improve operational efficiencies, and develop new products or services. Therefore, enhancing digital capabilities is crucial for small businesses aiming to drive innovation and maintain a competitive edge in the market (Adeniran & Johnston, 2014; Harrigan, Ramsey, & Ibbotson, 2012; Higón, 2012; Lucchetti & Sterlacchini, 2004; Parida, Oghazi, & Cedergren, 2016; Yunis et al., 2017).

In this context, the analysis reveals that digital capability primarily enhances a firm's operational efficiency. For small food businesses, adopting digital capabilities demonstrates significant potential to create a sustainable competitive advantage. This is achieved through several avenues. Firstly, leveraging digital tools and technologies allows small food businesses to innovate and develop new products that meet evolving consumer demands. Secondly, digital capabilities enable businesses to analyze data more effectively, leading to better decision-making and strategic planning. Thirdly, embracing digital capabilities helps businesses stay ahead of technological trends, preparing them for future market shifts. Fourthly, digital adoption reflects a commitment to continuous improvement and adaptation, essential for maintaining competitiveness. Lastly, technological proficiency fosters an environment where digital tools are utilized to their fullest potential, driving efficiency and innovation. When faced with dynamic market conditions, these aspects of digital capability allow small food businesses to respond swiftly and effectively, ensuring they remain competitive and

resilient. Thus, digital capability enhances efficiency and plays a pivotal role in sustaining long-term competitive advantage through continuous innovation and strategic foresight (Roostika & Muafi, 2014).

Small food businesses in both developed and developing countries operate in highly uncertain and dynamic market environments (Frambach, Prabhu, & Verhallen, 2003; Laforet, 2008). According to Frambach et al. (2003), these challenging conditions, combined with technological turbulence, compel small food businesses to seek alternative strategies for survival and growth. For many, the adoption of digital technology has become the cornerstone of organizational agility, aiding in interactions with both suppliers and customers.

Research by Yaghoobi et al. (2014) has demonstrated that information and communication technology (ICT) positively impacts business agility. Adequate digital capabilities enable small businesses to seize numerous business opportunities, foster relationships with customers, and optimize resource management. Sambamurthy et al. (2003) argue that digital capability facilitates sustainable competitive advantage through external collaboration platforms, supply chain systems, and customer relationship management systems. These systems ensure a rapid and up-to-date flow of information among buyers, sellers, partners, and competitors.

Digital capability creates favorable conditions for organizations to explore and exploit opportunities for several reasons. Firstly, innovation helps organizations to explore and implement new ideas, enabling them to adapt to changes (West & Anderson, 1996; Xie et al., 2010). Technological innovation and progress are increasingly becoming essential components of competitive strategies for many companies (Adeniran & Johnston, 2014). Effective corporate entrepreneurship, coupled with innovation, can provide a substantial competitive advantage if it generates positive synergy for the company. Furthermore, if the innovation process or results are difficult to replicate, it further solidifies innovation as a critical factor in maintaining sustainable competitive advantage.

However, this study's findings differ from those of Cakmak & Tas (2012), which examined the influence of digital capabilities on competitive advantage and found no significant effect. Conversely, earlier studies by Powell & Dent-Micallef (1997)indicated that information technology positively affects an organization's competitive advantage. The discrepancy in findings may be attributed to differences in the sample used. This study focuses on small food businesses, whereas previous research often examined larger companies (Cakmak & Tas, 2012b; Chibelushi & Trigg, 2012; Harrigan et al., 2012; Higón, 2012; Maguire, Koh, & Magrys, 2007; Olatokun & Kebonye, 2010; Powell & Dent-Micallef, 1997). Consequently, the role of resources in creating a sustainable competitive advantage may vary between small and large businesses.

For small food businesses, capability must serve as a foundational resource for establishing corporate excellence. This capability allows businesses to identify competitive market opportunities and adapt to their business environment's conditions. The research indicates that capability creation within a company must be repeatable. This aligns with Sambamurthy et al. (2003), who state that digital capability as a company resource cannot directly translate into competitive advantage unless it can be replicated. Continuous market competition necessitates that companies manage both internal and external environmental pressures consistently. Therefore, capability must be reconfigurable and able to collaborate with other resources. This process requires mediation by other variables, such as innovation strategy, to effectively convert capability into a resource that contributes to competitive advantage.

The findings of this research (H3) indicate that the innovation strategy does not have a significant effect on sustainable competitive advantage. This result is understandable given that the focus of this research is on the human aspect of digital technology usage rather than the technological aspects themselves. Although the technology employed by small food businesses may be up-to-date with the latest advancements, it does not necessarily foster innovation if the users lack the skills to effectively operate ICT. The limitation in ICT skills among users means that the potential benefits of advanced technology are not fully realized. Furthermore, small food businesses have not yet prioritized enhancing their employees' ICT capabilities. As a result, these businesses struggle to leverage digital technology to gain a sustainable competitive advantage. Without a concerted effort to improve ICT proficiency among employees, the innovation strategy alone is insufficient to drive long-term competitive success. This underscores the importance of developing human capital in tandem with technological investments to achieve sustainable growth and competitiveness in small food businesses.

The findings of this study corroborate the conclusions of the OECD (2004), which highlight several critical weaknesses in small businesses. One significant issue is the limited capability and lack of aggressiveness from both owners and employees in maximizing business opportunities through digital media. Small businesses often struggle to fully exploit the potential of digital tools due to several inhibiting factors. Firstly, there is often a misalignment between existing business processes and the requirements for effective internet utilization. This incompatibility makes it difficult for small businesses to integrate digital solutions seamlessly into their operations. Secondly, there is generally a limited knowledge base regarding internet usage among small business owners and workers. This gap in digital literacy hinders their ability to leverage online platforms effectively for business growth.

Additionally, limited managerial skills in internet use further exacerbate this problem. Managers in small businesses often lack the expertise needed to implement and oversee digital strategies successfully. Moreover, the limited number of computers and poor internet connectivity pose practical challenges, restricting the ability of small businesses to engage in digital activities. Trust and security concerns also play a significant role.

Many small business owners and employees are wary of the risks associated with internet usage, including data breaches and cyber-attacks. This lack of trust in digital security measures prevents them from fully embracing online tools and platforms. Finally, the high costs associated with computer development and maintenance are a substantial barrier. Small businesses often operate on tight budgets and may find it challenging to allocate sufficient resources for upgrading and maintaining their digital infrastructure. These factors collectively hinder the ability of small businesses to capitalize on digital media, thereby limiting their growth and competitive potential. Addressing these issues requires a multifaceted approach, including improving digital literacy, aligning business processes with digital requirements, enhancing managerial skills, ensuring better access to digital tools, and addressing security concerns. By overcoming these barriers, small businesses can better harness the power of digital media to achieve sustainable growth and competitiveness.

The research findings highlight the significant influence of digital capability on both sustainable competitive advantage and innovation strategy. Digital capability refers to the ability of a business to effectively utilize digital tools and technologies to enhance its operations, innovate, and maintain a competitive edge. For small food businesses, having strong digital capabilities is particularly crucial due to the fast-paced and ever-changing market conditions they operate in. These businesses must be able to respond quickly to market fluctuations, which means they need to have the infrastructure and processes in place to make swift decisions and implement changes efficiently. Managing short product cycles is another essential aspect. In the food industry, product lifecycles can be brief due to changing consumer preferences, seasonal variations, and the perishable nature of many products. Therefore, small food businesses must have the agility to develop, launch, and phase out products rapidly. This requires a high degree of operational efficiency and flexibility, which can be significantly enhanced through digital technologies.

Adapting to changing consumer demands is also vital. Consumer preferences can shift rapidly, driven by trends, health concerns, and economic factors. Businesses that can quickly adapt their product offerings and marketing strategies to meet these changing demands are more likely to succeed. Digital capabilities enable businesses to gather and analyze consumer data in real-time, allowing for more informed and timely decision-making. In this dynamic environment, small food businesses need to be faster, more flexible, and more participatory. Being faster means reducing the time taken to bring new products to market and respond to customer feedback. Flexibility involves the ability to pivot and adapt to new information and changing circumstances without significant disruption. Participation refers to engaging with customers, suppliers, and other stakeholders actively and collaboratively to foster innovation and improve service delivery. Furthermore, as noted by (Stalk, 1988), businesses need to be sharper and more tenacious. This means they should be able to anticipate market trends and act on them decisively, while also maintaining resilience in the face of challenges. (Yang & Wang, 2014) emphasize the importance of having a strategic mindset that is not only responsive but also proactive in seeking out and capitalizing on opportunities.

In summary, digital capability is a critical enabler for small food businesses to manage the complexities of their operating environment effectively. It allows them to be agile, innovative, and responsive, thereby securing a sustainable competitive advantage and positioning themselves for long-term success.

6. Conclusion

Innovation strategies alone are not always sufficient for small food businesses to achieve sustainable competitive advantage. These businesses need to enhance their digital capability, particularly by improving their digital technology infrastructure. By doing so, they can develop innovative strategies that enable their operations to reach broader markets, both locally and internationally. Moreover, strong digital capabilities can help small food businesses increase efficiency and effectiveness in their operations, thus enhancing their sustainable competitive advantage. This study supports the findings of Ardyan et al. (2017), Febrian et al. (2018), Qosasi et al. (2019), and Nowacki (2012), which emphasize the crucial role of innovation in navigating various market conditions and maintaining a competitive edge.

To further substantiate these findings, future research should be conducted in diverse locations with a broader population, such as in Indonesia. To solidify the theoretical framework and validate the relationships between variables, future studies should consider different dimensions while maintaining the same research focus and scope.

The results of this study provide a foundation for future research on sustainable competitive advantage, highlighting the importance of innovation and digital technology. However, this study is limited by its sample size and scope. Future research should explore different and contemporary data analysis techniques, especially considering the impact of the COVID-19 pandemic on small and medium enterprises. Additionally, researchers should sample a larger number of regions to capture a more accurate and comprehensive understanding of the phenomena being studied. This approach will enhance the accuracy and applicability of the findings, providing valuable insights into the role of digital capability and innovation in achieving sustainable competitive advantage.

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