

## A BUSINESS GROWTH STRATEGY FOR DIGITAL TELCO INDUSTRY IN INDONESIA THROUGH COLLABORATIVE STRATEGY BY STRENGTHENING THE DYNAMIC CAPABILITY AND SUPPLY CHAIN MANAGEMENT

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### Abstract

Companies that are involved in the worldwide Telco industry have been experiencing negative growth pressures due to the rise of digital industries. This pressure is also being faced in Indonesia, where Telco companies have undergone a transformation in business practices. Collaborative strategies have been implemented as a core initiative in this transformation in the hope that local Telco businesses can resist the pressures of digital disruption. However, the threat of digital disruption is still limiting business growth. This article investigates the influence of dynamic capability and supply chain management on efforts to mitigate the effects of disruption, while identifying the impact that collaborative strategies have on business performance. We focus on the Indonesian Telco sector, utilising quantitative methodologies to analyse the strategic units and subsidiaries of the 46 Telco companies involved in this research. Our results show that dynamic capability and supply chain management have not only significantly influenced business performance, but have also had a major effect on collaborative strategies. However, the influence of collaborative strategies has not impacted business performance significantly.

Keywords: Dynamic Capability, Supply Chain Management, Collaborative Strategy, Business Growth Strategy

## Introduction

Clayton M. Christensen (2013), a disruptive innovation expert, has stated that companies that are impacted by disruptive innovation are at a high risk of being bankrupted. According to Christensen, the Telco industry is particularly vulnerable to this type of disruptive innovation regardless of whether companies provide their services across mobile or fixed-line networks. Christensen supports his claim with a large amount of evidence. Erick Heinrich (2016) confirms Christensen's research, reporting that, between 2002 and 2008, China Mobile, Deutsche Telekom, and Telefonica suffered \$386 billion in lost income on the advent of internet telephony applications such as Skype and WhatsApp. This transformation of the technological landscape has also been experienced by Telco companies in Indonesia.

The challenges faced by Telco companies in Indonesia are becoming increasingly complex. On the storefront side of their businesses, each company must be adaptive to the changing lifestyles of their customers and the general preference that consumers have for digital technology. When dealing with back-

room operations, companies must be able to increase the competency of their employees at using new digital technologies. In addition, companies will be forced to innovate to see off competition from telecommunication services offered by digital players. TELKOMSEL, as one of the biggest cellular operators in Indonesia, has undergone just such a period of business transformation. These changes have not only impacted on business operations; they have also revolutionised attitudes towards people, organisation and corporate culture within the company.

The transformation of internal management practices – the shifting of orientation towards people, organisation, and corporate culture – is now a key part of growing a company's dynamic capability. While the transformation of companies through a focus on programmes to improve customer experience do have an effect on the cost structure, the implementation of new technologies is part of a wider supply chain management system. Thus, the general business strategy of digital Telco companies in Indonesia is to strengthen dynamic capabilities and supply chain management throughout the sector.

Business growth is also managed by cooperating with parties who have the competence and capability to successfully operate in the field of digital business. Telco companies in Indonesia are entering the digital business sphere by collaborating with those who already have experience in the field. As a matter of fact, the option of collaboration is not only limited to digital businesses, as other fields have benefitted from similar strategic alliances. The development of telecommunication infrastructure, the provision of customer experience services, and the adoption of business transaction facilities for customers have all relied on the cooperation of external parties to succeed. Therefore, it is important to acknowledge that collaborative strategies are still essential for Telco Companies operating in Indonesia.

Armed with these background insights, this study focuses on how efforts to strengthen dynamic capabilities and expand the scope of supply chain management have had a major impact on the development of collaborative strategies. This reveals research questions that have so far gone unanswered: How has strengthening dynamic capability and supply chain management influenced business performance in general? And how does strengthening dynamic capability and supply chain management through the implementation of collaborative strategies affect business performance in the context of the digital Telco industry in Indonesia.

## Literature Review

The concept of dynamic capability was originally theorised by David Teece, Gary Pisano & Amy Shuen. According to Teece, et. al. (1997) dynamic capability is a manifestation of corporate efforts to improve the ability of an organisation to adapt to business environments characterised by rapid change. This is achieved by configuring and optimising a company's internal and external resources to overcome poorly-developed markets for the exchange of technological and managerial know-how. Sidney Winter (2003) elaborated on the concept of dynamic capability, suggesting that organizations are not only able to develop and modify existing company habits or capabilities, they are also able to create novel habits and new ways of conducting business (New Capabilities).

A number of experts have expressed ideas about the relationship between dynamic capabilities and collaborative strategies in the context of firms seeking to diversify both their resource positions and product-marketing activities. Birger Wernerfelt (1984), for instance, suggests that companies which have difficulty entering into particular industries due to entry and position barriers should conduct mergers or acquisitions to secure access to appropriate products and resources. "Less capable resources" indicate a relationship to dynamic capability, whereas a merger is part of a collaborative strategy. Thus,

there is an indirect relationship between dynamic capability and collaborative strategy. In the Baker Review, et. al. (2011) explicitly state that dynamic capability positively affects strategic alignment. Alignment is one form of collaborative strategy. Thus, there is a definite relationship between dynamic capability and collaborative strategy.

The relationship between dynamic capability and business performance has been explored by several management experts with varying results. While Teece (2014) claims that dynamic capability can improve the performance of an enterprise, other researchers have offered different views. According to Catherine Wang & Pervaiz Ahmed (2007), the influence of dynamic capability on business performance is too complex to reduce to a general rule. This claim also contrasts with other studies by Nedzinskas, et. al. (2013). According to Nedzinskas, et. al., Dynamic Capability has a positive effect on a company's non-financial performance, but has no impact on a company's financial performance.

Schroeder, et. al. (2004) have identified activities associated with supply chain management that include inventories, material flows, and information flows. Inventories play a key role in storing and organising the goods that are needed by the company, so that on time actions are possible. They are also useful tools for storing and organising the production outputs of the business, and

help to facilitate the prompt delivery of goods to the customer. Material flow guarantees the availability of any goods that are required by the company, safeguarding not only the quality and specification of the goods, but ensuring that appropriate amounts of goods are delivered by suppliers. Material flow also ensures that the products produced by the company are available to the customer as required through the storage of goods (both space and transportation are required). Information flow guarantees the reciprocal exchange of information between companies and suppliers, companies and distribution agents, and companies with customers. It ensures that the information that is circulating among these stakeholders is valid and accurate. From the point of view of process stages, Cohen & Roussel (2004) state that supply chain management is the core process of a company and includes all the activities required to produce and deliver goods and services.

According to Cohen & Roussel, there are five pillars that will transform a supply chain management system into a tool that is capable of improving the performance of a company. The five pillars are: aligning supply chain management with the company's business strategy, developing end-to-end process design, building precise relations of collaboration, operating an advanced supply chain management plan, and using relevant key performance indicators to improve the execution of supply chain manage-

ment. Cohen & Roussel believe that by leveraging the five pillars, the company will be able to promote improved business performance.

The influence of supply chain management on collaborative strategies has been discussed in depth by Chang & Graham (2012). Drawing on the results of their research, they argue that when supply chain management is based on mutual trust, it will strengthen collaboration. While research by Nakano (2009) also found that internal collaboration has a positive influence on the capacity for logistics to aid production performance, he discovered that external collaboration has little impact. The relationship that does exist between supply chain management and business performance has been identified elsewhere by Morash (2001). Monash demonstrates in the course of his study that supply chain capabilities have a positive impact on business performance.

According to Gee (2000), collaborative strategies involve running a business with the aim of optimising togetherness and promoting cooperation with other parties who stand to benefit mutually. Ireland, et. al. (2002) claim that collaboration is synonymous with the term alliance. They argue that an alliance is a collaboration between two or more companies in which each aims to improve their performance, while enhancing the competitive position of their individual organizations by sharing resources with

partners. Wheelen, et. al. (2015) propose the concept of synergy, which has the same basic definition as collaboration. According to Wheelen, et. al., synergy occurs when business units both between and within organizations collaborate. This type of alliance enables companies to position themselves to benefit from increased profitability at a level that could not be anticipated without cooperation. This relationship between collaborative strategy and business performance has been reported by Le Roy & Sanou (2014). The results produced by Le Roy & Sanou indicate that the influence of cooperative relations on business performance is better than cooperative collaboration.

This literature review has demonstrated the complex relationship between variables such as collaborative strategies, dynamic capabilities and supply chain management, enabling the configuration of the following research paradigm and hypothesis.

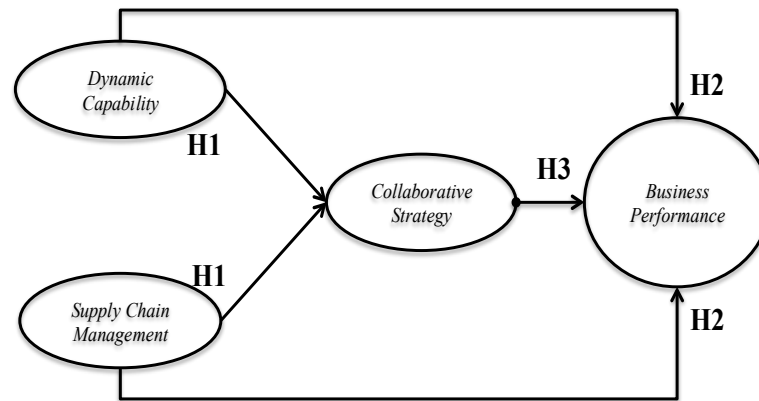
Hypotheses:

- H1: The effectivity of Collaborative Strategy is influenced by the strengthening of Dynamic Capability and Supply Chain Management
- H2: Business Performance is influenced by the strengthening of Dynamic Capability and Supply Chain Management

H3: Business Performance is influenced by Collaborative Strategy

The configuration of the research paradigm is seen in Figure 1 - The Research Structure.

Figure 1 - The Research Structure



### Research Method

The questionnaires were sent to all units of analysis by parallel distribution, with each receiving a hard copy of the questionnaire by mail or a digital document that could be accessed by email or Google drive. Delivery in parallel was intended to offer respondents a convenient choice that made completing the questionnaire as easy as possible. Respondents who filled in the hardcopy of the questionnaire sent them for collection at the company secretary section, with the data entered directly after all the questionnaire books were collected. Questionnaire responses were then entered into a database. For respondents who answered via email and Google drive, the data was directly collected and forwarded to a database response unit

observers. The database of the observation units constitutes the primary data for this project. Most of the data that has been used in this data analysis was filled out correctly and fits within the required range. Only a few respondents did not give complete answers to all questionnaire questions. The missing data has been supplemented with average results taken from respondents as a group.

All of the data was processed using PLS statistics. The results of the statistical analysis have been evaluated and analysed by examining R square (R<sup>2</sup>) parameters to see whether the research structure of the study fits or not. P Values have also been tested to identify whether there is a significant interrelation between variables.

Table 1- R square (R2) Values

	R Square	R Square Adjusted
BP	0.628	0.625
COLL-STRG	0.458	0.454

Figure 2 - The Structural Model – Path Coefficient

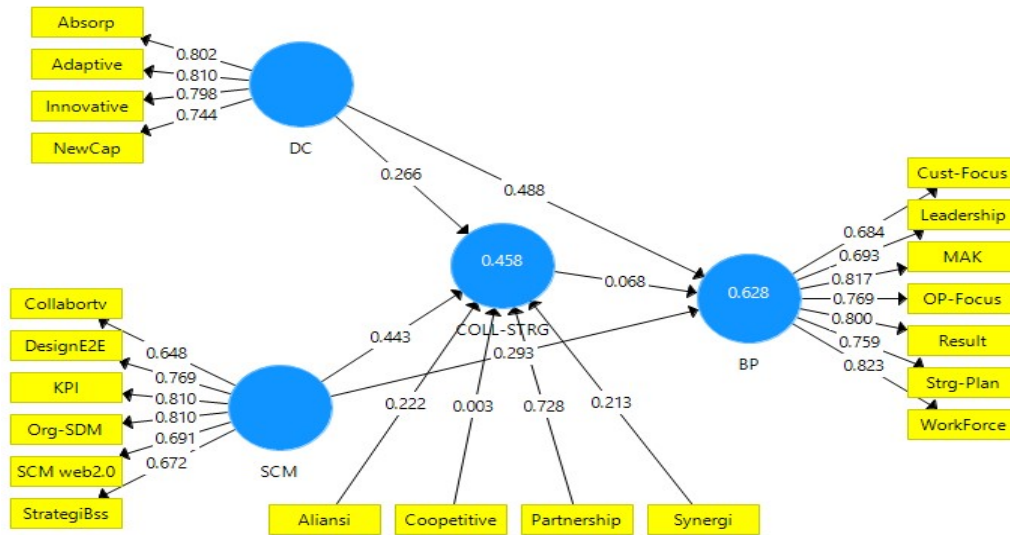


Table 2 - Reliability and Validity Test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
BP	0.882	0.890	0.908	0.586
COLL-STRG		1.000		
DC	0.798	0.801	0.868	0.622
SCM	0.829	0.833	0.876	0.542



Table 3 - Significant level of Coefficient path

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
COLL-STRG -> BP	0.068	0.067	0.060	1.127	0.260
DC -> BP	0.488	0.488	0.062	7.864	0.000
DC -> COLL-STRG	0.266	0.267	0.093	2.851	0.005
SCM -> BP	0.293	0.292	0.062	4.729	0.000
SCM -> COLL-STRG	0.443	0.450	0.098	4.534	0.000

Table 4 - Significant indirect effect level

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
DC -> COLL-STRG -> BP	0.018	0.018	0.018	0.998	0.319
SCM -> COLL-STRG -> BP	0.030	0.031	0.029	1.023	0.307

## Results

The use of PLS Statistical methods resulted in the model-path coefficient structure as shown in Figure 2: The Structural Model-Path Coefficient. This Configuration Structure has R square (R<sup>2</sup>) values as shown in Table 1.

According to Gozali (2008), research structures with R square (R<sup>2</sup>) values above 0.33 are moderate, while structures with R square (R<sup>2</sup>) values above 0.67 are strong. The structure of this study has an R square (R<sup>2</sup>) value of 0.628. This indicates that the test results for the relationship between variables can be considered strong enough. The results of the reliability and validity testing as described in Table 2 show that

this research construct is based on data which is consistent, reliable and valid.

## Discussion

### *Collaborative Strategies Are An Enabler Factor For Increasing Business Performance*

In his concept theory of networks, Kadushin (2012) describes a network as a collection of objects that have particular relationships. In light of this definition, collaboration should be understood as a part of science object concerning the network. In essence, network theory has two fundamental schools. The first is presented by Granoveter (1973) and focuses on understanding what he calls the strength of weak ties (SWT). The second



branch of network theory is described in Burt's (1992) analysis of structural holes (SH). SWT theory proposes that the strength of a relationship is determined by the weakest link, whereas SH theory states that, in a network of interrelationships, the object which mediates the most connections is the strongest object.

Collaboration is one of the central concerns of network theory. It describes the types of relationships that are fostered between companies that have similar concerns and interests. One of the goals of a company employing a collaborative strategy is to choose the most dynamic partners possible to link with. In the process, they form alliances (networks) with certain businesses that they hope will assist them to add value. These business networks will open opportunities for each company involved to grow its business. It is therefore natural that collaborative strategies will be an issue of significant concern for these companies. When they implement a collaborative strategy, these organizations increase the likelihood that each will add value, especially when compared with companies that do not undertake collaborative action. Therefore, the collaborative strategy is an enabler factor for adding value to the company.

This principle is similar to what J. H. Dyer & H. Singh (1998) describe in their article "The Relational View: Cooperative Strategy and Sources of Inter-organizational Competitive Advantage".

Dyer & Singh state that an alliance strategy will have positive impacts on each company in a collaborative relationship, because the optimisation of resources that results will provide competitive advantage value. This statement indicates that the alliance strategy which formalises the collaborative strategy will add value to the company in the form of competitive advantage. Thus, implementing a collaborative strategy in an effort to grow business is still an important enabler factor and plays a significant role in guaranteeing competitive advantage.

### Conclusion

Digital technology is a constant source of disruptive innovation, which has the ability to undercut the profitability of companies in the Telco sector by offering cheaper, more flexible alternatives to existing products. This disruption is having a major impact in Indonesia, depressing the growth of Telco businesses across the country. While players in the Indonesian Telco sector have introduced business transformation programmes, reforming all aspects of their operations from human resources and organisational structures to customer experience programmes and corporate culture, the threat of disruptive innovation posed by digital technology remains significant.

The business transformation efforts undertaken by Telco companies in Indo-

nesia are an important part of the strategy companies have adopted to strengthen their dynamic capabilities. This has enabled them to effectively compete with digital businesses. Large investments have been made in efforts to improve customer experience, particularly in end-to-end servicing, where customers are encouraged to participate in every stage of the supply chain from product preparation to user support programmes for products and services. This is all done digitally and is a major part of efforts to strengthen the supply chain management system.

The results of this study show that the efforts to strengthen dynamic capabilities and supply chain management in the Indonesian Telco industry can enhance the effectiveness of collaborative strategies and enable improvements in business performance. By contrast, the effectiveness of strengthening dynamic capabilities and supply chain management through the implementation of collaborative strategies does not directly improve performance, but creates competitive advantages that open indirect opportunities to increase business performance.

Collaborative strategies, as a result, remain a significant and worthwhile option for companies to pursue, because they can open up opportunities to increase efficiency and foster effective partnerships by drawing on internal resources. Collaborative strategies are also

able to expand business networks, so that companies can increase business opportunities across the sector. Collaborative strategies can also create added value to companies by promoting competitive advantage. In light of the evidence collected in this study, it is possible to claim that collaborative strategies are an important enabler factor for improving business.

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