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Does Competitive Advantage Mediate Innovation Capability and Organizational Ambidexterity-Organizational Performance Relationship?

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ABSTRACT

This study aims to describe innovation capability, organizational ambidexterity, competitive advantage, and organizational performance and investigate the effects of innovation capability and organizational ambidexterity on organizational performance as mediated by competitive advantage. Owners of small and medium-sized enterprises in Bekasi Municipality, West Java Province, Indonesia are the unit of study. This study employs quantitative methodologies. The research population comprised 2,186 SME businesses registered with the Government Office of Small and Medium Enterprises of Bekasi municipality, West Java Province, Indonesia. The respondents consisted of 100 SME business owners, and the sampling technique was simple random sampling. The analysis of the data using the Partial Least Square approach. The results show that innovation capability and organizational ambidexterity have positive effects on competitive advantage; innovation capability and organizational ambidexterity also have a positive direct impact on organizational performance; competitive advantage mediates the innovation capability and organizational performance relationship and also organizational ambidexterity and organizational performance relationship. SMEs owners must implement innovation capability and organizational ambidexterity to improve their competitive advantage and performance.

I. Introduction

maximum profit sustainability. Al-khawaldah, R., Al-zoubi, W., Alshaer, S., Almarshad, M., ALShalabi, F., Altahrawi, M., & Al-hawary (2022) defines organizational ambidexterity as organizational capability in seeking strategic competitive orientations. Alshae (2020) defines organizational ambidexterity as the ability of an innovative organization to meet simultaneous and conflicting demands, depending on the level of management capability. However, conflict sometimes creates tensions in the organization. So, from the definitions presented previously, organizational ambidexterity can be interpreted as the organizational capability to produce products productively, balanced competition, and ensure the organization has optimal profitability.

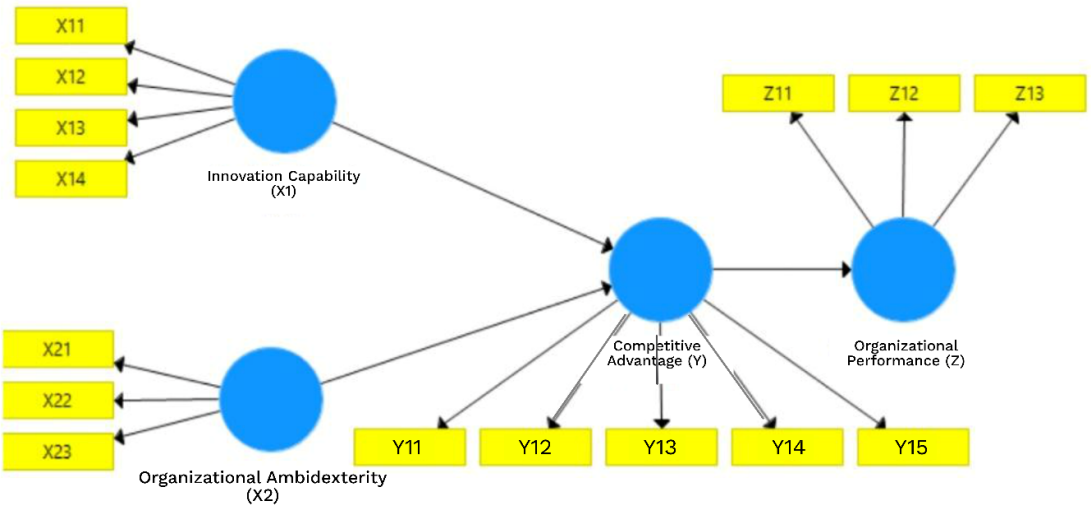
To measure the variable of organizational ambidexterity, the dimensions commonly used are the exploitation of work programs that have been carried out well and effectively and the exploration of opportunities in the form of innovations that can be carried out for the advancement of the organization. Competitive advantage denotes the ability of a company to gain market dominance over its rivals [10]. It emerges from an organization capable of efficient customer value creation (Muhajirin, M., & Kamaluddin, 2019). I Muis, et al. (2022) opined that competitive advantage is a set of reliable abilities of the people in an organization to use its unique resources to meet its customers' needs and wants and create customer values.

Indicators to measure competitive advantage are brand power, popularity, product image (Yasa et al., 2020), value, rarity, inimitability, and organizational support (Obeidat et al., 2021). Hanaysha, J. R., and Alzoubi (2022) define organizational performance as an assessment activity that enables organizations to evaluate and compare goals, patterns, past decisions, and other processes and products.

Previous academics have examined the correlations between the factors under investigation. Innovation capability influences competitive advantage positively. Ferreira, J., Coelho, A., and Moutinho, J. (2020) confirmed the association between innovation capability and competitive advantage. Liu, C. H., Chang, A. Y. P., & Fang (2019), as well as Puspita, L. E., Christiananta, B., & Ellitan (2019), are citations for this article (2020). Organizational ambidexterity has a positive effect on competitive advantage. Al-khawaldah has confirmed the Organizational ambidexterity-competitive advantage relationship, R., Al-zoubi, W., Alshaer, S., Almarshad, M., ALShalabi, F., Altahrawi, M., & Al-hawary (2022), Clauss, T., Kraus, S., Kallinger, F. L., Bican, P. M., Brem, A., & Kailer, (2021). Correia has confirmed the competitive advantage-organizational performance relationship, R. J., Dias, J. G., & Teixeira (2020), Sukaatmadja, I., Yasa, N., Rahyuda, H., Setini, M., & Dharmanegara (2021), Sihombing, N. S., & Sihombing (2018). There have been some previous researchers that have used competitive advantage as an intervening variable, such as Winarso (2020), Yasa, N. N. K., Adriyani, I. G. A. D., Rahmayanti, P. L. D., & Dharmanegara (2020), Respatiningsih (2021) and Nurmala (2018).

Based on the above postulates, it is hypothesized that:

H1: Competitive advantage affects organizational performance significantly and positively
H2: Innovation capability affects competitive advantage significantly and positively
H3: Organizational ambidexterity affects competitive advantage significantly and positively
The hypothesis is formulated by referring to the model as shown in the following figure:



a. Source: Researchers' Processed Data

Fig. 1. Structural Research Model

Although many researchers have studied SMEs, only a few previous researchers have measured the 4 (four) variables being observed. Due to a dearth of literature, the effects of innovation capability and ambidexterity on SMEs' organizational performance as mediated by competitive advantage need to be more adequately explained.

This study makes two contributions to the existing body of knowledge. First, it describes the implementation of innovation capability, organizational ambidexterity, competitive advantage, and organizational performance among SMEs in Bekasi Municipality, West Java, Indonesia. Secondly, this study possibly confirms some direct effects on innovation capability and organizational ambidexterity-organizational performance relationship and the existence of competitive advantage as a mediator in the innovation capability and organizational ambidexterity–organizational performance relationship

II. Methods

This study used Partial Least Square (PLS) method using the Smart PLS Version 2 program. The unit analysis of this study is Owners of SMEs. This research applies a quantitative method. It examined the relationship between innovation capability and organizational ambidexterity on the organizational performance of SMEs, mediated by competitive advantage. The independent variables of this study are innovation capability and organizational ambidexterity. Organizational performance is the dependent variable, and competitive advantage is the intervening variable. Respondents are sampled. There are 1050 SMEs registered in the Office of Cooperatives and Micro, Small, and Medium Enterprises of Bekasi municipality (Government Agency Performance Report 2021 from the Bekasi Municipality Cooperatives and UMKM Service). The populations of the research were 1050 SMEs. There were 100 respondents from SMEs. A simple random sampling technique is applied. Questionnaires are distributed door to door randomly. The respondents are asked voluntarily to participate. They are owners of SMEs.

In this study, two data types are utilized: primary and secondary. Primary data were collected from questionnaires and had been collected from August - September 2022. Secondary data support the primary ones. The secondary data are from journals and other information. Here are the indicators of each variable measured:

Table 1. Innovation Capability Indicators

No.	Indicators
1	We develop new production procedures and methods
2	We introduce new management procedures and methods which are better than the former one
3	We launch new products made better than one produced three years ago.
4	We modify and make our recent products much better.

[b.] Source: Lam, L., Nguyen, P., Le, N., & Tran, K. (2021)

Table 2. Organizational Ambidexterity Indicators

No.	Indicators
1	Our employees can do their jobs effectively
2	Our employees use their optimal ability dan resources to take available opportunities
3	Our employees can keep up with changes

[c.] Source: Abu Najib, 2020

Table 3. Table 3 Competitive Advantage Indicators

No.	Indicators
1	Our company provides good value-added products
2	Our company possesses some unique resources
3	Our company possesses resources that are hard to copy
4	Our company possesses sufficient resources for the competition
5	Our company possesses a competing capability

[d.] Source: Yamin (2020)

Table 4. Organizational Performance Indicators

No.	Indicators
1	Most of our employees are satisfied with working in our enterprise
2	Our products are sold very well in the market
3	All employees are efficient in using resources when they do their jobs

[e.] Source: Muis, I. et al. (2022)

III. Result and Discussion

Respondents' choice of each statement in variables is measured on a 1-5 Likert scale. The Likert scale indicates the level of respondents' agreement with the indicators. The levels of interpretation are determined by calculating the range level as follows:

Minimum score = 1
Maximum score =5
Range = 5 – 1 = 4.
Range Level = 4/5= 0,8
[22].
Based on the calculation above, levels of interpretations are determined as follows:

Table 5. Level of Interpretation

Score Range	Level of Interpretation
4,21−5,00	Very Good
3,41−4,20	Good
2,61–3,40	Fair
1,81−2,60	Poor
<1,81	Very Poor

f. Source: Sugiyono, 2018

Based on the level of interpretations shown in table 5, each variable is scored and interpreted. To answer the research problems, each measured variable is being improved to the position of a much higher score range than it has had before. Although a variable is interpreted as Very Good, there is an opportunity to improve its score to the highest.

As seen in Table 6, innovation capability is the highest score in an outstanding category, with an average score of 4,31. Organizational ambidexterity has an average score of 4,21 in an outstanding category. Although innovation capability and organizational ambidexterity variables are in an outstanding category, there will be an opportunity to improve to the highest score range. Competitive advantage as a mediator has an average score of 4,11 in a suitable category. Organizational performance has an average score of 4,26 in the outstanding category. The owners of SMEs need to improve their competitive advantage to be in an outstanding category. The scores of all variables studied are as follows:

Table 6. Variable Scores

No.	Variables	Scoring	Remarks
1	Innovation Capability	4.31	Very Good
2	Organizational Ambidexterity	4.21	Very Good
3	Competitive Advantage	4.11	Good
4	Organizational Performance	4.26	Very Good

g. Source: Researchers' Processed Data

As indicated in table 7, the highest score is the agreement that the SMEs launch new products made better than one produced three years ago. It is in the very good category with a 4.34 score. The lowest score is the agreement that the SMEs develop new production procedures and methods. It is still in the very good category with 4.27. Although they achieve very good categories in all indicators, the SMEs still have an opportunity to improve their achievement in new production procedures and methods development, better new management procedure and methods introduction, and product modification.

Table 7. Innovation Capability Scores

No.	Indicators	Scoring	Remark

1	We develop new production procedures and methods	4.27	Very Good
2	We introduce new management procedures and methods which are better than the former one	4.32	Very Good
3	We launch new products made better than one produced three years ago.	4.34	Very Good
4	We modify and make our recent products much better	4.32	Very Good

[h.] Source: Researchers' Processed Data

In table 8, the highest-scored indicator is the agreement that employees of the SMEs use their optimal ability dan resources to take available opportunities. It is in the very good category with 4.27. The lowest-scored indicator is the agreement that employees of SMEs can keep up with changes. It is in a suitable category with 4.12 and needs to be increased. The indicators in the very good category, the score range can still be increased to the highest score. The owners of the SMEs need to improve the work effectiveness of the employees and the agility and adaptability to changes.

Table 8. Organizational Ambidexterity Scores

No.	Indicators	Scoring	Remarks
1	Our employees can do their jobs effectively	4.25	Very Good
2	Our employees use their optimal ability and resources to take available opportunities.	4.27	Very Good
3	Our employees can keep up with changes	4.12	Good

[i.] Source: Researchers' Processed Data

Table 9 shows that the highest score in the competitive advantage variable is the agreement that the products of the SMEs provide good value-added products. It is in the very good category with a 4.55 score. The lowest score is the agreement the business possesses is hard to copy. It is in the good category with 3.62. Some indicators need to be improved from a good category to a very good category. In other words, SMEs need to possess a product that is hard to copy, some unique resources, sufficient resources for competition, and competing capabilities.

Table 9. Competitive Advantage Score

No.	Indicators	Scoring	Remarks
1	Our company provides good value-added products	4.55	Very Good
2	Our company possesses some unique resources	3.93	Good
3	Our company possesses products that are hard to copy	3.62	Good
4	Our company possesses sufficient resources for the competition	4.13	Good
5	Our company possesses a competing capability	4.31	Very Good

[j.] Source: Researchers' Processed Data

As seen in table 10, the highest scored indicator is the agreement that employees of the SMEs are satisfied to work. It is in the very good category with a 4.32 score, and the lowest scored indicator is the agreement that Our products are sold very well in the market. It is also in a very good category (4.22). All indicators in Organizational Performance are in a very good category. Although all indicators are in very good categories, the owners of the SMEs still have opportunities to increase the score to improve employee satisfaction, sales, and efficient production.

Table 10. Organizational Performance Score

No.	Indicators	Scoring	Remarks
1	Most of our employees are satisfied with working in our enterprise.	4.32	Very Good
2	Our products are sold very well in the market	4.22	Very Good
3	All employees are efficient in using resources when they do their jobs	4.23	Very Good

[k.] Source: Researchers' Processed Data

The relationship among the variables is further discussed. The SmartPLS output for the loading factor, which is analyzed through the Partial Least Square Algorithm, presents the results as follows:

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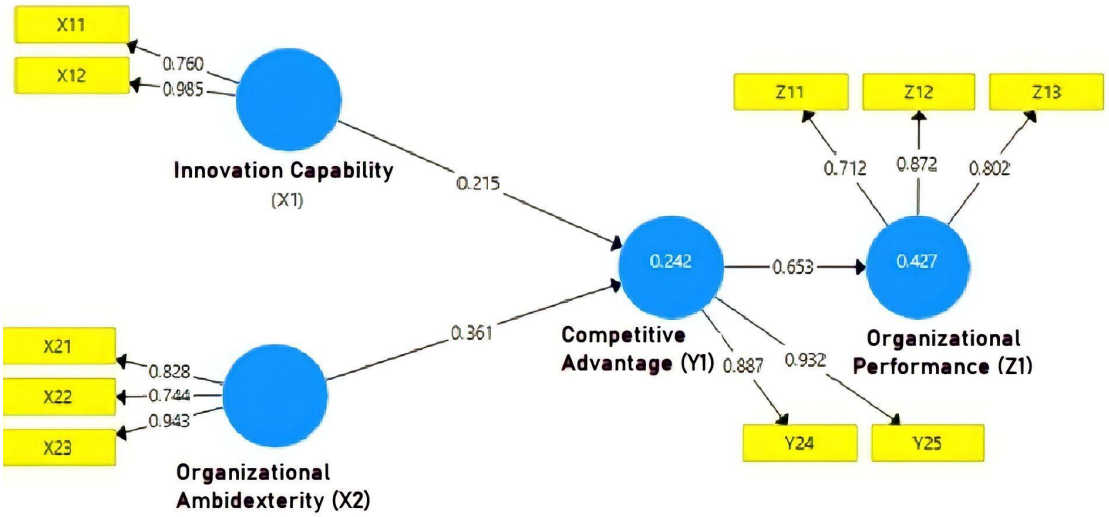
Table 11. Result for Outer Loadings

	Competitive Advantage	Innovation Capability	Organizational Ambidexterity	Organizational Performance
X1.1		0.760		
X1.2		0.985		
X2.1			0.828	
X2.2			0.744	
X2.3			0.943	
Y1.4				0.887
Y1.5				0.932
Z1.1				0.712
Z1.2				0.872
Z1.3				0.802

l. Source: processed primary data

When the loading factor value is more than 0.5, convergent validity is met (Sugiyono, 2018). According to table 11, the minimum loading factor is 0.71. It indicates that all indicators across all variables satisfy convergent validity. Several signs have been eliminated during testing. A statistical effort to obtain a significant correlation coefficient has led to removing the indicators. As shown in Figure 2, the diagram of loading factor values of all indicators in the structural model is as the following:



m. Source: Researchers' Processed Data

Fig. 2. Loading Factor Value

In SmartPLS, research indicators tested for discriminant validity by cross-loading are shown in the following table 12:

Table 12. Result for Cross Loadings

	Innovation Capability	Organizational Ambidexterity	Competitive Advantage	Organizational Performance
X1.1	0.760	0.312	0.108	0.272
X1.2	0.985	0.419	0.408	0.512
X2.1	0.337	0.828	0.312	0.410

X2.2	0.353	0.744	0.319	0.306
X2.3	0.383	0.943	0.479	0.575
X2.4	0.211	0.396	0.887	0.523
Y1.4	0.893	0.801	0.708	0.588
Y1.5	0.434	0.425	0.932	0.654
Z1.1	0.338	0.326	0.314	0.712
Z1.2	0.458	0.452	0.676	0.872
Z1.3	0.363	0.470	0.472	0.802

[n.] Source: Researcher rs' Processed Dat

An indicator is valid when its loading factor value is more than the loading factors of others (Sugiyono, 2018). As shown in Table 12 loading factor value for Z1.2 in the organizational performance variable is 0.872, which is higher than the loading factors for competitive advantage indicators, which are 0.676, innovation capability 0.458, and organizational ambidexterity 0.452.

Then, the alternative method to confirm discriminant validity is considering the values of Average Variance Extracted (AVE). The result of AVE is satisfactory if it is above 0.5 [22]

Table 13. Average Variance Extracted (AVE)

	Average Variance Extracted
Innovation Capability	0.774
Organizational Ambidexterity	0.710
Competitive Advantage	0.828
Organizational Performance	0.637

[o.] Source: Researchers' Processed Data

IV. Conclusion

onflict.

References

[1] Kampars.