# Strengthening Innovation Ecosystem to Leverage Ambidexterity at an SME in Indonesia

**Friska Mastarida**
Business Management Department, BINUS Business School-Undergraduate Program, Bina Nusantara University
Jakarta, Indonesia 11480
friska.mastarida@binus.ac.id

**Enggal Sriwardiningsih**
Management Department, BINUS Business School-Undergraduate Program, Bina Nusantara University, Jakarta, Indonesia 11480
enggal@binus.ac.id

## Abstract

Dominant service orientation is a portfolio base owned by business actors where they are superior to their competitors. The ability of organizations to offer superior service and produce a more valuable customer experience is vital in achieving a competitive advantage. Business actors must be able to transform all valuable, unique, inimitable, organized resources and capabilities during today's changing environment to facilitate the consumer experience. One of the essential perspectives of Resource-Based Theory is how organizations achieve and elevate superior performance in the markets. They operate through the business's internal resources and capabilities, such as the existence of a dominant service orientation that is strong, providing direction and purpose towards building quality marketing capabilities through a combination of responsive market orientation and firm-specific innovation ecosystem as strengthening of ambidexterity SME business in Bali, Kalimantan, and Sumatra.

## Keywords
Resource-Based Theory, Firm-specific Innovation Ecosystem, Ambidexterity.

## 1. Introduction
Environmental awareness has increased recently (Papadas et al. 2017, Wales et al. 2019, Zameer et al. 2022). The business world has realized the need to protect the natural environment, operationalize and increasingly integrate green and socially conscious marketing activities into daily business practices. With all their financial, managerial, and intellectual resources, SMEs must find new ways to maintain and improve their products and services. New demands for new products and services are constantly emerging, requiring them to make new adjustments, especially to environmental issues. Suppose the company is considered successful in carrying out operational activities oriented towards environmental health, consumer health, and social health. In that case, it will build organizational expertise and skills in carrying out operational tasks such as using and allocating organizational resources, adapting to market changes and unspecified consumer needs. Predictability improves and develops the organization concerning its practices, activities, and production to become aware that it appears superior to other competitors (Kimbrough, 2011). Concerning businesses pursuing competitive advantage must be able to translate complex environments into their routine marketing activities because innovation ensures competitive advantage and ecological benefits, and consumer and social welfare. Organizations with solid environmental awareness marketing ecosystems tend to have unique process signatures imitated uneasily by competitors, a source of sustainable competitive advantage that enables organizations to generate superior returns. Recently research found that SMEs need several factors to support selling their goods using innovation marketplace (Inayatullah. et al. 2021).

### 1.1 Objectives
A The research objective is to integrate organizational activities oriented toward conscious marketing practices, green consumers, and green social to build organizational expertise and skills in carrying out operational tasks such as using and allocating organizational resources, adapting to changing markets, and changing consumer needs. It is

unpredictable and improving and developing the organization concerning its practices, activities, and production to become aware that it appears superior to other competitors by using a resource base theory perspective in Sumatra, Kalimantan, and Bali. Organizations need to understand that Green marketing includes all activities related to product modification, production process changes, advertising modification, packaging modification, and aby else. It is designed to meet the needs and wants of consumers and society simultaneously. Furthermore, pave the way for organizational growth in a profitable way by minimizing the impact on the natural environment (Ottman et al., 2006). Responding to environmental concerns enables the creation of "win-win solutions" that are good for business practices, consumers, and society. Therefore, achieving a competitive advantage in business can be obtained through motivated innovation toward the natural environment and harmonizing the social environment. Thus, it is crucial for businesspeople to continuously build and strive for uniqueness throughout the history of their business life. We propose several research hypotheses as follows:

Hypothesis 1. Service-Dominant Orientation influences Responsive Market Orientation.
Hypothesis 2. Service-Dominant Orientation influences Firm-Specific Innovation.
Hypothesis 3. Responsive Market Orientation Influences Firm-Specific Innovation.
Hypothesis 4. Firm-Specific Innovation influences Exploitative Operational Ambidexterity.
Hypothesis 5. Responsive Market Orientation Influences Exploitative Operational Ambidexterity.
Hypothesis 6. Service-Dominant Orientation influences Exploitative Operational Ambidexterity.
Hypothesis 7. Responsive Market Orientation mediates Firm-Specific Innovation to Exploitative Operational Ambidexterity.
Hypothesis 8. Service-Dominant Orientation mediates Responsive Market Orientation and Firm-specific Innovation Ecosystem to Exploitative Operational Ambidexterity.
Hypothesis 9. Service-Dominant Orientation mediates Firm-Specific Innovation to Exploitative Operational Ambidexterity.
Hypothesis 10. Service-Dominant Orientation mediates Responsive Market Orientation to Exploitative Operational Ambidexterity.
Hypothesis 11. Service-Dominant Orientation mediates Firm-Specific Innovation to Exploitative Operational Ambidexterity.

## 2. Literature Review

### 2.1. Service Dominant Orientation

Green creativity defines developing new ideas about environmentally friendly products, services, processes, or environmentally friendly practices. That is considered original, new, and valuable (Chan & Hawkins, 2012). Effective competition through services can see as a whole organization using the dominant service. Thus, the organization needs to develop a business logic that business leads to conceptualizing its business mindset that shapes business decisions. It determines how the organization can use the strategy to adjust or change aspects of the environment for a more favorable alignment. When the philosophy, values, and beliefs passed down through the dominant service are always empowered to run its business based on the environment, all organizational actions and strategic decision-making aim to achieve superior performance.

### 2.2. Responsive Market Orientation

Responsive market-oriented organizations tend to try to capture the needs of consumers in the market and find solutions that can understand and meet consumer needs (Herhausen, 2016). The responsive market approach emphasizes full attention to the needs of today's consumers and focuses on exploiting these needs by improving and refining existing operational skills, requirements, and procedures, applying minor adjustments, skills, and business capacities in the market. By responsibly utilizing consumer needs both now and in the future, continuous efforts will enable the organization to allocate and utilize limited resources optimally and increase effectiveness and efficiency.

### 2.3 Firm-specific Innovation Ecosystem

Organizations with scarce financial, managerial, and intellectual capital resources must find new ways to maintain and improve their products and services. New demands for new products and services are constantly emerging, thus demanding for them to innovate through new adjustments, especially in environmental issues. Suppose the company is successful in carrying out operational activities oriented towards environmental health, consumer health, and social health. In that case, it will build organizational expertise and skills in carrying out operational tasks such as using and allocating organizational resources, adapting to market changes and unspecified consumer needs. Predictability

improves and develops the organization concerning its practices, activities, and production to become aware that it appears superior to other competitors (Voss & Voss, 2013).

## 2.4 Exploitative Operational Ambidexterity

Responsive market orientation is related to adaptive learning, leading to exploitation and exploration (Baker & Sinkula, 2007). Concerning market orientation with innovations, stated that market orientation influences the ability to innovate by recognizing customers to improve efficiency and increased revenues. Market orientation is vital for success in operations, but other strategic resource capabilities should complement it. The most critical strategic resource capabilities that create and maintain ambidexterity. Ambidexterity classifies as organizational, social, and human capital resources. This approach encourages resource exploration and an exploitative learning strategy characterized by accessibility, filtering, efficiency, utilization (Shehata, 2020).

## 3. Methods

Partial Least-Squares (Sarstedt et al., 2014) using Smart PLS 3.0 (Ramayah et al. 2018) will predict all hypotheses. Research model figure 1 illustrates a conceptual model of RBT for micro and small and medium enterprises in Bali, Kalimantan, and Sumatra. This model wants to reveal that an organization's unique innovation ecosystem is a competitive core factor in the sustainable development of an entity that supports reciprocal value creation through mutually service-driving resource deployments (Karpen et al. 2015). Figure 1 shows the proposed concept model supported by quantitative data (Figure 1).
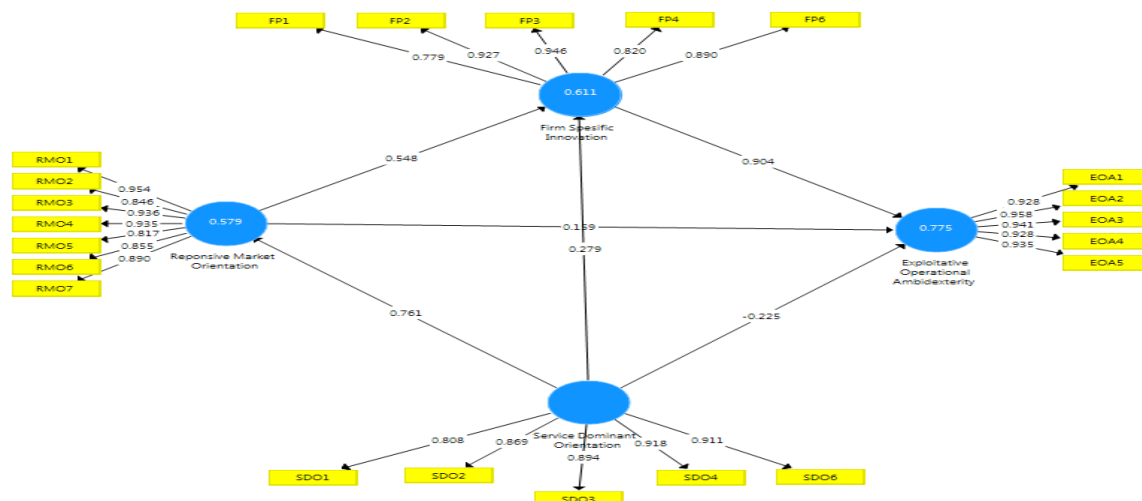


Figure 1. Innovation Ecosystem Model to Leverage Ambidexterity

## 4. Data Collection

We found this phenomenon through observations and surveys in the field. It aims to identify problems regarding effective competition derived through services that the whole organization uses the dominant service. Thus, influencing strategic business decisions aim to achieve superior performance. The business strategy recognizes its strategic Orientation toward organizational, consumer, and community practices in SME businesses in Kalimantan, Bali, and Sumatra. Data collection empirical data was collected by the survey through google forms. The subjects are owners or managers of SMEs in Bali, Kalimantan, and Sumatra. The indicator concept model The questionnaire was built from the questionnaire concept model. Each item indicator measures a five-point Likert scale, ranging from strongly disagree to agree strongly. Then the research will look at the internal consistency using Cronbach, validity, and reliability. The data is collected and analyzed using structural equation modeling.

## 4. Results and Discussion

Table 1 contains the values of the CR and AV elements. The results show that all components have a CR score of more than 0.7, indicating that the scale employed in the study has a high degree of internal consistency (Wong, 2013). In addition, all AVE Values exceeding 0.5 indicate a good CV. Table 2 shows each indicator's cross-loading value on

its respective variables showing a more excellent value than the indicator's cross-loading value against other variables in the model. The model shows that each indicator has a higher correlation with its respective latent variables than other latent variables to have good discriminant validity.

## 5.1 Numerical Results

Table 1. Measurement of Model Quality Criteria

| Variable | Factor loading | ronbach's α | R | VE |
|---|---|---|---|---|
| xploitative Operational Ambidexterity (EOA) | | | | |
| EOA1 | 0,928 | | | |
| EOA2 | 0,958 | | | |
| EOA3 | 0,941 | | | |
| EOA4 | 0,928 | | | |
| EOA5 | 0,935 | 0.966 | 0.974 | 0.880 |
| rm – specific Innovation Ecosystem (FP) | | | | |
| FP1 | 0,779 | | | |
| FP2 | 0,927 | | | |
| FP3 | 0,946 | | | |
| FP4 | 0,820 | | | |
| FP6 | 0,890 | 0.922 | 0.942 | 0.765 |
| esponsive Market Orientation (RMO) | | | | |
| RMO1 | 0,954 | | | |
| RMO2 | 0,846 | | | |
| RMO3 | 0,936 | | | |
| RMO4 | 0,935 | | | |
| RMO5 | 0,817 | | | |
| RMO6 | 0,855 | | | |
| RMO7 | 0,890 | 0.957 | 0.964 | 0.795 |
| rvice Dominant Orientation (SDO) | | | | |
| SDO1 | 0,808 | | | |
| SDO2 | 0,869 | | | |
| SDO3 | 0,894 | | | |
| SDO4 | 0,918 | | | |
| SDO5 | 0,911 | 0.928 | 0.945 | 0.776 |
| | | | | |

Table 2. The Result of Discriminant Validity

| | Exploitative Operational Ambidexterity (EOA) | Firm Specific Innovation (FP) | Responsive Market Orientation (RMO) | Service Dominant Orientation (SDO) |
|---|---|---|---|---|
| **EOA1** | 0.928 | 0.823 | 0.749 | 0.619 |
| **EOA2** | 0.958 | 0.841 | 0.638 | 0.512 |
| **EOA3** | 0.941 | 0.800 | 0.578 | 0.386 |
| **EOA4** | 0.928 | 0.777 | 0.552 | 0.408 |

| | | | | |
|---|---|---|---|---|
| EOA5 | 0.935 | 0.835 | 0.651 | 0.539 |
| FP1 | 0.560 | 0.779 | 0.705 | 0.675 |
| FP2 | 0.838 | 0.927 | 0.638 | 0.562 |
| FP3 | 0.878 | 0.946 | 0.732 | 0.615 |
| FP4 | 0.711 | 0.820 | 0.418 | 0.489 |
| FP6 | 0.782 | 0.890 | 0.792 | 0.698 |
| RMO1 | 0.670 | 0.762 | 0.954 | 0.761 |
| RMO2 | 0.576 | 0.619 | 0.846 | 0.595 |
| RMO3 | 0.644 | 0.744 | 0.936 | 0.737 |
| RMO4 | 0.681 | 0.749 | 0.935 | 0.695 |
| RMO5 | 0.459 | 0.563 | 0.817 | 0.696 |
| RMO6 | 0.587 | 0.628 | 0.855 | 0.659 |
| RMO7 | 0.575 | 0.654 | 0.890 | 0.595 |
| SDO1 | 0.413 | 0.522 | 0.584 | 0.808 |
| SDO2 | 0.408 | 0.577 | 0.633 | 0.869 |
| SDO3 | 0.483 | 0.642 | 0.725 | 0.894 |
| SDO4 | 0.471 | 0.644 | 0.688 | 0.918 |
| SDO6 | 0.530 | 0.667 | 0.710 | 0.911 |

To validate the measurement's validity and reliability, the structural model results present after R2 (see Table 3) show the percentage variance in the dependent variable explained by the independent variable. In contrast, the path coefficient shows the magnitude of the change in the dependent variable caused by each independent variable (Wong, 2013). After assessing the measurement model, the SmartPLS boot tool evaluates the path coefficients' relevance.

The structural model results presented the validity and reliability of the measurement model. R2 (see Table 3) shows the percentage variance in the dependent variable explained by the independent variable. In contrast, the path coefficient shows the magnitude of the change in the dependent variable caused by each independent variable (Wong, 2013). After assessing the measurement model, evaluate the path coefficients' relevance using the SmartPLS boot tool.

Table 3. The Results of Hypothesis Testing via Bootstrapping

| Hypotheses | Direct Path | Path Coefficient | T-Statistics (|O/ST-DEV|) | P-Values |
|---|---|---|---|---|
| H1 | SDO→RMO | 0.761 | 9.839 | 0,000 |
| H2 | SDO→FP | 0.279 | 1.290 | 0.198 |
| H3 | RMO→FP | 0.548 | 2.561 | 0.011 |
| H4 | FP→EOA | 0.904 | 2.859 | 0.004 |
| H5 | RMO→EOA | 0.159 | 0.624 | 0.533 |
| H6 | SDO→EOA | -0.225 | 0.950 | 0.343 |

Table 4. The Results of Mediation Analysis

| Hypotheses | Indirect Path | Path Coefficient | T-Statistics (|O/ST-DEV|) | P-Values |
|---|---|---|---|---|
| H7 | RMO→FP→EOA | 0.496 | 2.268 | 0.024 |
| H8 | SDO→RMO→EOA | 0.377 | 2.291 | 0.022 |

| | | | | |
|---|---|---|---|---|
| H9 | SDO→FP→EOA | 0.252 | 1.339 | 0.181 |
| H10 | SDO→RMO→EOA | 0.121 | 0.596 | 0.551 |
| H11 | SDO→RMO→FP | 0.417 | 2.694 | 0.007 |

Hypothesis 1 states that the path coefficient value is positive at 0.761, and the t-statistic value is 9.839. Because the t_statistic value is 9.839> t_table 1.96 or it can see the p-value <0.05 so that the Service-Dominant Orientation has a significant effect on the Responsive Market Orientation. These results reveal that the conceptualization of a business mindset derived through business services can shape and influence business decisions that lead to market needs that encourage positive interactions with consumers to respond to and answer all market needs (Vargo & Lusch, 2016).

Hypothesis 2 states that the positive path coefficient value is 0.279 and the t-statistic value is 1.290 <t_table 1.96, or P-value > 0.05. it means Service-Dominant Orientation does not significantly affect Firm-Specific Innovation.

Hypothesis 3 found the path coefficient value with a positive sign of 0.548 and the t-statistic value of 2.561. Because the t_statistic value is 2.561> t_table 1.96 or P-value < 0.05. It means the Responsive Market Orientation has a significant effect on Firm-Specific Innovation.

Hypothesis 4 states that the path coefficient value with a positive sign was 0.904, and the t-statistic value was 2.859. Because the t_statistic value is 2.859> t_table 1.96, or p-value <0.05 so, Firm-Specific Innovation has a significant effect on Exploitative Operational Ambidexterity.

Hypothesis 5 found that the path coefficient value with a positive sign was 0.159 and the t-statistic value was 0.624 because the value of t_statistic is 0.624 <t_table 1.96, or p-value is > 0.05, so the Responsive Market Orientation does not significantly affect the Exploitative Operational Ambidexterity.

Hypothesis 6 found that the path coefficient value with a negative sign was -0.225. The t-statistic value was 0.950 because the t_statistic value is 0.950 < t_table 1.96, or it expresses that the p-value > 0.05 so that the Service-Dominant Orientation does not significantly affect the Exploitative Operational Ambidexterity.

Hypothesis 7, fortunately, can support the model. The calculation statistic results in a value of 2.268> t_table 1.96, or the p-value <0.05, so Firm-Specific Innovation does not act as a mediator of Responsive Market Orientation to Exploitative Operational Ambidexterity.

Hypothesis 8 is accepted. The calculation results the t_statistic value is 2.291> t_table 1.96, or the p-value <0.05, so that the Responsive Market Orientation and Firm-specific Innovation Ecosystem acts as a mediator of Service-Dominant Orientation against Exploitative Operational Ambidexterity.

Hypothesis 9 cannot support the model. The calculation results are that the t_statistic value is 1.339 <t_table 1.96, or the p-value is >0.05, so Firm-Specific Innovation does not act as a mediator of Service-Dominant Orientation to Exploitative Operational Ambidexterity.

Hypothesis 10, unfortunately, cannot support the model. Calculation results are that the t_statistic value is 0.596 <t_table 1.96, or the p-value is >0.05 so that the Responsive Market Orientation does not act as a mediator of Service-Dominant Orientation to Exploitative Operational Ambidexterity. Hypothesis 11 is accepted. The calculation results are that the t_statistic value is 2.694> t_table 1.96, or the p-value <0.05, so that the Responsive Market Orientation acts as a mediator of Service-Dominant Orientation towards Firm-Specific Innovation.

The research findings show that the conceptualization of the combination of innovation and responsiveness strengthens ambidexterity, passed down through SME business services. This Orientation will mobilize all business resources and capabilities, which will play a role in shaping and increasing ambidexterity consisting of organizational, social, and human resources. Therefore, especially for the SME sector in Bali, Kalimantan, and Sumatra, it is significant to consistently build and strive for uniqueness throughout the business life through firm-specific innovations supported by the market response, which is called integrated interaction in entrepreneurial autonomy.

## 6. Conclusion

The development of the right products/services helps a business to succeed—market orientation fosters ambidexterity in operations to explore & exploit capability. Responsive market orientation is related to adaptive learning, leading to exploitation and exploration. Concerning market orientation with innovations stated that market orientation influences the ability to innovate by recognizing customers to improve efficiency and increase revenues. Market orientation is vital for success in operations, but other strategic resource capabilities should complement it.

The most critical strategic resource capabilities to create and maintain ambidexterity. Through firm-specific innovation, ambidexterity proved to classify as organizational, social, and human capital resources. That will be a

more robust, responsive market orientation. This approach frames the power of resource exploitative learning strategy, characterized by accessibility, filtering, efficiency, and utilization.

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## Biographies

**Dr. Friska Mastarida, SE., MM.** She is a lecturer at Bina Nusantara Univeristy. Business Management Department, Binus Business School, Jakarta, Indonesia. She graduated Bachelor and master's degree from Economics Department,

Transportation and Logistics Trisakti Institute, Jakarta. Doctoral degree from Service Management, Trisakti University, Indonesia. Her focus in Marketing, Digital Marketing, Hospitality and Tourism.

**Dr. Enggal Sriwardiningsih SE. M. Si** is a lecturer at Bina Nusantara University. Management Department, Binus Business School, Jakarta, Indonesia. She graduated bachelor and master's degree from Economics department, Gajah Mada University, Yogyakarta. Doctoral degree from Doctoral Research Management, Bina Nusantara University, Jakarta, Indonesia. Her focus in consumer / producer behaviour, SMEs, e-commerce, and e-learning.