

Maintaining the Firm's Performance Stability of Indonesia's Small to Medium Enterprises (SMEs): RBV and CSV Perspective

I Gusti Agung Musa Budidarma

Faculty of Business and Economics, Klabat University

ABSTRACT : The objective of this paper is to discuss the theoretical approach to pursuing firm performance stability by integrating RBV and CSV. This paper provides a literature review of RBV theory and CSV theory. Based on the theory, RBV and CSV might lead the firm to achieve a competitive advantage. The competitive advantages are superior firm resources compared to a competitor and the increasing of productivity. As a consequence, the firm's stable performance could be achieved since the firm generates more revenue, lowers costs, and then increases profit. This paper also has the managerial implication that the CSV mindset trains the manager's attention on opportunities to take on societal and environmental challenges in innovative ways.

Keywords: CSV, competitive advantage, firm performance, RBV

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***Corresponding Author :** musa.budidarma@unklab.ac.id

INTRODUCTION

Indonesia's Small and Medium Enterprises (SMEs) are crucial to the Indonesian economy in terms of sustainable growth and economy. In 2014, the Cooperatives and SME Ministry of Indonesia stated that the population of SMEs in Indonesia reached 57.9 million SMEs. The SMEs contribution to the country's GDP achieved 58.92% and absorbed around 97.30% of the country's workforce.

However, the impressive achievement of the previous year could not be maintained. In 2015, even though the absorption of the country's workforce remained the same, the SMEs contribution to the national GDP dropped by almost 3% to 56%. The deterioration of the global and Indonesian economy, e.g., the falling price of crude oil and commodities, was suspected to be the cause of the decline.

Although, in 2016, there was an increase in SMEs contribution to Indonesia's GDP to 60.3%. However, Indonesia's SMEs face the challenge of the ASEAN economic community (AEC). The AEC, which was started in 2016, aims to integrate Southeast Asia's diverse economies into a single market.

While the AEC brings opportunity for Indonesia's SMEs to penetrate new markets in the Southeast Asian region, it is inexorable that Indonesia will be a major target market for business from other ASEAN countries. It leads to an inevitable regional competition. Therefore, Indonesia's SMEs need to have competitive advantages in order to maintain their existence in the business arena.

On the one hand, the necessity of stability of firm's performance is needed by Indonesia's SMEs to support the Indonesian economy. On the other hand, Indonesia's SMEs should be concerned with the social issues arising in order to maintain the stability of the firm's performance. Therefore, efforts to maintain the harmony of the firm's interests and social interests are needed.

The objective of this paper is to discuss the theoretical approach in pursuance of Indonesia's SMEs competitive advantage escalation to achieve the optimum firm performance level based on the Resource-Based View (RBV) and Creating Shared Value (CSV) perspective. This paper contributes to the literature by integrating the RBV and CSV perspectives.

Resource Based View (RBV)

One of the most influential theoretical perspectives in the organizational sciences is the resource-based view (Barney, 1991). Moreover, RBV emerged in the field of strategic management and organization. Kellermanns, Walter, Crook, Kemmerer, and Narayanan (2016) explained that the RBV theory has helped researchers to understand why some firms outperformed their competitors by enjoying competitive advantages. Even though RBV has developed in other fields, however, RBV is becoming increasingly important within entrepreneurship. RBV can be applied to the entrepreneurship area. Therefore,

this theory can be employed to discuss Indonesia's SMEs; the majority of the SMEs are entrepreneurs.

RBV, as one strategic management theory, postulates that superior firm performance is attributable to the endowment with superior resources (Schmidt and Keil, 2013). Wernerfelt (1984) explained that the relationship between resources and products is like two sides of the same coin. Moreover, "several resources are used to service most products, and most resources can be used in several products." The firm's resources are critical key factors in maintaining the sustainability of the firm. All assets, capabilities, firm attributes, information, knowledge, etc., controlled by firms to improve their efficiency by implementing the strategies are known as firm resources (Barney, 1991). In addition, there are four attributes that must be existed of the firm's resources if the firm pursues a competitive advantage: (a) the resources must be valuable since it leads to opportunities for exploitation and/or threats neutralization in the firm's environment, (b) In current and potential competition, the resources must be rare, (c) the resources must be imperfectly imitable, and (d) the firm's resources cannot be substituted by equivalent resources. Therefore, by having strategic resources, the firms are able to generate a competitive advantage in order to be sustainable.

In order to identify the strategic resources owned by the firm, there are several tests that could be employed in the resources recognition process. According to Collis and Montgomery (1995), there are 5 tests to determine whether a resource is valuable with respect to the industry dynamics: (1) The test of inimitability: Is the resource hard to copy? (2) The test of durability: How quickly does this resource depreciate? (3) The test of appropriability: Who captures the value that the resource creates? (4) The test of substitutability: Can a unique resource be trumped by a different resource? and (5) The test of competitive superiority: Whose resource is really better? The implementation of these five tests enables the firm to identify its resources appropriately.

Based on the five tests that have been explained previously, Indonesia's SMEs could apply them in determining its valuable resources. First, the test of inimitability: Are the resources hard to copy? Indonesian SMEs should be able to identify which resources that is hard to copy. In the creative industry, i.e., batik fashion, designs of batik clothes are derived from time-honored traditions and cultures that exist only in each region the batik originated. Batik from Java will be different in design from batik from Minahasa. This distinction is motivated by the customs and local values prevailing in the area. Since the traditions and cultures are the specific identities of a tribe, therefore it is really difficult to be imitated. Inimitability is an important factor in value creation since the existence of inimitability limit the competition in the industry.

Second, the test of durability: how quickly do these resources depreciate? The longer the duration of firm resources, the more valuable it is. Continuing from the previous example about the batik fashion industry, the batik-making skill is inherited from parents to their children or from people who have been selected to continue the batik tradition. Thus, the batik tradition will not be extinct even though their parents or their predecessors are dead.

The third test is the test of appropriability, which is who captures the value that the resources create. The batik makers create value by producing batik. The higher the quality of batik, the more expensive it is. There are two parties that most capture the value, which are the batik maker and the customers. The customer will consume more value when the price of batik is low and has a good quality. The firm or batik maker will capture more value when the price is higher.

Fourth, the test of substitutability: can a unique resource be trumped by a different resource? In the case of the batik industry, every batik brand has its own style and motif. The substitute of the designer from a different stream might replace the distinctive features that already exist; as a consequence, the loyal customer might prefer to choose another batik product.

Lastly, the test of competitive superiority: whose resource is better? Collis and Montgomery (1995) suggested that the firm should combine the strategic resources to be one package since it will bring superiority over the firm's competitors. This is a challenge for Indonesian SMEs to have one integrated resources package in order to overcome the competition. For example, the batik makers in Indonesia might integrate their unique design with the best distribution channel that will make their business more sustainable.

For managerial implication, the manager should understand and be able to apply the five questions of Collis and Montgomery (1995) in order to recognize and identify which are the valuable resources that are owned by the SMEs in order to increase the competitive advantage of SMEs. **Proposition 1.** The SMEs ability to recognize and maintain valuable resources resulted in a competitive advantage that leads to better firm performance.

Value Creation and Value Captured

Schmidt and Keil (2013) emphasize that competitive advantage is obtained from superior value creation and value capture. According to Mizik and Jacobson (2003), both value creation and value appropriation are required for achieving a sustained competitive advantage. Figure 1 shows the relationship between strategy and sustainable competitive advantage framework. The organization's resources are allocated to two fundamental processes, which are creating value (value creation) and appropriating value (value capture). The strategic emphasis should be made appropriately. Strategic emphasis is the relative emphasis a firm

places on value appropriation relative to value creation. Strategic emphasis determines sustainable competitive advantage that has an effect on financial performance.

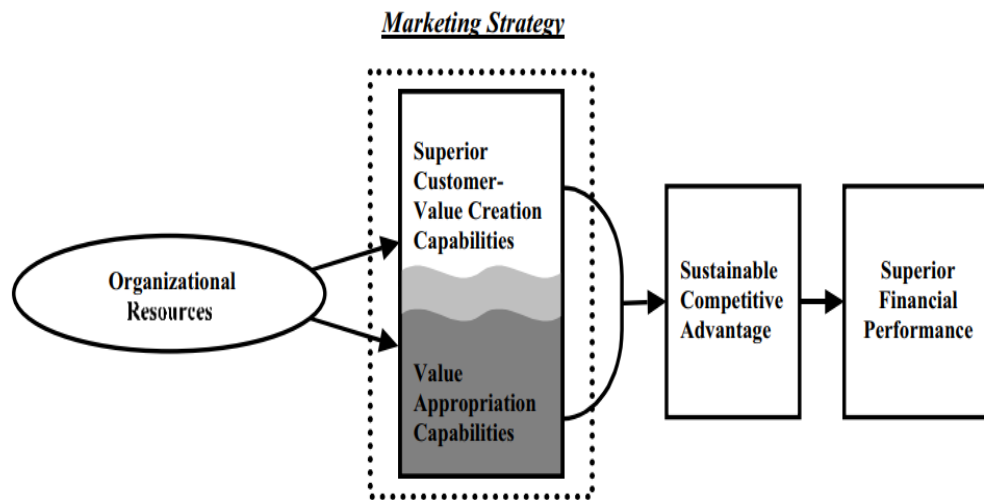


Figure 1. Marketing strategy and the sustainable competitive advantage framework.

Creating Shared Value (CSV)

The central concept in management and organization literature is value creation (Lepak, Smith, and Taylor, 2007). Value creation is one of the most crucial aspects that relate to the ability of the firm to generate profit from its activity. Apart from its function as an economic entity to generate profit, the firm also has a role in social value creation. Corporate actions have a tremendous influence on society, the environment, and individuals (Mill and Hielscher, 2014).

One concept that accommodates the social and environmental issues in the business is Creating Shared Value (CSV). CSV was popularized by Porter and Kramer. Porter and Kramer (2011) define Creating Shared Value (CSV) as “policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which they operate.” Unlike the Corporate Social Responsibility (CSR), CSV underlines that social engagement must be related to firm’s strategic analysis and economically beneficial for a firm (Wójcik, 2016).

Porter and Kramer (2011) emphasize that “CSV rests on the premise that both economic and social progress must be addressed using value principles (and) value is defined as benefits relative to costs, not just benefit alone.” Moreover, they argue that rather than consider social engagement as the relation of benefits and cost spending, the executive of the firm often considers the social engagement of business organizations in terms of benefits achieved or money expended.



Figure 2. Social needs and economic value creation (Porter and Kramer, 2011).

Figure 2 shows the relationship between company productivity and social and environmental. According to Porter and Kramer (2011), social deficit and environmental impact create an economic cost for companies. Community weaknesses affect company productivity. In addition, social needs represent the largest unserved market opportunity. To yield productivity benefits, the firm could address societal concerns in numerous way. For example, when the firm invests in a wellness program, society could get the benefit because the employee and their families become healthier. The healthier the employee, the fewer employee absences incurred. Therefore, productivity loss might be avoided.

Economic value can be created by creating societal value (Porter and Kramer, 2011). There are three distinct ways to create societal value. First, reconceiving products and market. Undoubtedly, the immense needs of society for health, better housing, healthy nutrition, help for aging, financial security, and less environmental damage. Certainly, those needs are unmet needs in the global economy. An example of how a company creates shared value in products and markets is shown by Becton Dickinson, the largest medical manufacturing company headquartered in America. The spread of HIV and other infection through needle stick injuries are high, therefore Becton Dickinson redesigns syringes to prevent accidental sticks. The impact of redesigning syringes is the

substantial reduction in health worker injuries. In addition, this action led to the addition of two billion US dollar revenue in 2012, which was representing 25% of the company's revenue. Also, that was the largest source of company growth over the past two decades.

Second, redefining productivity in the value chain. The various societal issues are affecting the company's value chain. The issues are health and safety, working condition, natural resources and the use of water, and equal treatment in the workplace. Since the societal problem creates economic costs, therefore the need to create shared value arise. Fibria is the world's leading manufacturer of chemical pulp, utilizes planted eucalyptus trees and integration of native habitat to dramatically reduce the land required in cultivation. In addition, small-scale producers are encourage near its mills to plant eucalyptus in conjunction with other crops, assisting them with technical training and inputs. As a result, Fibria achieves far greater land and water efficiency compared to traditional plantation methods. This action contributed to a 25% increase in raw materials utilized in Fibria mills and improving 4,000 households' income.

Last, improving the local and regional business environment (enabling local cluster development). The supporting companies and infrastructure around it have become the success key of a company. Cluster or geographic concentration of firms, related businesses, suppliers, service providers, and logistical infrastructure particular field have a significant influence on the company's productivity and innovation. Firms create shared value by improving clusters to gain improvement in productivity, at the same time addressing gaps or failures in the framework conditions surrounding the cluster. For example, Arca Continental is the second largest bottling company in Latin America and one of the largest Coca-Cola bottlers in the world. Arca Continental decided to establish a program to train and invest in micro-entrepreneur retailers who sell more than 60% of the company's products. In addition, the firm also invests in low-energy use coolers and fixture improvements. The result of this action was a 25% increase in sales, with an improvement in customer satisfaction. Arca Continental recovered its investment in the short-term period which was approximately six months. Since the program was successful, the program has been extended to Argentina and Ecuador. Those ways lead to a strong link between company success and community success.

Reyes, Jr., Scholz, and Smith (2017) are convinced that the manager of the company is better equipped to fulfill their role if they act through CSV. **The managerial implication**, a CSV mindset trains the manager's attention on opportunities to take on societal and environmental challenges in innovative ways. Shared value solutions still have limitations since they cannot solve all societal problems. However, CSV encourages the firms to maintain the

harmonization between firm interest and social interest that enhances the productivity of the firm, which lead to the improvement of competitive advantage and firm's performance stability. In the context of Indonesia's SMEs, the CSV might help the SMEs to obtain a competitive advantage. The SMEs should improve their ability to create social value to gain firm efficiency from the economic value created by the SMEs. **Proposition 2.** The adoption of CSV leads to higher productivity, therefore, giving a competitive advantage, therefore, leads to stability of the firm's performance.

RBV, CSV, and Firm Performance Stability

The conceptual framework to achieve the stability of firm performance by integrating RBV and CSV perspectives is as follows:

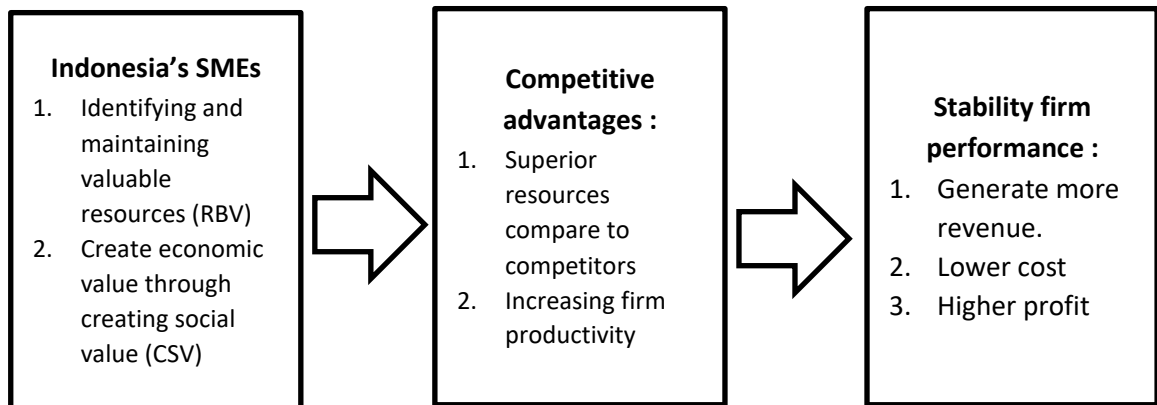


Figure 3. Conceptual framework to achieve the stability of firm performance

CONCLUSION

In conclusion, there are two main things in this paper. First, theoretically, the ability of SMEs to identify their strategic resources will lead Indonesian SMEs to achieve a competitive advantage by having superior valuable resources compared to competitors. There are five questions that should be asked in order to identify valuable resources. Second, SMEs should create societal value in order to create economic value. There is three level of alternative in creating economic value in CSV. The managerial implication is CSV mindset trains the manager's attention on opportunities to take on societal and environmental challenges in innovative ways. Indonesia's SMEs could have superior resources and the optimum productivity that will lead to a competitive advantage of SMEs. Competitive advantage leads to more revenue, reduced cost, dan higher profit, therefore, maintaining the stability of firm performance.

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