

# THE COMPETITIVE STRATEGY OF THE VILLAGE UNIT COOPERATIVE: CAPABILITY AND INNOVATION PERFORMANCE TOWARDS COMPETITIVE ADVANTAGE

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## Abstract

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Dynamic capabilities can explain competitive advantage (Pisano, 2017; Teece et al., 1997). And superior business strategies are generally based on innovation (Hacklin et al., 2018). This study aims to examine the role of adaptive creative capabilities in the relationship between dynamic capabilities and innovation performance on competitive advantage. The sample consists of 106 units of analysis. The method used is to test the model and hypotheses using partial least squares-structural equation modeling (PLS-SEM). The results of the study show that dynamic capabilities have a positive effect on competitive advantage, innovation performance and adaptive creative capabilities. In addition, adaptive creative capability has a positive effect on innovation performance, but adaptive creative capability has no effect on competitive advantage. In addition, innovation performance has a positive effect on competitive advantage. The limitation of the research is village unit cooperatives (VUC) in 12 districts of East Java Province, Indonesia. This research is the first model to investigate the role of dynamic capabilities, adaptive creative capabilities, and innovation performance on competitive advantage in the Southeast Asian region, especially Indonesia. This study contributes to the literature on VUC management practices. VUC must encourage the effectiveness of dynamic capabilities, adaptive creative capabilities and innovation performance to achieve better competitive advantage.

**Keywords:** Dynamic Capability, Competitive Advantage, Innovation Performance, Adaptation of Creative Capabilities, Village Unit Cooperatives, VUC

**Authors' individual contribution:** Conceptualization — B.A.S. and S.; Methodology — B.A.S. and S.; Formal Analysis — B.A.S. and S.; Writing — Review & Editing — B.A.S. and S.; Supervision — S. and D.D.; Project Administration — B.A.S. and D.D.

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## 1. INTRODUCTION

The type of industry has a positive effect on environmental performance. Small and medium enterprises (SMEs) have a very important role for the Indonesian economy (Curatman et al., 2022). Competitive advantage in small companies as a research focus has not been used as a study (Fugate et al., 2006). Cooperatives have characteristics as small companies or SMEs. One form of cooperative is the village unit cooperative (VUC).

Competitive advantage and innovation performance are very important for the results of implementing a company's business strategy to face fast, highly unstable, uncertain, and complex globalized competitive markets (Hacklin et al., 2018). Competitive advantage and better business performance, companies must have learning abilities and employee identities with organizational missions as dynamic capabilities (Suliyanto & Rahab, 2012). Conceptually, dynamic capability is a company's ability to integrate, build, and reaffirm internal and external competencies to cope with rapidly changing environments (Teece et al., 1997) or with the understanding that dynamic capabilities have three basic elements, namely: 1) sensing, 2) seize, and 3) transform. Sensing is an activity of identifying what is happening in the environment (seizing) which is then translated into routine activities (seizing), so that the organization is able to change or transform to complement the current conditions (transforming).

The term "dynamic capability" is a very complex and ambiguous term depending on the point of view (Baia & Ferreira, 2019). Dynamic capabilities are dynamic and agile, developed to help guide decisions and actions in rapidly changing and complex environments (Teece, 2016). Managerial dynamic capabilities in perspective: 1) managerial human capital, 2) managerial social capital, and 3) managerial cognition (Khan et al., 2020). The research findings show that green intellectual capital is a business resource for SMEs, especially mid-sized manufacturing companies, which plays an important role in ensuring survival and competitive success, especially in the contemporary knowledge era and sustainable development. The findings from the study conclude that supervisors, managers and mid-managers must also be prepared to face challenging situations in the market and maintain higher performance within the organization to achieve organizational goals, as well as survive in a competitive market. However, there is no strong enough evidence to support the hypothesis that product creativity directly or indirectly affects competitive advantage through product innovation, as well as industry performance through competitive advantage (Anjaningrum & Rudamaga, 2019).

The characteristics of SMEs that differ from large companies are based on the limited resources of SMEs and different managerial capabilities and practices (Cohen & Kaimenakis, 2007). And a creative mindset will help solve problems in order to be able to find solutions, be able to find new ideas, ideas, opportunities and inspiration and find innovative solutions however VUC is not categorized as optimal (Ansharullah et al., 2022). SMEs that are organized efficiently and effectively can utilize skilled and innovative employees to achieve the best

performance through innovation (McDowell et al., 2018). Strategy activities aim to identify long-term drivers of company survival and growth (Baia & Ferreira, 2019; Laaksonen & Peltoniemi, 2018). On the other hand, superior business strategies are generally based on innovation (Hacklin et al., 2018).

Some of the factors that affect innovation performance and VUC's competitive advantage are lack of member participation, lack of proactive management, lack of developing innovations to compete with other businesses, highly dependent on government infrastructure, unable to manage its assets effectively, having an inadequate internal control system, have not adopted information technology in managing their business, and so on (Riswan et al., 2017). The results of research at VUC institutions, among others: the determination of management and management of cooperatives is still influenced by tolerance, not based on leadership and entrepreneurial qualities. Cooperative activities are not in accordance with the needs of members so the cooperative runs on the will of the management alone. This results in low member participation because members do not feel the benefits of being a member of the cooperative. It is still found that cooperatives do not involve members in their activities (cooperatives are controlled by capital owners). There are cooperative activities that utilize government support for the existence of cooperatives for personal gain. The efforts made are not focused so the level of cooperative profitability is still low. As a result, the development of cooperative assets is very slow and cooperatives are difficult to develop. Information systems at the cooperative level are still weak, especially price information on agricultural commodities so market access for agricultural products and other products is still relatively narrow. Cooperatives have not played a role as distributors of agricultural production facilities in rural areas and as containers for agricultural production products (Nafanu, 2016).

The cases above are a small fraction of the confirmed cases that have occurred in Indonesia. Cooperatives are business organizations owned and operated by individuals for the common good. Cooperatives base their activities on the principle of people's economic movement based on the principle of kinship. Furthermore, cooperatives have the following characteristics: 1) business organization, operated by individuals, for the common interest, and 2) the principal activities of the people's economic movement, based on kinship (Sumantri & Permana, 2017).

Village unit cooperatives (VUC) provide many benefits and conveniences to the community but have a high risk of business failure. VUC's performance has been affected by the COVID-19 pandemic. Based on data on the spread of VUC in East Java until the end of 2020, there are 702 VUC in East Java. However, 15% of them experienced business closures (Koloway, 2020). The COVID-19 pandemic has resulted in 9,436 VUC in Indonesia experiencing the following conditions: 40% are healthy, 20% are almost closed for business, and 40% have an unclear condition (Pertana, 2021).

Based on East Java Province VUC data and the results of research observations at the end of 2022 it was found that VUC in the residential areas of Kediri and Madiun can be seen that most of the VUC has decreased from 2013-2022 between 7.4% (smallest) to 58.6% (largest), where the percentages of 12 districts in East Java Province,

Indonesia, differ. This shows that VUC has the potential and characteristics of different resource areas. Characteristics of the largest business units in the Kediri and Madiun residential areas, it can be seen that most of the VUCs have the largest business units which are savings and loan units or integrated savings and loan units of 52.8%. And VUC in the residencies of Kediri and Madiun also have various characteristics of the largest business units.

Competitive advantage is very important for business life. Therefore, this study describes dynamic capabilities, adaptation of creative capabilities, and innovation performance to evaluate competitive advantage. Competitive advantage conditions based on dynamic capabilities, adaptation of creative capabilities, and village unit cooperative innovation performance. This research has never been done before. Moving on from the above considerations, we address six research questions:

*RQ1: Does dynamic capability have a positive effect on competitive advantage?*

*RQ2: Does dynamic capability have a positive effect on innovation performance?*

*RQ3: Does dynamic capability have a positive effect on adaptation of creative capabilities?*

*RQ4: Does adaptation of creative capabilities have a positive effect on competitive advantage?*

*RQ5: Does adaptation of creative capabilities have a positive effect on innovation performance?*

*RQ6: Does innovation performance have a positive effect on competitive advantage?*

The structure of the research is as follows. Section 1 provides an introduction to the phenomenon of gaps and research gaps. Section 2 presents a review of the literature. Section 3 analyzes the methodology including sampling, measurement of variables, and data analysis. Section 4 presents the results of data analysis. Section 5 discusses the results of the research. And Section 6 concludes.

## 2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

### 2.1. Innovation performance and competitive advantage

#### 2.1.1. Innovation performance

Innovation performance is the result of novelty and meaningfulness of new products that are introduced to the market at the right time to compete with other products or companies because they have more consumptive benefits (Alpay et al., 2012). Innovation is a response mechanism to a state of environmental activity to ensure organizational survival and resources that can inspire managerial choice and selection (Gopalakrishnan & Damanpour, 1997). What are the characteristics of organizational innovation and how does innovation affect organizational behavior or outcomes (organizational innovation performance) remain unanswered (Damanpour, 2017).

Schumpeter (1934) was the first writer to distinguish the existence of different types of innovation: innovations in products, production methods, markets, sources of supply and ways of organizing any industry. A meta-analysis of the relationships between organizational innovation

and 13 potential determinants yielded statistically significant associations for specialization, functional differentiation, professionalism, centralization, managerial attitudes toward change, technical knowledge resources, administrative intensity, slack resources, and external and internal communication (Damanpour, 1991). Discusses open innovation in his study and mentions two streams of innovation: 1) inbound open innovation and 2) outbound open innovation (Bogers et al., 2019).

#### 2.1.2. Competitive advantage

Competitive advantage is the possession of the ability that in order to establish a competitive advantage a resource must meet four criteria. First, valuable: the resource must have strategic value for the company (e.g., by exploiting opportunities or neutralizing threats). Second, rare: the resource must be unique or rarely found among the company's current and potential competitors. Third, imperfect imitability: it is definitely not possible to fully imitate or copy a resource (because it is difficult to obtain; because the relationship between ability or sustainable excellence achieved is ambiguous or because it is socially complex). And fourth, non-substitution: competitors cannot replace other alternative resources to achieve the same result. Product competitive advantage variables are measured using interval scales and adapting indicator measurements (Barney, 1991).

## 2.2. Dynamic capabilities and adaptation of creative capabilities

### 2.2.1. Dynamic capabilities

Capability is a very complex and unclear term that depends on various viewpoints (Baía & Ferreira, 2019). Research using the viewpoint of the concept of the term dynamic capability can be interpreted as a company's ability to integrate, build, and reconfigure related internal and external competencies to deal with a rapidly changing environment (Teece et al., 1997). Dynamic capabilities have three sub-abilities — the ability to acquire knowledge, the ability to generate knowledge, and the ability to combine knowledge (Zheng et al., 2011).

### 2.2.2. Adaptation of creative capabilities

Capability is a capability possessed by an organization, which takes the form of: 1) knowledge embodied in a team, 2) organizational culture, 3) organizational history, 4) learning by doing, and 5) managerial skills (Clulow et al., 2003). Adaptation is resistance related to object-subject perspective; related to external-internal analytical orientation; logic (mathematical/logic patterns) and soft theory (pattern recognition of awareness and active awareness); tangible (evidence) and intangible (cannot be measured directly; spirit); and finite complexity and general complexity (Yolles, 2019a, 2019b). And organizational adaptation adjustment has a unit level of analysis on individuals, teams, and organizations (Piórkowska, 2016). Adaptation at the organizational level, explains how the corporate structure regulates and distributes the issues that shape the situational context of decision-making (Ocasio & Joseph, 2018).

Creativity is a model of product novelty, product feasibility, product synthesis and elaboration, and process-related approaches (Gruszka & Tang, 2017). In a narrow sense, creativity refers to the abilities most characteristic of creative people. Creative patterns are manifested in creative behavior, which includes activities such as creating, designing, designing, composing, and planning. Guilford (1950, p. 444). Four models of creative ability, namely: first, fluency is the ability to generate many ideas. Second, flexibility is the ability to generate many different types of ideas. Third, originality is the ability to generate unusual ideas. And the fourth is elaboration — the ability to develop those ideas (Markov, 2017). Adaptation of creative capabilities is “the ability to strengthen conditions that determine success and most importantly by focusing on creating ideas related to adaptation to new business environment conditions” (Sumantri et al., 2023, p. 14). Adaptive of creative capability has three characteristics, namely: 1) active ability, 2) focus ability, and 3) adaptive creative support ability.

### 2.3. Village unit cooperative business units

The VUC is one of the cooperatives that grew in rural areas starting in 1973. The birth of VUC was inseparable from the government’s program in food procurement for national stocks which was pioneered, at that time, through the village unit business entity (VUBE). Business entities in the form of rural cooperatives (VUC) do not yet have broad market access, so these institutions are often left behind from other economic actors, such as private and state-owned enterprises (PSOE) which already have access to local, national and international market networks.

VUC as a service centre in rural economic activities has business unit functions, namely: 1) credit, for production purposes and provision of investment capital and working capital for VUC and villagers; 2) provision and distribution of production facilities such as before and after harvest; 3) processing and marketing of production or industrial products and so on from VUC members and villagers; and 4) other economic activities, for example, a transportation activity and various other trading businesses that are appropriate and support the economy of the people around the area VUC work.

### 2.4. Hypotheses formulation

Dynamic capabilities as “the ability to sense and then seize new opportunities, to reconfigure and protect knowledge assets, competencies, complementary assets and technology to achieve sustainable competitive advantage” (Teece, 1998, p. 291). Several research results have proven that dynamic capabilities have a positive effect on competitive advantage/performance/strategic performance (Gelhard et al., 2016; Lin & Chen, 2017; Mikalef & Pateli, 2017; Shafia et al., 2016). Based on the above mentioned, the first hypothesis is:

*H1: Dynamic capability has a positive effect on competitive advantage.*

Dynamic capabilities affect innovation and innovation affects performance (Kyrgidou & Spyropoulou, 2013). Dynamic capabilities lead to changes in performance (Baía & Ferreira, 2019; Laaksonen & Peltoniemi, 2018; Makkonen et al., 2014). And dynamic capabilities have an impact on

innovation performance (Ali et al., 2020; Breznik & Hisrich, 2014). Several research results have proven that there is a positive influence relationship between dynamic capabilities and innovation performance (Alves et al., 2017; Ferreira et al., 2020). Based on the above mentioned, the second hypothesis is:

*H2: Dynamic capability has a positive effect on innovation performance.*

Several research results have proven that there is a positive influence relationship between dynamic capabilities (exploration and exploitation) on creativity (Ferreira et al., 2020). Dynamic capability as an antecedent of creative and innovative capabilities (Baía & Ferreira, 2019; Vogel & Güttel, 2013). Dynamic capabilities frameworks are dynamic and agile, developed to help guide adaptive decisions and actions in rapidly changing and complex environments (Teece, 2016). Several other research results prove that dynamic capabilities have a positive effect on the adaptation of creative capabilities as an environmental response performance (Karimi & Walter, 2015; Rashidirad et al., 2017). Based on the above mentioned, the third hypothesis is:

*H3: Dynamic capability has a positive effect on adaptation of creative capabilities.*

Companies with adaptability will be the most effective way to maintain business in the long term, in market conditions that have a fast pace of business change (Schilke et al., 2018). And adaptation requires creative abilities. However, the environment that is experiencing changes in business competition, rapid globalization, is highly unstable, uncertain, and complex has changed the key factors for competitive advantage and long-term business success. These changes trigger changes in business strategy activities. Strategy activities aim to identify the long-term drivers of company survival and growth (Baía & Ferreira, 2019; Laaksonen & Peltoniemi, 2018). Based on the above mentioned, the fourth hypothesis is:

*H4: Adaptation of creative capabilities has a positive effect on competitive advantage.*

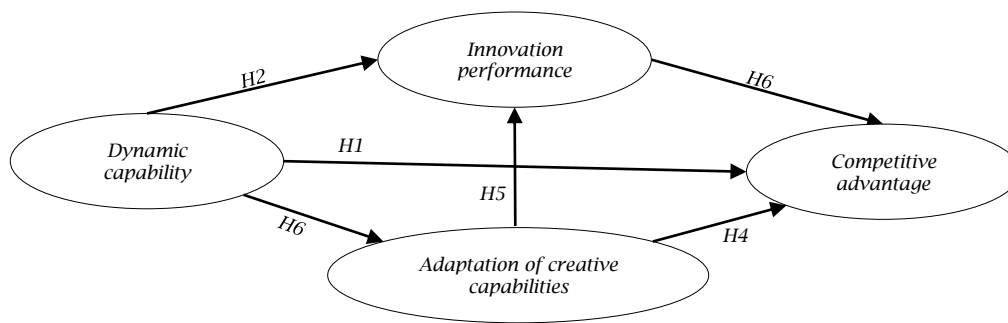
The achievement of performance and survival of a business organization depends on the level of adaptation and renewal capacity of the strategic process (Burgelman, 1991). The creative ability to adapt to new combinations of resources leads to innovation and the creation of economic value (Millar et al., 2018). The results of the study state that organizational adaptability and marketing capabilities influence the innovation performance of new product development (Sofalchian Farhang et al., 2018). Based on the above mentioned, the fifth hypothesis is:

*H5: Adaptation of creative capabilities has a positive effect on innovation performance.*

Identifying the basic dimensions that encourage the application of open innovation by MSMEs in Indonesia which can be used as adaptive creative abilities, namely: 1) orientation to deeper market insights, 2) increasing capability orientation, 3) expanding network orientation and 4) idea-generated orientation (Suliyanto et al., 2019). But competitive advantage is a business strategy used in fast, highly unstable, uncertain and complex global competitive markets. On the other hand, a winning business strategy is generally based on innovation (Hacklin et al., 2018). Based on the above mentioned, the sixth hypothesis is:

*H6: Innovation performance has a positive effect on competitive advantage.*

Figure 1. Research model



Source: Authors' formulation.

### 3. RESEARCH METHODOLOGY

#### 3.1. Sample selection

The research population is the results of field observations related to VUC in the 12 districts of East Java Province at the end of 2022 totalling 141 VUC. Determination of the sample in this study using the Slovin formula. Determining the number of samples using the Slovin formula, with a sampling error rate of 0.05(5%) for a population of 141(N), the minimum sample is 104. Based on a known population of 141 units in the 12 districts of East Java Province, the minimum sample size is 104 units, so the total unit of analysis is 106 units. The data collection method in this study was carried out using a systematically designed questionnaire with closed questions. The researcher also conducted a literature study through several works of literature such as articles, books, laws, and other sources.

#### 3.2. Measurements of the variables

This study has independent variables and dependent variables (Figure 1). The dynamic capability of dynamic items adapted from Teece et al. (1997), into four variables, namely: 1) *the ability to acquire knowledge*; 2) *the ability to develop knowledge*; 3) *the ability to create knowledge*; 4) *the ability to combine innovation performance knowledge* is the result of novelty and meaningfulness of new products that are introduced to the market at the right time to compete with other products or companies because they have more consumptive benefits (Alpay et al., 2012). Competitive advantage is having capabilities that are valuable, rare, inimitable and non-substitutable. The *product competitive advantage* variable is measured using an interval scale and adapting the measurement indicators developed by Barney (1991). Then the adaptation of the creative capabilities of the ten items is a synthesis from Gruszka and Tang (2017) and Yolles (2019a, 2019b). The measurement uses a 7-point Likert scale developed by (Linkert, 1932), where 1 indicates "strongly disagree" and 7 indicates "strongly agree", with the midpoint (4) representing neutrality. In more detail, the variable measurement instruments are presented in the Appendix.

#### 3.3. Data analysis

To analysis the demographic characteristics used descriptive analysis with IBM SPSS statistics software, while to test the causal relationship between constructs used structural equation modelling partial least square (PLS) with SmartPLS software. The validity test uses convergent validity, namely factor loading and average variance extracted (Fornell & Larcker, 1981), while the reliability test used internal consistency, namely Cronbach's alpha and composite reliability (Cronbach, 1951).

### 4. RESULTS

#### 4.1. Profile of the respondents

Analysis of the characteristics of the respondent's data is very important to obtain personal data from respondents (Rachmawati et al., 2022). In this study, there were 106 administrators or heads of the largest VUC units in the Kediri and Madiun regions, East Java Province. Table 1 presents the profile of the respondents. Leaders, namely 54.7% or 58 people while managers as many as 45% or 48 people. Most of the respondents were aged between 51 and 55 years old, namely 29 people or 27.2% and aged 56-60 years old, namely 16 people or 15%. And most of the respondents were male or 62.3%.

Table 1. Profile of research respondents

Measure	Item	Number of people	Percentage (%)
Status at VUC	Manager	48	45.3
	Leader	58	54.7
Age (years)	20-25	15	14.3
	26-30	7	6.7
	31-35	3	2.9
	36-40	1	0.9
	41-45	5	4.5
	46-50	8	7.6
	51-55	29	27.2
	56-60	16	15
	61-65	12	11.3
Gender	Man	66	62.3
	Woman	40	37.7

Source: Authors' calculation.

**4.2. Validity and reliability of measurement**

Based on Table 2, it is known that all indicators of research variables have a factor loading value of more than 0.5 so that all indicators that we state are valid or accepted for measuring the variables studied and composite reliability (CR) for all variables is higher than 0.7 so that the instrument

reliability of all research variables is acceptable or reliable and the average variance extract (AVE) of all variables is greater than 0.5 so that the reliability of the instrument for all variables is considered very good (Hair et al., 2010). Cronbach's alpha for all variables above 0.6 is considered high reliability (Kline, 1999).

**Table 2.** The validity and reliability of research instruments

Variables	Cronbach's alpha	rho_A	Composite reliability	Average variance extracted (AVE)
Adaptation of creative capabilities (ACC)	0.910	0.919	0.926	0.584
Competitive advantage (CA)	0.914	0.922	0.933	0.701
Dynamic capability (DC)	0.938	0.940	0.948	0.645
Innovation performance (IP)	0.887	0.886	0.917	0.689

Source: Authors' calculation.

**4.3. Structural model analysis**

Based on Table 3, the accuracy of the model in this study was tested using the R-squared ( $R^2$ ) and predictive relevance (Q-squared,  $Q^2$ ). Based on Table 3, the  $R^2$  value of adaptation of creative capabilities is 0.281 (moderate model), competitive advantage is 0.666 (strong model), and innovation performance is 0.394 (moderate model). The adjusted  $R^2$  of adaptation of creative capabilities is 0.274 (moderate model), competitive advantage is 0.656 (strong model), and innovation performance is 0.383 (moderate model). And  $Q^2$  value of adaptation of creative capabilities is 0.152 (predictive relevance), value of competitive

advantage is 0.455 (predictive relevance), and values of innovation performance (predictive relevance).

The criteria for limiting  $R^2$  are in three classifications, namely: 1) 0.67 as substantial; 2) 0.33 as moderate and 3) 0.19 as weak. Changes in the value of  $R^2$  are used to see whether the measurement of exogenous latent variables on endogenous latent variables has a substantive effect.  $Q^2$  value  $> 0$  indicates the model has predictive relevance, otherwise if the  $Q^2$  value  $\leq 0$  indicates the model lacks predictive relevance (Chin, 1998).

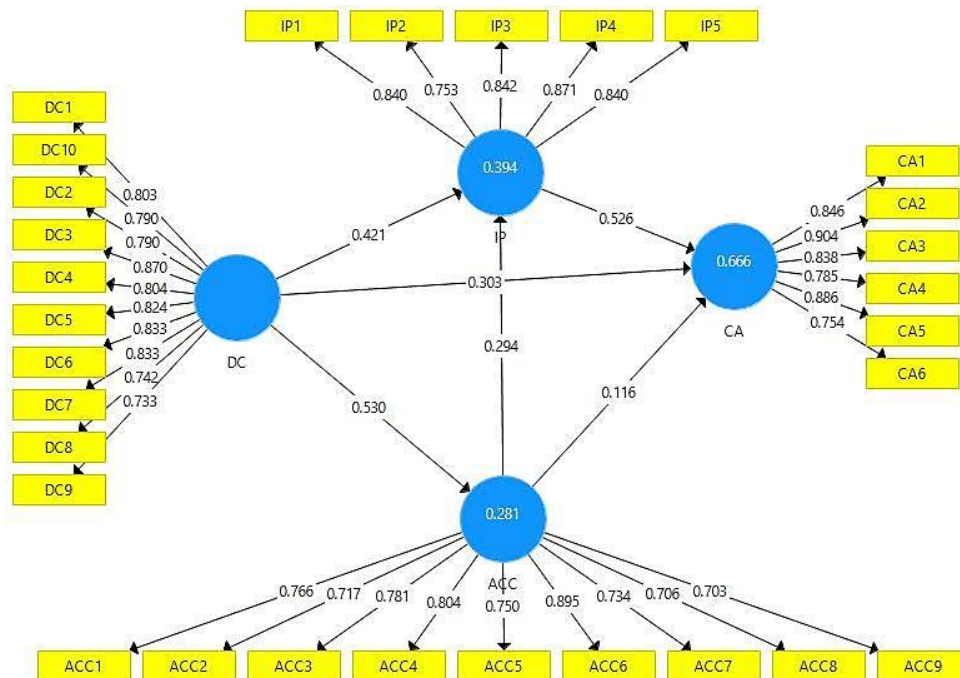
To test the causal relationship between constructs, structural equation modelling with partial least square (PLS) is used, with the following results (Figure 2).

**Table 3.** R-square, adjusted R-square, and Q-squared

Variables	$R^2$	Adjusted $R^2$	SSO	SSE	$Q^2 (= 1 - SSE/SSO)$
Adaptation of creative capabilities (ACC)	0.281	0.274	0.281	0.274	0.152
Competitive advantage (CA)	0.666	0.656	0.666	0.656	0.455
Innovation performance (IP)	0.394	0.383	0.394	0.383	0.256

Source: Authors' calculation.

**Figure 2.** Construct and indicator relationship model



Source: Authors' calculation.

**Table 4.** Causal relationship hypothesis testing

Hypotheses	Independent variables	Dependent variables	Original sample (O)	t-statistics ( O/STDEV )	p-value	Results
H1	Dynamic capability (DC)	Competitive advantage (CA)	0.303	3.998	0.000	Support
H2	Dynamic capability (DC)	Innovation performance (IP)	0.421	3.963	0.000	Support
H3	Dynamic capability (DC)	Adaptation of creative capabilities (ACC)	0.530	6.725	0.000	Support
H4	Adaptation of creative capabilities (ACC)	Competitive advantage (CA)	0.116	1.873	0.062	Does not support
H5	Adaptation of creative capabilities (ACC)	Innovation performance (IP)	0.294	3.708	0.000	Support
H6	Innovation performance (IP)	Competitive advantage (CA)	0.526	7.643	0.000	Support

Source: Authors' calculation.

Based on Table 4, it is known that H1, H2, H3, H5, and H6 are accepted because the statistical t-value is more than 1.96 or the p-value is less than 0.05, but H4 is not accepted because the statistical t-value is less than 1.96 or p-value is more than 0.05.

## 5. DISCUSSION

Regression results show that dynamic capabilities have a positive effect on competitive advantage, innovation performance, and adaptive creative capabilities. And adaptive creative capability has not been proven to have an effect on competitive advantage but has been proven to have an effect on innovation performance. And innovation performance has proven to have a positive effect on competitive advantage.

The higher the dynamic capability, the better the competitive advantage. The higher the dynamic capability, the better the competitive advantage. The results of this study are in line with the results of the study (Gelhard et al., 2016; Lin & Chen, 2017; Mikalef & Pateli, 2017). This means that managers will run dynamic capabilities is the right choice. If this dynamic capability runs optimally, competitive advantage will be created, and VUC will produce superior, quality, unique products/services compared to competing products/services, various types (differentiation), and difficult to replace by other products/services. As well as making business processes more efficient and effective, not easily imitated compared to competitors.

The higher the dynamic capability, the better the innovation performance. The results of this study are in line with the results of the study (Ali et al., 2020; Alves et al., 2017; Baía & Ferreira, 2019; Ferreira et al., 2020; Kyrgidou & Spyropoulou, 2013; Laaksonen & Peltoniemi, 2018). This is because the manager or head of the largest business unit will judge from dynamic capabilities which are the ability to acquire knowledge, develop and combine business processes, business management, technology and marketing originating from internal and external organizations from various segments, teams and individuals. What will have an impact on innovation performance is the speed of new product development according to capacity, improvement of existing products, redevelopment, material variations, and variations in VUC product (service) patterns.

The higher the dynamic capability, the better the adaptive creative capability. The results of this study are in line with the results of the study (Karimi & Walter, 2015; Makkonen et al., 2014; Rashidirad et al., 2017). This is because the manager or head of the largest business unit will judge from dynamic capabilities which are the ability to acquire

knowledge, develop and combine business processes, business management, technology and marketing originating from internal and external organizations from various segments, teams and individuals.

The higher the adaptation of creative capabilities, the worse the competitive advantage. This study failed to prove that adaptation of creative capabilities has a positive effect on competitive advantage. This is because adaptation of creative capabilities is an idea and has not yet materialized (if realized it will enter the context of innovation) so adaptation of creative capabilities cannot directly impact competitive advantage. This is based on the difference between innovation and creativity, namely: innovation is the implementation of ideas whereas creativity only describes ideas (Unsworth, 2001). Creativity is an appropriate, useful, correct, or valuable response to complete an activity (Amabile & Pratt, 2016). This does not support the results of previous research conducted by (Baía & Ferreira, 2019; Laaksonen & Peltoniemi, 2018; Schilke et al., 2018). And the results of this study also contradict previous studies (Zheng et al., 2011).

The higher the adaptation of creative capabilities, the better the innovation performance. The results of this study are in line with the results of the study (Sofalchian Farhang et al., 2018). Adaptation of creative capabilities has a positive effect on innovation performance. Adaptation of creative capabilities is defined as development that focuses on the critical and most important elements of self-creation ability to survive by adapting to the business environment through the selective use of internal and external factors owned by village unit cooperatives. The next stage of adaptation of creative capabilities is innovation so that it will have an impact on innovation performance. Where innovation performance is the speed of new product development according to capacity, improvement of existing products, redevelopment, material variations, and variations in VUC product (service) patterns.

The higher the innovation performance, the better the competitive advantage. The results of this study are in line with the results of the following studies as follows: the ability to innovate has a significant effect on competitive advantage (Ferreira et al., 2020). Product innovation has a direct positive effect on competitive advantage (Dahana et al., 2021). The results of the study stated that performance and innovation to increase competitive advantage. It is recommended that SMEs improve their performance and innovation capabilities to strengthen their competitive advantage (Farida & Setiawan, 2022).

Dynamic capabilities can be improved in several ways, namely: 1) having excellent business and non-business knowledge, 2) having the ability to develop business, non-business and technology knowledge, and 3) having the ability to combine and or create business, non-business and technology knowledge. And competitive advantage can be increased in several ways, namely: 1) making breakthroughs in providing superior quality products (goods and or services), 2) making breakthroughs in providing unique products (goods and or services), 3) making breakthroughs in providing various kinds of products (goods and or services), 4) making breakthroughs in providing products (goods and or services) that are difficult to replace, 5) carrying out processes that provide products (goods and or services) of value, 6) carrying out processes that are not easily imitated regarding products (goods and or services).

Innovation performance can be improved in several ways, namely: 1) developing new products (goods and or services) according to capacity, 2) improving existing products (goods and or services), 3) redeveloping product designs (goods and or services), 4) developing product material variations (goods and or services), and 5) develop variations in product motifs (patterns) (goods and or services). And adaptive of creative capability can be improved in several ways, namely: 1) active creative adaptive ability (active ability to be creative in developing ideas/ideas/solutions related to business units, active ability to be creative in imagining business strategy patterns, actively participating in training to solve problems), 2) creative focus ability adaptation (actively creative focus on conducting business analysis, creative focus on valid and up-to-date information search, creative focus on availability of clear means, creative focus on actively collaborating with other parties), 3) creative focus on problem-solving, adaptive creative support capabilities (having creative active atmosphere works in a conducive manner, adaptive creative financial investment: ability to support financial availability).

## 6. CONCLUSION

Based on the results of the analysis it was concluded that dynamic capability influences competitive advantage, innovation performance, and adaptation of creative capabilities, while competitive advantage is influenced by dynamic capability and innovation performance. And competitive advantage is not influenced by adaptive creative ability. As well as innovation performance influences competitive advantage.

Dynamic capability has a positive effect on competitive advantage. This means that managers will run dynamic capabilities is the right choice. If the dynamic capability runs optimally it will create a competitive advantage, namely VUC produces superior quality products/services, unique compared to competing products/services, various kinds (differentiation), and difficult to replace by other products/services. And make business processes more efficient and effective, not easily imitated compared to competitors. A dynamic capabilities framework was created to help organize and prioritize the competing and conflicting flows of

information flowing toward managers as they seek to build competitive advantage (Schoemaker et al., 2018).

The results of the study according to the dynamic capabilities approach note that the winners in the market are companies that guarantee responsive product innovation (Teece et al., 1997). Dynamic capabilities have a positive effect on innovation performance. This is because the manager or head of the largest business unit will judge from dynamic capabilities which are the ability to acquire knowledge, develop and combine business processes, business management, technology and marketing originating from internal and external organizations from various segments, teams, and individuals. Which will have an impact on innovation performance is the speed of new product development according to capacity, improvement of existing products, redevelopment, material variations, and variations in VUC product (service) patterns.

Dynamic capabilities have a positive effect on adaptation of creative capabilities. This supports the results of previous research conducted by (Karimi & Walter, 2015; Makkonen et al., 2014; Rashidirad et al., 2017).

That the adaptation of creative capabilities at the organizational level has no effect on competitive advantage. However, that relationship at the individual level suggests that increasing the creative performance of workers is a must if the organization wants to achieve its competitive advantage (Amabile, 1988). Adaptation of creative capabilities is defined as developments that focus on the critical and most important elements of self-creation ability to survive by adapting to the business environment through the selective use of internal and external factors owned by VUC. The next stage of adaptive creative capability is innovation so that it will have an impact on innovation performance, where innovation performance is the speed of developing new products according to capacity, improving existing products, redevelopment, material variations, and variations in VUC product (service) patterns. This supports the results of previous research conducted by (Sofalchian Farhang et al., 2018).

This concept relates to proactive methods to find different and innovative paths to achieve competitive advantage (Teece, 2007). Innovation performance is the result of novelty and meaningfulness of new products that are introduced to the market at the right time to compete with other products or companies because they have more consumptive benefits (Alpay et al., 2012). Competitive advantage is the possession of valuable, rare, imperfect imitability, and non-substitutable capabilities. Competitive advantage variable developed by (Barney, 2001).

The results of this study provide input to stakeholders and village unit cooperatives about the importance of adaptive creative abilities to provide new guidelines for village unit cooperative management policies. This study provides evidence about the role of implementing the creative adaptation abilities of village unit cooperative administrators. Furthermore, adaptation of creative capabilities is an optimization of dynamic capabilities to create innovation performance so as



to achieve VUC's competitive advantage. The limitation of this research is the difficulty for researchers to classify village unit cooperatives because they consist of various elements or diversity in the number and form of business units so that research cannot be carried out proportionally adaptation of creative capabilities according to the size of the cooperative. Further research should

be carried out again during normal economic conditions with a measurement context that has been categorized as a business size, for example including small, medium or large-scale businesses. So that it can enrich the characteristics of adaptation of creative capabilities in according to the level of business being carried out.

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## APPENDIX

### 1. *Competitive advantage:*

- a) Village unit cooperative produces superior quality products/services.
- b) Village unit cooperative produces unique products/services compared to competitors' products/services.
- c) Village unit cooperative produces a wide range of products/services (differentiation).
- d) Our village unit cooperative produces products/services that are difficult to replace by other products/services.
- e) Village unit cooperative carries out business processes more efficiently and effectively than its competitors.
- f) Village unit cooperative carries out business processes that are not easily imitated by competitors.

### 2. *Innovation performance:*

- a) Our village unit cooperative has always succeeded in developing new products/services according to the market.
- b) Village unit cooperative is always successful in improving existing products/services.
- c) Village unit cooperative has always succeeded in redeveloping product/service designs.
- d) Village unit cooperative has always succeeded in developing various product/service raw materials.
- e) Village unit cooperative has always succeeded in developing various product/service motifs (patterns).

### 3. *Dynamic capability:*

- a) Village unit cooperative has excellent business management knowledge.
- b) Village unit cooperative has excellent knowledge of business processes.
- c) Our village unit cooperative has the ability to develop knowledge about technology to support business.
- d) Village unit cooperative has the ability to develop marketing knowledge.
- e) Village unit cooperative has the ability to develop knowledge about business management.
- f) Village unit cooperative we can create knowledge to support business.
- g) Village unit cooperative we can create knowledge for business management.
- h) Village unit cooperative we can combine knowledge that comes from within the organization and from outside the organization.
- i) Village unit cooperative we can integrate knowledge from different segments, teams and individuals.
- j) Village unit cooperatives are able to combine knowledge in different areas of technology and markets.

### 4. *Adaptation of creative capabilities:*

- a) Village unit cooperatives actively develop ideas/ideas/solutions related to business units in an effort to adapt the business environment.
- b) Village unit cooperatives always try to work in a conducive atmosphere in an effort to adapt to the business environment.
- c) Village unit cooperatives always try to do business analysis in an effort to adjust the business environment.
- d) Village unit cooperatives always try to find information in an effort to adjust the business environment.
- e) Village unit cooperatives always try to be imaginative in an effort to adapt to the business environment.
- f) Village unit cooperatives always provide convenience in efforts to adjust the business environment.
- g) Village unit cooperatives always cooperate with other parties in an effort to adjust the business environment.
- h) Village unit cooperatives always provide financial support in an effort to adjust the business environment.
- i) Village unit cooperatives are always solving problems in an effort to adapt to the business environment.