

# THE RESOURCE IMMOBILITY, STRATEGIC CAPABILITY, AND COMPETITIVE PERFORMANCE OF STATE- OWNED ENTERPRISE IN INDONESIA A STUDY CASE OF PT PELINDO III (PERSERO).

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**Abstract**—The importance of State-Owned Enterprise (SOE) in Indonesian for the economic development and environment sustainability is evident. This study used PT PELINDO III (Persero), an Indonesian State Owned Enterprise a service provider in port terminals. The previous studies showed that in terms of strategic orientation and capabilities, SOE needs to compete in the business performance and PT PELINDO III (Persero) as well. Based on dynamic capability perspective, this study proposes that PT PELINDO III's competitiveness is determined by its strategic capabilities to value, explore, apply and orchestrate its resources. Strategic capabilities have three elements in a company, they are resource immobility which can be explored, internal capabilities which has to be optimized, and, both institutional and social capitals which have to be maintained. Based on a discussion among with its managements, this paper revealed a conceptual framework in which resources immobility and strategic capabilities have a profound impact on the company's competitive performance

**Keywords**— resource immobility, strategic capability, competitive performance.

## I. INTRODUCTION

The study of strategic capability and resources immobility relationship is not a new thing. In the strategic management literature, competitive performance (Barney, 1991) can be achieved based on firm ability, especially resources and dynamic capability (Teece, et al., 1997), also, core competences (Hamel and Prahalad, 1990). Like any other companies, SOE has been transformed due to the business dynamic, either in the national level or international

level, to achieve financial stability and value creation for its shareholders and the community development.

The organization will continue to transform along with changes in its environment where it operates. On the company's scope, organizational transformation is not only carried out by multinational companies, but also by national and regional companies. Related to this matter, organizational transformation is also familiar for State-Owned Enterprise (SOE) or Badan Usaha Milik Negara (BUMN). This is a company owned by the Government of Indonesia that has a vital role and function to support the economic growth by serving the Indonesian people with two obligations, as a public service company in one hand and as a profit generating business in the other hand (Government of Indonesia's Regulation Number 19 of 2003).

Developing countries, like Indonesia, depend on the support of SOE for several reasons, such as their potentials for growth and for absorbing more manpower, their ability to adopt new technologies, and their adapting capability to highly dynamics environment (Berry, Rodriguez, & Sandee, 2010). The ability of SOE to succeed in the competitive environment is mostly the function of internal capabilities (e.g., Knight & Cavusgil, 2004; Knight & Kim, 2009). Evolutionary economics (Nelson and Winter, 1982) elaborate on the superior ability of firms to develop particular organizational capabilities which includes critical competences. It highlights the importance of internal capabilities in particular.

PT Pelabuhan Indonesia III (Persero) or better known as PT. Pelindo III (Persero) is one of the State-Owned Enterprises (BUMN) engaged in the port terminal operator services. The company was formed under the Regulation of the Republic of Indonesia Number 58 of 1991 on the Form Shifting of Public Corporation (Perum) Pelabuhan III to a State-Owned

Enterprise (Persero). As a port terminal operator, PT. PELINDO III (Persero) manages 43 ports with 16 branch offices in seven provinces in Indonesia including Central Java, East Java, Bali, West Nusa Tenggara, East Nusa Tenggara, Central Kalimantan and South Kalimantan.

As one of SOEs, PT Pelindo III needs to transform itself. In its current conditions, the company's resources have not been optimally managed, especially the internal resources. Furthermore, the company is also required to always make maximum contributions to shareholders without ignoring the customer satisfaction and by maintaining the corporate customer loyalty. Indeed, the company aims to measure on how effective firm's capability performance by balancing between 'Quality, Cost, and Delivery', thus, business sustainability will eventually be achieved. In another word, the company faces two problems; firstly, how to achieve its business performance which is indicated by financial capability, the increasing equity value and asset optimization; secondly, how to improve the operational excellence to become a reliable port service provider by using a seamless operation, optimizing the use of resources (resources optimization) and integrating the operational resource functions (inter-functional resources integration).

A discussion in the different sustainable performance between companies has become an interesting topic in strategic management research over the past three decades (Wiggins and Ruefli, 2005). Resource-based view (RBV) theory says that sustainable performance is achieved by controlling and using some certain mobile resources. Thus, a sustainable performance can be said as the basic concept in RBV and the main reasons for conducting resource immobility analysis to explain the sustainability of performance. On the contrary, based on dynamic capabilities (Teece, Pisano, and Shuen, 1997), this concept acknowledges that the capabilities of SOE need to be optimized for generating a better performance. This study argues that SOEs' strategic capability, in this case PT PELINDO III (Persero), to create and explore capacity – absorptive capability, innovative capability and adaptive capability (Hooley et.al., 2014) has the ultimate roles in determining the firm competitive performance.

## II. LITERATURE REVIEW

### A. Resource Immobility

The discussion on the different sustainable performances between companies has become an interesting topic in strategic management research over the past three decades (Wiggins and Ruefli, 2005). RBV theory says that sustainable performance is achieved by controlling and using certain mobile resources. Thus, sustainable performance is argued as the basic concept of RBV and the main reason for conducting resource immobility analysis is to explain

the sustainability of performance. Sustainable performance cannot use the calendar as an appropriate indicator and sustainability does not depend on the possibility of competitive duplication. However, previous studies (Arend, 2006; Armstrong and Shimizu, 2007) show that sustainability can be measured on a calendar basis, because it is very difficult to operationalize the meaning of sustainability quantitatively according to the definition proposed by Barney (1991) (Wiggins and Ruefli 2005, p 84).

When a particular company can regularly outperform their competitors based on their specific resources, this indicates that it has immobility capabilities that are compatible with the RBV's explanation (Wiggins and Ruefli, 2005). Therefore, sustainability performance is a dependent variable when measuring the resource immobility. An empirical testing of immovable resources by analyzing the relationship between sustainable resources and superior performance can determine whether resources can be moved or not. Moreover, it also shows whether the same resources produce superior performance for the same company within the longer timeframe.

Based on RBV, in achieving superior performance, a company must have the ability to control its valuable resources. Whether these resources are scarce, difficult to replicate, or cannot be substituted, superior performance will be maintained. Barney (1991) with his VRIN (Valuable, Rare, Imitability and Non-Substitutable) framework has provided a foundation for further study on the resource development. Barney (1995, 1997) also regards substitution as a sub dimension of incompetence which makes two-dimensional duplication and substitution is different from inimitable. Furthermore, it is also unpredictable as the precondition for scarcity. Hoopes et al. (2003) argue that resources can only be scarce if competitors cannot replicate them. Consistently, Crook et al. (2008, p. 1144) also shows that "values and imitations are most important because resources that are difficult to imitate are rarely based on definitions and substitution is a form of imitation."

Moreover, it is difficult to identify previous researches that measure both scarcity and substitution. Armstrong and Shimizu (2007) and Newbert (2007) identify only one study which measures scarcity but not substitution. Therefore, Armstrong and Shimizu (2007) argue that scarcity can be included in the dimensions which cannot be replicated. Crook et al. (2008) do not even try to identify research that measures scarcity and substitution by using an argument that both dimensions of resources cannot be replicated. Thus, scarcity and substitution in general have been included in the concept which cannot be replicated. Additionally, Hoopes et al. (2003, p. 890) summarize that "only value which cannot be imitated is ultimately important".

Valuable resources not only require protection from imitation, they also require barriers to being traded. It is because a perfectly tradable resource cannot sustain superior performance (Barney 1986). In explaining the problem of trade, both imitability and tradability are seen as the different sub-dimensions of resource immobility. Factors that limit the possibility of companies in obtaining resources in the market are referred as 'tradability limits' (Andersen et al., 2016). This limitation causes concerns that narrow down the possibility of companies in acquiring the valuable or potentially valuable resources by actually transferring resources from other companies, such as by recruiting human resources from competitors (Barney, 1986). Lastly, Peteraf (1993) also describes several causes that can explain the limited mobility of tradable resources, they are switching costs, asset co-specialization and high transactions.

### *B. Strategic Capability*

The concept of developing and effectively using strategic capabilities to achieve success were mentioned by Hubbard et al. (1996; 2007). They state that strategic and dynamic capabilities have three distinct characteristics, which are:

1. difficult to imitate;
2. valuable to the customer;
3. Better than those produced or possessed by competitors (see also Ambrosini et al., 2009; Barney, 1991; Deeds et al., 1999; Eisenhardt and Martin, 2000; Helfat, 1997; Lambe et al. 2002; Macher and Mowery, 2009, Peteraf, 1993; Sher and Lee, 2003 and Teece et al., 1997).

While, Zander and Kogut (1995) make a case for distinctive or superior competencies which are even better if matched with the environmental exigencies or opportunities. These capabilities are “specific physical (e.g. specialized equipment, geographic location), human (e.g. expertise in chemistry) and organizational (e.g. superior sales force) assets” (Eisenhardt and Martin, 2000, pp. 1106-7). It is the effective utilization rather than their mere possession which generates a competitive advantage and enhances the successful performance (McKelvie and Davidsson, 2009).

Strategic capabilities represent a key component of this resurgence (DeSarbo et al., 2005) as discussed among the scholars for nearly a quarter century, started from the Miles and Snow (1978), Hambrick, (1983); McDaniel and Kolari, (1987); Ruekert and Walker (1987); McKee, Varadarajan, and Pride, (1989); Conant, Mokwa, and Varadarajan, (1990); Shortell and Zajac, (1990); (Hambrick, 2003) that strategic choice typology has been a subject of considerable research attention in both the management and marketing strategy literatures. They also aligned its managerial processes and capabilities with its environment (DeSarbo et al., 2005). It means that the resources of an organization which include its assets and skills

represent its foundation sources for sustainable competitive advantage (Aaker, 1989; Atoche, 2007; Bowman and Ambrosini, 2003). Strategists should shape, transform, and combine these resources into strategic capabilities to drive a strategic success of the organization (Hussey, 2002; Lopez, 2005; Pandza and Thorpe, 2009). Strategic capabilities are conceptually linked to RBV since both perspectives emphasize the development of idiosyncratic aptitudes that cannot be readily mimicked by the competitors.

Scholars follow the dynamic resource based view (DRBV) or dynamic capabilities approach (DCA) resources view as transitory, which typically go after a lifecycle behavior spanning emergences through various stages including growth, renewal, and eventual retirement (Helfat and Peteraf, 2003). While, scholars from the organizational economics perspective – integrating perspectives such as agency theory, incentives, transaction costs theory, and even property rights theory – have utilized IO-based tools to examine performance at the firm level of analysis (Boxall and Gilbert, 2007; Fulghieri and Hodrick, 2006; Foss and Foss, 2005; Gibbons, 2003; Whinston, 2003). Going along with the same conceptual foundation, DCA extends the strategic capabilities by emphasizing the transitory nature of both organizational resources and external influences (Ambrosini and Bowman, 2009; Augier and Teece, 2009; McGuinness and Morgan, 2000).

In particular, the success of co-competition needs a lot of ability, which are - 1) ability to scan the environment for co-competition opportunities, 2) ability to choose partners carefully, 3) ability to coordinate conflicts within the company and between partners, 4) ability to estimate the ever-increasing costs and benefits from co-competition, 5) ability to make the necessary adjustments to the co-competition ratio, and 6) ability to maintain bargaining power balance. The ability to achieve these tasks is not only related to the dynamic ability logic but also the unique characteristics of co-competition. As a result, although fundamental dynamic abilities will apply to co-competition, companies may need more unique abilities to manage tensions from dynamic factors and paradoxes which is inherent in co-competition. Thus, the ability of co-competition is different from from general dynamic abilities because managing co-competition is a much more challenging task than managing a common dynamic co-competition alliance (Luo, 2007b) and it is very uncertain in terms of environment and partner behavior.

For defining relational ability, this study employs the classical definition of dynamic ability (Teece, 2000) which is a company's ability to feel and capture new opportunities, to reconfigure and protect the knowledge assets, competencies assets and complementary technologies to achieve the sustainable competitive advantage on the customer relationship management basis. Furthermore, in relation to the

definition of marketing ability (Weerawardena & O'Cass, 2004), it is possible to propose an alternative definition of relational ability as an integrative process designed to apply collective knowledge, skills, and company resources to the business-related needs. However, the main characteristic of relationship capability is that it is outside the marketing function and includes the ability of cross-functional companies (Grant, 2004) since it is an integrated bundle of unique skills which requires alignment of the efforts of everyone in the company and affects the company's performance.

### *C. Organizational Agility*

Organizational Agility considers several fundamental capabilities that includes accountability, competence, flexibility and speed. Various definitions of agility are available. The Iacocca Institute defines agility as a production system with the technological capabilities of software and hardware, human resources and information that are trained to meet rapidly changing needs (Trong et al, 2005). Agility is the implementation of successful competitive principles such as speed in leadership, and decision making, flexibility in system and process, innovation and quality by reintegrating resources and best practices to provide customer-oriented products and services in an environment with rapid change (Trong et al, 2005). Agile organizations are designed to understand and predict changes in business and they handle their structured. Customer and employee satisfaction is one of the agile organizational goals. Agile companies must design organizations, processes and products in such a way that they can respond to changes appropriately within a certain period of time (Balaji et al., 2014).

Organizational agility is defined as the ability of an organization to respond to changes in the external environment and to detect and utilize the market opportunities efficiently and effectively (Sambamurthy et.al; 2003). With an increased organizational agility, which is often with the help of IT investments, organizations can feel opportunities for competitive action in their target markets and prepare the knowledge and skills for these opportunities (Sambamurthy et.al; 2003). The organizational agility allows organizations to take advantage of changes in their target markets by improving their products and services (i.e., increased market agility) and helping organizations improve their internal business processes to overcome market changes or demand (i.e. operational adjustment agility).

### *D. Institutional Pressure*

Institutional theorists view organizational action as a result of exogenous sources that change organizational decision making (Heugens and Lander, 2009). This theory has been used to explain the persistence of certain organizational structures and

ideals (Weerakkody et al., 2009). The application of legitimate elements increases the probability of organizational survival, because legitimacy is needed to get support from one's constituents (Lamin and Zaheer, 2012; Maclean and Benham, 2010). Conformity with what is legitimate simultaneously leads to organizational isomorphism with its environment (Heugens and Lander, 2009; Zucker, 1987). Institutional pressure comes from regulatory structures, cultural practices, influence of dominant organizations and explains the cohesion of organizations, fields and industry (DiMaggio and Powell, 1983). Companies seek approval and, thus, follow the guidelines from these actors, like stakeholders and government, because they provide important support for the company legitimacy (Heugens and Lander, 2009). Institutional pressure that drives isomorphism and guides what is legitimate, as defined by DiMaggio and Powell (1983), takes three forms, they are normative, coercive and mimetic. Normative pressure concerns the domain of the organization which establishes the joint control over how the field and/or profession operates (Heugens and Lander, 2009). Normative isomorphism is related to the logic of conformity (Guler et al., 2002). For example, trade associations, professional associations and accreditation bodies are normative institutions, because they create codes of conduct that are considered appropriate (Grewal and Dharwadkar, 2002).

Coercive pressure arises from other organizations that depend on the company (DiMaggio and Powell, 1983). This usually means the important sources of organizational or governmental resources with legislative power (Heugens and Lander, 2009). Coercive pressure is not only provided by strong legal sources and government or companies, but it can also come from the social movements (Hayagreeva and Sivakumar, 1999). The main contributors to the implementation of corporate social responsibility are pressure from activists, non-governmental organizations (NGOs) and consumers (Castka and Balzarova, 2008).

Mimetic isomorphism is a response to uncertainty; when there is no clear action, it will be safer to imitate the behavior of others (DiMaggio and Powell, 1983). The target for imitation is usually chosen by the nature of organization, the outcome or the frequency of events (Haunschild and Miner, 1999). Emulating can occur through direct contact or by choosing an organization with structural similarities even though there is no direct relationship (Hayagreeva and Sivakumar, 1999; Perez-Aleman, 2011). In the environmental management research, it has been found that industry peers have a significant impact on the company's environmental strategy (Bansal and Roth, 2000; Park-Poaps and Rees, 2010). Companies in the same marketing channel can copy structures and other

channel processes that become benchmarks (Grewal and Dharwadkar, 2002).

### III. METHODS

This study used a qualitative method. This method focused on exploratory studies with research design based on case studies to deepen fundamental understanding (Creswell, 2014). At the same time, it aimed to know more comprehensively about the role of dynamic marketing capabilities and their influence on the sustainability of competitive advantage. The author realized that the study in this area is still relatively new and has not been done much by previous marketing experts, therefore the application of these case studies was to study the real conditions of the research object which was happening recently by developing the concept of dynamic marketing capabilities.

The research began by identifying the contemporary phenomenon as the case studies and defining it into real-life context by using multiple sources of evidence (Yin, 1994) to strengthen the theory and at the same time to develop the theory of dynamic marketing capabilities for the research object. Furthermore, the used data collection methods were by conducting observations, interviews, company documents analysis, semi-structured discussions and open questions (Creswell, 2014). In this qualitative research, there were several data sources needed in this study, they were primary data dan secondary data. While, primary data was obtained directly from data sources, which was in-depth interviews to get the answers for the research questions. Secondary data used in this study were in the form of documents or records which existed in the company's operational activities and from the articles or scientific publications from various media.

This research began with a visit to Teluk Lamong Port in August 2018 and conducted in-depth interviews, on-site visits to several subsidiaries of PT Pelindo III (Persero). The informants who were obtained for in-depth interviews came from the various levels of middle management and senior management; it started from manager, general manager, vice president (VP), senior vice president (SVP) to directors of Subsidiaries Company. The total number of respondents was 25 (twenty-five) from the entire list of informants in the internal organization of PT Pelindo III (Persero) Group. The selected informants had a sufficient experience in the port industry. For manager level, the informants should have more than 5 years' experience. While for Middle-level informants, they should have more than 10 years' experience working in this industry.

All transcripts from in-depth interview results were completed in November 2018 which were then analyzed using open coding, axial coding, and selective coding. After coding, the results were then compared with the results of observations and document archives such as scientific references,

magazines, and online sites. Then, the obtained analysis results were compared with various literature to examine the consistency of the research findings. This study employed several stages of data analysis, they were data collection, data grouping, data clustering, data interpretation, and conclusions (Yin, 2011). First, data collection (compiling) is aimed to organize qualitative data that had been collected in a systematic arrangement to ease the researchers in finding and accessing the data when needed throughout the analysis process. The results of this stage were databases in the form of notes, tables, graphs, other visual material.

### IV. RESULTS AND DISCUSSION

Based on the theory discussed above, we propose a conceptual framework that connects resource immobility, strategic capability, and competitive performance of state-owned enterprise in Indonesia. Figure 1 illustrates that there are five endogenous constructs in the proposed framework, they are resources immobility, strategic capability, competitive performance, organizational agility, and institutional pressure. The measurement model for the five endogenous constructs forms a continuous interaction. While, in the internal process of the company, there is a sequence of effects between immobility, strategic capability, and moderated competitive performance by organizational agility which subsequently causes an influence from outside the company namely institutional pressure. Some areas can be the focus for further research in relation to the proposed conceptual framework.

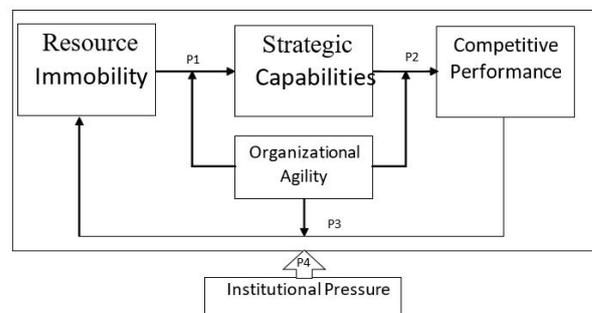


Fig 1. Proposed model interaction between five endogenous constructs.

Based on the proposed framework, the derived hypotheses are:

- P1: A resource immobility influences the strategic capabilities with organizational agility as mediator.
- P2: A strategic capabilities determines the competitive performance with organizational agility as mediator.
- P3: A competitive performance directs the resources immobility with organizational agility as mediator.

P4: Institutional pressure affects the interaction of resources immobility, strategic capability and competitive performance.

#### V. CONCLUSION

Less than 2% of the studies measures the outcome of resource immobility like sustained performance differences. Based on these results, this paper discusses the consequences in overlooking a key dimension of the RBV which is immobility and suggests that the future research should consider resource immobility to a greater extent.

This paper presents a conceptual framework that connects resources immobility, strategic capability, and competitive performance of state-owned enterprise at Indonesia. This study provides a proper quantification and measurement of exogenous factors within the framework as it is expected to be a powerful model for empirical testing. The test and analytical models can be formed using the regression analysis for forecasting or structural equation modeling for causal analysis. The findings from the above modeling can be used as a reference for practitioners, especially for state-owned enterprise at Indonesia.

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