



# Exploring the Factors that Contribute to the Success of Digital Companies in Indonesia: A Study of Entrepreneurial Orientation, Strategic Agility, and Business Model Innovation

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**Abstract.** This research aims to investigate the impact of entrepreneurial orientation on the performance of digital companies in Indonesia. The study will focus on two key factors that can help digital firms to grow and compete effectively: strategic agility and business model innovation. The research will be conducted using a sample of 68 digital companies located in Indonesia. The study will use Structural Equation Modeling-Partial Least Squares (SEM-PLS) to test the research hypothesis. The findings of this research will provide valuable insights into how Indonesian digital companies can leverage their entrepreneurial orientation and ambidexterity to achieve business model innovation and achieve good performance in terms of finance, innovation, and organization. The Covid-19 pandemic, which has occurred since 2019, may present both opportunities and challenges for digital companies in Indonesia.

**Keywords:** digital company · entrepreneurial orientation · strategic agility · business model innovation

## 1 Introduction

As we realize, many aspects of our life nowadays cannot be separated from technology, especially with the increasing number of internet users supported by telecommunication infrastructure and internet networks. This also positively impacts the business environment where digital industries are starting to develop by offering many products and solutions for the daily problems faced by society or business sectors. Indonesia as one of the countries with the most active internet users in the world as referred from Hootsuite's study has more than 88 million people who are always online and 79 million is an active social media users make Indonesia have great potential as a place for digital start-up to develop and produce innovative products and focus on solving problems (Permadi, 2017).

The development of start-up industry in Indonesia is quite significant where if we refer to Indonesia Digital Creative Society (MIKTI) and the Creative Economy Agency

(BEKRAF) data as of 2018, it shows that in approximately 992 start-ups have been established with a distribution of 53% of start-up companies in based in Jabodetabek, with the majority of its business of 35.48% in the e-commerce sector. Through technological developments and broad opportunities for start-ups to be more advanced, start-ups are also faced with the challenge of optimizing this opportunity, especially with the Covid-19 outbreak which can be an opportunity or even a potential obstacle. With focus on the impact of orientation entrepreneurship in improving the performance of start-ups in Indonesia through the role of strategic agility and business model innovation as described in previous studies (for example Lee et al., 2015, Clauss et al., 2019, Ivory & Brooks, 2018), this concept is essential for business actors who want optimize the advantage of digitalization at this time considering that changes in market conditions that are currently occurring have a massive impact on company performance. This study will analyze this concept through field research focusing on several digital start-ups.

To test this concept, there are several problems will be presented in this study. First, the relationship between entrepreneurial orientation and strategic agility simultaneously developed. The previous study has explained that entrepreneurial orientation is proven to increase strategic agility in companies (Kohtamaki et al., 2020). Second, we simultaneously see the relationship effect between entrepreneurial orientation, strategic agility, and business model innovation. Entrepreneurial orientation functions as a dynamic capability that drives value creation and value proposition from the company's business model (Bouncken et al., 2016), thus entrepreneurial orientation is the main trigger for business model innovation, as mentioned in the other previous literature by Clauss et al., (2019). Lastly, we examine organizational success measures based on business model innovation and firm performance. According to Anwar (2018), business model innovation is different from product innovation because business model innovation allows companies to exploit new opportunities and can help companies to maintain performance, and provides more significant financial performance in developing countries like Indonesia. Coming from these studies, it is expected that this research can provide the latest information regarding the relationship between business model innovation and organizational performance, especially in digital startups in Indonesia.

## 2 Litelature Review

### A. *Theoretical Framework*

Entrepreneurial orientation is often associated with young companies that are rather small and flexible to changes in market structure and environmental dynamism (Bouncken et al., 2016). The lack of a fixed and mature structure in young companies reduces the risk of organizational inertia therefore the role of entrepreneurial orientation in business model innovation becomes clearer (Bouncken et al., 2016). Wolff (2007) in his study stated that entrepreneurial orientation is the ability of organizations to create new products and services, seek new technologies and innovative strategies, seek new market opportunities, and invest in projects that have high risks and profits. Entrepreneurial orientation is considered important for digital companies and large existing companies because it provides benefits to being able to compete directly with incumbent competitors in established markets (Lee, Lee, & Pennings, 2001). Furthermore, entrepreneurial

orientation is affecting the firm performance (Jantunen et al., 2005; Irava and Moores, 2010).

Strategic agility is the ability to recognize and seize available opportunities by forming the basis of a better and faster approach (Ivory & Brooks, 2018) which is no less important for the company. In addition, strategic agility also creates management capabilities to constantly and quickly respond to a dynamic environment, then deliberately make the necessary strategic moves for successful implementation (Weber & Tarba, 2014).

In his previous research, Schumpeter (1934) distinguished five types of innovation, consisting of i) product innovation, ii) production method innovation, iii) supply source innovation, iv) innovative market exploitation, and v) innovative ways to organize business (Anwar, 2018). Then the researchers agreed to combine all types of innovation into one phenomenon called the business model innovation (Anwar, 2018). Another argument related to the concept of business model innovation is defined as the process of designing something new or modifying existing company activity systems (Zott and Amit, 2010). Companies that seek growth by operating globally across sectors and markets, by leveraging business model innovations enable them to become more advanced and larger companies (Christensen et al., 2016; Sohl et al., 2020; Velu, 2016).

Firm performance measurement is a process to measure the efficiency and effectiveness of a company's activities. Performance measurement provides information on how well a company is running, whether the company can achieve its goals, and how effectively improvements have been made (Lakhal, 2009). In general, company performance refers to the results of organizational activities or investments within a certain period of time by taking a series of complex actions that integrate skills and knowledge (Hoque, 2016). Neely et al., (2007) define performance measurement based on the effectiveness and efficiency of organizational actions. High company performance helps in removing obstacles and increasing the creation of wider opportunities to grow and survive in the global market (Hoque, 2018).

## B. Hypothesis Development

This research model was built by modifying several related and relevant previous studies, whereby combining the relationships or correlations between variables and dimensions from previous studies' conceptual models. The primary research used as a reference in this study includes Kohtamaki et al., (2020), Claues et al., (2019), Bouncken et al., (2016), Loon et al., (2020) and Anwar (2018). The four studies explain the relationships between the variables used in this study, including entrepreneurship orientation (EO), strategic agility (SA), business model innovation (BMI), and firm performance (FP).

Entrepreneurial orientation is essential for new companies and large existing companies, to be able to compete directly with competitors in an established market the company requires an entrepreneurial orientation (Lee, Lee, & Pennings, 2001). The existence of an entrepreneurial culture will support the creation of new product development, the transformation of existing products, the creation of new production methods or new distribution channels, and the finding of new management attitudes or new competitive strategies (Stevenson and Jarillo, 1990). Entrepreneurial orientation has been shown

to increase companies' strategic agility and innovation capabilities (Kohtamäki et al., 2020). In addition, in their research, Gezzi and Cavallo (2018) argue that entrepreneurial orientation has a vital role in facilitating strategic agility and business model innovation at the micro-level organization. Based on the explanation above, the following hypothesis can be built:

H1: Entrepreneurial orientation has a positive effect on strategic agility.

Strategic agility refers to a company's ability to proactively anticipate and quickly react to unexpected changes in its environment (Lyn Chan & Muthuveloo, 2019). Strategic agility is identified through three important meta-capabilities: strategic sensitivity, leadership unity, and resource fluidity. Enriching these three capabilities will increase the possibility of creating business model innovations (Schneider & Spieth, 2013). Through strategic sensitivity, companies become more aware of the new capabilities, technologies, and processes needed to create new value for customers. When a company increases its strategic sensitivity, it can identify unmet needs in current market conditions, allowing it to reinvent its value proposition to pursue untapped market opportunities continuously. Overall, strategic sensitivity is a critical determinant of the adoption of business model innovation (Clauss et al., 2019). Based on the explanation above, the following hypothesis can be built:

H2: Strategic agility has a positive effect on business model innovation.

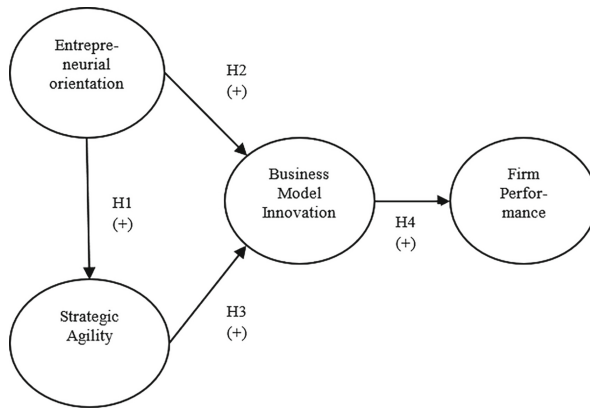
Some experts including Chesbrough (2010) argue that inertia is one of the core barriers to business model innovation. This inertia is the company's tendency not to make changes or innovate. With experimental activities related to technology, updating ideas, and collaboration can encourage business model innovation to generate added value (McGrath, 2010). Entrepreneurial orientation capabilities and company reconfiguration are said to affect performance (Bouncken et al., 2016). This confirms the research conducted by Teece (2011), where organizations need risk-taking behavior to reconfigure their business successfully. Entrepreneurial orientation serves as a dynamic capability that drives value creation and value proposition from the company's business model, thus, entrepreneurial orientation is the primary driver of business model innovation (Bouncken et al., 2016). Based on the explanation above, the following hypothesis can be built:

H3: Entrepreneurial orientation has a positive effect on business model innovation.

Business model innovation is the practice of assimilating new logic of doing business into an established company to increase profitability and exploit business opportunities (Trapp et al., 2017). Companies are now shifting from technological innovation to business model innovation because practical business model innovation offers high levels of profitability and returns to established businesses rather than traditional models (Anwar, 2018). Companies with updated business model innovations can improve performance superior to those with traditional business model innovations (Cucculelli & Bettinelli, 2015). This is also in line with the argument in other studies that business model innovation is a new logic for increasing business profitability (Anwar, 2018). Based on the explanation above, the following hypothesis can be built:

H4: Business model innovation has a positive effect on firm performance.

Based on the 4 hypotheses described above, this research model is described in Fig. 1.



**Fig. 1.** Research Model

### 3 Research Method

The data in this study were taken from 68 digital start-ups in Indonesia, where the respondents in this study were founders who served as directors or chief level and top management team in manager positions and above. 4 variables consisting of 3 dimensions for Entrepreneurial Orientation (Al Mamun et al., 2017), 3 dimensions for Strategic Agility (Ivory and Brooks, 2018), 3 dimensions for Business Model Innovation variables (Clauss, 2016) and 3 dimensions for performance variables (Ng et al., 2017).

For the study sample size, the number of representative samples for the PLS-SEM method according to Hair et al., (2011) is 30 to 100, because the PLS-SEM is based on variance, the number of samples used does not need to be large. Some researchers believe that sample size considerations do not play a role in PLS-SEM. This idea arises from the 10 (ten) times rule initiated by Hair et al., (2011) which indicates that the sample size must be larger, equal to 10 times the largest number of formative indicators used to measure a single construct, or 10 (ten) times the largest number of structural paths that lead to a particular construct. in structural models. In the structural model of this study, the direction of the arrows that point to the construct is 6 arrows, thus the sample is 10 times the number of arrows, namely  $10 \times 6 = 60$ . The demographic profile of the respondents in this study is as follows (Table 1).

In this research, the measurement used is based on measurements that have been tested and validated in the previous literature. All items are measured using a 6-point Likert Scale for the four variables, namely: entrepreneurial orientation, strategic agility, business model innovation, and performance.

**Table 1.** Demographic Profile

Characteristics Profile	Categories	frequency	Percentage (%)
Position	C level/Director	19	27,9
	Head of Product	2	3,0
	Product Manager	47	69,1
Firm Age	> 8	24	35,3
	≤ 8	44	64,7
Company Profits in 1 Year	< 100 mio IDR	17	15,0
	100 mio - 1 bio IDR	21	30,9
	> 1 bio IDR	30	44,1
Firm Size	< 100	15	22
	> 300	18	26,5
	100 - 300	35	51,5

## 4 Results and Discussion

### A. Data Analysis

After obtaining a valid and reliable measurement model, the next step is to test the research hypothesis. In this research the results of the hypothesis are obtained as follows (Table 2).

The results of the study show that entrepreneurial orientation has a direct influence on strategic agility. Entrepreneurial orientation and strategic agility have a direct effect on business model innovation. The effect of entrepreneurial orientation (0.498) is higher or stronger on business model innovation than strategic agility (0.481). Meanwhile, the direct effect of business model innovation on firm performance is quite high (0.681) (Table 3).

**Table 2.** Hypothesis Test

Hypothesis Statement	Path	T Statistics	P Values	Results
	coefficient			
H1. Entrepreneurial Orientation - > Strategic Agility	0.213*	2037	0.042	Supported
H 2.Strategic Agility - > Business Model Innovation	0.481***	4,952	0.000	Supported
H 3. Entrepreneurial Orientation - > Business Model Innovation	0.498***	3.174	0.002	Supported
H 4. Business Model Innovation - > Firm Performance	0.681***	10,47	0.000	Supported

**Table 3.** Mediation test

Mediation Test	Mediation Path coefficient	T Statistics	P-Value	Results
Entrepreneurial Orientation - > Business Model Innovation - > Firm Performance	0.339***	2,969	0.003	Significant
Entrepreneurial Orientation - > Strategic Agility - > Business Model Innovation - > Firm Performance	0.070	1,711	0.088	Not Significant

Entrepreneurial orientation has an indirect effect on firm performance when company policies push through the direction of increasing business model innovation. This process is considered effective because of the mediation path coefficient (0.339) and significant to alpha 5%. Conversely, when the Entrepreneurial Orientation variable has direction through increasing Strategic Agility and then Business Model Innovation, the effect on Firm Performance is not significant (less effective).

### B. Results

The results of research conducted on 68 digital start-ups show that entrepreneurial orientation has a positive influence on strategic agility based on the T-Statistic value where  $2.037 > 1.96$ , this also supports previous research conducted by Kohtamaki et al., (2020). This research shows that the most robust dimension in entrepreneurial orientation that influences strategic agility is proactiveness. The tendency of digital start-ups to always be at the forefront of product development greatly influences the agility of a company. As a company engaged in technology, changes in the environment due to market dynamism or technology have encouraged them to be active in providing product development with several new ideas. Proactive refers to a process that aims to act on future needs by seeking new opportunities related to the current line of operations. Organizations with a solid proactive attitude will be able to shape the environment by anticipating and pursuing new opportunities so as to create a competitive advantage. (Lumpkin & Dess, 2015). The motivation and ambition of technology start-ups to be always at the forefront require a great attitude of curiosity in the corporate culture. This attitude culture is significant because it can encourage every individual in the company to increase information and knowledge related to the progress of the company.

Furthermore, strategic agility is proven to have a positive effect on business model innovation based on the T-Statistic value where  $4.952 > 1.96$  this supports the research that has been conducted by Clauss et al., (2019) with strategic sensitivity, companies become more aware of capabilities, technology, and new processes needed to create new value for customers. It can be seen that the dimension of strategic sensitivity in strategic agility has the most significant influence on the formation of business model innovation. In a dynamic environment, digital startups are forced to continue to make changes by acquiring new information and knowledge. All forms of new information and knowledge obtained can be used to carry out the business model innovation process

as part of adaptation efforts in a new environment. When companies increase their strategic sensitivity, they have the ability to identify unmet needs in the current market conditions and encourage companies to continue to find their share of value by adopting innovations to pursue untapped market opportunities. Overall, strategic sensitivity is an essential determinant of business models (Clauss et al., 2019).

Based on the results of this study, it is also known that entrepreneurial orientation influences business model innovation, based on the T-statistic value where  $3.174 > 1.96$ . Supports research conducted by Bouncken et al., (2016) where entrepreneurial orientation functions as a dynamic capability that drives value creation and the value proposition of the company's business model, thus, entrepreneurial orientation is the primary driver of business model innovation. In this study, proactiveness is the dimension that most influences entrepreneurial orientation toward the formation of innovative business models. There is a great desire from digital start-ups to always be at the forefront, encouraging them to continue to innovate in their business models. With the creation of new value from the innovations they have carried out, they hope that this new value can meet the needs of their customers—increasing market competition due to the faster rate of technological development. Encouraging digital companies at this time must behave proactively toward various possible things that can happen in the digital business industry. The desire to always be at the forefront encourages digital companies to develop new ideas and products tailored to market needs.

The final point is that this study shows that business model innovation has an effect on organizational performance, based on the results of the T-Statistics where  $10.470 > 1.96$ . This supports research conducted by Anwar (2018) where business model innovation is different from product innovation because business model innovation allows companies to exploit new opportunities and can help companies maintain performance. Business model innovation provides more significant financial performance in a developing country. Business model innovation is a new logic for increasing the profitability of established businesses (Anwar, 2018). In this study, the value proposition is the dimension that most influences start-up performance. The high desire of technology companies to be closer to their customers has a very positive impact on performance because of the value that is generated from the services provided to customers, not all companies can imitate and do it the same way. The added value that can be provided through good service innovation to customers will leave an impression of greater trust in the company as we advance. In their empirical research, Nadkarni and Narayanan (2007) highlighted the importance of fast organizational adaptation to environmental turbulence. Innovation is an important form of response and adaptation to a volatile environment (Sánchez, Lago, Ferràs, & Ribera, 2011).

## 5 Conclusions and Implication

### A. Conclusion

The results of this study prove the importance of the role of entrepreneurial orientation, strategic agility, and business model innovation on the performance of digital start-ups in Indonesia. Based on the results of this study, the performance of start-ups might be better if they increase their entrepreneurial orientation. This considered that such



variable has an indirect effect (through strategic agility and business model innovation) on performance.

Meanwhile, organizational performance will provide a better impact if it increases strategic agility because this variable has an indirect effect (through business model innovation) on performance. The dimension that has a strong influence on strategic agility is strategic sensitivity, in which companies that are active in detecting every threat that comes as a result of environmental changes encourage companies to first determine strategic steps that are useful in increasing the innovation of the company's business model.

Furthermore, it is also known that organizational performance will be better if it makes improvements to business model innovation because this variable has a direct influence on performance. The strongest dimension in business model innovation that affects performance is the value proposition. Companies that are active in forming close network relationships with their customers will get different values from other competitors because the added value that customers can get through personal relationships with companies cannot be easily measured and imitated by their competitors.

### *B. Research Implications*

The theoretical implications based on the results of this study support one of the theories in strategic management field, more specifically, on strategic agility. Strategic agility is the ability to recognize and seize available opportunities by forming the basis of a better and faster approach (Ivory & Brooks, 2018). There are other opinions regarding strategic agility, where strategic agility is management's ability to constantly and quickly respond to a changing environment, then deliberately make the necessary strategic steps for successful implementation (Weber & Tarba, 2014).

Rauch, Wiklund, Lumpkin & Frese (2009) stated that entrepreneurial orientation initially involved the process of making strategies and representing policies and practices that formed the basis for actions and decisions in entrepreneurship. Entrepreneurial orientation is considered essential for start-up companies and large existing companies because it is very beneficial to be able to compete directly with competitors in established markets (Lee, Lee, & Pennings, 2001). Entrepreneurial orientation in this research has also been shown to increase strategic agility and innovation capabilities within companies, in line with the previous research by Kohtamäki et al., (2020),

The results of this study also support several previous academic studies which also apply to digital start-up companies. Among previous studies, Clauss et al., (2019) and Bouncken et al., (2016) related the effect of entrepreneurial orientation and strategic agility on business model innovation separately. In this study it can be proven that in one concurrent research model it turns out that entrepreneurial orientation and strategic agility have a consistent impact on business model innovation, where the two variables have a positive influence on business model innovation in accordance with the results of previous research, then also Anwar's research (2018) regarding the direct effect of business model innovation on performance. In this study, it can be proven that in one research model, at the same time it turns out that business model innovation has a positive impact on performance. These results are consistent and in accordance with the results of previous studies.

Regarding managerial implications, based on the results of this study an evaluation can be carried out that digital start-ups in Indonesia require sufficient resources to increase the expected performance. In conditions that are currently unstable, business actors in the digital field must be able to overcome the limited resources they have both in terms of capital, knowledge, and human resources. Some of these things can happen because of the lack of attention and desire of business actors in the digital field to improve the quality of the resources they have. In an dynamic environment, cohesiveness is needed between digital companies to help each other. Currently, digital start-ups cannot only rely on one party to work together. But digital start-ups actors are required to think creatively by utilizing the internal and external networks they have. With the development of digital technology, collaboration processes between digital companies can be carried out more easily, because the market reach that can be obtained is getting bigger. Especially at this time with the help of basic technological developments forming a strong network can already be assisted because of the ease of access through digital platforms.

### *C. Research Limitations*

The study's limitations are as follows:

The study was only conducted on 68 digital start-ups in Indonesia. Every start-up is coming from various industries and has a different character where there are several special factors that support business model innovation. In addition, in this study, the process of searching for respondent data has been running for six months, but because the respondent's goal is top management, there are several time and communication constraints when searching for respondent data.

This research was conducted during the economic and health crisis due to the Covid-19 pandemic so the sample obtained in this study was very limited, so this had an impact on the validity of several research indicator factors.

### *D. Suggestions for Further Research*

For further research, it is recommended to redevelop the results of this study for a number of companies and different types of industries but similarities in work areas and environmental culture tend to be the same. In addition, on the basis of the limited sample size in this study, it would be better if in subsequent studies the sample size used was larger than the sample in this study. This is useful for increasing the validity of research indicators. Apart from that, it can also be more specific to the characteristics of digital start-ups that will be studied, for example, based on size, firm age, or more specific fields (such as e-commerce, fintech, and others).

Furthermore, further research can also add variables such as ambidextrous capability to business model innovation. Given that some literature states that this capability can increase and have a positive influence on business model innovation (for example, Iborra et al., 2020, Loon et al., 2020).

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