

# A DYNAMIC CAPABILITIES OF SMALL SCALE AGRIBUSINESS ENTERPRISES IN INDONESIA

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## ABSTRACT

*Small Scale Agribusiness Enterprises (SSAEs) is particularly vulnerable to competition with bigger and more modern business actors because the efforts are at greater risk while the profit margins are relatively small. By taking the case of a vegetable business community in Malang Region, Indonesia through Ethnography approach, the researchers try to answer the question of why entrepreneurs who came from certain communities are relatively stronger in facing competition compared with other local entrepreneurs. The results of this research show that amidst the fierce competition with new entrepreneurs, they are able to do such process of sensing, seizing, and transforming as mediated by the process of developing and transferring knowledge, developing and sharing networks, as well as doing a flexibility of labor management and an inclusiveness of local politics to SSAEs interest so that they have better dynamic capacity. Nevertheless, further research is needed to have a more detail perspective on how a certain community mediates SSAEs to utilize specific resources in order to improve its dynamic capabilities.*

**Keywords:** Entrepreneurs, Agribusiness, Mediation, Sensing, Seizing, Transforming, Dynamic Capabilities.

## INTRODUCTION

Following the increasing number of middle class society in an emerging economy, the consumption of vegetables and fruits in Indonesia is also increased (World Bank, 2007) so that it gives a rise to the new marketing channels and institutions of other agricultural businesses (Johns et al., 2017; Tschirley et al., 2010). In Indonesia, the new economic institutions are emerging in the centre of production of vegetables and fruits. Therefore, it forms a community or group in certain areas. The emergence of new business institutions certainly small and medium enterprise has an impact on the increasing competition as well as on the social change in that particular communities including business reconfiguration such as business relationships and networks in the form of processes, atmosphere and structure (Fonfara et al., 2017; Rahyuda et al., 2017). At the same time, rural entrepreneurs face the challenge of maintaining an efficient operation while tremendous change occurs within the communities such as the scarcity of labour due to urbanization and weather uncertainty, government policies, as well as the volatility of price. In that consideration, the researchers need a deeper analysis on small-scale agribusiness enterprises (SSAEs) amid this uncertainty in order to clearly illustrate the dynamic capabilities, especially in an emerging economy.

To describe the problem, Dynamic Capabilities (DCs) approach is relatively popular to be used in analysing the dynamics of a company as it provides a very wide space for actor aspirations. This is intended to optimize resources and accommodate SSAEs simultaneously as a

social institution so that companies can compete and grow (Fernandes, 2017; Ringov, 2017). DCs are very effective to describe the complexity of social interaction that occurs as the characteristic of a social-micro approach taking a full advantage of the company's habits and routines in particular social environment (Wohlgemuth and Wenzel, 2016). DCs as an approach still not widely used to analyse how communities give legitimacy and framework for employers to facilitate the utilization of resources in order to compete. In the context of DCs, the social environment itself is viewed as an opportunity that directly related to the efforts of the actors to assess and utilize the resources. While on the other hand, a social institution is a factor that indirectly facilitates the actors so that the efforts become more effective and receive less attention.

An analysis of the social environment where the business grows and develops will give a broader picture than just an actor's ability to seize opportunities in the environment. This is due to the assumption that environment as a place of business is considered passive. As we all may know, SSAEs is an institution that has intensive labour, managed with semi-familial management and highly dependent on ecological conditions around the place of business (González-Cruz and Cruz-Ros, 2016) so that the analysis of environmental dynamics in adjusting to SSAEs development is also very important. The social environment is where actors (employers and employees) build and disseminate knowledge as well as build and share networks. This is also as a social base for the company to achieve efficiency (Campbell and Park, 2017; Fernandes, 2017) especially for an agricultural business that has direct community interconnection. This article will fill the gaps in constructing dynamic capabilities which are determined not only by the company's ability to intuitively address the environment (Gölgeci et al., 2017) or the ability of the actors to optimize limited resources (Fernandes, 2017), but also on the social environment in which the company grows and develops in mediating the dynamic capabilities of SSAEs. To get a more focused explanation, this paper will process the mediation done by the community through the development and dissemination of knowledge, development and sharing of the network, development of flexible labour management and local political inclusiveness on the interests of vegetable entrepreneurs.

### **Mediating Dynamic Capabilities for Small Agribusiness Institutions**

Dynamic capabilities (DCs) are the approach offered to replace the "*resource-based strategy*" that is considered less effective in answering the phenomenon of collapsing and developing of a company (Easterby-Smith et al., 2009; Gölgeci et al., 2017; McKelvie and Davidsson, 2009). Based on Schumpeter's idea that innovation as a combination of the entrepreneur's prior knowledge and resources, DC became the basis of the analysis replacing asset based competition. Schumpeter analysed the relationship between innovation, competition and growth of the company to give an alternative to the dominant theory at that time which considered asset control as the determinant of the company growth and development (Bodrožić and Adler, 2018; Gaffard, 2008). DCs are able to provide a more realistic and systematic new horizon to describe how a company collapses, stagnant, or develops (Teece, 2007; Wohlgemuth and Wenzel, 2016). DCs are the process of sensing, seizing and transforming activities that enable companies to survive the uncertainty of the environment in which the dynamic capabilities reflect the organization's capacity to purposefully create, extend and modify the

existing resource base (Wohlgemuth and Wenzel, 2016). Moreover, DCs are a learned and stable pattern of collective action to maintain company's existence amidst the uncertainty of the environment to improve company's effectiveness mediated by visionary leader, proactive strategist, customer listener, market nicher, global player and effective networker (Johnson and Dimitratos, 2014; Winter, 2003).

In the beginning, DCs focus on how companies as institutions actively adapt to the ever-changing business environment over time. Now, DCs are not only talking about the form of organizational processes but rather talking about significant commonalities across firms (Eisenhardt and Martin, 2000; Gölgeci et al., 2017). There are three main components of DCs development: sensing, seizing and transforming activities in which a successful company must have a high sensitivity in recognizing its environmental resources as well as understanding how to take and use these resources and able to transform institutions to always respond to changes in the environment. Meanwhile, the social environment in which these processes must relate to the social institution in the community receives less attention. Social environment can undergird sensing, seizing, and transforming activities through regulative, normative, and cognitive frameworks which able to provide entrepreneurial action (Gölgeci et al., 2017).

Because it is too idiosyncratic, DCs are challenged methodologically with regard to whether the collectivity of the organization as an institution can be approached theoretically because the collectivity in an organization has a large role in building capacity (Gölgeci et al., 2017). DCs as a theory accommodate these findings so that broad organizational capacities and specific actions that work together to influence organizational change are included in the main analysis. This further strengthens DCs as a theory because business organizations collectively contribute to the development of corporate capabilities so that their existence cannot be ignored (Eisenhardt and Martin, 2000; Gölgeci et al., 2017; Teece, 2007). Referring to the concept of embeddedness (Frasquet et al., 2018), business institutions are socially constructed. This assumed that the dynamics of the social environment is not a dynamic reality in which will undermine the DCs' analysis itself. Therefore, a more detailed explanation of how the society mediates the process of sensing, seizing and transforming the company becomes indispensable to fill the gap of existing theory.

This is related to the fact that the process of sensing, seizing and transforming is closely related to norms and values in the community where the process is inherent and cannot simply be done (Fernandes, 2017). Each actor involved is always socialized with the surrounding environment so that their behaviour will be influenced by values and norms socialized as social identity (Bicchieri, 2006; House, 2018). Thus, the sensing of the actor in an object or opportunity will be greatly influenced by the knowledge and reference of the object and the ability to interpret those into conclusion whether the opportunity that has been recorded is valuable or not. In another approach or within the theory of social practices, this process is closely related to the concept of meaning or the way society gives meaning to an object that encouraged someone to buy goods (Warde, 2015). It can be said that the meaning of an object is socially constructed (Berger & Luckmann, 1966) although the interpretative process will be actively performed by someone.

Even though if the business organization has collectively become a central component in DCs analysis, how the community that is considered passive gives space to the process of sensing, seizing and transforming to become more effective still receives less attention. Although the analysis is still on the internal aspects, organizational capabilities will only increase if the community can provide the space. If it is not realized, the company cannot take advantage of the

existing opportunities. Consequently, the focus of this paper is to analyse the process of sensing, seizing and transforming that is simultaneously facilitated by the social environment as a dynamic entity so that the internal process of agribusiness institutions in building capabilities can find a strong context. In more detail, the analysis of how the company utilizes the four main points of the society such as the development and transfer of knowledge related to vegetables and fruits, building and sharing networks, building flexible labour relations, as well as influencing local politics facilitated by the community as to enhance business capability.

## METHODS

This research was conducted for 2 years from January 2016 until December 2017 in Malang Regency, East Java which is known as the main producer area of vegetables as well as the origin of vegetable vendors that supply big market in Indonesia such as Jakarta, Bali, Surabaya and Jogjakarta. Moreover, Malang even exported its vegetables to Singapore and Malaysia. One village was deliberately chosen because its main production is vegetables and more than 30% of the population or 231 families are involved in the SSAEs business process either as entrepreneurs, collectors, semi-finished vegetable processors, or supermarket vendors as well as supporting service providers such as vegetable drivers and graders. Because it is dominant, people recognize the area as a "warehouse" of vegetable entrepreneurs because most of the local people are involved with the vegetable business world and has become the main source of income for most of the population.

Reflecting on the facts above, the researchers will explore how communities that are identical to vegetable enterprises contribute to the sensing, seizing and transforming the process of SSAEs in order to strengthen the business. To get a better and focus understanding, three major themes are explored as to how people build and transfer the knowledge, build and share the business networks, as well as establish flexible and efficient labour relations to facilitate SSAEs in performing sensing, seizing and transforming process. The development and transfer of knowledge will be explored with a historical approach in order to see how this vegetable traders' community is formed until today. In-depth interviews were carried out by the early actors as well as the elderly who knew the initial process of how the past society built the business. The accumulation of knowledge built into this community will give a detail on how the knowledge is actively explored by small vegetable entrepreneurs in building their dynamic capabilities.

In the meantime, to have a broader explanation, networks as one of the assets of entrepreneurs will also be explored on how they build and share the networks. The researchers will map the networks of the small entrepreneurs so that the main controllers will be known. By that, how the networks are shared can be more quickly understood. The researchers used a qualitative networks analytical approach to see how this network facilitates entrepreneurs to improve their capacity. Simultaneously, the researchers also assessed the relation of social labour that was built along with the changes of values in the production process whether it becomes the consideration of the company or not. At the same time, a conclusion will be made whether a community where the businesses grow and thrive, which in this case is vegetable entrepreneurs, will simplify or complicate the company to build its dynamic capabilities.

## RESULTS

### Developing and Transferring Knowledge

At the research site, knowledge about the vegetable business such as how to maintain supplies, deal with clients, effective packaging, management control techniques, preserving vegetable techniques, etc., are built and transferred through social learning. The knowledge is shared by all of the people and has become a tacit knowledge among them. Because of the process, the average knowledge of the entrepreneurs about vegetable business coming from the research location is more profound than the knowledge of entrepreneurs from other regions. The social interaction that exists in the community mediates the community in constructing their own community learning based on their own ways of life or cultures (O'Fallon and Butterfield, 2012). Since vegetables have become a commodity by many entrepreneurs who come from the same community, the knowledge of vegetables automatically develops in the community because knowledge is not simply "*discovered*" but is socially constructed (Cross, 1998; Reed et al., 2010; Scholz et al., 2014).

Because the knowledge built in the community is much better, these local vegetable entrepreneurs will be more sensitive to the opportunity than those who do not live in the community. By that, sensing would be more effective if the community as opportunity providers also facilitate the entrepreneurs to be more capable of recognizing and selecting the opportunity because they are supplied with an adequate knowledge. For example, knowledge in the use of the vegetable preservative, local entrepreneurs have the ability to distinguish chemical or non-chemical preservative including its risks for the consumers. They have the ability to choose the type of preservative more specifically according to the period of time required by the plant to reach the consumers. Due to this knowledge, local entrepreneurs are now able to be more efficient in the use of a preservative in order to reduce the production cost. They also have had good knowledge about the natural preservative because it has become tacit knowledge in the community. It is very useful especially for the entrepreneurs of the organic vegetable supplier. Based on the interview with 25 suppliers, as many as 20 suppliers learned how to preserve the vegetables both by using chemical or organic from fellow traders in their community. It can be seen clearly from the above explanation that the entrepreneurs from the research site are capable of sensing and seizing better that they are able to transform their business more efficiently than other entrepreneurs.

The reason why knowledge can grow and develop is that the entire production process fully involves the family members of the entrepreneurs (Collier and Dercon, 2014; Dupraz and Latruffe, 2015) as well as the closest relatives as the character of small and medium-sized enterprises. Therefore, we can say that knowledge grows and develops without any limitations among them. This sharing is also believed to be the driving force for the growth and development of innovation in a society (Lorenzo et al., 2012) resulting in an increase of institutional capability (Wang and Hu, 2017). However, this is in contrast with most of the large and structured companies which knowledge is developed only among certain elites because company knowledge is regarded as an important asset that must be guarded.

The informal knowledge that has become a tacit knowledge as mentioned above is believed to contribute in improving institutional capability in facing various uncertainties especially if it is integrated with formal knowledge (Sandra et al., 2017). Workers who are usually married women will bring their little daughters to help packing the vegetables; primarily, they are asked to pack inexpensive and non-perishable vegetables such as kale, Chinese cabbage,



or spinach so that the learning process occurs. Due to the buy-all pattern, the existence of the helpful girls will not increase the cost incurred by the entrepreneurs. Instead, it gives profits for the entrepreneurs because it will accelerate the work of the mothers without having to give extra fee. The speed in vegetable business is very important to keep the vegetables fresh throughout the trip. Thus, intensive communication between workers, social networks, mobility, daily routines, as well as communication technology potentially mediates the transfer of knowledge across organizations or units (Argote and Fahrenkopf, 2016; Wehn and Montalvo, 2018).

Direct involvement of family members including children and those who have earned their own wages such as the 15 years old or the married ones will speed up the process of knowledge transfer. As for the teenage boys, they used to help harvest the vegetables in the field and become backup drivers or escort drivers to send vegetables to markets outside the region. If by chance they are a close family, have a good attitude and have a potential to become the new business owners, the seniors will not hesitate to encourage them to be independent so that the business knowledge will be shared to them. It is not surprising that most of the new vegetable traders are educated by the senior businessmen and some relatives or neighbours who are trusted by them. Of course, in this process, the prospective new entrepreneurs will learn everything starting from goods procurement, packing, transportation, and looking for customers. As many experts believe, the capacity of knowledge transfer in society will determine the speed of the innovation to grow and develop. The society's capacity for building and transferring knowledge will determine the success rate in facing environmental change (Bobeica et al., 2017; Wehn and Montalvo, 2018).

Because the process has been going on for decades, the knowledge and skills about grading and packaging become much better than any other so that the availability of trained manpower is quite a lot. Thus, by taking into account the involvement of individuals with different levels of experience, from newcomers to seniors, will encourage the members of the community to learn (Razak et al., 2016; Wenger, 2000). An informal intense social interaction where one can help each other is a natural learning process that is created in a society like a socialization process. Certain tricks to pack vegetables quickly and have a fresh look in order to attract buyers are also taught which includes grading and other knowledge. One day, when these workers become independent and manage their own business, the stock of knowledge that they have obtained will greatly help them. This refers to the essence of social learning as a change in knowledge, skills or attitudes that may result in behavioral change, or even institutions through social interaction (Beers et al., 2016; Reed et al., 2010; Scholz et al., 2014).

The skill excellence of small entrepreneurs who come from the research area is already known by stakeholders, especially supermarkets and vegetable vendors on the market. Sutomo, a 78-years-old vegetable trader in Porong Market, Surabaya said that:

*"I believe more on the supplier from Malang because they are skilled and meticulous. The vegetables are neatly packed so that it does not damage when arrived here. It is different from those which came from Pasuruan, the goods have so much damage and shamble. We usually do not double check the goods from Malang because we believe it. Mostly, the damages only cost 10%"*

The statement of this customer shows that the entrepreneurs from Malang have skills above the average than those who come from other regions so that they have a good reputation that helps the process of seizing and transforming the company. Thus, the development and sharing of knowledge that occur in the community are proved to be very helpful for entrepreneurs not only to do the sensing but also seizing and transforming companies to follow

the occurring changes. The transfer of knowledge mediates SSAEs not only in performing sensing sensitivity but also in its ability to seize and transform the company amidst environmental uncertainty (Pittino, 2017). The availability of sufficient knowledge in the community allows the entrepreneur to identify the types of potential resources that can be used to advance their company. This means that the sensing process is a lot more effective. Hence, it is easier for them to design the company to be more competitive. This also means that the seizing process becomes easier. In the end, the company will be able to transform its business to be more efficient which means transformation process becomes easier due to the sharing of knowledge.

### Developing and Sharing Networks

Other mediations undertaken by the community in addition to provide knowledge that can be accessed openly by the village community is the establishment and sharing of business networks such as markets, raw material supply and labour. The sharing is divided into two main types such as network content and network relationship (Feng-Jyh & Yi-Hsin, 2016), where one refers to a material that follows the network while the other one refers to the intertwined social relationships. When an entrepreneur finds a new marketing area, it will be followed by another entrepreneur even though they target different customers or at least, the entrepreneur will pave the way around the region. Especially, if there are many demands while the ability to meet the demand is difficult, they invite other entrepreneurs even though they still prioritize family or neighbors. Not surprisingly, in the big market outside Java such as Pontianak, Balikpapan, Samarinda and Banjarmasin, vegetable entrepreneurs from Malang are very well-known as tough and harmonious entrepreneurs. They mutually recommend each other especially if their business commodities are different, resulting in a very useful network sharing to maintain the stability of the business. This opportunity is utilized well by the entrepreneurs who do not have the strong network to break through the new market. Hence, strengthening their marketing organization.

Network sharing is a new innovation that allows entrepreneurs to take advantage of opportunities both in the procurement of goods, access to capital, and marketing (Perks and Moxey, 2011). In the context of SSAEs, there are two kinds of network sharing; the network that is deliberately given due to the relationship with the initial network owner; or because of the inability to supply the market or the inability to accommodate farmer's production. Older and bigger entrepreneurs often share their networks with their juniors so that the built networks do not come out of the village. The habits developed in such social interaction create opportunities for the entrepreneurs so that it mediates the process of sensing, seizing, or transforming resources to improve the capability of the company. The entrepreneurs utilize these sharing networks to change their business organization to be more specific according to the market segmentation they serve whether it is supermarket, traditional market, or warehouse market.

This confirms that the networks in business are not only used as an economic tool but also a tool to meet social demands as well as to adjust to the political environment and ideology (Wu and Pullman, 2015). Pak Bahar, 68 years old who starts business 48 years ago said that:

*“Today doing business is easy, why? You just follow your friend to vegetables market than got buyer there. We also give our network to juniors who have start their business so you don't begin it's from*

*zero. In the past, we should have long relationship around two years with the buyers before as permanent suppliers. We always come to buyers home, give some gift to maintain relationship”.*

The habit of sharing network with these sellers has proven to be very helpful for SSAEs to compete with the increasing competitors. If in other region dividing the network is considered to be detrimental, the community in the research site considers it as advantageous. Although the sharing network is usually less favourable or inefficient, this culture has truly facilitated the SSAEs to improve its capability.

The sharing consists of a permanent sharing and incidental sharing. Permanent sharing means that it gives the market to the other employers permanently while incidental sharing is replacing a supplier when they are on holiday or not having sufficient stock. Because of the trust, the customers still receive goods from other entrepreneurs even though they need to do extra surveillance on the goods sent. Because they maintain trust, these incidental supervisors typically maintain the quality of the goods to keep the reputation against new networks as well as network providers. In addition, to maintain the reputation of the group, such pattern is able to establish the dominance of vegetable entrepreneurs from Malang as responsible merchants because they still pay attention to the supply of customers even though they are on holiday. There is a competition process where competitors become friends at the same time to keep the business afloat in such competition (Resende et al., 2017). Therefore, the dynamics of social interaction that exist among vegetable traders' provide space for its members to easily access the resources so that the institutions have the advantage to compete with entrepreneurs from other regions.

Entrepreneurs from the research site fully make use of the sharing networks to try new products outside of what has been agreed by their predecessor. Sugito, 45 years old who started his business 20 years ago said that:

*“When I'm asked to send a specific vegetable I usually use the opportunity to introduce my own product they do not have. I obtain most of my consumers through this way. Other than being an easy method due to the existence of guarantor, travel cost is also more efficient.”*

Reflecting on the above condition, entrepreneurs from the research site are able to easily identify new networks due to the process of the sharing network that has occurred. It means that the sensing process becomes more effective. Meanwhile, seizing process is carried out by offering new goods through net networks to avoid conflict of interest with the entrepreneurs of sharing networks. Hence, it is easier for the entrepreneurs to transform their organization to be more efficient and bigger as the opportunity to access new markets opens wider.

### **Developing Flexible Labour Relation**

The next mediation provided by society to improve DC of SAAEs is developing flexible labour relations. In the early days of SSAEs, hired labour was not known because they used family labour to support their business. The condition that the market demand keeps on growing is not supported by the limited number of family labour so that they eventually recruit labour from outside the family with wage system. The change is responded by the research community through the creation of flexible labour management such as the division of labour by gender,



contract, fixed or wholesale salary system, as well as social security workers. For example, at the beginning of the 80s, the labour is sustained by the family, but when SSAEs was growing in the 90s era, they have to pay for hired labour with a weekly salary system either to harvest or pack. The system was transformed in the 2000s to the present into a buy-all system to anticipate the conditions under which their workers are also small farmers so that when they have to take care of the fields, the works are abandoned. With this buy-all system, the supervision and the calculation of the cost and salary become easier. The time to work also becomes more efficient because all members of the workers' family can help. Thus, SSAEs effectively remunerated the workforce because it is in accordance with the demands of the workload-this pattern is called as "*relevance of wage*" (Demyen and Lala-Popa, 2013).

That pattern allows employers to be more flexible in managing production as the number of workers increased and the time required becomes shorter. With the daily work system, most of the workers' time is ineffective because the vegetables are usually ready to pack in the afternoon after they harvested from farmers. The involvement of teenagers and children is very helpful because the entrepreneurs need a fast work in packing so that the goods can already be sent to markets outside the city at night. The buy-all system provided by the community directly affects the efficiency of the business as well as time efficiency that greatly determine the competitiveness of vegetable agribusiness. Combining family labour with salaried workers is helpful for SSAEs to compete with other similar businesses from outside the region. This condition is in line with the findings from other entrepreneurial researchers who believe that the involvement of family labour greatly affects the profitability and competitiveness of small businesses (Posadas-Domínguez et al., 2014).

Not only the flexibility in the division of labour on a gender basis, the working time of the married women in the vegetable agribusiness does not follow the habits in which they work from the afternoon to the evening. Some of them even work in the morning from 03:00 so that the goods can immediately be sent in the morning especially for restaurants or morning markets. The flexibility is very helpful for SSAEs because they do not need to provide additional extra salary for night workers because of a contract system. They are only obliged to provide food and drink as a compensation for the night workers which does not pressure the production costs too much. Besides to minimize the risk of cost swelling compared to daily work or contract system, this buy-all system also facilitates the entrepreneurs in conducting supervision. This shows that, institutionally, the society is very responsive in changing social norms and patterns of interaction associated with labour. Therefore, it mediates SSAEs in the process of seizing and transforming the company.

The sensitivity of the entrepreneurs in utilizing the flexibility of the labour mentioned above has helped them to serve the entire market segmentation not only supermarket but also traditional market and wholesale market. Previously, they only serve one market segment where poor quality vegetables were thrown away if other entrepreneurs do not want to purchase it. The flexibility of the labour includes their willingness to work outside the working hours which helps the production cycle of the entrepreneurs. Sastro, 63 years old who started the business 40 years ago said:

*“In the past, I usually sold medium and poor-quality vegetables to other sellers. When the workers were willing to work outside the working hour, I made working groups according to the shipping destination. Morning group to serve a wholesale market which opened in the evening, afternoon group to serve the delivery to the night supermarket and night group to serve the delivery to the traditional market in the morning.”*

Thus, the flexibility of the workers allows the entrepreneurs to build organization vertical integration by regulating the production management to be more efficient. The entrepreneurs can easily classify the workers based on the market segmentation. Thus, all of the market potential can be captured such as supermarket, traditional market, and wholesale market. Previously, when flexibility of workers didn't occurred, the entrepreneur only focused on one market type which made the company is less efficient.

### **Influencing Local politics**

Not only in technical business such as knowledge, networks, and labour relations, the society also mediates SSAEs in sensing, seizing and transforming companies by helping to provide a comfortable political environment to gain access to stimulation programs for small and medium enterprises from the government. Many senior entrepreneurs build networks to the village and local government by becoming village council and participating in elections as members of parliament or village heads. Because of this network, some entrepreneurs get many supports such as packaging tools, cooling cars, as well as business financing. This network will indirectly secure the interests of entrepreneurs at the village and regional levels particularly in accessing government aid that is being promoted such as marketing modernization and liberalization of agricultural products in the last two decades (Warr, 2015). The inclusion of SSAEs owners in local and regional political environments also mediates the entrepreneurs to acquire new resources. Bakar, a 79-year-old senior businessman since 1977 said that;

*“It is time for these entrepreneurs to take care of the village and not just making money. We must join the community so as not to look selfish. Besides that, there are many subsidy programs for small and medium-sized businesses that are channelled through village government. To make my friends have the opportunity, I joined the village council.”*

The statement above describes that environmental changes, especially politics that are apparently related to the existence of the community will be responded quickly to them. This also implies that the vegetable entrepreneurs are very dominant in the village until they become the determinants of local political dynamics. The urge to participate in local political activities is also closely linked to the policy of development decentralization where the development of local economic infrastructures such as village roads and village markets is handed over to village governments. If their group controls the village administration, the infrastructure of their business such as village roads and markets will be more concerned.

This also demonstrates the fact that the existence of vegetable entrepreneurs' community has greatly altered not only their routine and habit but also the social institutions that lead to the provision of space for entrepreneurs to be more competitive through capabilities improvement. Not only giving space technically to make entrepreneurs easily identify and take advantage of

opportunities, the community also provides a political foundation by influencing local policy through senior figures. In the long run, they have strengthened their influence by entering the political areas although still at the local level. This is largely motivated by the interests of securing their business interests. Their reputation as a driver of the village economy consistently builds a highly regarded vegetable entrepreneurs' community in Indonesia based on its competitive ability so that it makes them easier to engage in local politics.

The involvement in the local politics allows entrepreneurs to identify useful government programs to promote their company such as obtaining assistance in the form of production warehouse, cooling room, cooling car and working capital. The policy of modernizing agricultural product value chain promoted by the government in the last ten years is carried out by connecting the farmers with supermarket, opening the opportunity for vegetable entrepreneurs, participating because they are the main stakeholders. These entrepreneurs also obtain free access to the vegetable markets established by the government to strengthen their business organization. The involvement in the local politics also improves the accuracy of the entrepreneurs' sensing as well as facilitates them to take control the resources from the government program which helps them improving the company asset. The participation in the local politics is very beneficial for the entrepreneurs to identify the potentials of government programs indicating that sensing process runs well. Political participation becomes the media to encourage the government to give more resources for them. This means seizing process will easily occur. The control over the asset in the long-term can be used to expand the production capacity and reduce the capital expenditure cost.

## DISCUSSION AND CONCLUSION

The results above confirm that sensing, seizing and transforming resources of SSAEs are much more effective if mediated by communities through the development of a conducive social environment. From the process of developing and transferring knowledge among community members, it helps the sensing process of SSAEs towards various opportunities in the environment. The codified knowledge built in a cultivated and informal way (Nunes et al., 2006) becomes a provision for the entrepreneurs to be more sensitive in identifying and classifying a natural resource whether it is useful for the company or not. For example, the knowledge of selecting customers will be much better than the entrepreneurs from other regions because the inner-cycle entrepreneurs get information about the characters, habits, reputation, and etc., which will not be obtained by entrepreneurs from outside the community. At the very least, entrepreneurs are to better recognize the potential of the environment so that they can take a quicker and more informed decision due to the basic knowledge provided by community (Bakar et al., 2015).

This is why the sensing process will only be effective if the entrepreneurs have sufficient codified knowledge about the object to be explored as well as having a good intuition. Therefore, when the society gives space for the growth of the knowledge along with the intuition of SSAEs owners, it is easier for them to make the right decision (Calabretta et al., 2017). Referring to the concept of codified dynamic capabilities, the society provides space for the company to learn the organizational skill in the form of capacity in order to reconfigure and transform the company

(Teece, 2007; 2014). During this time, codified knowledge is more likely to be described in terms of SSAEs entrepreneur learning process. While in fact, the codified knowledge that is built by people which supposed to be easily accessible is still lacking. Referring to the conception of social learning theory, SSAEs have become the part of accumulation and transfer of knowledge in which the next pattern of the community will be collared by changes in the mode of SSAEs production.

Further, the sensitivity and the ability to classify the potential cannot help the entrepreneurs to take advantage of this potential to make benefit unless they are able to seize well. Assuming the network sharing as a case, it appears that the people in the research area provide wide space for entrepreneurs to seize the resources quickly than entrepreneurs from other places because they do not need to build its own network. The habit of this network sharing in the study area is very helpful to seize resources so that it eases the company to transform itself in order to anticipate changes (Peris-Ortiz and Ferreira, 2017; Villa and Taurino, 2017). This will not be available to the competitors who come from other villages whose communities do not have a tradition of sharing networks. Consequently, they are always less competitive in both the market and the upstream sector. As we know, networks are vital components for SMEs including SSAEs to improve dynamic capabilities (Scuotto et al., 2017). More details on how implementation of DC process in SSAEs can be seen in Table 1 (Source: Primary data processed, 2017).

| Dimension of dynamics capabilities | Developing and Transferring Knowledge   | Developing and Sharing Networks   | Developing Flexible Labour Relation   | Influencing Local politics   |
|------------------------------------|---|---|---|--|
| Sensing                            | Sharing knowledge allows entrepreneurs to identify efficient production management techniques.                      | Sharing network allows entrepreneurs to easily identify new market networks.        | The flexibility of the workers makes it easier for entrepreneurs to identify more flexible and efficient production process.    | Participation in local politics allows entrepreneurs to identify opportunities from government programs that are useful for the advancement of their business. |
| Seizing                            | Entrepreneurs can easily design a company to be more competitive adjusted to the knowledge of efficient management. | Entrepreneurs can utilize sharing network easily to offer new products.             | Entrepreneurs can classify the workforce easily based on market segmentation.   | Entrepreneurs are more likely to encourage government to provide subsidies and production facilities for their businesses.                                     |
| Transforming                       | Entrepreneurs will be easily to make the more efficient transaction cost because they have sufficient               | Entrepreneurs are able to easily build new marketing networks due to easy access of | Entrepreneurs are able to easily diversify market according to its segmentation (supermarket, traditional market, and wholesale | The company is able to increase the asset to easily expand its production capacity and reduce capital cost .   |

|  |                                    |                     |          |  |
|--|------------------------------------|---------------------|----------|--|
|  | knowledge of efficient management. | the network itself. | market). |  |
|--|------------------------------------|---------------------|----------|--|

Not only limited to technical matters, the changes in the social environment at the research location also lead to the efforts in facilitating SSAEs to improve the capabilities. A social environment that does not support the needs of a business or a poor environment will be an obstacle. On the one hand, a rich social environment will enhance the competitiveness of business institutions (Rarick and Han, 2015; Yang, 2017). For an instance, the transformation of labour social relations makes the entrepreneurs easier to transform the business because they have the flexibility to regulate the working system in order to fit the market demand. Within the analysis of dynamic capabilities, even though the social environment is recognized as a factor that institutionally affects the company, the influence and potential to support or threat the capabilities have not been specifically defined.

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