

Dynamic Capability in Cafe Industry

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THE ROLE OF DYNAMIC CAPABILITIES IN MODERATING ENTREPRENEURIAL ALERTNESS, ENTREPRENEURIAL INTUITION, AND BUSINESS OPPORTUNITY RECOGNITION IN CAFÉ INDUSTRY

Abstract

The aim of this study is to examine the influence of alertness and intuition among entrepreneurs on recognizing business opportunities in café industry, with dynamic capabilities as the moderating variable. Although the pandemic of Covid-19 has become a distance history, many business owners are still struggling to find new grounds in the new business landscape which is dominated by the uprising of the e-commerce and the unconventional business platforms. So, many of them have started to venture into new opportunities to expand their business interests, and café business offers a new option, especially in rural areas where people are killing their time by socializing with others in *warung* (food stalls). Because the study is seeking explanations on how dynamic capabilities affects the relationship between independent variables and dependent variable, the research method is adopting the quantitative research method, in which the data are collected using questionnaires from purposely selected respondents. For this study, the questionnaires were distributed to small business owners in some rural areas or small cities, and a hundred valid questionnaires were obtained and processed with smartPLS to get the robustness of the study and the results of the hypothesis tests. The results show that entrepreneurial alertness has a significant influence on business opportunity recognition, but entrepreneurial intuition does not have any influence on business opportunity recognition among café business owners in rural areas. Dynamic capabilities do not show any moderating effect between entrepreneurial alertness and business opportunity recognition, however, dynamic capabilities show the moderating effect on entrepreneurial intuition and business opportunity recognition.

Keywords: Dynamic Capabilities, Entrepreneurial Alertness, Entrepreneurial Intuition, Business Opportunity Recognition.

1. Introduction

The pandemic of Covid-19 has brought many impacts to the business landscape. Many businesses suffered terrible loss due to restrictions which were imposed by the government to contain the wider spread of the virus. One type of business that was severely impacted was the small size enterprises. Lacking financial and other capabilities to support vacant incoming revenues, many small enterprises closed their operations and went out of business (Giones et al., 2020). Amidst this situation, however, there were some business owners who could recognize business opportunities to venture their business to different fields.

Although the pandemic of Covid-19 has become a distance history, many business owners are still struggling to find new grounds in the new business landscape which is dominated by the uprising of the e-commerce and the unconventional business platforms. So, many of them have started to venture into new opportunities to expand their business interests, and café business offers a new option, especially in rural areas where people are killing their time by socializing

with others in *warung* (food stalls). As a result, some business owners divert their existing business into café and its related businesses.

Some previous studies suggest business opportunity recognitions with entrepreneurial alertness, which covers the perception and capabilities of business owners to identify opportunity (Brockman, 2014). During the time of uncertainty, such as the pandemic of Covid-19, having mindset that is alert to unexpected opportunities is a necessity for entrepreneurs to sustain their business (Giones et al., 2020). In fact, many business owners fail to recognize business opportunities due to their low alertness to potential emerging prospects during hard times. Therefore, entrepreneurial alertness is often considered as the major component in recognizing business opportunities.

The ability to recognize business opportunities is also closely related to one's business intuition. Baughn and Ensley (2006) state that intuition is relevant in the early stage of business opportunity recognition because this stage requires the ability to detect trends and prototypes. Every business opportunity recognition comes from an intuition that detects the unfulfilled demand and vague idea on how to fill in the demand

(Baldacchino, 2013). Business opportunity often emerges as a raw intuition which needs rigorous explorations before it becomes a profitable business enterprise. During the moments of uncertainty, business owners rely heavily on their entrepreneurial intuition to make quick decisions and adjustments, to sustain their business because there is no best practice and guidance to go over such conditions.

Besides mindset and intuition, business owners need to grow their capabilities to adjust quickly to the fast-changing business environment (Kaur and Metha, 2017). These capabilities are often known as dynamic capabilities. These dynamic capabilities refer to the capability of business owners to change and combine innovatively substantive or ordinary abilities. Dynamic is identified as the ability to renew competencies to adapt to fast changes of business environment. Capabilities play important roles in strategic management in adapting, integrating, and reconfiguring resources to adjust the external environment (Teece et al., 1997). Therefore, dynamic capabilities enable the business owners to capture the opportunities during the uncertainty through sensing, seizing, and reconfiguring their capabilities and resources (Teece, 2007).

The aim of this study is to examine the role of dynamic capabilities of the business owners to mediate their entrepreneurial alertness and intuition on business opportunity recognition. As the pandemic of Covid-19 paralyzes the business world, business owners cannot operate their business as usual. Ordinary capabilities are not sufficient to face the challenges of current situations, yet the concept of dynamic capabilities is still relatively new to business owners. Could it be embedded in the entrepreneurial mindset or could it be a separated entity that can be learned through time of uncertainty?

2. Literature Review

2.1. Dynamic Capabilities

The concept of dynamic capabilities was proposed by Teece et al. (1997) in their seminal work as the extension of Resource Based View (Barney, 1991) to answer the fast changing of business world. To face the turmoil at this moment, which is often described as the period of volatility, uncertainty, complexity, ambiguity (Bennet and Lemoine, 2014), business owners have to possess the capabilities to adapt quickly to external changes, and the process of adaptation depends on the availability of resources. These capabilities, which often are called dynamic capabilities, refers to the ability to integrate, build, and transform internal competencies through sensing, seizing, and reconfiguring the resources to face fast changing external environment (Teece, 2007). Therefore, the ability to adapt to external changes is measured by the owners' ability to sense, seize and reconfigure resources in encountering the uncertainty.

2.2. Entrepreneurial alertness

Entrepreneurial alertness is described as a concept showing the potential of business owners to explain how new business ideas come into existence and develop into new business entities (Tang et al., 2012). Entrepreneurial alertness helps business owners balance supply and demand by detecting market imperfections, and exploit them (Kirzner, 1973). Kirzner stated that alert business owners possess "antenna" to detect the gap in the market niche with limited clues (1973). Together with intuition, business owners have alertness on neglected opportunities or unseen opportunities for new business entities (Kirzner, 1979). Kaish and Gilad (1991) observed that alert entrepreneurs possess unique readiness in scanning their environment and preparation to find business opportunities. Without entrepreneurial alertness, business owners are in difficulty spotting opportunities (Yu, 2001). Entrepreneurial alertness is measured with the owners' ability to scan and search new ideas, to associate and connect new information acceptance, and to evaluate and judge new information contents.

2.3. Entrepreneurial Intuition

Entrepreneurial intuition is one important element needed by entrepreneurs in facing unstructured and unpredictable environmental changes (Sinclair and Ashkanasy, 2005). Intuition is the capacity to achieve direct knowledge or understanding without the obvious interference of rational thought or logical conclusions (Sadler-Smith and Sioy, 2004). Later, Sadler-Smith (2016) stated that entrepreneurial intuition is the recognition and evaluation of business opportunities that are affectively charged and arise as a result of unintentional, rapid, unconscious associative processing. Entrepreneurial intuition helps business owners to make effective decisions under uncertainty and ambiguity. Sinclair and Ashkanasy (2005) measured entrepreneurial intuition with experience-based processing and emotional processing.

2.4. Business Opportunity

Generally, opportunity is defined as the perceived means that can generate economic value (profits) which have not previously been exploited and are not currently being exploited by others (Baron, 2004). Business opportunity recognition is then identified as a cognitive process in which individuals conclude that the individual has identified a business opportunity (Baron, 2004). In general, business opportunities arise from changes in the environment in which the individual operates. These changes create imbalances, which an individual can exploit (Holcombe 2003; Cohen and Winn 2007). Business opportunity recognition is defined as a process by which potentially profitable new business ideas are identified by certain people (Kirzner, 1979). Khin and Lim (2018) stated that business owners

must have business opportunity recognition in order to exploit opportunities in the market and create new businesses. Business opportunity recognition is measured by active search, business potential insight, and prior knowledge.

2.5. Hypothesis development

A study by Valliere (2013) states that alertness enables entrepreneurs to see opportunities that others may not be able to see. A similar study by Tang et al. (2012) also concludes that entrepreneurial alertness will direct business owners to recognize business opportunities. Li et al. (2015) confirm the importance of alertness for business owners because entrepreneurial alertness has a significant impact directly on business opportunity recognition.

H1: Entrepreneurial alertness has a positive significant impact on business opportunity recognition;

Entrepreneurial intuition plays a crucial role during the early stage of building any businesses because of the high level of uncertainty (Sadler-Smith, 2016). According to Baldacchino (2013), intuition is a predictor to identify a number of opportunities and innovation. A study by W:4h (2017) confirms that the use of intuition in business has a positive and significant impact on opportunity identification. Another study by Baldacchino (2019) also supports that intuition plays a significant role in identifying and exploiting opportunity.

H2: Entrepreneurial intuition has a positive significant impact on business opportunity recognition;

Teece (2007) proposed that dynamic capabilities are measured with sensing, seizing, and reconfiguring resources to adapt to fast changing environments. To be able to detect opportunities and threats in a complex environment requires cognitive capabilities which are related to alertness. Teece et al. (2016) state that the first core component of dynamic capabilities is involving the ability to identify, monitor, develop, and evaluate opportunities with the alertness to the uncertainty. Therefore, dynamic capabilities strengthen the influence of alertness to opportunity recognition.

H3: Dynamic capabilities moderate entrepreneurial alertness and business opportunity recognition;

In their study, Teece and Leih (2016) reveal that intuition can create awareness of business opportunity, depending on how business owners use their dynamic capabilities to detect the opportunity. In other words, dynamic capabilities can sharpen owners' intuition in identifying business opportunity, and support owners' cognitive capability to grab the opportunity.

H4: Dynamic capabilities moderate entrepreneurial intuition and business opportunity recognition.

Based the literature review, the research framework is constructed as follows:

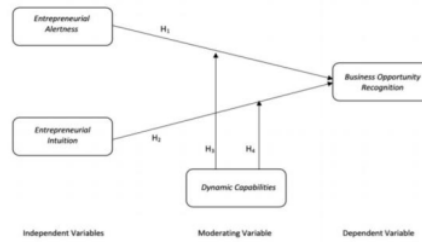


Figure 1. Research model

3. Methods

As this study is measuring the impact of independent variables on a dependent variable, the data are collected by following the quantitative research approach, especially the explanatory research. The population of this study is small and medium enterprises who reside in small cities in East Java Province, Indonesia. Two important criteria for being the respondents are small business owners and has just started a new café business as they are affected by the pandemic of Covid-19. Since the size of the population is unknown, the number of the sample is calculated with the formula of Lemeshow (Lemeshow et al., 1990), and it surrenders 96 respondents. From the returned questionnaires, the valid questionnaires are 100.

The items in the questionnaire are constructed by Lickert Scale of 5 points, so the respondents could evaluate their opinions from strongly disagree (1) to strongly agree (5). The returned questionnaires, then, are processed with smartPLS to calculate the outer model and the inner model. The outer model is to obtain the validity and reliability of the instrument. The inner model is to get the R-square and the hypothesis test. Hypothesis testing in this study is observed from the values of the T-statistics which are obtained through the bootstrapping method in PLS. This T-statistics value will then be compared with the table value. Since this study is using one-tail testing, the T-statistics value is higher than 1.64 and p value is lower than 0.05 (5% of alpha). The dynamic capabilities is measured using three indicators: the capability to sense opportunities; seize opportunities; and transform resources, The entrepreneurial alertness is assessed using three indicators: scanning and searching; association and connection; and evaluation and judgment. Entrepreneurial intuition is measured using two indicators: experience and emotional processing. Business opportunity recognition is measured by these indicators as follows: active search, alertness, and prior knowledge.

4. Results

Data were collected by distributing questionnaires which were conducted online by Google Forms. The returned questionnaires were 106 respondents, however, there were only 100 valid respondents. The

data were then tested for the validity and reliability. In addition, respondents were asked to fill in general questions on personal profiles, their business and other information. The data collection is carried out to measure how much entrepreneurial alertness and entrepreneurial intuition moderated by dynamic capabilities affect one person's recognition on business opportunity.

4.1. Characteristics of Respondents

Characteristics of respondents who participate in this study are those of at least 19 years old, having a small and medium business, and are residents of the small cities in East Java Province, Indonesia. Table 1 describes the profile of the respondents based on their gender, age, education, duration of the business, type of business before starting a cafe, and annual revenue of their business.

Table 1. Profile of respondents

Parameter		Frequency	%
Gender	Male	43	43
	Female	57	57
Age	19 - 23 years	21	21
	24 - 30 years	28	28
	31 - 35 years	23	23
	> 35 years	28	28
Education	Junior high school	3	3
	Senior high school	43	43
	Diploma	15	15
	Graduate	36	36
Duration of the previous business	< 1 year	13	13
	1-2 years	15	15
	3-4 years	29	29
	5-6 years	19	19
	Over 6 years	24	24
Types of previous business	Culinary	23	23
	Fashion	12	12
	Creative industry	15	15
	Education	6	6
	Tour and Travel	8	8
	Automotive	13	13
	Farming	7	7
	Beauty saloon	16	16
Annual Reveue	< Rp.300 million	78	78
	Rp 300 million – 2.5 billion	22	22
	Rp. 2.5 billion- 50 billion	0	0

From Table 1, the respondents of this study are 57% female, with dominant age between 24-30 and above 35 years. The data show that many businesses owners graduate from high schools (43%) and

university with a bachelor's degree (36%). Based on the length of the previous business ownership, respondents of small business ownership that has been established for 3-4 years are the most dominant, with a percentage of 29%, and it is followed by those with business ownership of more than 6 years at 24%. Based on the types of previous small and medium businesses, respondents in the culinary sector are the most dominant, with a percentage of 23%, and it is followed by respondents who used to own the beauty salon sector and the creative product sector, at respectively 16% and 15%. According to the annual revenues, respondents who earn less than Rp 300 million are the most dominant, with a percentage of 78%, and it is followed by respondents who earn between Rp 300 million - Rp 2.5 billion, at 22%

4.2 Analysis

This study uses smartPLS software to process the data collected by questionnaires, which determine the role of dynamic capabilities in moderating entrepreneurial alertness and intuition on business opportunities in café industry. This smartPLS analysis surrenders two models, the outer model and the inner model. The aims of the outer model in smartPLS are to obtain the scores of validity and reliability. The first validity test is convergent validity. This study uses a loading factor greater than 0.5 to reflect a correlation that meets convergent validity (Ghozali, 2018). After running the convergent validity test, there was one item that the score was below the standard of 0.5, so that item was removed from the indicator. The result of the outer model complies with the convergent validity standard. The validity of this study is also supported by the score of average variances extracted (AVE), which is above 0.5 for all variables. Then, the measurement is called reliable if the score for the composite reliability and Cronbach's alpha are greater than 0.7. The results of the validity and reliability are summarized in Table 2.

Table 2. Validity and Reliability test

Variable	Cronbach's alpha	Composite reliability	Average Variance Extracted (AVE)
Entrepreneurial alertness (EA)	0.904	0.919	0.533
Entrepreneurial intuition (EI)	0.819	0.866	0.565
Business opportunity recognition (BOP)	0.868	0.899	0.598

Dynamic capabilities (DC)	0.906	0.923	0.634
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The inner model of smartPLS is looking for two important data, the R-square and the path-coefficient. The R-square explains the robustness of the research framework. The result of the R-square can be observed in Table 3.

Table 3. R-Square

	R-square
Business Opportunity Recognition (BOR)	0.2000

The score of R-square in this research is 0.2, which means business opportunity recognition is influenced by entrepreneurial alertness and entrepreneurial intuition with the moderating effect of dynamic capabilities as much as 20%. According to Hair et al. (2018), higher values of R-square indicate a greater explanatory power, hence, the roles of entrepreneurial alertness and intuition in explaining the business opportunity recognition is relatively weak. There are 80% other variables, which are not included in this study, constructing business opportunity recognitions among the café owners.

The inner model also surrenders the score of the path-coefficient. The path-coefficient determines the effect of each independent variable on the dependent variable, proving the hypothesis of the study. Since the hypothesis shows one direction, a one-tail test is used. Hypothesis testing incorporates the t-statistic criteria of greater than 1.64 and p-value smaller than 0.05.

Table 4. Hypothesis test

	Path Coefficient	T-Statistic	p-values	Remarks
EA -> BOR	0.301	2.320	0.010	Accepted
EI -> BOR	-0.039	0.275	0.392	Rejected
EA - DC -> BOR	-0.090	0.672	0.251	Rejected
EI - DC -> BOR	0.313	1.803	0.036	Accepted

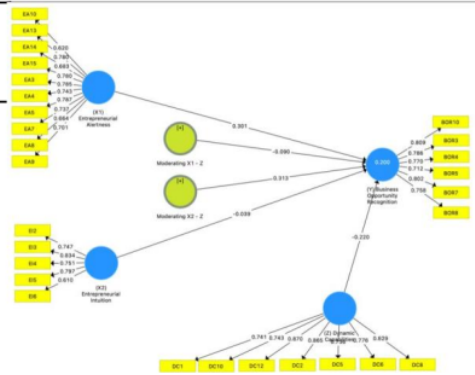


Figure 2. The Inner Model

Based on the results, entrepreneurial alertness (EA) has a positive significant influence on business opportunity recognition (BOR), in other words, the first hypothesis is accepted because the value of T-statistics is above 1.64, with the p-value of 0.010. Meanwhile, entrepreneurial intuition has no significant influence on business opportunity recognition (BOR), or the second hypothesis is rejected because the value of T-statistics is lower than 1.64 with the p-value of 0.392. Dynamic capabilities do not moderate the relationship between entrepreneurial alertness (EA) and business opportunity recognition (BOR), the third hypothesis is rejected because the value of T-statistics is lower than 1.64 with the p-value of 0.251. Finally, dynamic capabilities (DC) moderate the relationship between entrepreneurial intuition (EI) and business opportunity recognition (BOR), in other words, the fourth hypothesis is accepted because the value of T-statistics is above 1.64 with the p-value of 0.036.

5. Discussion

The results of this study prove that entrepreneurial alertness has a positive and significant effect on business opportunity recognition in the cafe industry. This indicates that entrepreneurial alertness helps the micro and small business owners recognize business opportunities that exist around them, namely cafe business opportunities, amidst the business uncertainty created by the Covid-19 pandemic. The result of this study supports the results of some previous research, such as a study conducted by Li et al. (2015) in which entrepreneurial alertness inspires the mindset of business actors to recognize opportunities other than their present businesses.

Concerning the entrepreneurial intuition, however, the result of this study does not align with some previous research, especially a study by Baldacchino (2013) in which intuition plays a vital role in opportunity identification and intensive use of intuition is positively and significantly related to opportunity identification. The inconsistency between the results of this study and others could be traced to the differences in the business

circumstances, in which the current study is highly affected by the Covid-19 pandemic. The pandemic has limited business opportunities due to lockdown policies and mobility restrictions.

In terms of dynamic capabilities, the result of this study does not comply with previous research, namely a study conducted by Teece et al. (2016), stating that dynamic capabilities based on alertness are involved in the recognition or identification, monitoring, development and evaluation of opportunities. The discrepancy between the results of this study and the results of previous research is due to the dynamic capabilities intended in this study are more only at the initial stage of recognition when the opportunity arises, while in previous studies dynamic capabilities are intended to play a role from recognition to opportunity evaluation. In previous research, it was also explained that dynamic capabilities play a more dominant role in the opportunity evaluation stage where the evaluation stage really requires the ability of a business actor to be able to analyze a condition to take steps to change afterwards. This study, whose context focuses more on the opportunity recognition stage, shows that micro and small business owners do not feel that dynamic capabilities play a major role in strengthening the role of entrepreneurial alertness in recognizing business opportunities in the cafe industry in small cities.

Finally, the results of this study indicate that dynamic capabilities have a positive and significant effect as a moderating variable in the relationship between the influence of entrepreneurial intuition on business opportunity recognition in the cafe industry. This indicates that dynamic capabilities moderate the relationship between the influence of entrepreneurial intuition on business opportunity recognition of the cafe industry. The result of this study supports the results of previous research conducted by Teece and Leih (2016) in which the role of dynamic capabilities determines how an entrepreneur can easily recognize business opportunities. In other words, the role of dynamic capabilities strengthens the intuition of micro and small business owners in seeing business opportunities.

This study provides some managerial implications. In the context of entrepreneurial alertness, the most important indicator relies on the ability to see a certain situation which other business owners miss to see that situation. This shows that being able to have a different perspective on similar situations with others has an important and strong role in constructing the higher level of alertness. Therefore, it would be very good if micro and small business owners could see situations from different perspectives and can find uniqueness in those situations which might create a superior business opportunity.

In the context of entrepreneurial intuition, the most important indicator that dominates the intuition is the use of business instinct to evaluate the opportunity promptly and accordingly before taking any action. During the time of difficulty, such as the Covid-19 pandemic, the instinct of business owners refrains

themselves from expanding their business as the situation is unfavorable for their business.

In the context of business opportunity recognition, the most important indicator is to observe the environment and seek information consistently. By doing so, micro and small business owners can grab the opportunity that is suddenly available and viable.

In the context of dynamic capabilities, the most important indicator is to keep an eye on competitor movements. To support this, micro and small business owners may utilize their business alertness to scan the business environment and keep up with market developments. To be able to have strong dynamic capabilities, it is necessary for micro and small business owners to monitor their competitors and continue to learn from the process.

6. Conclusions

The moderating role of dynamic capabilities appears only in the relation between entrepreneurial intuition and business opportunity recognition. Entrepreneurial intuition has no significant influence on business opportunity recognition directly. With the help of dynamic capabilities, entrepreneurial intuition has a positive significant influence on business opportunity recognition. On the other hand, entrepreneurial alertness directly has a positive significant influence on business opportunity recognition. However, the moderating role of dynamic capabilities does not appear in the relation of entrepreneurial alertness and business opportunity recognition. From this study, it can be inferred that business owners need to sharpen their dynamic capabilities, for example through learning and experiencing business volatility during time of uncertainty, so that their entrepreneurial alertness grows more proficiently in detecting business opportunities and their entrepreneurial intuition does not hinder them to recognize business opportunity.

This study has some limitations. First of all, this study was conducted during the uncertain period of Covid-19, in which the pandemic seemed to last longer than expected. Then, the business opportunities seemed to be limited due to many restrictions imposed by the government to contain the pandemic. Finally, the respondents were collected from small cities where the pandemic was less severe, but the opportunities were rather limited. Therefore, for future research, it is suggested to explore other variables that may construct business opportunity recognition with a wider population, such as business owners in big cities who experience high levels of uncertainty and opportunities. Other approaches, such as social norms and perceived behavior controls, may also be incorporated to assess the construction of business opportunity recognition.

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