Digital Capability and Innovation Strategy to Develop the Performance and Competitive Advantages of Fashion Smes in Jakarta, Indonesia

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Abstract: *This research was conducted to: 1) test the impact of digital capability to the performance; 2) test the digital capability impact to the competitive advantage; 3) test the impact of innovation strategy to the competitive advantage, 4) test the innovation strategy to the performance; and 5) test the impact of competitive advantage to the performance. The research was conducted by using 245 Fashion SMEs in Jakarta. Samples were collected based on the SMEs that have utilized the digitack technology in their business activities. Data were analyzed by using Structural Equation Model (SEM) with Partial Least Square (PLS). The result shows that digital capability has some impacts to competitive advantages and the competitive advantages have impacts to the performance. However, digital capability did not have any direct impacts to performance. Innovation strategy has the impacts to the competitive advantages and the performance of the SMEs. It could be stated that digital capability could not directly impact the performance of the SMEs in Indonesia without having the mediation variable by improving the competitive advantages. But, innovation strategy could directly convert to the competitive advantage or the performance of the SMEs.*

Keywords: *Digital Capability, innovation strategy, competitive advantages, performance*

1. INTRODUCTION

Small and Medium Entreprises (SMEs) is a very important business model that have very important role to stabilize the Indonesian economi. SMEs offered the huge business opportunities that would give the positive impacts to the employments, contribute to the gross domestic product and the distribution of the development result (Sudaryanto, et al., 2014). Referring to the data of the SME Ministry, there are 57.8 millions SMEs in Indonesia on 2014. According to the World Bank's data, SMEs contribute to the Gross Domestic Product (GDP) up to 60% and 97% to the employment of the national workforce.

Fashion and craft are the dominant subsectors of SMEs in term of economic contribution. Both industries have become the locomotive in the national creative industry development. The fashion and craft contribution far overcome the contribution of other small industries, in term of value-added, employment, companies, and the amount of the export (Kemenperin, 2016).

The capability of SMES, in term of facing the global competition, indeed should get the special attention in order to be able to survive to maintain the stability of the economic. The Development strategy of SMEs to survive could be done by improving the competitive advantage and by developing the innovation in order to be able to have more values and to be able to survive in the globalization (Russell & Millar, 2014).

The good performance of the organization would have certain results that could be used and would be useful to develop the competitive advantage for the company. The competitive advantage should be able to be maintain. This is important considering the more competitive advantage we had, the more competitors paid more attentions to our weaknesses. Therefore, a company should be consistent enough to maintain their competitive advantage (Russell & Millar, 2014).

Competitive advantage could also be seen through the customers evalution that could be done by the company through the service facilities that could accept any kinds of complaines and suggesstions for the better service of the company – given freely by the customers. The good management of the strategy would be the key success of the company to be the best, by anticipating the market competition (Tarabieh, et at., 2015).

Digital capability is one of those approaches that wer focused on the improvement of the business organization's competitive advantages (Qosasi, et al., 2019). According to Parida, Oghazi, & Cedergren (2016), digital capability is *a firm's ability to strategically use information and communication technology functions or applications in their business activities, such as use of e-mails, website, e-commerce, web conferencing, intranet, extranet and other similar tools".* Based on the definition by Parida *et al.*(2016)above, digital capability is the capability of the company to use the ITC function and application in term of business activities such as using*e-mail, website, e-commerce, web conference, intranet, internet* dan other kinds of ITC applications. Therefore, the ITC capability is required so the company would be able to adapt, integrate, reconfigure, and recreate the internal and external competences, so it could reach the competitive advantage in the very volatile business environment(Qosasi, et al., 2019).

The digital media utilization as the company capability in the SMEs in Indonesia has shown the high growth level. Euro monitor International stated that the online selling in Indonesia is higher than in Thailand and Singapore. The Indonesian e-commerce market is believed that it has the chances to grow bigger. This idea was supported by the amount of the citizens and the Gross Domestic Brutto (GDP) level that have been considered as the highest in ASEAN. The Statista International notes that Indonesia's online selling yearly growth rate between 2014-2020 is growing. The data shows that the mobile broadband wireless (3G, LTE/4G) is most frequently used for personal online transactions. It would also mean that the development of the mobile phone technology has some impacts to the business dynamic. Tke Ministry of Cooperation and SMEs recorded that there are approximately 3,79 million SMEs have used the digital technology such as e-commerce (DeputiPemasaran Kementerian Koperasi dan UMKM, 2017).

In order to be able to survice, the SMEs should have the high performance and it should have the competitive advantage (Muafi et al, 2014). Furthermore, the reseachers have decided to put their focus on the analysis of the variables that were considered as problems for the SMES. Those variables are digital capability (Qosasi, et al., 2019; Ling, Wei, Klimoski, & Wu, 2015), innovation strategy(Iturrioz, Aragón, & Narvaiza, 2015; M. Porter & Michal E, 2013), competitive advantages (Agha, Alrubaiee, & Jamhour, 2011; Cakmak & Tas, 2012; Majeed, 2011) and performance(Tarabieh, S.M.Z.A., Ahmad, Z.A. & Siron, 2015).

The objectives of this research are: (1) the test the impact of digital capability to performance; (2) to test the impact of digital capability to competitive advantages; (3) to test the impact of innovation strategy to competitive advantages; (4) to test the impact of innovation strategy to performance; and (5) the test the impact of competitive advantage to performance.

2. LITERATURE REVIEW

2.1. Digital Capability

Digital capability has been considered as something very crucial in order to maintain our growth in the Industry 4.0 era. Therefore, digital capability would be extremely important for SMEs. Through the utilization of the digital facility, micro, small and medium enterprise could enter the global market. Only a matter of a relatively short time, the small companies have grown to be the huge world company. For example, we could name several huge companies such as Amazone, Yahoo and Ebay. Those three companies have taken advantages of the digital technology to develop their businesses into as big as it is now (Şerbu & Borza, 2014).

Therefore, digital technology has provided a decent support for company operational, effectively and efficiently (Chaiprasit & Swierczek, 2011; Cyril Eze, Guan Gan Goh, Yih Goh, & Ling Tan, 2013; Dlodlo & Dhurup, 2013). Digital technology would also be useful to reduce some costs in the business activities, especially for SMEs in term of allocation and keeping their budgets for other usages (Roostika, R., & Muafi, 2014).

The utilization of digital technology to run a business for small companies could give the flexibility in term of production, delivery to customers (faster for software), faster offers send and receive – and cheap as well, and it would be useful to support the fast-paperless transaction. Digital technology relates to the way of improving communication, and process or gain information, fast and effective (Barba-Sánchez, 2007; Lyver & Lu, 2018; M. Porter & Michal E, 2013). Based on the paper of JISC (2014), *Building Digital Capabilities Project 2014-16,* there are six basic elements of digital capability. Those elements are *ICT proficiency, Critical Use, Creative Product, Participating, Learning, Self-actualising.*

2.2. Innovation Strategy

There are literatures that could explain why strategy has the impact to stimulate innovation. The mechanism would depend on the applied strategy approach. Strategy often thought as the action to create a direction for the organization by mapping the operational of the company, focusing their effort by coordination promotion, by giving the easy way to know the organization, and by giving the consistency and reducing ambiguity (Iturrioz et al., 2015; Robert Nowacki, 2012).

Innovation strategy is the structural support to have innovation. The development of the innovation strategy would improve the capability of the company's management to have company's innovation (Chen & Nadkarni, 2017). Innovation refers to the tendency of the companies to do and support the new ideas, newness, experimentation and creative process that could have a new product, service and technology process as product (Covin & Lumpkin, 2011; Kuratko, 2010).

Based on the exporation of the earlier researches about the innovation dimentions, this research chose the definition of innovation strategy as the concept to make several other dimentions, which are the analysis, aggressiveness, futuristic, proactive, risk taker (Dincer, Dincer, & Yilmaz, 2015)and commitment (Barney & Hansen, 1994). The researchers have added one more dimension, the literation. This was done considering that innovation has the very close relation to the organization learning. (Baker & Sinkula, 2009)has conceptualized and operated the learning orientation that consists of the commitment of learning, collective vision, and the open mind (Baker & Sinkula, 2009). Thus, the literation perfects the understanding of the innovation strategy. The literation dimension is defined as the capabity to read the business phenomena. Therefore, we got seven innovation strategy dimensions in total; the analysis, aggressiveness, futuristic, proactive, risk taker, commitment, and literation.

All built dimensions were directed to the combination of manufacture innovation that have been done by the company, and the product itself. The innovation strategy was not being related to the digital information technology. This was done to avoid the possible construct replication of the research instruments. The innovation dimension as directed to the three innovation types: product, process and organization (McAdam, Moffett, Hazlett, & Shevlin, 2010).

2.3. Competitive Advantage

Competitive advantage is an advantage to the other companies (competitors) which was gained by offering the bigger or higher customer value, either by lowering the price or giving the bigger benefits for the customers (M. E. Porter, 2008). Earlier, Porter (2001) defined the competitive advantage in three dimensions; cost, differentiation and focus to the competitors that were trying to able to get out of the cown without competitive advantages. Porter showed that differentiation could reduce the cost, compared to the competitors. Differentiation is considered as the only possible way to reach the competitive advantage. Normally, it came from the big scale organization that were working on their effiecieny based on their repetitive experiences in the past, in term of lowering the cost. Another way to get the competitive advantage is by making some changes in all aspects that are related to the value from the customers' view, either from the attractive aspects of the products (differentiation) or by developing a campaign that could give the customers the understanding that they could find all they need in the products, with the best qualities and the very competitive prices.

Competitive advantage is a far as an organization was capable to put themselves into the market maintaining position against the competitor. Company would create the competitive advantage through their competitive capability or defined priorities as strategy preferences, or the dimension where the company chose to compete in the targeted market.

We could find many kinds of competitive priorities were identified in literatures. Moreover, lots of literatures found several steps to get the competitive advantage (Russell & Millar, 2014).Based on the exploration on the competitive concept, the researchers synthesized several dimensions of competitive advantage which are; differentiation (Tarabieh, S.M.Z.A., Ahmad, Z.A. & Siron, 2015), latest technical knowledge, brand (SirivanhdanSukkabot, 2014)and uniqueness. Unique is defined as a value that differs a product to others (Daou, Karuranga, & Su, 2014). SMEs should be able to products some kind sof unique products to have the competitive advantage.

2.4. Performance

The superior company performance reflects the company's competitive advantage. The competitive advantage is the capability to win the market competition by using the different capability (or ways) that other players (in the same market) do not have (Roostika, Wahyuningsih, & Haryono, 2015). The results of some earlier studies showed that the competitive advantage has impacts to the performance of the organization (Agha et al., 2011; Ismail, A. I., Che Rose, R., Abdullah, H., & Uli, 2010; Majeed, 2011). Therefore, the competitive advantage would be gained if a company could use their resources, including their capability to reach the superior and relatively low cost customer's value.

Company performance is a holistic display of a company of a certain period of time, that is the result of company operational activities of how they could use their certain resources (Das, Paul, & Swierczek, 2008). It should be measured subjectively to examine the impacts of customer orientation and additional service (Tarabieh, S.M.Z.A., Ahmad, Z.A. & Siron, 2015). Performance measurement itself is considered as the proses to measure efficiency and effectivity of the actions. Performance measurement is also defined as the activitiy to measure the input, output, and activity level of a process (Gupta & Nanda, 2015).

(Aliyu, 2016)used the Total Quality Management (TQM) concept to measure the performance of the SMEs. (Douglas & Judge, 2001)operates the TQM as the uni-dimensional construct. Based on the literature review, the most commonly used critical factors of TQN that have impacts to business performance are: *management leadership*, *training*, *customer focus*, *continuous improvement*, and *management process*.

Based on the literature review, this paper proposed the research hypothesis:

H1= Digital capability has impact to the company performance

H2= Digital capability has impact to the competitive advantage

H3= Competitive advantage has impact to the company performance

3. METHODOLOGY

The objects of this research are the fashion SMEs in several regions of Jabodetabek (Jakarta, Bogor, Depok, Tangerang, and Bekasi), that fulfill these criteria: 1) use the digital technology in their business activities; 2) the business has been operated at least 2 (two) years. We used the *Structural Equation Model (SEM) with Partial Least Square (PLS)* to analyse the result.We used 200 SMEs as the samples. As what stated by (Suwarno, 2002), the number of samples that is considered could give the stable results would be between 100 to 200 respondents. The research was done in Februari to March 2019.In orderto have the focus and clear analyses, we have designed some research instruments based on research variable and dimensions.

Table1: *Research Instrument*

Variable	Dimension / Sub Variable	Indicator
ICT Capability	*ICT proficiency*	1. Use digital media to market the product 2. Follow the internet technology development to market the product 3. Maintain and update online media to market product
	Critical Use	1. Follow the latest information on product development in internet 2. Use all kinds of content digital as photo, video to market product 3. Have the data of customers and potential customers

Variable	Dimension / Sub Variable	Indicator
	Creative Product	1. Enrich the marketing site with product-related writings to improve rating 2. Understand the customers' demand through digital media 3. Enlarge the usage of digital technology
	Participating	1. Participate in Digital Learning 2. Colaborate with other parties in product marketing 3. Have ethical behavior in digital communication
	Learning	1. Understand the interlocutors in the online media 2. Use digital tool (personal or organization) to learn 3. Have attention and motivation to learn in digital setting
	Self-actualising	1. Perfect balancing between digital interaction and actual interaction. 2. Being secure and responsible in digital environment 3. Develop and manage digital reputation (persona or organization)
Innovation Strategy	Analysis	1. Analyze for new product periodically 2. Analyze for new production method periodically 3. Analyze for business activities enhancement to support productivity, periodically
	Aggressiveness	1. Product could adjust customers' demand 2. Use the latest production method 3. Apply the latest management concept
	Futuristic	1. Develop future product 2. Develop future production method 3. Develop future organization shape
	Proaktive	1. Independently create the new product 2. Independently create the new production method 3. Independently create the more efficient new organization model
	Risk Taker	1. Did not worry to create and market new product 2. Did not worry to adopt new production method 3. Did not worry to change the shape or the organization
	Commitment	1. Keeping the quality before market 2. Fixing the work facilities to support production 3. Take care of the organizational culture
	Literacy	1. Search and understand the development of new products 2. Search and understand tke development of new production method 3. Search and understand the latest technology development
Competitive Advantage	Product Differentiation	1. Sell various sizes of products 2. Sell various categories of products 3. Sell various quality types of products
	Latest technical knowledge	1. Understand the technical aspects of latest product 2. Understand the latest marketing technique 3. Understand financial recording
	Brand	1. Use various brands in market 2. Create own brand
	Uniqueness	1. Have an attractive product to be sell 2. Offer the different products than the similar ones 3. Offer the better products than others
SME Performance	*Management Leadership*	1. Target Plan 2. Team organization 3. Performance Control 4. Staff Performance Evaluation
	Training	1. Join Entrepreneurship Training 2. Join product marketing training 3. Join any related trainings
	Customer Focus	1. Repeat orders 2. Customer RElationship 3. Customer input for new product development

Variable	Dimension / Sub Variable	Indicator
		4. Customer growth from time to time
	Continuous Improvement	1. Periodical Sales evaluation 2. Improving business management 3. Improving employee relation
	Strategic Planning	1. Have a long term strategic plan 2. Plan a measured sales target 3. Plan a measured supplies target
	Management Process	1. Apply and improve SOP 2. Clear job description application 3. Minimize trouble in production and selling process

Those instruments were measured using the Likert scale, with 5 levels of scale; 5=*strongly agree*, 4=*Agree*, 3=*Neither agree nor disagree*, 2=*Disagree*, 1=*Strongly disagree*.

4. RESULT AND DISCUSSION

Female seem to be more dominant than male in the fashion SMEs, as it was shown in the result, female (61.15%) compared to make (22.75%) of total 200 respondents. Respondents' distributions based on their latest educaton level are divided into 5 (five) categories; high school or below associate's degree 3.04%, Associate's Degree (D3) sebanyak3.91%, Bachelor (S1) 90.87%, Master (S2) 1.74% dan Doctoral (S3) 0.43%. Based on the statement of the 20th Act of 2008 on SMEs critera, the respondents were diveided into micro business 87.60%, small business7.44% and medium business 4.96%.

Here are the analysis by using SEM – PLS. The analysis SEM with PLS was done in three phases; the outer model analysis, inner model analysis, and hypothesis testing. According to (Ghozali, 2011), construct realibility test is measured wit the *composite reliability* and*cronbach's alpha*. Construct would be considered as realiable if it has composite reliability above 0,70 and *cronbach's alpha* above 0,60. The *average variance extracted* (AVE) that would be considered enough to measure the validity would be as much as 0,5.

Table1: *Cronbach Alpha, Composite Reliability Dan Average Variance Axtracted*

	Cut-off Value	Digit_Capabil	Comp_Advantage	Performance_SME	Remark
Cronbach's Alpha	>0.6	0,823	0,823	0,819	All fashion SMEs aspects meet the standard
Composite Reliability	>0.7	0.763	0.840	0,819	
Average Variance Extracted (AVE)	>0.5	0.763	0,623	0,661	

Source: *Output SmartPLS 3.0 (2019).*

Based on the criteria on table 4.20, the result shows that all outer model criterias were fulfilled, therefore it could be concluded that this research's data have the good validity and realibility. So the research could be proceed to the inner model analysis.

Inner model evaluation could be seen from several indicators that cover: determination coefficient (R^2); Predictive Relevance (Q^2); Goodness of Fit Index (GoF).

Here are the calculations of each indicator:

1. Determination Coefficient (R^2)

The value of R^2 output *software smartPLS 3*

Table2: *Nilai R^2*

	R Square	R Square Adjusted
Digital Capability	0,768	0,737
Competitive Advantage	0,786	0,743
Performance	0,773	0,741

Source: *Output smartPLS 3 (2019)*

Referring to(Newsted, 1999), the R Square equal to 0.67 is strong, 0.33 is moderate, and the under 0.19 is weak. Therefore, this reseach model is considered of having the strong relations between analyzed variables. There are two endogen variables; *competitive advantage* and *performance dan* one exogen variable. Referring to the value of *r square* and *adjusted r square,* it could be stated that there are strong relation between exogen variable, single, or combined.

2. Predictive Relevance (Q^2)

To find the value of Q2, we used the formula:

$Q^2 = 1-(1-R1^2)(1-R2^2)……(1-Rn^2)$

$Q^2= 1-(1-0,768)(1-0,786)(1-0,773)$

$Q^2= 0,989$

Chin in(Newsted, 1999) stated, if the counted value 0.02, the model is considered of having the small prediction capability. If it showed the 0.15, it means the model has the medium prediction capability. And if the value was 0.35, the model has the high prediction capability. The calculation of Q^2 would have 0.989. Therefore, the model has the high prediction capability.

3. *Goodness of Fit Index* (GoF)

GoF value on SEM with PLS was calculated manually (Tenenhaus & Esposito, 2005)using this formula:

$GoF= \sqrt{AVE}^2 \text{ x } \overline{\overline{R^2}}$

GoF= 0.4

According to(Tenenhaus & Esposito, 2005) and Tenenhaus (2004), the value of GoF is considered as small = 0,1, GoF medium = 0,25 and GoFhigh = 0,38. Based in the calculation of GoF Value, it could be found that this model has the bigger GoF value, so the model represents the real phenomena. The next step is reseach hypothesis test.

In term of hypothesis test, a bootstrapping process has been done inside the SEM PLS to calculate the T-count. If t-coung his higher than t-statistic with the confidence level 95% (>1.96), the hypotheses is significant. In order to know how significant the impacts between variables of this research, we could see in the loading factor original value of the SmartPLS output. Table 3 would show us the path coefficients of the SmartPLS output.

Table3: *Path Coefficients (Mean, STDEV, t-Value)*

Hipotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Digital_Capability ->*SME Performance*	0,154	0,156	0,106	1,461	0.144
Digital_Capability-> *Competitive Advantage*	0,438	0,465	0,075	5,822	0,000
Competitive Advantage-> SME Performance	0,470	0,488	0,086	5,445	0,000

Source: Output *SmartPLS, 2019*

Based on the table 3. *output path coefficients* (Mean, STDEV, t-value), two of the hypotheses have t-value over 1,96, and one hypothesis has t-value under 1,96. It means, from the three hypotheses, two hypotheses were proven to have positive and significant impacts, and the other one was not. Summing up the hypotheses test result, we could see it in the table 4.

Table4: *Result of Hypotheses Test*

No	Hypoteses	Result
H_1	Digital capability has impact to the company performance	Rejected
H_2	Digital capabilityhas impact to the competitive advantage	Accepted
H_3	Competitive advantage has impact to the company performance	Accepted

Source: *Processes by researchers (2019)*

Based on the running result, the digital capability variable turned out to have non-signigiant impact to the competitive advantage variabl. It is different with the previous research's result by (Rai, Patnayakuni, & Seth, 2006)that showed that IT has positive impact to organization performance. This, however, is acceptable since the focus of this research is the digital capability, not the information technology part.

There are different meanings between ITC capability and the ITC itself.Qosasi & Permana, (2017)defined ITC Capability as the capability of the business owner to utilize the digital media/information technology to support their business. Information technology itself is a set of technology that is being used by an organization to create, process and spread the information in any possible forms. Therefore, information technology provides the support to the company's operation (Qosasi & Permana, 2017).

This result however is along side with the OECD publication on 2014 that stated one of the weaknesses of the SMEs is the limitation of capability and aggressiveness of the SMEs owner and workers to improve the business performance by utilizing the digital media. There are several factors that could hold SMEs of using the internet. Those factors are the different type of business process, lack of knowledge – in term of internet operation, lack of internet managerial capability, lact of internet connecton and computers availability, lact of trust and security of intenet, and the high cot of computer maintainance and development.

Based on the running result it was well proven that digital capability variable has significant impacts to the competitive advantage variable. This is similar to the earlier research by (Cakmak & Tas, 2012). It was stated that diital capability has positive impacts to the competitive advantage. Digital capability impacts the competitive advantage of SMEs, because by the existence of sufficient digital capability the competitive advantage would be improved. Digital capability is the capability of the business owners to utilize the digital media/information technology to support the business. Information technology itself is a set of technology that is being used by an organization to create, process and spread any forms of information. Therefore, information technology provides the company's operation. Information technology is useful to reduce the cost of business activities, especially for SMEs that might need more space in their budget allocation (Roostika, R., & Muafi, 2014).

It is understandable that digital capability has impact to the competitive advantage but it does not have any impacts to the SMEs performance. According to Clarismary, et al (2015), the ICT proficiency dimension is a dimension that capable to have the direct impact to the company's performance, yet it has the smallest weight, compared to the other dimensions. ICT proficiency is defined as the capability to critically judge the positive impacts/constraints of the ICT approach and application; design and apply the ICT solution to be recovered from such failure and to maintain the target. Self actualizing is defined by the effort to built and maintain the digital profile; develop personal style and value in the digital participation; and arrange the personal material in the digital network. Learning is defined as the capability to identify and participate in the digital learning; and or participate in the digital learning connection learjing process. Participating is defined as the participation in the social, culture and business life by using the digital forum and service.

The competitive advantage variable has the significant impact to the SME performance. The superior organization performance reflects the company's competitive advantage. The competitive advantage is the capability to win the market competition though some different ways that could not be done by competitors (Porter, 1998). Previous results of several researches showed that the competitive advantage really has impacts to the organization performance (Agha et al., 2011; Ismail, A. I., Che Rose, R., Abdullah, H., & Uli, 2010; Majeed, 2011).

Chibelushi & Trigg, (2012)stated that the competitive advantage concept should be the attention of the company or organization that produce product and service to maintain the business and its benefits. SMEs business performance is being improved by the SMEs competitive advantage through the profit growth, sales growth and customers growth. According to (Chan, Shaffer, & Snape, 2004), competitive advantage has positive impacts to the company's performance. Several indicators should be created to measure the profits, including the customers loyality, technology development and product development. Sales growth, customers growth, profit growth and capital growth

measurements are the indicators of SMEs business performance. This research found two dominant SMEs performance dimensions; the customer focus and the continuous performance.

5. CONCLUSION, IMPLICATION AND LIMITATION

This research has proven the impact of digital capability variable to the competitive advantage and performance variables of Fashion SMEs in Jakarta. The result shows that in Indonesia, digital capability does not have any impacts to the SMEs performance. This result is similar as the statement of the OECD publication (2014). Yet, according to the same paper, it was stated that digital capability has significant impact to the performance, in the large scale. There are several factors that might cause the insignificancy of digital capability impact to the SMEs performance. Those factors are the different type of business process, lack of internet usage knowledge management, lack of internet connection and computers availability, lact of trust and security of internet and the large cost of computer development and maintenance.

This research proves that digital capability was formed by creative, critical use, ICT Proficiency, learning, participating, andself actualization. Self actualization is the main dimension. It does not have any impacts to the SMEs performance, but it has impact to the competitive advantage.

This result also proves that competitive advantage has impact to the performance, though the different dimensions, compared to the prior researches. Dimensions that were being proposed in this research are differentiation, brand, knowledge, and uniqueness. This is also confirmed the teori that competitive advantage always improves business performance, even from different dimensions. SMEs performance in this research consists if management leadership, training, customer focus, continuous improvement, and management process. Continuous improvement is the main dimension. This is similar with the aggressive strategy innovation variable. Leadership management and process management are proven as the non-dominant dimensions in the SMEs performance.

SMEs owner should improve their digital capability, mainly the ICT proficiency, so they would be able to operate the bsiness, effectively and efficiently, gain more information, and able to use the ICT to promote the business widely, so it would have the direct impact to the business performance.

Based in those conclusions, this research has implication as the input for the government to develop the SMEs. Those implications are: 10 Create the condussive environment for the digital technology develoment and digital business learning; 2) Always evaluate the grant for the SMEs, especially on how it was being applied, and simplified the funding mechanism for simpler access; 3) In term of innovation stimulation, the government shoud give the attention and credits to the innovation of the SMEs; and 4) Improve the protection for the SMEs from the local, national and international market competition. Letting the SMEs to compete with the giants might have lethal impacts to the SMEs, considering that it could not compete in term of capital, management and human resources, compared to those giants.

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