HOW STRATEGIC FLEXIBILITY AFFECTS DIGITAL TRANSFORMATION: EMPIRICAL STUDY ON MODERN COFFEE SHOPS IN INDONESIA

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Abstract: Modern coffee shop industry players face changes in their environment that require them to adapt their actions and strategies very quickly. In this highly competitive environment, resources have become essential for companies that influence strategic flexibility. For companies, strategic flexibility is obtained when an organization develops or obtains a series of actions that enable it to outperform its competitors. In a dynamic and rapidly changing environment in the Industrial Revolution 4.0 era, modern coffee shops must be able to utilize their dynamic capabilities. This study aimed to examine and explain the effect of market sensing capability and entrepreneurial orientation on strategic agility and the effects of strategic flexibility on digital transformation among modern coffee shops. The data were taken from 85 modern coffee shops in three sub-districts in Jember Regency and tested using WarpPLS 6.0. The results show that market sensing ability and entrepreneurial orientation have a significant role in influencing strategic flexibility. This research also proves that strategic flexibility influences digital transformation among modern coffee shops.

Keywords: digital transformation, dynamic capability, entrepreneurial orientation, market sensing capability, strategic flexibility

Abstrak: *Para pelaku industri kedai kopi modern menghadapi perubahan di lingkungannya yang menuntut mereka untuk menyesuaikan tindakan dan strateginya dengan sangat cepat. Dalam lingkungan yang sangat kompetitif ini, sumber daya menjadi penting bagi perusahaan yang memengaruhi fleksibilitas strategis. Bagi perusahaan, fleksibilitas strategis diperoleh ketika organisasi mengembangkan atau memperoleh serangkaian tindakan yang memungkinkannya mengungguli para pesaingnya. Dalam lingkungan yang dinamis dan cepat berubah di era Revolusi Industri 4.0, kedai kopi modern harus mampu memanfaatkan kapabilitasnya yang dinamis. Penelitian ini bertujuan untuk menguji dan menjelaskan pengaruh kapabilitas penginderaan pasar dan orientasi kewirausahaan terhadap kelincahan strategis dan pengaruh fleksibilitas strategis terhadap transformasi digital di kalangan kedai kopi modern. Data diambil dari 85 kedai kopi modern di tiga kecamatan di Kabupaten Jember dan diuji menggunakan WarpPLS 6.0. Hasil penelitian menunjukkan bahwa kemampuan penginderaan pasar dan orientasi kewirausahaan memiliki peran yang signifikan dalam mempengaruhi fleksibilitas strategis. Penelitian ini juga membuktikan bahwa fleksibilitas strategis mempengaruhi transformasi digital di kalangan kedai kopi modern.*

Kata kunci: *transformasi digital, kemampuan dinamis, orientasi kewirausahaan, kemampuan penginderaan pasar, fleksibilitas strategis*

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INTRODUCTION

The industrial world is entering the digital era as a part of Industrial Revolution 4.0, where many changes have occurred due to technological advances. Since Industrial Revolution 4.0 was first introduced at an exhibition in Hannover in 2011, it has attracted the interest of the industrial and research communities. The Industrial Revolution 4.0 is believed to ensure the company's development by building a reliable business environment. The literature review shows that the development of information technology caused rapid changes in the Industrial Revolution 4.0., thus encouraging technological disruption. According to several studies, technological disruption in Industry 4.0 can lead to the birth of innovations in the industrial and economic sectors (Ali & Xie, 2021).

Industrial Revolution 4.0, followed by the Covid-19 Pandemic, is a concern to business actors because it created turbulence in the business environment. In its development, the Industrial Revolution 4.0, which the Covid-19 Pandemic followed, influenced climate change in a good direction and created a new trend related to digital transformation. The pandemic has driven a new phase of adopting new technologies and offered an unprecedented opportunity for SMEs to reap the benefits of digitalization toward recovery. The report released by the OECD (2021) reveals that companies of all sizes and sectors are increasingly equipping their staff with digital devices. Digital transformation provides benefits and added value for companies, such as better and faster access to information or communication with consumers and business networks.

Digital transformation carried out by business organizations can be a parameter in designing systems to create value (Yang et al. 2020a) and respond to the market's needs and wants. In this era, business actors are surprised by the changes in the market and consumer behavior, such as that searching for information about the products, examining product quality from reviews on the internet, and prioritizing ease in ordering and purchasing products. These require business actors to prepare for the changes in business competition and consumer behavior. The greater use of information and communication technologies in this digital age also causes changes in market customer behavior.

Modern coffee shops, as one of the leading economic sectors in Indonesia, may experience significant future developments along with changes in consumer behavior, lifestyles, and products in information technology (Viartasiwi & Trihartono, 2020). As a creative industry sub-sector, they are impacted by the ongoing digital transformation. In this situation, the business management must act to keep their businesses adaptive and surviving. Under these conditions, the management of the modern coffee shop is making various digital transformation efforts. This effort is certainly a challenge for the modern coffee shop industry. According to Arsawan et al. (2022), transformation efforts for SMEs will have a significant impact through the role of strategic flexibility. Strategic flexibility is a form of dynamic skill that allows companies to live in a dynamic environment and overcome organizational inertia issues (Talapatra & Uddin, 2019). This opinion is also reinforced by Sony et al. (2022) that strategic flexibility is the key to organizations' success in the Industrial Revolution 4.0.

Several previous studies (Fachrunnisa et al. 2020; Han & Zhang, 2021) spotlighted the other roles of dynamic capability and entrepreneurial values also influence strategic flexibility. Business organizations will be more established if they can exploit dynamic capability as an internal organizational capability in the business processes. Business organizations will be more established if they can exploit dynamic capability as an internal organizational capability in the business processes. In addition, in an environmental situation with a changing business landscape and very dynamic consumer trends, organizations must also have an entrepreneurial orientation that can be essential in ensuring business success. Scholars believe dynamic capabilities and entrepreneurial orientation (strategic entrepreneurship) are essential in digital transformation (Abdelkareem et al. 2022; Kim, 2018; Mustafa et al. 2022).

This research investigates the influence of market sensing capabilities and entrepreneurial orientation on strategic flexibility and how strategic flexibility affects digital transformation in modern coffee shops in Indonesia. Market sensing capability can be described as a company's ability to absorb information, sense changes that occur in the market, and adapt rapidly to market changes (Day, 2014). Various information about consumers, competitors and market trends obtained through market sensing affects the ability to adapt

to various types of changes in the business situation. Market sensing is needed to understand market changes and anticipate changes in consumer perception and behavior during Industrial Revolution 4.0 and Covid-19 Pandemic (Gössling et al. 2021; Jarratt, 2021; Yang et al. 2020b). This capability is believed to be the first step in building flexibility (Christopher & Holweg, 2011). Based on previous research, no research has been found that links market sensing capability, entrepreneurial orientation, strategic flexibility, and digital transformation in one unit. The following novelty in this research also lies in the relation between the capability of market sensing and strategic flexibility and modern coffee shops as industrial settings.

METHODS

The location of this research was conducted in Sumbersari, Kaliwates, and Patrang sub-districts as the three sub-districts with the most extensive modern coffee shop population in Jember Regency, East Java Province. In 2022, based on an initial survey, there will be 108 modern coffee shops in the three districts. This study used a "purposive sampling" method based on the criteria of a modern coffee shop that had been open for at least two years. The data were obtained from the answers to the questionnaire given to the owner and the manager of the modern coffee shop. The research was conducted from September to October 2022 with a sample size of 85, which was taken proportionally from the specified population. Respondents of this study consisted of 15 owners and 70 managers. Since most owners also play a role as managers in SMEs, the term 'manager' will be used to represent owners and managers afterward.

In this study, the measurement scale used was a Likert scale with intervals of 1-5 (from "strongly disagree" to "strongly agree"). Measuring market sensing capability uses three items: studying market changes, monitoring strategies undertaken by competitors, and utilizing market information. The three items were modified from Abdelkareem et al. (2022) and Lindblom et al. (2008). Entrepreneurial orientation measurement uses four items that focus on taking risks, being innovative, proactive, and competitiveness, modified from Lumpkin et al. (2009). Then the measurement of strategic flexibility and digital transformation uses three items modified from Fachrunnisa et al. (2020). The inferential analysis technique in this study uses Warp-PLS 6.0 based on Structural Equation Model (SEM).

Hypothesis

Three hypotheses are analyzed in this study (Figure 1): H1: market sensing affects strategic flexibility; H2: entrepreneurial orientation affects strategic flexibility; H3: strategic flexibility affects digital transformation.

H1: Market sensing capability affects strategic flexibility

As a micro-fundament of dynamic capabilities, market sensing capability can be described as a company's ability to understand, sense, and adapt to market changes. The ability to adapt to this changing market environment depends on the adaptive capabilities that the organization has (Day, 2014). Various information about consumers, competitors, and market trends obtained through market sensing affects the ability to adapt to changes in the business environment. This capability is believed to be the first step in building flexibility (Christopher & Holweg, 2011). Strategic flexibility is the organization's ability to recognize, anticipate and adjust to fluctuations in internal and external circumstances (Karman, 2020). Based on these statements, it can be determined that there is a relationship between market sensing capability and strategic flexibility. Previous studies proved that market sensing capability is important for organizations to adapt to environmental changes (Khristianto et al. 2021). Companies with good market sensing skills tend to be more flexible in dealing with turbulence in business circumstances. Strategic flexibility can proactively recognize values and assimilate market information (namely related to customers and competitors), respond to market information, and respond to a wider range of customer and competitive orientations (Kandemir & Acur, 2022).

H2: Entrepreneurial orientation affects strategic flexibility

The entrepreneurial orientation of a company is seen as an effort to innovate, undertake risky ventures, and proactively pursue opportunities (Miller, 1983). Entrepreneurial orientation efforts related to processes, actions, and decision-making are oriented toward creating new market opportunities (Wiklund & Shepherd, 2005). Through entrepreneurial orientation,

a company can improve its business performance (Kusnadi et al. 2018; Zahra & Covin, 1995). Companies with an entrepreneurial orientation can identify, seize, utilize, and respond to market and technological opportunities (Han & Zhang, 2021). Previous studies have discussed the link between entrepreneurial orientation and strategic flexibility (Supriadi et al. 2020). Entrepreneurial orientation is believed to have a major role in supporting the strategic flexibility of business organizations to achieve their business goals. The fundamentals of entrepreneurial orientation have an important role in making strategic flexibility more adaptive in dealing with ambiguity, insecurity, and shifts in business circumstances. However, research in the context of creative industries in Indonesia is still limited, especially after the emergence of the Industrial Revolution 4.0.

H3: Strategic flexibility affects digital transformation

Literature study illustrates that environmental dynamics can be faced by creating flexible organizations. Several researchers stated that companies would face environmental dynamics by implementing strategic flexibility. Strategic flexibility refers to the ability of companies to adapt quickly to various changes to maintain their competitive edge (Hitt et al. 1998). Then, Shimizu and Hitt (2004) define strategic flexibility as an organization's ability to quickly understand various changes, uncertain conditions, and efforts to survive by developing its resources. Based on various opinions, strategic flexibility leads to the ability of companies to adapt, maintain, and develop themselves with their environment so that they can exist and reach higher levels. Companies are encouraged to transform from traditional to digital business in this digital era. Digital transformation can be interpreted as efforts made by companies to operationalize business with their business model supported by sophisticated technology (Martin, 2018). In essence, digital technology has space to be used in business models run by companies so that digital technology can change how companies work. To anticipate changes in this digital era, companies need strategic flexibility to carry out digital transformation to run the business, so they can exist and be competitive in uncertain business environments.

RESULTS

Respondent Profile

In this study, a sample of 85 modern coffee shops was used. The profiles of respondents in this study inform about gender, status, age, education, and period of the business. It is shown in Table 1.

Measurement Model

The validity and reliability of the measurement instruments were cross-tested by applying average variance extracted (AVE), composite reliability (CR), and Cronbach's alpha. Table 2 shows the convergence of the validity and reliability of the factors. The value of all AVE and item loading factors is ≥ 0.5. It proves to have met the requirements of convergent validity. Reliability requirements are also met because the CR value is > 0.7, and Cronbach's alpha value is ≥ 0.6 (Ghozali & Latan, 2012).

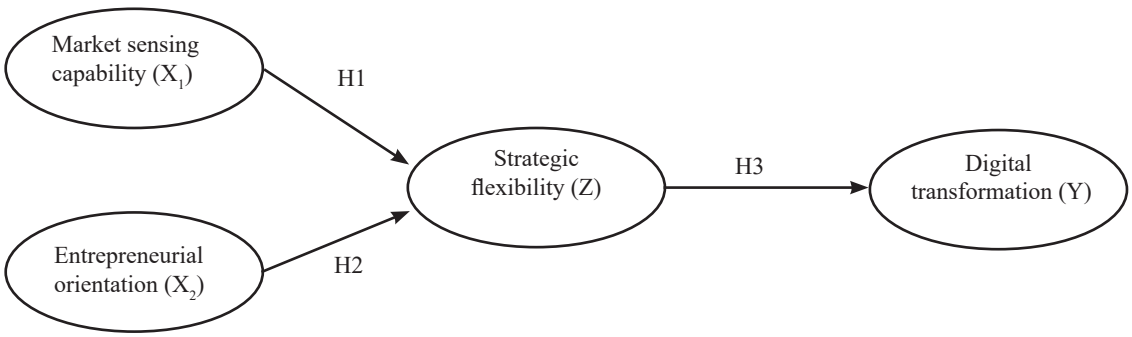

Figure 1. Research framework

Structural Model

The Goodness of Fit measures the suitability of the input observations with the predictions of the proposed model. Evaluation of the Goodness of Fit Model in WarpPLS uses the Fit and Quality Indices Model, as shown in Table 3. The criteria used are a rule of thumb, so they do not apply rigidly and absolutely. The criteria for each model fit and quality index consist of Average path coefficient (APC), Average R-squared (ARS), Adjusted R-squared mean (AARS), Block mean VIF (AVIF), Average VIF full collinearity (AFVIF), Tenenhaus GoF (GoF), Sympson's paradox ratio (SPR), R-squared contribution ratio (RSCR), statistical suppression ratio (SSR), and bivariate nonlinear causality ratio (NLBCDR). This criterion summarizes the observed and expected values (Solimun et al. 2017).

Based on the results in Table 3, the model compiled has met the model fit criteria where the *p-value* of APC and ARS < 0.001, which means it is significant while the AVIF value is 1.625. The RSCR value, which reaches 1.000, shows the ideal model's strength. Similarly, other parameters follow the specified requirements so that the model built meets the fit indicator requirements. As shown in Table 3, the model provides good data criteria and quality indicators that meet WarpPLS standards.

Hypothesis Test Results

The hypothesis testing results presented in Figure 2 show three direct influence relationships between research variables, which are the main focus of the research. The test results show that the effect of market sensing capability on strategic flexibility has a path coefficient (β) of 0.40 with a *p*-value of <0.001. It presents that the path coefficient is positive and the probability < level of significance (Alpha (α) = 5%). Testing for the effect of entrepreneurial orientation on strategic flexibility obtains a path coefficient value (β) of 0.26 with a *p*-value of 0.006. It indicates that the path coefficient is positive and the probability < level of significance (Alpha (α) = 5%). Furthermore, the results of testing the effect of strategic flexibility on digital transformation have a path coefficient value (β) of 0.54 with a *p*-value of <0.001. These results indicate that the path coefficient is positive and the probability > level of significance (Alpha (α) = 5%).

Table 1. Respondent profile

Item	Description	Frequency (N=85)	%
Gender	Male	64	75.3
	Female	21	24.7
Status	Owner	15	17.6
	Manager	70	82.4
Age	17-21 years old	17	20
	22-26 years old	42	49.4
	27-31 years old	13	15.3
	32-36 years old	4	4.7
	37-41 years old	7	8.2
	42-46 years old	1	1.2
	47-51 years old	1	1.2
Education Degree	Yunior High School	4	4.7
	Senior High School	56	65.9
	Diploma	8	9.4
	Bachelor	16	18.8
	Postgraduate	1	1.2
Period of Business (year)	2-3	47	55.3
	4-5	18	21.2
	6-7	12	14.1
	8-9	3	3.5
	10-11	1	1.2
	12-13	1	1.2
	14-15	2	2.4
	16-17	1	1.2

Table 2. Validity and reliability of the first order

Variables	Items	Loading Factors	Average variance extracted (AVE)	Composite reliability (CR)	Cronbach's alpha
Market sensing capability (X1)	3	0.681-0.704	0.730	0.773	0.558
Entrepreneurial orientation (X2)	4	0.631-0.827	0.741	0.828	0.721
Strategic flexibility (Z)	3	0.804-0.806	0.806	0.848	0.730
Digital transformation (Y)	3	0.816-0.868	0.839	0.877	0.789

Table 3. Model fit and quality indices

Model Fit and Quality Indices	Result	Criteria
Average path coefficient (APC)	0.400, p < 0.001	p-value < level of significance (5%)
Average R-squared (ARS)	0.318, p < 0.001	p-value < level of significance (5%)
Average adjusted R-squared (AARS)	0.305, p < 0.001	p-value < level of significance (5%)
Average block VIF (AVIF)	1.464	acceptable if <= 5, ideally <= 3.3
Average full collinearity VIF (AFVIF)	1.635	acceptable if <= 5, ideally <= 3.3
Tenenhaus GoF (GoF)	0.440	small >= 0.1, medium >= 0.25, large >= 0.36
Sympson's paradox ratio (SPR)	1.000	acceptable if >= 0.7, ideally = 1
R-squared contribution ratio (RSCR)	1.000	acceptable if >= 0.9, ideally = 1
Statistical suppression ratio (SSR)	1.000	acceptable if >= 0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	1.000	acceptable if >= 0.7

The R-Square determinant results are shown in Figure 2. The results obtained R^2 = 0.35, which indicates that market sensing capability and entrepreneurial orientation affect strategic flexibility by 35%. In this case, these results show the contribution of market sensing and entrepreneurial orientation in forming strategic flexibility. Then, R^2 = 0.29 indicates that strategic flexibility affects 29% of digital transformation. These results also demonstrate the contribution of strategic flexibility to digital transformation.

The results of this study indicate that market sensing capability significantly affects strategic flexibility. The path coefficient was found positive, meaning that higher market sensing capability tends to increase strategic flexibility. It means that by tracking changes in the market environment is essential, modern coffee shops can respond to uncertainties caused by changes in consumer behavior and intense technological changes. This response to market uncertainty, supported by marketing knowledge, enabled modern coffee shop managers to develop strategic flexibility to achieve their goals. The finding of this study backs up the concept introduced by Day (1994) that market sensing capability provides a space for companies to rearrange the company system and structure according to current market trends and changes. It is also reinforced by Bayighomog-Likoum et al. (2020) that the essence of market sensing capability is about how companies understand the market environment and predictions that will occur in the future.

The finding also proves that the efforts of modern coffee shop managers to study and monitor competitors' strategies or methods contribute to strategic flexibility. This study can explain that market sensing capabilities provide input for modern coffee shops to collect, share, and analyze any information obtained to develop strategic flexibility. The finding supports Nurhayati & Hendar (2021), who found that market sensing capability is carried out by monitoring competitors' strategies by paying attention to, exploring, and combining competitors' innovations so that companies are required to carry out and create strategic flexibility to meet market needs. This result also aligns with Sony et al. (2022) who found empirical facts that market sensing capability in terms of technological capabilities to search data, reviews, and market information can influence companies in developing strategic flexibility per the market demand and wants. Bayighomog-Likoum et al. (2020) also support this research by stating that market sensing capability, which refers to a company's ability to understand and gain insight into the macro market environment or ecosystem, has a significant influence on strategic flexibility by essentially evaluating activities based on the assessment and feedback provided by consumers.

Based on the finding, entrepreneurial orientation significantly affects strategic flexibility. The path coefficient was found positive, meaning that higher entrepreneurial orientation tends to increase strategic flexibility. Based on the finding, empirically, entrepreneurial orientation (a risk-taking, proactive, and innovative attitude) is needed by an organization to predict future uncertainties. Entrepreneurial orientation is also very strongly related to company flexibility because there are demands for companies to be more flexible in making strategic decisions. As a company's internal capability, strategic flexibility is needed to reply to the needs and changes in the business context. These results support the statement of Celuch &

Murphy (2010) explain that strategic flexibility needs to be driven by entrepreneurial orientation value to implement when running an organization. If an organization is still rigid in determining organizational strategy, it will certainly be difficult to develop.

This study shows that the strategic flexibility implemented by modern coffee shops is driven by the courage to invest in producing new products/services and in competing with competitors. Modern coffee shop managers can also take advantage of technological developments and use them to construct value for the company. This investigation's findings align with Budiati et al. (2022) and Kurniawan et al. (2019), which underline a significant relationship between entrepreneurial orientation and strategic flexibility. The finding also supports Han & Zhang (2021) that companies with an entrepreneurial orientation will respond better to market dynamics.

It is also supported by modern coffee shop managers being millennials. They have innovative characteristics, dare to take the initiative, and tend to be proactive, which play a role in entrepreneurial success (Mahbubi, 2022) and in creating a flexible and adaptive attitude to change. This finding also supports Kharisma et al. (2020), which argues that entrepreneurial orientation, especially on the proactive dimension, provides significant results for strategic flexibility. Through strategic flexibility, modern coffee shops allow the efforts to emphasize the organization's quick response to external changes in unpredictable environments.

Based on the research results, an empirical fact was found that strategic flexibility significantly affects digital transformation. The path coefficient was positive, meaning higher strategic flexibility tends to increase digital transformation. The results of this study indicate that the ability to carry out digital transformation in modern coffee shops is largely determined by the strategic flexibility supported by the managers. The digital transformation in modern coffee shops is manifested by using information technology or digital technology to support their business activities. This reality is related to the statement of Verhoef et al. (2021) that digital transformation is integrated to support how the business is run and to create value. Amid uncertain changes in the marketing environment, an organization must be flexible and expeditiously in determining a strategy. Acceleration is needed because the market is always shifting dynamically. An organization also needs flexibility to accelerate and digitalize (Gong et al. 2020; Matalamäki & Joensuu-Salo, 2022).

These results also show that the ability to manage a business is determined by a clear digital strategy supported by modern coffee shop managers who develop a culture capable of changing and creating new things. Digital transformation is also driven by consumer behavior changes and increased information technology use among consumers. Various forms of payment and service transformation also reflect modern coffee shops' proactive and reactive attitude to changes in the market and industry circumstances. This proactive and reactive attitude is influenced by the strategic flexibility that companies must implement to anticipate environmental changes during Industrial Revolution 4.0 (Brozovic, 2018). Modern coffee shops also utilize information or digital technology to combine several activities. It can be seen in the use of electronic devices that signal when consumer orders are ready to be served. Through this tool, consumers can immediately know when their orders are ready and take them without the help of modern coffee shop servers. Almost all modern coffee shops receive electronic payments using e-wallets.

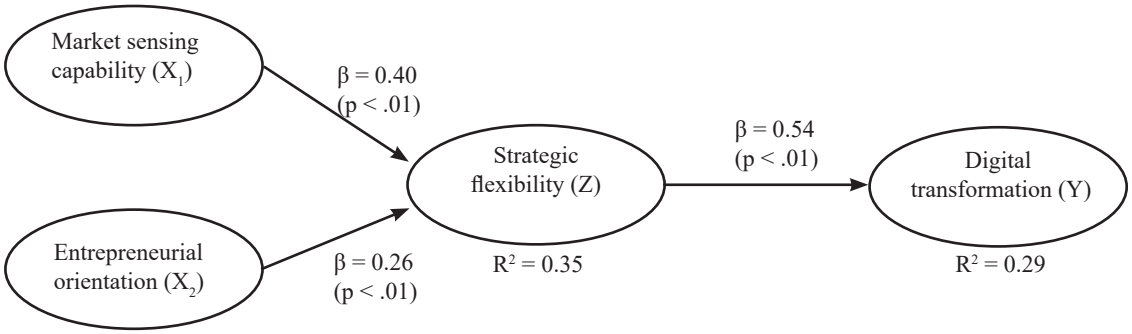

Figure 2. Results of the hypotheses test

The finding of this study strengthens the opinion of Fachrunnisa et al. (2020) that as one of the strategic plans, strategic flexibility provides a positive relationship with digital transformation in business practices. These results are also coherent with research conducted by Kandemir and Acur (2022), which proves that there is an influence between strategic flexibility and digital transformation.

Managerial Implication

As a managerial implication of this research, modern coffee shop managers need to increase the utilization of data/information obtained from the market to provide customer service. Improving market sensing capabilities can also be carried out by more intensively studying changes in the market environment. For entrepreneurial orientation, modern coffee shop managers must be more daring to invest in producing new products and increasing their competitiveness.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The results of this study provide new insights into the literature regarding the relationship between market sensing capabilities, entrepreneurial orientation, strategic flexibility, and digital transformation, which is still widely studied in Indonesia, particularly regarding modern coffee shops as research objects. From a theoretical point of view, the results of this study provide evidence from a dynamic capabilities perspective that market sensing capabilities have a role in shaping strategic flexibility. The results of this study also support the strategic entrepreneurial perspective that the synergy between dynamic capabilities and entrepreneurial orientation also contributes to the creation of strategic flexibility. The significant contribution of the finding is the relationship between market sensing capability and strategic flexibility tested in this study. Thus, this study has provided a new perspective on the relationship between market sensing capabilities and strategic flexibility among managers in modern coffee shops.

In this study, modern coffee shop managers have used market sensing skills and entrepreneurial orientation as components that play a role in generating strategic flexibility. These results also support the theoretical view that strategic entrepreneurship is a source of strategic flexibility for companies to continue to exist and carry out digital transformation in the Industrial Revolution 4.0 era. During the Industrial Revolution 4.0, strategic flexibility was needed so modern coffee shops could exist and compete. Through strategic flexibility, modern coffee managers can carry out digital transformation so that their businesses can keep up with market demands, industry dynamics, and changes in consumer behavior. However, there is an important note from the results of this study that market sensing ability and entrepreneurial orientation have yet to make a significant contribution, even though both have played a role in shaping strategic flexibility. Likewise, from the review of strategic flexibility, it has yet to make a significant contribution, even though this variable influences the occurrence of digital transformation among modern coffee shops.

Recommendations

To some extent, this study has enriched the literature and perspectives on manager behavior in modern coffee shops, especially in terms of dynamic capabilities. This study has more or less enriched the author's and other researchers' perspectives on the behavior of managers in modern coffee shops. Accordingly, there are several recommendations in this study. First, for future research, it is necessary to investigate other variables of possible dynamic capabilities that have an essential role in strategic flexibility. Second, it is necessary to include seizing and reconfiguring/transforming variables as part of dynamic capabilities, which this study needs to study. Third, as more modern coffee shops have increasingly fierce competition, it is necessary to study how to create sustainable branding capabilities and competitive advantages.

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