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MSME Development Based on Dynamic Capability Analysis and Upgrading Global Value Chain

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Abstract: Micro, Small, and Medium Enterprises (MSMEs) are a vital sector proven to be resilient during economic crises, but now face significant challenges in the form of digital disruption and global competition. This study aims to analyze MSME development strategies in facing the digital economy era through the Dynamic Capabilities and Global Value Chain Enhancement approaches. The research method used is descriptive qualitative with a case study approach, utilizing observational data and a review of related literature. The research results show that to survive, MSMEs must possess dynamic capabilities that include adaptability, the ability to absorb new technologies, and innovative capabilities. Furthermore, MSMEs need to upgrade in the global value chain through three phases: improving technology-based production processes (process improvement), improving product concepts and philosophies (product improvement), and shifting functions to become active brand owners in digital marketing (functional improvement). In conclusion, the integration of e-commerce technology mastery, product innovation, and digital ecosystem support is crucial for MSMEs to increase competitiveness and national income.

Keyword: MSMEs, Dynamic Capabilities, Global Value Chain, E-Commerce, Digital Economy.

INTRODUCTION

The massive economic development in Indonesia began with the monetary crisis in 1997, where most companies in Indonesia experienced an economic recession which led to bankruptcy. (Sarwono, 2015) On the verge of bankruptcy for several companies in Indonesia, one business managed to survive and contribute to the development of the national economy. MSMEs (Micro, Small, and Medium Enterprises) are one of the business sectors that survived the monetary crisis due to their unique appeal and business philosophy, collaborating with cooperative organizations. The development of MSMEs in Indonesia was recorded at nearly 57 million MSMEs in 2012-2013, absorbing more than 100 million human resources. (Sarwono, 2015).

The concept and strategy of MSMEs differ from those of corporations, as they are built on a simple foundation without the need for complex regulations. The massive presence of

MSMEs demonstrates the sector's significant potential for supporting the national economy. MSMEs performed remarkably well during the Indonesian crisis, contributing to Gross Domestic Product (GDP) and employment.(Sarwono, 2015).

Indonesia experienced a monetary crisis in 1998, which culminated in the fall of the New Order regime, affecting all levels of Indonesian society. Production and marketing processes were severely hampered by the lack of government assistance and support.(Widyastuti et al., 2016)The fall of the rupiah against the dollar has significantly impacted the prices of basic commodities and necessities. Despite the economic crisis, MSMEs have managed to survive, maintaining their distinctive characteristics and gaining acceptance among all segments of society. Despite their simplicity, which tends towards traditionalism, MSMEs can contribute to increasing Indonesia's Gross Domestic Product (GDP). Furthermore, MSMEs also represent the products and culture of each region, each with its own unique characteristics.(Widyastuti et al., 2016).

As many as 56% of MSMEs in all regions in Indonesia have contributed Gross Domestic Product to the Indonesian economy.(Hamza & Agustien, 2019). Furthermore, the rapid growth of MSMEs in several regions in Indonesia has significantly impacted access for MSMEs to expand their businesses. MSME business development does not always run smoothly as expected. This is because most MSMEs still use simple and traditional methods in production, product marketing, and other processes. To address this, technological insight is crucial for MSMEs in developing their industries. Technological insight, directly and indirectly, provides MSMEs with the means to increase production, expand product marketing, and enhance the selling value of their products.(Hamza & Agustien, 2019).

One effective technological insight into the buying and selling business is e-commerce applications. In today's technological era, e-commerce is a means of marketing MSME products easily and quickly. This is because e-commerce opens up opportunities for anyone to view and market their products without specific business restrictions. This has given rise to a movement called "MSMEs go online."(Hamza & Agustien, 2019), where MSMEs are not merely viewed as traditional products seen by only a few, but as products with a philosophy, selling value, and can be seen by many through e-commerce applications. To encourage the digitalization process and make it easier for MSMEs to face the changes that are occurring, the government has increased ease of access and transferred technology to MSMEs so they can survive in business competition.(Purwana et al., 2017). To master e-commerce insights, the ability to master digital technology devices and the internet is an absolute must for MSMEs if they want to survive in business competition in Indonesia ((Purwana et al., 2017).

METHOD

The author chose descriptive research through an approachCase StudyThis approach directly obtains sources and forms an instrument that is related to contemporary issues and provides a social issue.(Hellweg et al., 2003).

Data collection is semi-structured in nature in the form oftheoretical review and observation as primary data, and analysis of written literature and additional literature that are similar to this research as secondary data. The data in the form of observations contain facts and the group's views that can guide the research opinion.

This field data analysis technique will adopt a descriptive approach.Case Studyby Robert K. Yin, namely simple time series analysis(Ridder, 2012). This analysis utilizes data collection in the form of theoretical studies through observation and collection of literature studies that support following a design based on the time setting of the incident and mapping appropriate patterns.(Yin,2009).

RESULTS AND DISCUSSION

Formulation Of The Problem

Based on the issues and relationships in the background, the problem formulation in this study is how to develop MSMEs based on dynamic capability analysis and upgrading the global value chain?

Phenomena Supported by Facts Related to the Problems That Arise Which Encourage the Importance of Conducting Research

The determination of how MSMEs are identified has been written based on Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs), in Chapter I, Article (1). These criteria lead to the development of micro-enterprises in Indonesia. The designation "micro-enterprise" is only temporary and can serve as a catalyst for further advancement. Furthermore, MSMEs can dominate the export-import market and compete with large companies in Indonesia and internationally.

The government's focus in increasing economic growth in Indonesia is on advancing the people's economy. One of the government's efforts to advance the people's economy is through policies related to the people's economy, particularly in business and the buying and selling of goods. The principle of a people's economy exists to help people improve their economic standing in business. An example of the application of the people's economy concept is the development of MSMEs in every region of Indonesia.

Of course, integrating MSMEs from offline to online requires time and careful planning. This integration can begin with organizing MSME exhibitions to attract investors or using e-commerce to support MSMEs in branding, marketing, sales, and other areas. The importance of this integration aligns with the Industry 4.0 era, where nearly all business sectors utilize technology in their operations.

Furthermore, the Cooperatives and MSMEs Office also collaborates with state banks to provide business capital loans. Naturally, this loan process requires a lengthy and complex process to avoid misunderstandings between the MSMEs and the state bank. Government agencies also assist in MSME development by processing relevant paperwork. Business outreach to MSMEs is also a government obligation to provide insight into MSME development for them.

The development of the creative economy also serves as an alternative for the government to maintain economic growth given the increasingly competitive global economy. The creative economy can provide a platform for Indonesians to develop MSME businesses. The creative economy provides the freedom to create and create products with high sales value and a strong philosophy. This is further supported by the numerous e-commerce platforms in Indonesia that support the creative economy, particularly MSMEs.

Business MSMEs are labor-intensive businesses, do not require specific requirements such as education level, worker expertise (skills), and use of relatively little business capital and the technology used tends to be simple. (Purwana et al., 2017). Furthermore, MSMEs need system updates, where they must keep up with the currents of globalization if they want to survive and grow faster than before. The relationship between MSMEs and technology is unavoidable. MSMEs must truly utilize the internet as part of their marketing and product branding strategies. (Purwana et al., 2017) The era of globalization demands increased innovation in products and services, development of human resource skills, development of technology and expansion of marketing areas. (Purwana et al., 2017) If they want to survive, MSMEs must be able to maximize the benefits of digital developments. (Purwana et al., 2017).

Lack of facilities and access to technology is a barrier for MSMEs. Technology makes MSME actors have to learn to utilize technology well. To develop MSME businesses, digital marketing is present to provide facilities in developing MSME products in Indonesia. MSME actors must understand digital marketing with social media and e-commerce, and understand

how to use it effectively (Es, Rahmi, & Aditya, 2017). In addition to the above, the importance of knowledge about market conditions is also an important point in the development of MSMEs. Lack of public awareness in terms of technology can lead to information lag and decreased business competition in Indonesia.

Latest Developments in Related Research to Provide Solutions to Problems

The Indonesian government has provided business outreach, which is crucial for small and medium-sized businesses. The government provides incentives and effective coaching to improve quality through training and workshops.

The Indonesian government has established a working capital loan program for MSMEs to support their business development. This program offers significant opportunities for MSMEs, but the Indonesian government still faces limitations in its budget and development efforts. In 2017, the Ministry of Cooperatives, Small and Medium Enterprises (Kemenkop UKM) allocated only Rp 917.2 billion. This budget is a continuation of a 2016 program, namely the distribution of People's Business Credit (KUR), people's markets in underdeveloped areas, Intellectual Property Rights Ratification, People's Service Centers, and entrepreneurship. (Hamza & Agustien, 2019).

Limited funding and assistance from the Indonesian government does not hinder MSMEs from developing their businesses going forward. The Indonesian government is expected to build a solid MSME community consisting of entrepreneurs and MSME business owners. Another obstacle faced by MSMEs is copyright. Copyright protection for MSMEs is still considered inadequate due to unequal government regulations and a lack of public awareness about copyright in MSME businesses.

In the realm of economic digitalization, traditional and non-traditional markets are indirectly separated. Although they will remain connected, they remain asynchronous. Networking within this digital ecosystem remains confined to the realm of competition between commodity owners or companies, resulting in friction between them. Digital disruption is one issue within the digital ecosystem, resulting from the emergence of new innovations that harm competitors in other industries that remain within the same ecosystem. This digital disruption also occurs when traditional markets are converted into non-traditional markets and follow their systems. This ecosystem is also used as a benchmark for the condition and utilization of these indicators, as well as their implementation in daily business practices.

Furthermore, the scope of the digital economy has given rise to a digital ecosystem. A digital ecosystem is formed due to similarities in a system or system's objectives. This can be implemented in the emergence of e-commerce, which varies across industries and utilizes interconnected networks. In the realm of economic digitalization, the digital ecosystem also disrupts global trade. Networking within this digital ecosystem continues to lead to competition between commodity owners or companies, resulting in business contradictions. Digital disruption is one of the most pressing issues in the digital ecosystem, resulting from the emergence of new innovations in several business lines and issues related to the presence of technology in the integrated business sector.

Theoretical Gap that Drives the Importance of Conducting Research

In the world of trade and business, the basic economic concept of supply and demand is highly applicable. Supply and demand determine the quality of goods, their prices, and their added value. Indonesian MSMEs have entered the technological realm, allowing people to select, evaluate, and purchase goods easily and quickly. A 2015 study by Delloitte Access Economics found that consumers are increasingly accustomed to making decisions based on digital content and purchasing goods online. This presents both a challenge and a promising business opportunity for MSMEs in Indonesia.

The importance of market dominance is a crucial point in the development of MSME businesses. The term digital marketing presents a platform for MSMEs in developing their businesses. Digital marketing has become one of the media frequently used by business actors due to the new ability of consumers to follow the flow of digitalization. Some companies are gradually starting to abandon conventional marketing models and shift to modern marketing. With digital marketing, communication and transactions can be done at any time/in real time and can be accessed worldwide.

People can also view various products via the internet. Most information about various products is already available online. It makes ordering easier and consumers can compare one product with another.(Kotler et al., 2011). MSMEs, as economic catalysts in Indonesia, face unique challenges. MSMEs must adapt and capitalize on opportunities in the technological age, abandoning traditional methods without losing the philosophical value of their products.

Research Purposes

This study aims to analyze the behavior of MSMEs towards E-Commerce and its impact on the economy in Indonesia.

Benefit

This research is expected to be a solution and reference for MSME business actors in the digital era of E-commerce to develop their businesses to become more advanced and bigger.

Dynamic Capability

Dynamic CapabilityDynamic capabilities are a concept derived from fundamental changes in the business environment, designed to analyze the development of companies that appear to be struggling to adapt and compete in the market. A company's business strategy is considered deadlocked or no longer capable of facing market competition or a continuously evolving business environment.(Laaksonen & Peltoniemi, 2018)Companies are required to develop new strategic concepts that are capable of addressing market ecosystems that continually change over time.

A company experiences changes in business strategy due to core resources and core competences components.(Schilke et al., 2018). The existence of systematic changes in the company is not an obstacle in connecting core resources and core competencies to compete again in the market by updating the strategy for renewing core resources and core competencies components.(Schilke et al., 2018). Furthermore, there are business updates and improvements to the company's dynamic system capabilities. The significant link between dynamic capabilities and market share influences the company's decision-making.

Furthermore, organizational capacity is a priority in determining market competitive strategy. This capability is directed at the company's employees, involving ongoing employee activities. This capability allows for repeated, ongoing performance evaluation, unlike ad hoc activities that don't focus on the company's environment.

The term satisfactory performance is defined as a company's output in determining work strategies in accordance with company expectations. This relates to the emergence of capability theory, which examines the dimensions of company heterogeneity.(Helfat & Winter, 2011)Operational capabilities enable a company to carry out corporate activities that focus on marketing, operations, and customer service.

Dynamic capabilities are the abilities that enable a company to change its business strategy at any time. Dynamic capabilities within a company can be utilized as dynamic capabilities to adapt to various strategies formulated by the company. Organizational capabilities demonstrate patterned and synchronized activities within the company.

There are several variables in dynamic capabilities that can be used to analyze a company's business conditions and environment. The relative nature of a company's

environmental conditions can be indicated through improvements in its capabilities, namely incremental dynamic capabilities.(Wilden et al., 2016)The capability adaptation process then leads to policies being issued through continuous improvement.(Wilden et al., 2016). Dynamic and paradoxical business environments can have their capabilities renewed through renewing dynamic capabilities.(Wilden et al., 2016)A company's situation and conditions can determine the adjustment of dynamic capabilities. The term paradox and bias refer to changes or adaptations to irrelevant capabilities, which require the company's environment to adapt regeneratively, or regenerative dynamic capabilities. This allows the company to identify new potentials in determining a new model.

A company will be in accordance with dynamic capabilities if it has three capabilities, namely adaptive capability, absorptive capability, and innovative capability.(Wilden et al., 2016).Adaptive Capability is a company's ability to identify and capitalize on market potential or prospects that drive market share trends. Adaptive capability can be measured by a company's ability to respond to opportunities, monitor market share, customers, and competitors, and allocate resources to marketing activities.

Absorptive capabilityAbsorptive capability is defined as the ability to evaluate and utilize the conceptual models of other companies that are similar to the company. The benchmark for absorptive capability focuses on analyzing other companies' competition for strategy development and then applying it to operations.

Meanwhile, innovative capability is defined as the ability to develop new products or markets. Innovative capability is measured by the number of product or service innovations, process innovations, and new problem solutions, as well as the adaptation of new innovations to the business world.

Upgrading in Global Value Chain

In order to create sustainability for local businesses as a real condition in facing global competition, local upgrading is necessary for business actors to know the things that must be changed to maintain the existence of their business.(Humphrey, 2011)Local upgrading can be defined as a shift in activities undertaken by business actors to increase their income. There are three phases in local upgrading: process upgrading, where companies improve their production processes by increasing the efficiency of the production system by integrating inputs into outputs, or introducing new technologies to facilitate the production process.(Humphrey, 2011)Product upgrading involves changing the concept of a product using the same materials. Functional upgrading involves adding new functional value to an item to increase its sales value, for example by adding new packaging and labeling.

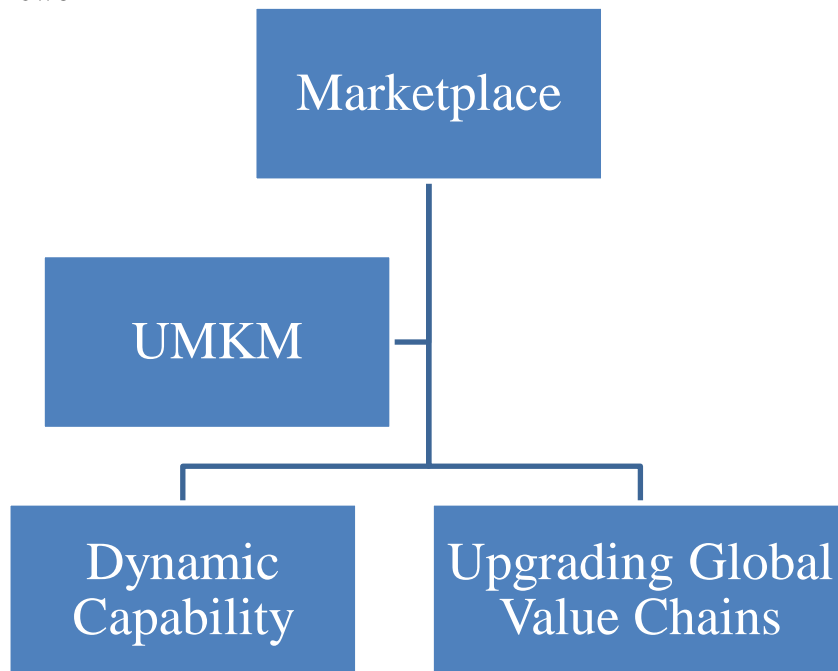
The existence of these phases requires businesses to have sufficient resources to maintain product quality in global competition. This process involves a trade-off between the pursuit of new knowledge and the exploitation of existing knowledge.

Businesses cannot sustain their existence if they have a small non-production staff, dependency on buyers, and limited technological knowledge. The need for human resources, coupled with the quantity of people, is a benchmark for the success of MSMEs. Furthermore, a lack of collaboration can lead to competition between businesses. In this case, large companies can suffer losses not only due to the departure of professional workers but also due to the loss of their flagship products, which have long been their hallmarks. Based on this situation, businesses are adopting more problem-centered initiatives, which direct cooperation between the public and private sectors.(Humphrey & Schmitz, 2004).

This collaboration can then be integrated into how business owners interact with external parties, thereby improving the quality of the company's production. These external parties should prioritize experienced employees associated with the business, or other business owners who assist them in their upgrading process. Maintaining external relationships is crucial for

business owners' resilience in facing the challenges of corporate costs and innovation. MSMEs are present as a catalyst for the Indonesian economy, which continues to grow over time.

Conceptual Framework



Validity of Research

1.Sudayanto, Ragimun (2011),In a study entitled "MSME Empowerment Strategy in Facing the ASEAN Free Market," this study analyzes the issue of Indonesia's lack of economic development in developing the economic structure of MSMEs. Using marketing management and microeconomic concepts, it found limitations in working capital, low human resources, and inadequate utilization of science and technology. 2.Bismala L (2016),In a study entitled "Management of Micro, Small, and Medium Enterprises (MSMEs) to Increase the Effectiveness of Small and Medium Enterprises," this study analyzes the MSME management model as an effective application. The management model relates to aspects of company management, namely production management, marketing management, human resource management, and financial management. Indicators of MSME performance in development over time through the SWOT concept.

The findings of this study are business development and evaluation due to the lack of integration between MSMEs and quality improvement. 3.Wilson H (2007),In the study "The Multi-Channel Challenge: A Dynamic Capability Approach," this study analyzes the development of e-commerce as a new market actor. Based on the B2B concept, a combination and comparative analysis utilizes e-commerce's position as a competitive player in the market.

The utilization of four dynamic capabilities reveals changes in market direction and the treatment of e-commerce. 4.Helfat C (1997),in the research Know-How and Asset Complementarity and Dynamic Capability Accumulation: The Case of R&D. Utilizing four Dynamic Capability indicators in analyzing the accumulation and efficiency of the Research and Design team in a United States Petroleum company in 1970-1980.

Development over time is analyzed to build the dynamics of research team development. 5.Cetindamar D (2009),In the study "Understanding Technology Management as a Dynamic Capability: A Framework for Technology Management Activities," this study analyzes the

construction of technology industry management development using dynamic capabilities. The findings of this study demonstrate that dynamic capabilities, as a theory, allocate innovation resources over time and adapt to emerging issues. 6.Konsti-Laakso S (2012),in the study "Facilitating SME Innovation Capability Through Business Networking." This study analyzes the innovation process in terms of complexity, dynamics, and cumulative interactions within MSMEs. The study focuses on the market and MSME relationships to build new networks within the market. Utilizing SME Innovation in this study revealed a key contribution as a parent and the need for network development and expansion through innovation efforts. 7.Irmawati D (2011).

In a study on the use of e-commerce in the business world, this study analyzes the expanding e-commerce market, which has the potential to monopolize global trade. The broad scope of e-commerce encompasses not only the buying and selling process but also monopolizes payments and other sectors. This e-commerce expansion has apparently not been utilized effectively in Indonesia, especially by business actors. A deeper understanding of market integration and collective trade management is needed to enable entry into the e-commerce market. 8.Lee J (2015),in the research of Global Value Chains, Rising Power Firms, and Economic and Social Upgrading.

This paper is based on a theoretical study of Global Value Chains on changes in global trade patterns, investment, production, and their impact on the economy and society. Global Value Chains provide an understanding that markets are capable of changing conditions instantly from top to bottom. Highlighting rapid market changes certainly requires actors at all levels to be able to adapt to these conditions. Global Value Chains as a design theory focuses on two elements of affected actors. Small actors must be able to analyze and take preventive action against trade monopolies carried out by large companies.

The need for development or upgrading and solutions to compete in uncertain market conditions. Based on qualitative descriptive data analysis referring to the problem formulation regarding the development of MSMEs, this study found that the success of MSMEs in surviving in the era of digital disruption is highly dependent on the integration between the company's dynamic capabilities and the ability to improve its position in the value chain (upgrade). 1.Dynamic Capability Analysis in Digital MSME Adaptation. Dynamic Capability Theory is used to examine how MSMEs adapt their business strategies to face rapidly changing environments driven by technology. The research reveals three main dimensions:

Adaptive Capacity: Findings show that MSMEs that survive are those that are highly sensitive to changes in consumer behavior that are shifting to the digital realm. Just as consumers now make decisions based on digital content, MSMEs are responding to traditional methods in a disrupted market.

Absorption Capacity (Ability to Absorb Knowledge): MSMEs This confirms that technological insight is an important key to increasing production and sales value.

Innovative Ability (Ability to Innovate): In the context of the creative economy, MSME innovation extends beyond products to marketing solutions. These innovations incorporate unique local cultures, yet are packaged with modern digital marketing strategies. This demonstrates MSMEs' ability to balance traditional values with the demands of global innovation. 2.Improving Implementation in the Global Value Chain (GVC)

Analysis of the Global Value Chain shows that digitalization enables MSMEs to undertake local upgrading to maintain their business existence. Three phases of upgrading were identified:

Process Upgrading: MSMEs are streamlining their production and marketing systems by adopting technology. This allows them to expand their market reach, previously limited to traditional markets. This overcomes previously hindered production and marketing processes.

Product Improvement (Product Enhancement): MSMEs improve their product concepts to meet broader market standards. This improvement is important so that MSME products can compete with products from large and international companies.

Functional Enhancement: This is the most significant finding, where MSMEs are shifting their function from mere producers to brand owners who actively engage in branding. Digital marketing provides a platform for MSMEs to build their own brand image (branding). With functional enhancement, MSMEs provide new added value through better packaging and labeling to increase sales value.

3. The Role of Digital Ecosystems and Government Support

This discussion also highlights that MSME development does not occur in a vacuum, but rather within a complex digital ecosystem.

The Challenge of Disruption: Digital disruption is creating intense competition between traditional and non-traditional markets. MSMEs face supply and demand challenges, where quality and pricing are transparently determined on digital platforms.

Government Support: Despite budget constraints, government initiatives through the distribution of People's Business Credit (KUR) and simplification of permits (Law No. 20 of 2008) have become a catalyst for MSMEs to undertake training.

Collaboration: The results of the case study show that collaboration between the public (government) and private sectors (e-commerce platforms) is crucial to help MSMEs overcome the limitations of human resources and technology.

CONCLUSION

Based on the results of the analysis and discussion regarding the development of MSMEs through the Dynamic Capability and Upgrading Global Value Chain approaches, several main conclusions can be drawn:

The Urgency of Dynamic Capability: The ability of MSMEs to survive in the era of digital disruption depends heavily on three pillars of dynamic capabilities, namely adaptive capability, absorptive capability, and innovative capability. MSMEs that only rely on conventional methods without absorbing digital technology insights tend to stagnate because they fail to respond to changes in consumer behavior that are shifting to online platforms.

Transformation Through Global Value Chain Upgrading: Effective MSME development occurs when business actors gradually upgrade their skills and local cultural uniqueness, leading to functional improvements where MSMEs are able to carry out independent branding and marketing through digital marketing.

The Role of the Digital Ecosystem: E-commerce is not just an additional sales channel, but a vital infrastructure that enables MSMEs to expand their market reach without geographical limitations. This is a barrier for micro-entrepreneurs.

Based on the research findings, the following are recommendations for various related parties:

For the Government:

It is estimated that the government will not only focus on distributing capital assistance (KUR) but will also prioritize copyright protection for MSME products. The government needs to increase the intensity of technology training and workshops more evenly to address the digital literacy gap among traditional MSMEs.

For MSMEs:

Business owners must immediately shift their mindset from being mere commodity traders to brand-aware entrepreneurs. It's crucial for MSMEs to continue innovating products with unique characteristics and a strong philosophy to avoid being eroded by price competition in the open market.

For Further Researchers:

This research uses a qualitative descriptive approach. It could also provide a more in-depth study of the effectiveness of intellectual property rights protection policies on the

competitiveness of MSMEs in the global market, given that this issue remains a significant obstacle.

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