

## The Development Model of Strategic Transformation Capability Based on Relational Quality to Exploitability Knowledge and Innovative Performance

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### Article's history:

Received 17 September 2019; Received in revised form 21 October 2019; Accepted 7 November, 2019;  
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### Suggested Citation:

Mubarok, M.H., Widodo. 2019. The development model of strategic transformation capability based on relational quality to exploitability knowledge and innovative performance. *Journal of Applied Economic Sciences*, Volume XIV, Winter, 4(66): 1108 - 1115. DOI: [https://doi.org/10.14505/jaes.v14.4\(66\).17](https://doi.org/10.14505/jaes.v14.4(66).17)

### Abstract:

The importance of effective network quality and dynamic capability approaches in organizations, especially knowledge-based organizations, is to improve innovative performance. It happens because of dynamic capabilities based-organizations development, exploitability knowledge and the important role of the networks quality in fashion industry, are a fundamental concern for top managers to strengthen the capabilities of strategic transformation in enhancing innovative performance. The purpose of this study was to develop a strategic transformation capability model based on relational quality towards the exploitability knowledge and innovative performance. This study used a purposive sample with 287 respondents from the fashion industry in Central Java, Indonesia. The AMOS software used to Structural Equation Model analysis technique in this study. The findings of this study indicate that there is an increase in the exploitability knowledge carried out by increasing the strategic transformation capability. Therefore, it is necessary to take several steps to improve the company's network quality. Based on the findings of this study, suggestion proposed is to ensure innovative performance that is more productive through more effective exploitability knowledge.

**Keywords:** relational quality; strategic transformation capability; exploitability knowledge; innovative performance.

**JEL Classification:** D8; J5; L2.

### Introduction

Organizations operating in a hypercompetitive environment with increasingly new challenges in innovation development require the development of dynamic capabilities in developing strategies that lead to the creation of corporate wealth (Adegbile and Sarpong 2017). Developing dynamic capabilities, making companies with development capability, integrating and transforming competencies can maintain long-term profitability (Teece 2007). However, companies must have transformation capabilities to have valuable strategic resources as part of complex networks that can enhance or replace each other so a combination of important resources gets competitive advantage (Saranga *et al.* 2018). Many company leaders have used knowledge-based thinking in developing strategic values that are driven by innovation to increase competitive advantage (Christensen and Christensen 2013). In addition, companies need to get ready to improve their strategic transformation capabilities in designing business models that produce innovative performance. They must prepare to strengthen the transformation capabilities that shape their skills and place limits on the feasibility of certain strategies (Teece 2017). For that reason, they need comprehensive new capability. It is the capability of strategic transformation as the capability to re-form the creation of useful and complex products. The strategic transformation capability makes it possible to achieve innovative performance from the company.

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## 1. Literature Review

This research discussed some theories. First is about the quality of networks related to the quality of trust, coordination, relationships and synergy with stakeholders that lead to an increase in the exploitability knowledge that ultimately has the potential to produce innovative performance. Second is building the configuration of transformation capabilities and strategic resources empirically so that it leads to the improvement of innovative performance through the exploitability knowledge. In addition, previous research recommendations explain that technological innovation has an important role in achieving strategic objectives through strategic knowledge transformation (Liu and Gallagher 2010). Relational quality with the main dimensions of trust, commitment and satisfaction is very important for management strategies that are appropriate to the age of a relationship (Nyadzayo, Matanda and Ewing 2016).

### 1.1. Relational quality

Relational quality as part of organizational competitiveness means that decision making to improve and achieve innovative performance requires corporate strategies that adopt processes and are designed to provide a series of initiatives in achieving a set of corporate goals (Mileski, Wang and Zeng 2017). Relational quality is important resources in increasing the company strategic value (Payne *et al.* 2017). Relational quality refers to assets is influenced through relationships based on trust, respect given and hope realization (Kim 2018). Relational quality is an effective component that must be owned by companies that have a network relationship interpreted in the quality of stakeholders trust (Allameh 2018). Relational quality shows the company strength and quality that are accompanied by intensive frequency of interactions and mutual trust (Yan and Guan 2017). Relational quality is seen as a result of interaction, whether their mutual trust values between the company and stakeholders that encourage and pay attention to enhance the capabilities of strategic transformation, existing in absorption capacity, or potentially increase innovative long-term performance (Chuang, Chen and Lin 2016). The quality of a well-built network in increasing the capability of the company's strategic transformation which tends to improve organizational innovation performance in long period (Kittikunchotiwut 2015). Therefore, the company can maintain relational quality in the future. They can manifest the relational quality in several processes and relations among stakeholders in long period.

Although there is no consensus concluding on the exact construction that underlies most researchers identify trust as core components of relational quality (Kale *et al.* 2000). Therefore, this study incorporates critical factors in the current model representing relational quality that determines management's ability to build networks (Gounaris and Tzempelikos 2014). Some important dimensions of relationship quality, such as commitment, trust, and cooperation as factors that are very important for every business to consider in company growth (Nyadzayo, Matanda and Ewing 2016). Study of Miquel-romero, Caplliure-giner and Adame-sánchez (2014) found that trust and commitment are the result of implementing relational quality. The indicators used in measuring relational construction are individual level commitment, and alternative quality. Meanwhile, this study did not assess investment in alternative size and quality because these variables are normally not used in evaluating relational quality (Manusov *et al.* 2018). Therefore, this study used some indicators. They are trust, quality of coordination, quality of relationships and stakeholder synergy.

This study analyzed fashion industry to investigate the relationship between network quality and the strategic transformation capabilities developed by the fashion industry in the context of enhancing innovative performance through exploitability knowledge. The sustainability of the fashion business in Indonesia and collaboration among stakeholders are crucial issues in providing several benefits and creating shared value in business development and sustainability (Mayangsari 2017). The fashion industry generally forms a major part of income and labor-intensive growth. The fashion industry allows many people in home industry to experience high levels of output growth (Uddin and Afrin 2015, Daryanto *et al.* 2015).

### 1.2. Strategic transformation capability

Knowledge-based theory (KBT), dynamic-capability approach (DCA), and resource-based theory (RBT) explain how strategic transformation capabilities have an influence on exploitability knowledge, and innovative performance. First, resource-based theory is the main theory that explains how companies achieve profitability and can be maintained over time through resources and capability integration as a basic direction for corporate strategy (Grant 1991). The idea of strategic transformation is about an organization's ability to accumulate and integrate skills, strategic abilities and processes using a variety of strategy-making and transforming itself to ensure long-term survival and create greater stakeholder value (Stockport and Stockport 2013).

Second, the conceptualization of knowledge-based theory from organizational capabilities explains that one of the company's strategic capabilities is its ability to integrate knowledge. It is as the most important strategic resource of the company to create the ability to produce innovation (Nielsen and Nielsen 2014). Knowledge-based views of the company define core abilities as a collection of knowledge that is unique, distinctive, differentiating, superior to competition, difficult to emulate, to provide competitive advantage (Saranga *et al.* 2018). Organizational level capabilities have been treated as a reflection of company-specific competencies to manage, regulate, and coordinate certain sets of activities better than other companies as different skills as well as a collection of important resources and competencies specific to companies (Vesalainen and Hakala 2014).

Finally, the dynamic capability approach emphasizes that different competencies refer to the key role of strategic management. They are to adjust, integrate, and reconfigure organizations appropriately as resources, skills, and competencies in dealing with changing characters and environments (Helfat and Martin 2015). Companies need the ability to feel, seize and transform resources into capabilities that are very important in dealing with regular risks and deep uncertainties and linking them with strategies to defend themselves in rapid technological change and disruption (Teece, Peteraf and Leih 2016). It is emphasized that the company's core capabilities are as integration of core capabilities, and dynamic capabilities consisting of adaptive and innovative capabilities in relation to the company's strategic direction to overcome environmental change (Wang and Ahmed 2007). Knowledge transformation refers to the absorptive capacity formed by dynamic capabilities as a series of organizational processes from the acquisition of external knowledge, assimilation, transformation by sensing, seizing, and transforming new opportunities (Huang *et al.* 2017, Newey *et al.* 2015).

Strategic transformation refers to entrepreneurial capability, that defined as the ability to reconfigure creative ways by presenting new choices that attract customers (Pearce and Robbins 2008). The success of transformation as a simultaneous shift in strategy development requires a combination of strategic resources and dynamic capabilities in improving the corporate innovation performance (Makadok 2001). The ability of strategic transformation as a strategic management role is very important to deal with rapid market changes and produce innovative performance in business competition. Therefore, the strategic transformation capability has defined as the capability of organizations to acquisition of attracting innovations, accumulating and integrating strategic renewal to create greater stakeholder value as well as new options that ensure long-term survival. Based on that review, the hypotheses proposed in this study is:

*Hypothesis 1: Relational quality has a positive influence on strategic transformation capability.*

### 1.3. Exploitability knowledge

Exploitability is basically the integration of human resource capabilities and the process of gaining competence by adopting, integrating, and applying new knowledge that requires the acquisition of knowledge to create reliable experiences (Liu 2006). Exploitability knowledge is based on the integration of resource-based theories and knowledge management derived from professional abilities and exploitability knowledge (Widodo and Nurhayatie 2018). Exploitability knowledge is the ability of human resources who have the quality of communication, introducing new things related to the network (Widodo 2018). When they obtain new knowledge, the next challenge is to change the assimilated new knowledge so that it can be utilize for new special innovations. For that reason, companies must have ability to change the knowledge obtained from external sources and thus develop the new exploitability knowledge (Hakanen 2014). Therefore, the following hypothesis is proposed:

*Hypothesis 2: The capability of strategic transformation has a positive impact on the exploitability knowledge.*

### 1.4. Innovative performance

The company can enhance innovative performance by internalizing external knowledge that can be utilized for the development of knowledge transformation. Companies with superior absorptive capacity to capture the transformation processes toward innovation performance (Zhang *et al.* 2010). Current investment in transformative capacity comes from absorptive capacity to increase innovation in the future. The support for the idea generally provided to absorption capacity that related to innovative performance (Liu *et al.* 2017). Most research shows that capacity change refers to absorption capacity that has a positive impact on innovation performance. Absorption capacity is an important factor to help companies in achieving and promoting corporate innovation performance by processing new external knowledge for organizational innovation activities (Huang *et al.* 2017, Kostopoulos *et al.* 2011, Fosfuri and Tribó 2008). In addition, by focusing on the competitive business environment to face variations in competitive forces, they must consider the capacity building process to increase innovative capacity and

adaptation of strategies through sustainable processes enables it to maintain its competitive advantage in the market or industry over time (Shams 2016). Hence, based on this argument, the hypothesis is as follows:

*Hypothesis 3: Strategic transformative capabilities has a positive impact on innovation performance.*

A successful planning strategy to promote innovative performance requires the knowledge exploration built by sharing knowledge as a knowledge strategy based on entrepreneurial capacity (Widodo 2018). On the other hand, increasing the ability of human resources through the exploitability knowledge will create innovative performance with low qualifications to achieve sustainable competitive advantage (Widodo and Nurhayatie 2018). Knowledge management is the capacity of transformation as part of the capacity for knowledge understanding (Campos-Climent, Sanchis-Palacio and Ramon 2017). Furthermore, for increasing the exploitation of corporate knowledge, it is necessary to have the capability of strategic transformation based on the quality of trust as a strategic way to improve the company's innovative performance. Thus, we hypothesized that:

*Hypothesis 4: Exploitability knowledge has a positive impact on innovation performance.*

## 2. Methodology

The sampling technique used was purposive sampling, based on certain characteristics, such as the fashion industry that has innovation. The research respondents were the leaders of the fashion industries in Central Java Province, Indonesia. The number of samples was 287 and it referred to Hair *et al.* (2010). Meanwhile, hypotheses test using Structural Equation Modeling (SEM) software.

Relational quality is the sustainability of the network. It is manifested in different processes and networks in the future. The indicators used were trust, coordination quality, relationship quality and synergy. Then, strategic transformation capability is the organizational capability of reshaping product creation, reconfiguring product development skills, and integrating strategic renewal for long-term survival. Indicators used such as the capability of reshaping product creation.

Exploitability knowledge is the ability of human resources that have introducing new things through the network. The indicator refers to Tamayo-Torres, Ruiz-Moreno and Javier (2011) such as the quality of communication and organizational management. Innovative performance is the contribution of processes and products to the results of innovation. It is achieved from the production activities carried out. The indicator referred to Zerenler and Hasiloglu (2008) such as changes and new product technologies.

According to Table 1, the results show that the validity test with loading factor values above 0.5 and the reliability test results with a minimum value of 0.6 (Hair *et al.* 2010). Therefore, the data from the instrument is valid and reliable.

Table 1 Validity and reliability test

No	Variable	Indicator	Loading Factor	Reliability
1	Relational Quality	a) Trust to stakeholders	0,69	0,80
		b) Coordination quality	0,81	
		c) Relationship quality	0,61	
		d) Synergy with stakeholders	0,72	
2	Strategic Transformation Capability	a) Capability of reshaping product	0,59	0,73
		b) Reconfiguration of development skills	0,74	
		c) Integration of strategic renewal	0,74	
3	Exploitability Knowledge	a) Quality of communication	0,63	0,70
		b) Quality of organizational management	0,56	
		c) The quality of information technology	0,58	
		d) Adaptive to the environment	0,66	
4	Innovative Performance	a) New product technology	0,72	0,73
		b) Changes of new products	0,68	
		c) Management renewal	0,66	

Source: own processing of authors

## 3. Result and discussion

The empirical model test used was Structural Equation Modeling. The model indicates Chi-square = 187,032 with a probability value of 0,000; GFI = 0.914, AGFI = 0.877 and TLI = 0.909, while the value of RMSEA = 0.074. The result of the model is a Fit. Based on statistical analysis, the results of this study indicate compliance with the

required standard values. Moreover, Table 2 present that three of the four hypotheses proved. However, one hypothesis is not significant.

Table 2. Inner Path Model coefficients and their significance

Exogenous Variable	Endogenous Variable	Standard Estimate	T-score
Strategic Transformation Capability	Relational Quality	0.897	9.827***
Exploitability Knowledge	Strategic Transformation Capability	0.810	8.871***
Innovative Performance	Exploitability Knowledge	0.699	3.518***
Innovative Performance	Strategic Transformation Capability	0.312	1.838

Source: own processing of authors

Note: P < 0.10; \* p < 0.05; \*\* p < 0.01; \*\*\* p < 0.001

Hypothesis 1: relational quality has a significant influence on the capability of strategic transformation. It means that the higher relational quality will increase the capability of transforming new products strategically in the fashion industry. It happened because the quality of network includes good trust with partners. It means that good quality trust with partners can increase the ability to re-create product creation so it can improve the quality of organizational management in meeting changing market needs (Kale *et al.* 2000). The better the quality of coordination and relationships with trusted partners possessed by the company can be used for product development and integration of strategic renewal that are sufficient to create new products (Payne *et al.* 2017).

Hypothesis 2 is significant and the results showed that the capability of strategic transformation has a significant influence on the exploitability knowledge. It means that the capability of strategic transformation has the ability to reshape product changes in accordance with consumer tastes change. It is as well as the dynamics of competition and the accumulation of product development expertise with adequate strategic renewal integration in creating products that are more competitive and strategic for long-term survival. This condition supports research of Campos-Climent *et al.* (2017) which showed that transformation capability through exploitability knowledge did not previously exist. The consequence is the potential to increase the process speed, emergence of new products and potential to create new technologies that are superior in creating higher quality products and in accordance with consumer tastes change.

The results of hypothesis 3 indicated that the capability of strategic transformation to develop on innovative performance has not supported by empirical data. This condition is due to the renewed management that is not optimal and not balanced by more modern management dynamics, such as management breakthroughs in accordance with the digital era and the demands of social media in the industrial revolution. As a result, the creation and changes of new products supported by the exploitability of adequate knowledge such as support for adequate quality of communication, quality of information technology and attitudes that are adaptive to changes in the rapid environment change.

Hypothesis 4 is significant, where the presence of innovative performance has significantly influenced by the exploitability knowledge. It means that when entrepreneurs improve the quality of adequate communication with stakeholders, the changes in new products can more quickly known by the market to meet changes in consumer tastes and faster competition. It supports the study of Widodo and Nurhayatie (2018) which explained that the exploitability knowledge built by sharing knowledge reflects the quality of knowledge strategies to improve adequate new products. As a result, the intensity of the exploitability knowledge that is stronger can trigger an increase in new products changes and new product technologies that are more responsive.

## Conclusion

The capability to reform product and integration of adequate strategic renewal can increase changes of new products faster and develop new technology products that are more responsive. The increase of the capability to transform products of strategic value has the capability to re-form product creation that is more responsive to the market. The integration of strategic renewal with the reconfiguration of skills for product development can actively accept changes made based on relational quality.

The capability of strategic transformation can be reform with good trust with partners, coordination and relationships quality that achieve synergy with stakeholders. It can create good communication quality, adequate organizational management quality and quality of information technology that is more adaptive to the environment. Exploitability of adequate knowledge has the potential to improve adaptive new product technologies, new product changes and management renewal that are more appropriate with environmental changes.

The limitations of this study were in the testing results of complete SEM model. It shows that SEM model is an appropriate model. However, the suitability test that was received marginally was the Adjusted Goodness of Fit

Index (AGFI = 0.877) and the chi-square value divided by degree of freedom (CMIN/DF = 2,562). The results of calculations using AMOS software show that the effect of strategic transformation capability on innovation performance has a standardized regression weight estimate of 0.332 and weak influence qualification below 0.5. Based on these limitations, it is clear that the object is an interesting study area.

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