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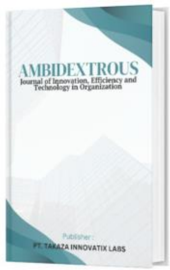

Uniting Innovation and Stability: The Key to Business Flexibility

Gatot Wijayanto[1*], Arini Novandalina[2], Yutiandry Rivai[3], Jushermi[4]
[1,4] Universitas Riau
[2] STIE Semarang
[3] Institut Bisnis dan Teknologi Pelita Harapan, Riau
Corresponding Author e-mail: gatot.wijayanto@lecturer.unri.ac.id

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Abstract: *This study investigates the interconnectedness between Level of Business Innovation (LBI), Financial Stability (FS), Industry Competition Level (LIC), and Business Flexibility (BF). Utilizing Smart-PLS analysis, direct effects were affirmed, showing LBI's positive impact on LIC and BF, FS's influence on LIC, BF, and LIC's effect on BF. Additionally, indirect effects were examined, revealing LBI and FS indirectly affecting BF through LIC mediation. Results demonstrate that heightened Business Innovation fosters Industry Competition and Business Flexibility. Improved Financial Stability correlates with heightened Industry Competition, thereby impacting Business Flexibility. However, indirect impacts from LBI and FS to BF via LIC were modest but statistically significant, highlighting the mediated influence of Industry Competition. Understanding these relationships illuminates strategies leveraging innovation, stability, and industry competition for organizational adaptability. The study underscores the complexity of these linkages, guiding businesses toward enhancing adaptability and resilience in competitive markets.*

Introduction

PT Arara Abadi is a company that is part of Asia Pacific Resources International Holdings Ltd. (APRIL Group). The company is engaged in the pulp and paper industry, focusing on the production of cellulosic fiber, paper, and other related products. Established in Indonesia, PT Arara Abadi is recognized as one of the major producers in the pulp and paper industry in Asia. As part of the APRIL Group, PT Arara Abadi is committed to sustainable practices in its business. They have shown concern for environmental conservation, safeguarding the sustainability of natural resources, and implementing the latest technology and industry practices to reduce negative impacts on the environment. This commitment to sustainability is also reflected in their policies regarding tropical forests. PT Arara Abadi strives to manage forests responsibly by balancing pulp and paper production with environmental sustainability. In addition, they engage in land rehabilitation and natural resource conservation programs that help improve the environmental impact of their business activities. In terms of development, PT Arara Abadi continues to innovate in production technology to improve efficiency and reduce the environmental impact of their processes. They also engage in research and development efforts to create high-quality products that are environmentally friendly. As part of the APRIL Group, PT Arara Abadi has a great social and environmental responsibility, and they continuously strive to be a leader in the sustainable pulp and paper industry. They engage in initiatives to promote best practices in their industry, including advocacy for sustainable forest management and positive contributions to surrounding communities. With their commitment to sustainability, technological innovation, and social responsibility, PT Arara Abadi continues to strive to be a forward-looking company that makes a positive contribution to the environment and surrounding communities.

PT Arara Abadi is a prime example of how combining innovation and stability is key to building a successful flexible business, particularly in the pulp and paper industry. The company manifests innovation through the adoption of the latest technology in the production process. They continue to invest in modern technology to improve pulp and paper production efficiency, reduce environmental impact, and create high-quality, environmentally-friendly products. However, PT Arara Abadi not only focuses on innovation alone, but also maintains stability through responsible management of natural resources. With a commitment to the balance between production and environmental conservation, the company is actively involved in land rehabilitation and natural resource conservation programs. In addition, PT Arara Abadi also demonstrates social responsibility by participating in programs that have a positive impact on the surrounding community. Overall, this phenomenon illustrates how a company like PT Arara Abadi can successfully combine evolving innovation with long-term stability to achieve sustainable business flexibility and responsiveness to market and environmental needs.

When it comes to flexibility in business, it refers to the ability of a company to adapt to changes in the market, business environment, technology, and consumer needs quickly and effectively. Flexible businesses are able to adapt their strategies, operational processes and business models according to changing demands. This involves innovation, speed in decision-making, and the ability to change direction or make adjustments quickly without sacrificing quality or efficiency. Flexibility allows companies to respond quickly to new opportunities, respond to increased competition, and even face major challenges such as regulatory changes or crisis situations (Shabuur & Mangundjaya, 2021). By having a culture that encourages adaptability, a responsive organizational structure and changeable systems, businesses can create a vital competitive advantage in an ever-changing business environment. This demonstrates the importance of innovation, agility and the ability to learn from experience in achieving long-term success. Flexibility in business also includes several other aspects that support adaptability and responsiveness (Diansyah & Suwantik, 2022). One of these is flexibility in human resources, which involves the development of employee skills, the use of time or work location flexibility, and the ability to shift teams or resources according to project needs or changes in market demand. In addition, technology plays an important role in creating business flexibility (Agung Raharjo & Sabur, 2020). Adopting technologies that enable system integration, real-time data analysis, and process automation can give companies the ability to adjust quickly to changing market conditions or customer needs. A long-term strategy that focuses on adaptation is also an integral part of business flexibility. This involves developing planning scenarios that consider various possible changes that may occur in the future, so that companies can be better prepared to deal with them. Integrating the concept of flexibility into the company culture is also a key factor (Diansyah & Suwantik, 2022). When flexibility is considered a core value that is implemented within every level of the organization, employees tend to be more open to change, more innovative, and better equipped to adapt to changes that occur.

The level of industry competition reflects the degree of competition that exists within a business sector or industry (Numat et al., 2022). It involves the amount and nature of competition between firms operating in the same or similar industries (Shabrina et al., 2023). Factors that influence the level of industry competition include the number of competitors, the relative strength of those competitors, the degree of product differentiation, the level of regulation, and barriers to market entry. Industries with high levels of competition generally have many active competitors, similar products or services, and a tendency to reduce prices (Widayanto, 2020). In such a situation, companies must strive to maintain market share, product innovation, and strong marketing strategies to differentiate themselves from other competitors. On the other hand, industries with low levels of competition tend to have few competitors or dominance by a few large firms (Achmad, 2020). In this context, firms may have more control over their pricing and marketing strategies. However, in some cases, dominance by a few large players may hinder the entry of new competitors into the market. Analyzing the level of industry competition is important in a company's strategic decision-making (Wardiman et al., 2021). Understanding competitive dynamics allows companies to adjust their strategies, identify new opportunities, and anticipate threats that may arise from competitors. Efforts to maintain or increase competitive advantage are often the main focus in highly competitive environments, while in industries with low levels of competition, companies may focus on efforts to expand market share and long-term growth.

The level of business innovation refers to the ability of an enterprise to create and implement new ideas, new processes, or new products that bring added value to the organization (Utami, 2023). It involves efforts to introduce creative concepts or new technologies into business operations to improve competitiveness, efficiency and growth. The level of business innovation is not only limited to product development, but also includes changes in the company's business model, marketing strategy, customer service, as well as internal processes (Sunarni & Kusnady, 2023). Companies that successfully improve their level of business innovation are often pioneers in their industry (Lutfiani & Rahardja, 2020). They may push traditional boundaries by adopting the latest technologies, conducting continuous research and development, or even by forming strategic partnerships to expand the scope of ideas and knowledge. High levels of business innovation are also often associated with good adaptability to changing markets and dynamic business environments.

Financial stability in a business context refers to a balanced financial condition, where the company has the ability to maintain a balance between assets, debt, and capital and is able to manage cash flows well. This includes the ability to meet financial obligations on time, pay debts, and keep operating without too much financial stress (Syaputra & Adry, 2019). Key aspects of financial stability include healthy financial ratios, such as a moderate debt-to-equity ratio, adequate liquidity, and consistent profitability (Rusydiana et al., 2019). Financial stability also describes a company's ability to cope with financial risks and economic uncertainties that may arise. Companies with good financial stability are often able to attract investors, gain access to financial resources at better interest rates, and have the ability to make strategic long-term investments (Wiku & Ayuningtyas, 2021). Financial stability also provides a solid foundation for companies to overcome external challenges that may occur, such as changes in market conditions, exchange rate fluctuations, or changes in regulatory policies (Rusmana & Tanjung, 2020). Achieving optimal financial stability requires prudent financial management, sound financial planning, and prudence in taking financial risks (Gunawan, 2020). In addition, awareness of the importance of adequate financial reserves and liquidity management is key in maintaining the company's financial stability in the long term.

The purpose of this study is to investigate the interrelationships between the level of business innovation, financial stability, business flexibility, and the level of industry competition in the context of combining innovation and stability as important keys to achieving successful business flexibility. This research aims to identify how a firm's level of business innovation affects its financial stability, and how these two factors affect the level of business flexibility attained by the firm. In addition, this research will explore how the level of industry competition affects the relationship between innovation and stability, and how this factor plays a role in enhancing or hindering business flexibility. By understanding the relationships and interactions between these key variables, the aim is to provide deep insights for firms in developing optimal strategies to achieve high levels of business flexibility amidst ever-changing market dynamics and environmental demands.

Research Methods

This research uses a survey method with a quantitative approach to collect data from PT Arara Abadi. The sample consists of 93 respondents who are part of the company. Data collection was conducted through a structured questionnaire specifically designed to measure the main variables in this study, namely Level of Business Innovation, Financial Stability, Level of Industry Competition, and Business Flexibility. The carefully constructed questionnaire enabled respondents to assess their company's innovation practices, measure relevant indicators of financial stability, evaluate their perception of the level of competition in the industry, and measure the level of flexibility of the company's business operations. Respondents were asked to provide their assessments based on their experiences and perceptions of the aspects in question. The distribution of the questionnaire was conducted through two main methods, namely online through a dedicated platform and also through direct contact with companies. The online approach allows wider access and facilitates the participation of respondents who have time or location constraints. Meanwhile, direct contact with companies provides an opportunity to obtain more precise and more direct responses from respondents who are directly involved in company operations. Data analysis was conducted using Smart PLS 3.2.8 software using Partial Least Squares (PLS) analysis techniques. This analytical approach was chosen because it allows researchers to examine the relationship between variables and their effects in complex models and understand the role of mediating variables, in this case the Level of

Industry Competition, in the relationship between the main variables such as the Level of Business Innovation and Financial Stability to Business Flexibility.

Result and Discussion

The variables in this study are abbreviated as follows: Level of Business Innovation (LBI), Financial Stability (FS), Business Flexibility (BF), and Level of Industry Competition (LIC). Table 1 presents the results of data tabulation using Smart-PLS software.

Table 1. Direct Effects

Path	Original Sample	T Statistic	P-Values	Decision
LBI >LIC	0.449	4.992	0.000	Accepted
FS>LIC	0.307	3.446	0.001	Accepted
LBI>BF	0.584	8.641	0.000	Accepted
FS>BF	0.142	2.212	0.030	Accepted
LIC>BF	0.345	4.879	0.000	Accepted

Table 1. shows that there is a positive and significant relationship between the LBI and LIC. The number 0.449 indicates the path coefficient, which indicates the strength and direction of the relationship between the LBI and LIC variables. In this context, the path coefficient of 0.449 indicates that every one unit increase in the LBI will be followed by an increase of 0.449 units in the LIC. In addition, the T Statistic value of 4.992 indicates that the path coefficient is significantly different from zero. This value is used to measure the statistical significance of the relationship between these variables. In general, a T Statistic value that exceeds a certain limit signifies statistical significance. Meanwhile, P-values close to zero (0.000) indicate that the relationship between LBI and LIC has a very high statistical significance. In statistical analysis, P-values lower than the threshold (0.05) signify a significant relationship between the variables tested. This result implies that there is a significant relationship between LBI and LIC in the context of this study. This suggests that higher levels of innovation within a firm tend to have a positive impact on the intensity of competition in the industry in which the firm operates.

The analysis shows that there is a positive and significant relationship between FS and LIC. The number 0.307 is the path coefficient which shows the strength and direction of the relationship between the variables of FS and LIC. In this context, the path coefficient of 0.307 indicates that every one unit increase in FS will be followed by an increase of 0.307 units in the LIC. Furthermore, the T Statistic value of 3.446 indicates that the path coefficient is significantly different from zero. This value is used to measure the statistical significance of the relationship between the variables tested. A T Statistic value higher than a certain limit signifies statistical significance. The P-Values of 0.001 indicate that the relationship between FS and LIC has a very high level of statistical significance. In statistical analysis, P-values lower than the threshold (0.05) signify a significant relationship between the variables tested. This finding implies that FS is significantly associated with LIC. In this context, improvements or greater stability in the financial aspects of a firm are likely to have a positive impact on the intensity of competition in the industry in which the firm operates.

The analysis results show a positive and significant relationship between the LBI and BF. The number 0.584 is a path coefficient that describes the strength and direction of the relationship between the variables of LBI and BF. In this context, the path coefficient of 0.584

indicates that every one unit increase in the LBI will be followed by an increase of 0.584 units in BF. Furthermore, the T Statistic value of 8.641 indicates that the path coefficient is significantly different from zero. This value indicates the level of statistical significance of the relationship between the tested variables. A T Statistic value higher than a certain threshold signifies statistical significance. The P-values of 0.000 indicate that the relationship between LBI and BF has a very high level of statistical significance. In statistical analysis, P-values lower than the threshold (0.05) signify a significant relationship between the variables tested. This finding implies that the LBI has a significant relationship with BF. In this context, an increase in a firm's level of innovation is likely to have a positive impact on the level of flexibility of the firm's business operations.

The analysis shows that there is a positive relationship between FS and BF, although statistically, this relationship is not fully significant at higher confidence levels. The path coefficient between FS and BF is 0.142. This figure indicates that there is a positive relationship between the two variables, with each one unit increase in FS followed by an increase of 0.142 units in BF. The T Statistic value of 2.212 indicates that this path coefficient has a relatively low level of statistical significance. Typically, T Statistic values below a certain threshold indicate that the relationship may not have a high level of statistical significance. However, the P-Values of 0.030 indicate significance at the 0.05 level. While this level of significance is not as strong as desired in statistical analysis, P-Values lower than the 0.05 threshold signify a possibly statistically significant relationship between FS and BF. Thus, this finding suggests that there is a positive relationship between FS and BF. Although not fully significant at high confidence levels, these results suggest that an increase in the financial stability of a firm is likely to have a positive impact on the level of flexibility of business operations, although this relationship needs to be further examined in a broader context or with a larger sample to validate the findings.

The results of the analysis indicate a positive and significant relationship between the LIC and BF. The path coefficient between the LIC and BF is 0.345. This figure indicates that there is a positive relationship between the two variables, where each one unit increase in the LIC is followed by an increase of 0.345 units in BF. The T Statistic value of 4.879 indicates that this path coefficient is significantly different from zero. This value indicates the level of statistical significance of the relationship between the variables tested. A T Statistic value higher than a certain threshold indicates statistical significance. The P-Values of 0.000 indicate that the relationship between LIC and BF has a very high level of statistical significance. P-values lower than the threshold (0.05) indicate a significant relationship between the variables tested. This result implies that LIC has a significant relationship with BF. In this context, a higher level of competition within the industry in which the firm operates is likely to have a positive impact on the level of flexibility of the firm's business operations.

Furthermore, this study also examines the indirect effects or interventions of the Level of Industry Competition variable, which are presented in Table 2 as follows:

Table 2. Indirect Effects

Path	Original Sample	T Statistic	P-Values	Decision
LBI > LIC > BF	0. 165	1.273	0.000	Accepted
FS > LIC > BF	0. 117	4.080	0.000	Accepted

The results of the analysis indicate an indirect effect of the LBI on BF through the mediation of the LIC. The path coefficient of 0.165 indicates how much the indirect impact of the LBI on BF through the LIC. This value indicates that every one unit increase in the LBI will be followed by an increase of 0.165 units in BF through the intervention or mediation of the LIC. Meanwhile, the T Statistic value of 1.273 indicates that the path coefficient is not significantly different from zero within a high level of confidence. This suggests that, statistically, the independent effect of LBI on BF through LIC may be less robust or statistically inconsistent. However, the P-values of 0.000 indicate that this relationship has a very high level of statistical significance. P-values that are lower than the threshold (0.05) signify a significant relationship between the variables tested. In this context, the findings show that although the statistically independent effect of LBI on BF through LIC may not be very strong, the relationship is still statistically significant. This indicates that LIC acts as a mediator between LBI and BF, although its impact may be more moderate in the context of this study.

The analysis shows that there is an indirect effect of FS on BF through the mediation of the LIC. The path coefficient of 0.117 indicates how much the indirect impact of FS on BF through the LIC. This value implies that every one unit increase in FS will be followed by an increase of 0.117 units in BF through the intervention or mediation of the LIC. The T-statistic value of 4.080 indicates that this path coefficient is significantly different from zero within a high level of confidence. This indicates that statistically, the independent effect of FS on BF through LIC is recognized as significant. The P-Values of 0.000 indicate that this relationship has a very high level of significance statistically. P-values lower than the threshold (0.05) signify a significant relationship between the variables tested. This finding indicates that FS has a significant indirect effect on BF through LIC as a mediator. In this context, LIC acts as a strong intermediary or mediator between FS and BF, suggesting that better financial stability tends to have a positive impact on the level of flexibility of business operations through its effect on the level of competition in the industry concerned.

Conclusion and Recommendation

The findings from the analysis shed light on the intricate relationships between LBI, FS, LIC, and BF. Direct effects analysis revealed significant positive associations: LBI positively influences LIC and BF; FS positively impacts LIC, BF, and LIC's impact on BF. Indirect effects were also explored, indicating that LBI and FS exert indirect influences on BF through the mediating role of LIC. The results suggest that higher levels of Business Innovation positively affect Industry Competition and Business Flexibility. Similarly, enhanced Financial Stability correlates positively with Industry Competition and thereby influences Business Flexibility. Furthermore, the mediating role of Industry Competition in the relationships between Business Innovation, Financial Stability, and Business Flexibility underscores its significance in shaping organizational adaptability. However, the study identified variations in the strength of these relationships. While direct impacts were uniformly significant, the indirect effects through Industry Competition, although statistically supported, displayed differing degrees of influence. Specifically, the indirect effects from LBI and FS to BF via LIC were observed to be modest, implying a less pronounced but still notable impact mediated by Industry Competition. In conclusion, these findings emphasize the multifaceted dynamics among Business Innovation, Financial Stability, Industry Competition, and Business Flexibility. Understanding these relationships can empower organizations in crafting strategies that leverage both innovation and stability to adapt and thrive in competitive landscapes. The study underscores the importance of considering not only direct effects but also the nuanced indirect pathways influenced by industry competition, providing valuable insights for businesses aiming to enhance their adaptability and resilience in dynamic market environments.

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