

Competitive Advantage in B2B Market: The Role of Value Co-Creation in Indonesian SMEs

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Abstract:

This study investigates how innovation capability drives value co-creation and how this, in turn, enhances positional advantage and service excellence among Indonesian B2B SMEs. Grounded in Resource Advantage Theory and the resource-based view, this research emphasizes the strategic importance of leveraging unique assets, fostering collaborative innovation, and engaging in customer co-creation to sustain market competitiveness. A survey of 230 respondents from Indonesian B2B SMEs was conducted using a structured questionnaire and analysed through Structural Equation Modelling (SEM). The results confirm that innovation capability has a significant positive effect on value co-creation, which subsequently strengthens both positional advantage and service excellence. These findings suggest that SMEs that develop robust innovation capabilities and actively engage customers in co-creation processes are better positioned to deliver superior value, achieve service differentiation, and maintain long-term competitive performance. The study contributes to the limited literature by integrating marketing, innovation, and service perspectives into a holistic model for sustaining competitive advantage in the B2B sector. Limitations and avenues for future research are also discussed.

Keywords: value co-creation, innovation capability, competitive advantage, innovative capabilities, positional advantage.

1. Introduction

Increasingly tight competition, especially in the Business to Business (B2B) sector, requires Small and Medium Enterprises (SMEs) to differentiate themselves in order to gain a competitive advantage. Competitive advantage is defined as the difference between companies on the same dimension that allows the company to compete better than its competitors. In the current era of globalization and digitalization, competition in the Business to Business (B2B) sector is getting tighter, so that every business actor, especially Small and Medium Enterprises (SMEs), is required to be able to differentiate themselves from competitors and achieve sustainable competitive advantage. This competitive advantage can be defined as a significant difference between companies on the same dimension, which allows a company to compete better than its competitors. In this context, competitive advantage not only functions as a driver of company performance but also as a foundation underlying a successful long-term business strategy (Tuan et al., 2022).

One way to achieve a competitive advantage is through the optimal utilization of existing resources. Companies that want to maintain a superior competitive position must have unique assets and capabilities that differentiate them from competitors (El Namar, S., El-Chaarani, H., Dandachi, I., & Castellano, 2022). In the context of SMEs, competitive advantage is often focused on the marketing aspect, where companies can achieve good business performance through effective marketing strategies (Jones, P., & Tilley, 2023). However, the literature on the

relationship between competitive advantage and marketing performance is still limited, with many studies tending to use a partial and non-holistic approach (Piyush Sharma, Ricky YK Chan, 2022).

Based on the resource-based view /RBV) from a marketing perspective, it emphasizes marketing capabilities and resources that can produce specific competitive advantages, known as positional advantages (Neil A. Morgan, 2024). Positional This advantage not only includes the usual competitive advantages, but also includes the relative value of the results of the marketing strategy offered to the target market as an alternative for customers (Neil A. Morgan, 2024) . This shows that companies that can create more value for customers through innovative marketing strategies will have a greater chance of achieving sustainable competitive advantage.

In addition, in the B2B industry, the service aspect is also a very important consideration. Excellence in service can be an effective differentiation tool, which in turn can generate overall competitive advantage (Shikha Singh, Mohina Gandhi, Arpan Kumar Kar, 2023). Companies in this sector must be able to provide superior service to customers, so that they can present a better product or service delivery process in conditions of intense competition. This is a major challenge for SMEs, which often have limited resources. Service excellence can be defined as the realization of the service differentiation strategy adopted by the company, as well as the ability to develop new products or services that meet customer needs better than competitors' products. (Ngo, 2023). Innovation is also a key driver and source of competitive advantage. Innovation capability is considered as the potential of a company to innovate in various aspects, including products, processes, and services (Thi et al., 2023). This innovation capability includes the ability to generate, accept, and implement new ideas that can be a key resource to drive the company's success in the market (Wisdom Apedo Deku, Jiuhe Wang, 2023). When a company strengthens its capabilities in utilizing and integrating organizational assets and resources, it will be better able to offer sustainable competitive advantage (Piyush Sharma, Ricky YK Chan, 2022).

However, it is important to note that innovation capability is a multidimensional construct. Innovation does not only focus on products, but also includes innovation in processes and services that support the overall development of the company (Rajan et al., 2024). Innovation often involves collaboration between various actors, known as value co-creation. In this context, value co-creation is a collaborative process that allows companies to eliminate barriers, open access to new opportunities and resources, and increase understanding of how to integrate resources effectively (Corral de Zubieta, G. and Jones, 2023). Thus, when companies and customers engage in close interaction during product or service development, customers will perceive higher value, which in turn will increase customer loyalty and satisfaction (Ahmad et al., 2022).

Sustainable competitive advantage can be achieved by SMEs in the B2B sector by developing integrated marketing, service, and innovation capabilities. By utilizing existing resources and implementing a holistic strategy, companies can create more value for customers and differentiate themselves from competitors. Positional advantage and service advantage are two very important strategic specifications in this context. Through the overall and collaborative approach, companies will not only manage to stay alive amidst stiff competition but will even attain better and sustainable business performance in the future.

2. Literature Review

Innovation Capability

Innovation capability is a cluster of organizational capabilities intended to enable the firm to identify, develop, and execute new ideas in the form of products, processes, services, or business models offering additional value (Moreira et al., 2024). This capability encompasses managing ideas, leveraging technology, as well as applying innovative strategies to achieve competitive advantage within the marketplace (M. Mira da Silva et. al., 2024). Innovation capability has a multi-faceted nature where it is not just about the development of new products, but innovation in internal processes, organizational strategies, market promotion, as well as business models (Stundziene et al., 2024). Hence, there is a need for an overall approach to ensure the innovation is executed holistically in all realms of the firm (Zastempowski, 2022).

Apart from technical ones, innovation capabilities also encompass a host of non-technical innovations like the development of strategies, managerial efficiency, and business process and human resource management enhancement (M. Mira da Silva et al., 2024). Innovation is regarded as a participatory process where internal

and external actors like employees, business partners, suppliers, and customers collaborate in bringing innovation about (Mendoza-Silva, 2021). Hence, innovation capabilities may be said to mean the capability of the firm to produce innovations and execute innovations in both technological and nontechnological kinds, through collaborative working and knowledge management, to attain the firm's growth and competitiveness (Moreira et al., 2024). By doing so, organizations are in the position to establish the foundation for attaining sustainable innovation capabilities amid the turbulence of increasingly complex business environments.

Shared Value Creation (Value Co-Creation)

Three different perspectives define the definition of value co-creation, which include service logic, service dominant logic (SDL), and customer-dominant logic (CDL) (Moreira et al., 2024). According to the SDL, value co-creation is a phenomenon of interaction among companies and customers to co-create value through resource integration and service exchange (Stundziene et al., 2024). Business interactions between companies and customers play a central role here to shape and influence the mutual value creation process (M. Mira da Silva et. al., 2024).

Value co-creation is collaboration which dissolves barriers, provides access to new opportunities and assets, and enhances the efficiency of resource integration (Stephen L. Vargo, Kaisa Koskela-Huotari, 2020). This process is also responsible for service quality enhancement and diminishing delivery errors (Stephen L. Vargo, Kaisa Koskela-Huotari, 2020). On the other hand, shared value creation is active, creative, and social collaboration among producers and users to create better value for customer (Okoeguale, 2023). Value creation has been conceptualized as active dialogue among customers and companies in co-creation of shared value (Prahalad, CK and Ramaswamy, 2004). Thus, shared value creation can be conceptualized as collaborative co-creation of value by companies and customers (Zastempowski, 2022).

Within the business environment, value co-creation is perceived as the outcome of multi-actor interactions within interrelated networks (Mendoza-Silva, 2021). When viewed from the perspective of communities as actors in market exchange, multi-actor interactions have the potential to play a central role for SMEs in shaping innovation processes as a sustainability approach (Mukhopadhyay & Bouwman, 2018). Value co-creation is an innovation platform through which the collaboration of resources provides innovative solutions (Mukhopadhyay & Bouwman, 2018). It is also regarded as co-production and co-creation, which are instrumental in the comprehension of forthcoming market needs (Frow et al., 2015). It is also regarded as co-production and co-creation, which are instrumental in the comprehension of forthcoming market needs (Verma et al., 2023).

Highlighting customer collaboration as a source of organizational learning as a driving force for better marketing performance (Nave, E., et. al., 2022). Business networks have the potential to contribute significantly to shared value creation as well as serve as access pathways to knowledge, competencies, technologies, and marketplaces through competency integration and risk-sharing (Adali, 2024). For SMEs, shared value creation is a critical cornerstone to developing innovative business models due to their reduced resources relative to large corporations (Pirro, 2024). The process not only enhances cross-actor collaboration but also deepens commitment to pursuing sustainable innovation (Abdon-liwanag et al., 2023). Value co-creation is also able to bring about the attainment of common strategic visions as well as enlarge financial capabilities through external assistance (Liu, 2024).

Key indicators of value co-creation are formulated in the DART model (Dialogue, Access, Risk, Transparency), which underlines the importance of active customer involvement in value creation (Prahalad, CK and Ramaswamy, 2004). Innovation capability also plays an important role in creating an environment that encourages customer participation in this process (Wisdom Apedo Deku, Jiuhe Wang, 2023). When a company has high innovation capability and is supported by value practices co-creation, they can offer more relevant and sustainable products or services, while building long-term competitive advantages (Wisdom Apedo Deku, Jiuhe Wang, 2023).

Hypothesis H1: Innovation Capability Affects Shared Value Creation.

Competitive Advantage

Resource Advantage Theory (RA- Theory) explains that the main objective of resource-based strategy is to create competitive advantage through positional advantages obtained sequentially in various market segments to

achieve superior company performance (Moreira et al., 2024). Positional advantage in this context refers to the relative value of a company's marketing strategy aimed at a particular market segment as a superior alternative compared to competitors (Stundziene et al., 2024).

Positional advantage usually comes from access to or ownership of a company's unique resources, such as market position, distribution relationships, and relatively stable organizational capabilities (M Motamedimoghadam, M Mira da Silva, 2024). In the context of strategic cooperation, effective alliances allow business partners to synergistically combine resources to create positional advantages (Zastempowski, 2022). There is seven dimensions of positional advantage, namely position relative to competitors, collaborators and complements, collaborators and substitutes, suppliers, distributors, customers, and government (Emma, 2025). Positional advantage, competitive advantage can also be obtained through service excellence advantage, which is the result of a service differentiation strategy and the development of innovative new services (Mendoza-Silva, 2021). Service excellence is about how customer solutions and customer experiences deliver greater value than rivals' products (Frow et al., 2015).

Shared value not only enhances the efficiency of operations, but it is also responsible for intensifying relationships with suppliers and customers (Khan et al., 2024). SME success in creating shared value lies in leveraging information and communication technology, which facilitates better communication along the supply chain (Churk et al., 2023). Shared value created in the B2B environment is responsible for the sustainability of SME business, particularly within the context of competitive market conditions (Mills, 2023). Current research demonstrates that SMEs actively involved in setting up strategic alliances have much greater competitive benefit than those not actively pursuing these strategies (Willys et al., 2024). Shared value created by collaboration has positive implications for customer loyalty, which is responsible for retaining market share within the context of B2B. SME companies actively involved in creating shared value have greater competitive benefit than companies without, with digital technology being responsible for strengthening success (Khan et al., 2024). Therefore, different studies attest to the fact that the creation of shared value is not merely a tactic, but the backbone guiding SMEs to counter increasingly competitive market challenges. Success in creating new services heavily relies on the co-creation of value among service providers and customers (Durst et al., 2023).

Service providers focusing on customer segments willing to accept the creation of shared value may acquire better market share, establish service excellence, and deliver better firm performance overall (James A. Busser, 2020). Service excellence obtained through the creation of unique customer experiences is one of the important foundations in maintaining a company's competitiveness (Nasiri et al., 2023).

Hypothesis H2: Value Co-Creation Affects Positional Advantage

Hypothesis H3: Value Co-Creation Affects Service Excellence.

3. Method

The objects of this study are innovation capabilities, shared value creation, positional advantage, and service excellence for Indonesian B2B SMEs. This study was designed using a survey method with 230 respondents. For the research objectives to be achieved with the formulation of the proposed problems, the data and information obtained about consumers will be collected through the distribution of questionnaires obtained from population samples. The population in this study is B2B SMEs in Indonesia. The sampling technique used is non-probability sampling, specifically judgmental (or purposive) sampling. The data processing technique to determine the weighting of respondents' answers is carried out using a bipolar adjective scale with the use of 10 scales. The data analysis technique used in this study is Structural Equation Modeling (SEM).

4. Results

Confirmatory Factor Analysis on exogenous variables, namely Innovation Capability, is built on 4 measurements. Each measurement or dimension forming the variable shows good results, namely the CR value is greater than 2 x standard error with P less than 0.05. In other words, the measurements forming the variable have shown

unidimensionality. So, based on this confirmatory factor analysis, the research model can be used for further analysis without modification or adjustment. Here are the measurement results:

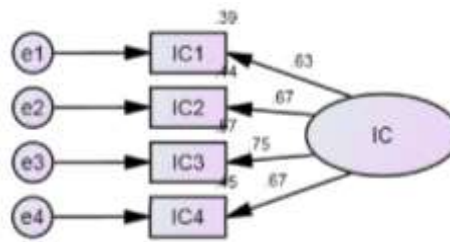


Figure 1. Exogenous CFA

In addition, all statements on the indicators used to measure the value variables, co-creation, positional advantages, and service advantage can be declared valid. Based on the results of data processing, it can be seen that each measurement or dimension forming the variable shows good results, namely the CR value is greater than 2 x standard error with P less than 0.05. In other words, the measurements forming the variable have shown unidimensionality. Then, based on this confirmatory factor analysis, the research model can be used for further analysis without modification or adjustment.

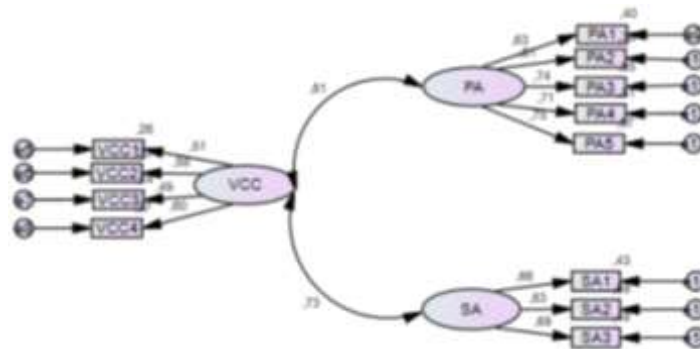


Figure 2. Endogenous CFA

Critical Value The ratio for the normality test for both skewness and kurtosis obtained the most significant limit value of 2.21, which did not exceed the Cut of The value is 2.58, and it can be said that the research data is normally distributed. The outlier test results show the highest value for the univariate minimum of -2.37241 and the highest maximum value of 2.94311. The computerized results show that there is no value greater than ± 3 . Therefore, it can be concluded that there are no outliers. univariate in the research data. While for multivariate, the maximum Mahalanobis distance in this study was 30.509, or did not exceed the χ^2 value of 31.999. This shows that there are no outliers multivariate data, so no data exclusion is necessary.

The structural relationship that occurs between variables can be tested for suitability using the goodness index. of fit. The results of the SEM analysis in the study are shown in Figure 3.

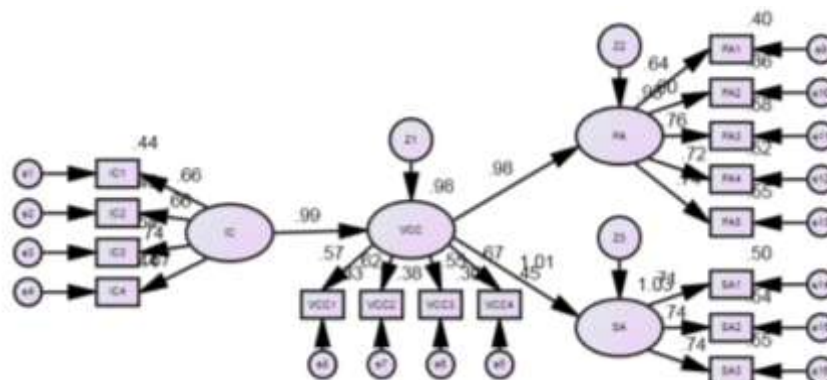


Figure 3. Full Model SEM

Based on the calculation results, the chi-square value is 155.237, so the tested model is said to be good. According to Falk & Muthukrishna (2020) those who stated that, based on the principle of parsimony, where at least one of the fit criteria is met, the model has been declared fit. The AGFI fit value is a value that is equal to or greater than 0.90. Based on the calculation, the AGFI value is 0.898, so that it can be said that the AGFI value is included in the marginal fit category. The RMSEA value indicates the goodness - of -fit that can be expected if the model is estimated in the population. An RMSEA value that is smaller than or equal to 0.08 is an acceptability index of a model that indicates a close fit, meaning that the model is based on degrees of freedom. Based on the calculation results, the RMSEA value is 0.048 so that the model can be accepted. The GFI fit value is greater than 0 and less than 1, so the GFI value can indicate the fit criteria which shows a value of 0.924. The CMIN/DF value of less than or equal to 2.00 is an indication of acceptable fit. Based on the calculation results obtained 1.537, it is included in the acceptable fit category. The TLI and CFI values indicate the level of fit if the value obtained is less than or equal to 0.95. Based on the calculation results obtained, a TLI value of 0.961 and a CFI value of 0.967, both values indicate the fit criteria. From the various suitability indices, it can be concluded that the measurement model or Measurement Model on the proposed endogenous construct is fit or has a good match. So that in this study, the entire research model involving the interaction of Innovation variables Capability, Value Co- Creation, Positional Advantage, and Service Advantage can be accepted and analyzed further.

Hypothesis testing is conducted to determine whether the independent variable affects the dependent variable or not. The hypothesis is declared accepted if the probability value (P) < 0.05. The results of the hypothesis testing can be seen in Table 1 .

Table 1. Coefficient Significance Test

		Estimate	S.E.	C.R.	P	Label
Innovation Capability	→ Value Co-Creation	.864	.098	8.796	***	Accepted
Value Co-Creation	→ Positional Advantage	.926	.107	8.625	***	Accepted
Value Co-Creation	→ Service Advantage	1.029	.105	9.754	***	Accepted

Based on the table, it can be concluded that Innovation Capability has an estimated value of Value Co- Creation of 0.864 with a CR of 8.796 and a p- value of 0.000 (Hypothesis 1 is accepted), Value Co- Creation has an estimated value of Positional Advantage of 0.926 with CR of 8.625 and p- value of 0.000 (Hypothesis 2 is accepted), and Value Co- Creation has an estimated value of Service Advantage of 1.029 with CR of 9.754 and p- value of 0.000 (Hypothesis 3 is accepted). Therefore, innovation capabilities are proven to be an antecedent of value co-creation, which will further enhance positional advantages and service advantages.

5. Discussion

The results of the study show that Innovation Capability has a positive effect on Value Co-Creation, with these results showing that the stronger the innovation, the better. The capability owned by the company, the Value Co-Creation process that is carried out, will be better. Companies with strong innovation capabilities will encourage companies to carry out the Value Co-Creation process. It is known that companies have strong capabilities for product innovation, market innovation, strategy, and process innovation. This has an impact on the value process. co-creation because these capabilities encourage companies to carry out interactive activities that involve customers in producing a product in realizing a superior company. This is in line with research which states that there is an influence between Innovation Capability for Value Co- Creation (Ngo, 2023) . Likewise, the

opinion states that Innovation Capability and customer participation in the Value Co-Creation process are closely related (Nasiri et al., 2023) .

Value Co-Creation has been proven to have a positive influence on Positional Advantage; in this case, the better the value process co-creation is carried out, the better the positional advantage that the company will obtain. The better the Value Co-Creation process is carried out, the better the company will obtain a Positional Strong and sustainable advantage. A company with customer relationship Higher values gain a stronger advantage in the market compared to its strategic competitors (Padmanaaban, 2024) . In addition, Value Co-Creation has also been shown to have a positive effect on Service Advantage. In this case, the more the company maximizes the value process co-creation, it will be even better for the company to obtain and maintain service. advantage. The better the Value Co-Creation process is carried out, the company will obtain a superior Service Advantage and maintain it. This is supported by research results that state that interaction between companies and customers can provide a service market position and provide new advantages (Edvardsson & Tronvoll, 2022) . Therefore, the stronger the innovation capabilities possessed by the company, supported by a good Value Co-Creation process, the company will obtain Positional Advantage and Service Advantage that are stronger and superior compared to competing companies.

6. Conclusion

Results of analysis for testing the model and construct relationship hypothesis, Innovation Capability has a positive effect on Value Co-Creation, with these results showing that the stronger the innovation, the better. capabilities owned by the company, the Value Co-Creation process will be carried out well. Value Co-Creation has a positive effect on Positional Advantage; in this case, the better the value process co-creation is carried out, the better the positional advantage obtained by the company. Value Co-Creation has a positive effect on Service Advantage; in this case, the more the company maximizes the value process co-creation, the better the company is at obtaining and maintaining service. advantages.

7. Limitations

This study has limitations in several technical and substantial aspects. The technical aspect in question is the scope of the study on B2B SMEs, which only involves 2 main sectors, namely companies engaged in the fashion and craft sectors. Further research can be developed by applying it to different business categories, but still paying attention to the intervention of co-creation activities, which are a necessity of current and future marketing aspects. Substantially, the development of the concept of value Co-creation in this study also still uses the basic concept of the DART model, which has been the main benchmark for discussing value. co-creation. Further research is expected to explore other dimensions that may be an update of the DART model that has been used so far. Other research can also be developed by connecting the DART model with other conceptual models, both as antecedents and consequences.

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