

# The Disruption Challenge in Building Business Viability of SMEs Through Virtual Capital Ownership

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## ABSTRACT

**Purpose** – The purpose of this paper is to build the viability of SMEs, in today's disruption era that requires the main power that comes from its owner-managers, which reflects the ownership of virtual capital.

**Design/methodology/approach** – This study examined the influence of intellectual capital, social capital, and credibility capital in facing the challenges of triple disruptions and the subsequent impact on business continuity. Statistical analyses were based on the data collected, through a survey questionnaire from 385 SMEs in the West Nusa Tenggara, Indonesia, with moderated multiple regression analysis.

**Findings** – Based on the results of the study, it shows that the economic challenges of disruption have a negative effect on the role of virtual capital in building SMEs business viability. In addition, the results of this study also show that triple disruptions mediate the relationship between virtual capital and business viability. It can be proven that SMEs actors in West Nusa Tenggara, Indonesia who can survive and serve in the current decade of disruption, are SMEs actors who run their business activities based on intellectual intelligence, emotional intelligence that can build business networks and developed based on a high level of mutual trust. This study was limited to a sample selection covering only one province in West Nusa Tenggara, Indonesia which limits the generalizability of the findings.

**Keywords:** Intellectual Capital, Social Capital, Credibility Capital, Business Viability, Economic Disruption

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## 1. Introduction

Facing the current era of disruption, business people are experiencing quite strong pressure, including corporate businesses or micro, small, and medium enterprises in the world. The era of disruption is basically characterized by fundamental changes in the business environment, there is no precedent in the past, and it is difficult to predict. The challenges of disruption, which have been very prominent lately, have been stimulated by the development of industry 4.0 with the strengthening of economic and business digitization, the millennial era with different orders of market needs, and the impact of the Covid-19 pandemic. These three disruptions are called, by managing partner, Yuswohady, they are popularized as triple

disruptions. As the official report from the Ministry of Cooperatives and SMEs, that one of the sectors most vulnerable to the impact of the coronavirus pandemic is Micro, Small, and Medium Enterprises (MSMEs) and it is said that there are around 37,000 Small and Medium Enterprises who have felt the impact of the Covid-19 pandemic. There are 949 reports from cooperatives and micro, small and medium enterprises affected by the Covid-19 virus outbreak. Facing the challenges of this disruption, MSMEs still have the opportunity to succeed, relying on the power of virtual capital by MSME business actors and the support of related parties, especially the central and regional governments (Bagis, Surati, & Nururly, 2017). The strength of virtual capital shows the strength built from the positive potential of business actors which includes intellectual capital, social capital, and credibility capital in a synergistic manner. Intellectual capital reflects the ability of MSME actors to understand the developments that occur while being able to adapt themselves. The utilization of intellectual capital can produce high innovative power for MSME actors (Hashim, Osman, & Alhabshi, 2015).

Social capital reflects the ability of business people to expand their business networks, to maintain the stability of MSME businesses (Chang, Tein, & Lee, 2010). Credibility capital reflects the ability of MSME actors to build trust and mutual trust in the business world, so that business transaction costs become more efficient (Li, Wang, & Du, 2020). Even though the virtual capital is invisible, its influence is very real in this era of disruption, because it provides opportunities to adapt sustainably, strengthening networks that are strengthened by mutual trust. Thus, the success of MSMEs to maintain their business continuity or business viability is very dependent on the use of virtual capital by the business actors themselves. The viability of MSMEs can become stronger and of higher quality, if the parties, especially the Government, provide meaningful support, according to the benefits and contributions of MSMEs in economic development in developing countries.

Therefore, this paper is based on a growing literature that tries to develop and test a conceptual framework for understanding the critical success factors of small companies, which can help the government to help small companies achieve long-term success. Realizing this, nowadays entrepreneurship training programs have become an important part of government-supported development programs for the development of SMEs in West Nusa Tenggara, Indonesia (Tambunan, 2019). Business viability is expected to be a success criterion for MSMEs in today's disruption era because it reflects a long-term business orientation and is not trapped in a short-term profit orientation. Business viability is also expected to be a testament to the ability of SMEs players to face various challenges in the internal and external environment of the contemporary business world.

## **2. Literature Review**

Business viability means that a business has the potential to be successful. Making business viability a success criterion for SMEs is in line with the study of the living company which shows the company's success in maintaining a long life, by having certain characteristics (Geus, 1998). Business viability is often confused with two other terms that are often used for business performance—solvency and liquidity.

A business is a solvent when it has enough assets to cover its liabilities. Solvency is often confused with liquidity, but it's not the same thing. Business viability is an assessment of the overall business model, not just finances and looks at both short- and long-term profitability (Clark, 2020). SMEs players choose a low selling price to maintain their business continuity (Bates & Robb, 2014). Thus, business viability demonstrates the ability of business actors to maintain their business continuity amid today's disruption challenges, just like maintaining the health of small business owners to be more proactive in evaluating the health and viability of their businesses by using a systems approach before the emergence of signs of trouble through the use of the annual health maintenance and viability evaluation checklist (Rolleri, Nadim, & Lussier, 2016). The results of the study show that the company's survival for eight to ten years since the long-term survival of SMEs is an important criterion for success (Kim, Knotts, & Jones, 2008).

SMEs entities in developing countries need to be supported by encouraging their innovation capabilities, to survive sustainably as achieved by large-scale business entities or corporations (Gunjati & Adake, 2020). The creative and innovative capabilities of SMEs actors can be an effective stimulant for long-term business sustainability or viability, which needs to be supported by relevant parties, especially local governments.

Business continuity is also circumvented by choosing certain market niches with low profits as happened to SMEs in the immigrant community in America (Bates & Robb, 2014). Perceptions of SMEs entrepreneurs tend to measure their performance with other criteria and find success, in job satisfaction and customer satisfaction (Reijonen & Komppula, 2007). The success of SMEs in China shows that proactiveness and competitive aggressiveness have a significant influence on online performance in the business-to-business (B2B) electronic market (Li et al., 2020). Meanwhile, innovation capabilities are still believed to be able to influence the performance of SMEs, such as electronics companies in Vietnam (Hoang & Ngoc, 2019). It is acknowledged that to date, empirical and theoretical studies in measuring the performance of SMEs are not well known, and are under-published (Brem & Gasse, 2008). A newly developed academic conceptual model links success and performance with business environment characteristics, owner-manager characteristics, and business characteristics (Simpson, Padmore, & Newman, 2012). Firm size and age factors dominate the performance of SMEs and are more important than the entrepreneurial strategy and characteristics of their owners (Blackburn, Hart, Wainwright, & Blackburn, 2013). In the face of global epidemic crises, such as the coronavirus (COVID-19), usually SMEs face various challenges in being able to survive by relying on innovation capabilities and receiving support from the Government (Adam & Alarifi, 2021).

The use of responsive digital marketing has proven to help SMEs in maintaining their sales performance during the COVID-19 pandemic. The main key to sustainably maintaining customer and sales performance during the covid-19 pandemic is to increase customer satisfaction and build long-term relationships with customers. Other findings show that aggressive working capital management will make it easier for SMEs to maintain their performance during the Covid-19 pandemic (Utomo, Ariska, Pratiwi, & Kaujan, 2021). The

main findings of this study highlight the implementation of difficult performance implementation measures by management, development of learning initiatives, role adaptation, redefinition of what is meant by performing employees, and three areas for performance improvement in the four SMEs. This study reveals the important role of personal attributes, conversational agency, and implementation, which are neglected in current aspects of performance management in small companies. Improvement and improvement of SMEs performance are also determined by the attitudes, behavior, and life experiences of employees and management (Mendy, 2021). The successful performance of business entities that use the balanced scorecard, shows the importance of a balance between the key to financial and non-financial success (Kaplan, 2010). The changing role of SMEs in global business demands optimal use of digitalization, as well as a way to adapt to survive today (Thrassou, Uzunboylu, Vrontis, & Christofi, 2020)

The factors affecting SMEs business success were classified into the following categories: (1) entrepreneur characteristics, (2) characteristics of SME, (3) management and know-how (4) products and services (5) customers and markets, (6) the way of doing business and cooperation, (7) resources and finance (8) strategy, (9) external environment, and (10) internet (Ensari & Karabay, 2014). However, the success criteria that are considered ideal for SMEs today, need to be oriented towards the ability to build business sustainability, because business viability also demonstrates the ability of SMEs to face the challenges of today's disruption

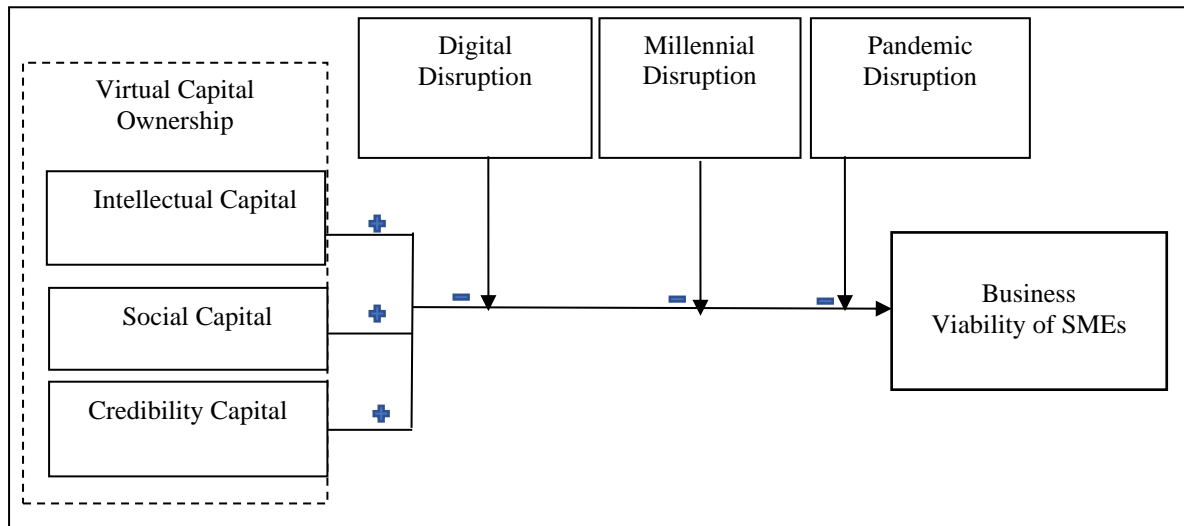
It is realized that SMEs actors have limited physical capital and funds but have significant intangible assets (Kim et al., 2008). These capabilities need to be built on the character strengths and virtues of SMEs themselves (Peterson & Seligman, 2004). Furthermore, in this study, the potential strength possessed by SMEs actors was popularized as virtual capital ownership, which is the synergy of intellectual capital, social capital, and credibility capital. Virtual capital is invisible, but can be felt, and is an interesting variable to study. As character traits in general and virtue-related concepts, in particular, have been of considerable interest to philosophers, psychological researchers, and practitioners in the business ethics field (Morales-Sánchez & Cabello-Medina, 2015). Similar research results prove that the existing link between sustainable behavior (SB) and the character strengths that constitute universal virtues (Corral-Verdugo, Tapia-Fonllem, & Ortiz-Valdez, 2015). Thus, virtual capital, which is formed from the positive character and virtues of SMEs actors, is believed to be able to build business viability in today's era of disruption.

### **3. Research Methodology**

The focus of this research is on measuring the long-term success of SMEs. The unit of analysis is the owner-managers of SMEs in West Nusa Tenggara, Indonesia. Meanwhile, the unit of observation is individual business actors whose operating age is at least twelve consecutive years. This research was conducted using the causality method by examining the variables that are thought to build long-term business viability. The research target, in this case, is a group of SMEs who are registered as the intensive assistance of the industry and trade agency and cooperative West Nusa Tenggara, Indonesia. Includes owner-managers from various types of business manufacturing, trading, and services with a minimum operating age of

twelve years from the start of the operation, supported by formal legality. Business actors who become respondents are assumed to have been able to provide perceptions of various challenges in the business world so far. The perpetrators SMEs which have been operating for twelve years, at the same time, are intended as proof of their readiness and accumulated experience as entrepreneurs who can express their perceptual attitudes correctly and objectively. The conceptual framework, a diagrammatic model can be made, which simultaneously shows the relationship between the various variables studied in this study, to be as follows:

Figure 1. Business Viability of SMEs Model



Based on the small and medium enterprises viability model, a hypothesis is formulated.

- It is strongly suspected that ownership of virtual capital (intellectual capital, social capital, credibility capital) can drive the viability of SMEs.
- Digital Challenge Era is thought to be able to weaken virtual capital ownership against the viability of SMEs.
- Millennial Challenge Era, it will also weaken the contribution of virtual capital ownership, in encouraging long-term business viability for SMEs.
- Pandemic Covid-19 Challenges are believed to have weakened the real influence of ownership of virtual capital in building business viability for SMEs.

The population of entrepreneurs includes SMEs, which have formal legality, amount 385 SMEs operating in West Nusa Tenggara. The respondents studied were assessed whether their ability to survive so far was influenced significantly by the attitudes and business behavior of the company members. The SMEs selected are those who are seen as able to maintain their business continuity in the last decade, as well as demonstrate their ability to face today's triple disruptions.

They are owning and utilizing virtual capital. Likewise, with the change of triple of disruptions. The technique and data collection are carried out with a specially designed questionnaire by fulfilling the content validity and construct validity. Furthermore, analyzing the results of the respondents' perceptual questionnaires that are measurably valid. The object of research measurement is the attitudes and behavioral tendencies of owner-managers, mainly SMEs as well as having formal legality.

Measurement of attitudes is carried out based on the expressions expressed by entrepreneurs verbally and non-verbally by selecting statements that match their perceptions or feelings. Likewise, with the triple of disruptions, according to digital, millennial, and pandemic. The measurement technique in this study was carried out using a Likert scale with an interval measurement scale by paying attention to the characteristics of the respondent's data, which meet the prerequisites for interval data processing. Furthermore, construct validation is carried out using factor analysis and a causal relationship study using moderating multiple regression (MMR), according to a research model or business viability built based on virtual capital ownership among SMEs in West Nusa Tenggara, Indonesia. Furthermore, each of the main or latent variables, measured using the manifest variables, is under the business viability model. After analyzing the research model quantitatively, and according to the factual model above, the relationship between the studied variables becomes factually clearer. The achievement level of  $r$  square strengthens the validity of the model in explaining the phenomenon of business viability, which can be built based on virtual capital ownership.

#### **4. Results and Discussion**

In line with the hypothetical model that was built, strong virtual capital ownership can build the business viability of SMEs in West Nusa Tenggara, Indonesia, and is even relatively able to overcome various challenges posed by the current triple disruptions. The weakening caused by triple disruptions has proven to be able to reduce the contribution of SMEs' virtual capital ownership in building business viability in West Nusa Tenggara, Indonesia, but by relying on strong virtual capital ownership, SMEs players are still able to build business viability. The results of some studies show that the three elements of virtual capital, which include intellectual capital, social capital, and credibility capital, have a significant influence on the survival of SMEs in West Nusa Tenggara, Indonesia. These findings are also directly proportional to the living company mapped by Geus (Geus, 1998), which explains that long-lived companies are built with some strong characters. The company is sensitive to the environment, knowing what to do when their business environment changes and this reflects high intellectual capital ownership. Long-lived companies are also cohesive, that is, they have a solid unity, with a strong identity, where everyone in them feels that they are part of one entity. One family, bound by the same fate and struggle, is based on mutual trust, and this reflects the strength of social capital as well as credibility capital. Tolerant character. where companies avoid too much-centralized control and conservatism in debt, with a tendency to avoid risk, characterize SMEs that have intellectual capital and are credible today.

Thus, the ownership of virtual capital which includes intellectual capital, social capital, and credibility capital for SMEs is very contributive in building the business viability of SMEs in today's era of disruptions. With the power of virtual capital, SMEs players can adapt to various challenges that arise from the external and internal environment. The strength of characteristics possessed by large companies (corporations) that are members of the living company, proves that the business viability of SMEs can also be achieved based on the strength of virtual capital ownership of SMEs actors.

#### **5. Conclusions**

Business viability means that a business is (or has the potential to be) successful. The strength of virtual capital owned by SMEs actors, including intellectual capital, social capital, and credibility capital, is proven to be able to build business viability by maintaining a business operating age of twelve years or more. Intellectual capital shows the owner-managers ability

to manage and develop a business so that it can extend the operating life of the company, even by replacing a different type of business with the business it has run. With high intellectual capital, business actors can understand new business opportunities and encourage them to adjust their business to suit the tastes and expectations of consumers. The strength of intellectual capital is increasingly visible in its role in business continuity, with the support of a conducive business climate for SMEs in West Nusa Tenggara, Indonesia.

Social capital shows the owner-managers ability to create business networks and be able to confidently build business sustainability in West Nusa Tenggara, Indonesia through the strength of partnerships or synergies with other parties. With the empowerment support carried out by the city government, it will further strengthen the role of social capital in the continuity of its business. Credibility capital shows the ability of owner-managers to build mutual trust with related parties or stakeholders. The credibility of the capital owned by SMEs in West Nusa Tenggara, Indonesia is proven to be able to extend the life of their business, up to twelve years or more. Armed with confidence in virtual capital and easy access to productive resources, it can increase the effect of this confidence in the capital on the business continuity of SMEs players in West Nusa Tenggara, Indonesia.

Based on the findings of this study, several recommendations are generated as follows: Facing the challenges of today's increasingly volatile business environment, business continuity with indicators of operating age above-average needs to be a measure of success for SMEs, which are proven to be able to be built by the power of virtual capital that reflects the strength of the business character of the owner-managers. To ensure long-term business continuity, policy support and empowerment programs from the government can be directed at strengthening the virtual capital of SMEs players. The success of SMEs in building business viability, by relying on the power of virtual capital ownership, does not mean ignoring the role of physical capital and funds. In fact, by having the power of virtual capital, the fixed capital and SMEs' funds become more optimal. Thus, for the empowerment of SMEs during today's uncertain challenges, the power of virtual capital ownership is very effective in building the viability of SMEs. It can be proven that SMEs actors in West Nusa Tenggara, Indonesia who can survive and serve in today's decade of disruptions, are SMEs actors who run their business activities based on intellectual intelligence, emotional intelligence that can establish business networks and is developed based on mutual trust) is high.

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