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Integrating Dynamic Capability and Conservation of Resources (Cor) Theory in Driving Sme Innovation: Evidence from the Indonesian Coffee Industry

Eva Rachmawati[1*], Vanessa Gaffar[2], Lili Adi Wibowo[3], Puspo Dewi Dirgantari[4]
Universitas Pendidikan Indonesia
Corresponding Author: Eva Rachmawati ; **evarachmawati@upi.edu**

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A B S T R A C T
Dynamic Capability (DC) and Conservation of Resources (COR) Theory both emphasize an organization's ability to mobilize and safeguard valuable resources in dynamic environments. This study integrates these two perspectives to examine how dynamic capabilities—through resource acquisition, utilization, and reconfiguration—contribute to innovation and business performance among Indonesian coffee SMEs. Using a quantitative, explanatory design, data were collected from 370 coffee entrepreneurs and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The results indicate that sensing, seizing, and reconfiguring capabilities significantly enhance ambidextrous innovation, which in turn improves overall business performance ($\beta = 0.980$; $p < 0.01$). Furthermore, innovation mediates the relationship between dynamic capability and performance ($\beta = 0.859$; $p < 0.01$). These findings extend COR Theory by demonstrating that dynamic capability acts as a mechanism for resource conservation and renewal, while empirically validating how resource orchestration enables innovation under constraints.

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INTRODUCTION

The ability of small and medium enterprises (SMEs) to innovate determines their survival and competitiveness in an increasingly volatile business environment. In emerging economies such as Indonesia, SMEs play a dominant role in economic growth, accounting for more than 60% of national employment and contributing nearly half of GDP. However, these enterprises often face severe limitations in capital, technology, and managerial expertise, which hinder their ability to respond quickly to market turbulence. The coffee industry exemplifies these challenges. As one of Indonesia's strategic agri-based sectors, it not only drives rural entrepreneurship and export potential but also symbolizes the creative economy's transformation. The emergence of specialty coffee culture, supported by digital marketing and tourism, has created opportunities for growth yet at the same time exposes firms to heightened competition and resource depletion risks (Ramos & Costa, 2024). In such a demanding context, traditional management frameworks that emphasize static resource possession have become inadequate. The Resource-Based View (RBV) has long posited that unique resources drive firm performance, but it assumes relative stability in environmental conditions. In reality, SMEs, especially in developing countries, operate in dynamic environments where technological disruption, global supply chain shocks, and changing consumer preferences continuously erode competitive advantages. Consequently, scholars have shifted attention toward the Dynamic Capability (DC) perspective (Teece, 2007), which explains how firms reconfigure, integrate, and renew their resources to achieve sustained competitiveness. Dynamic capability comprises three interrelated components: *sensing opportunities and threats, seizing those opportunities, and reconfiguring internal resources* to adapt effectively. While DC Theory offers an operational mechanism for strategic renewal, it tends to underemphasize the psychological and behavioral rationale for why firms persistently strive to protect and regenerate resources under stress. To address this gap, this study draws on the Conservation of Resources (COR) Theory (Hobfoll, 1989), which originated in psychology but has since evolved into a broader organizational framework. COR Theory posits that individuals and organizations aim to acquire, protect, and conserve valuable resources such as knowledge, time, capital, or relationships to mitigate environmental pressures and sustain performance. When resources are threatened or lost, firms experience stress, prompting them to mobilize existing capabilities to restore balance. Within this logic, dynamic capability can be viewed as the organizational expression of resource conservation behavior, enabling firms to renew their resource base through innovation rather than depletion. Integrating COR Theory into dynamic capability research offers a deeper understanding of how SMEs operate in resource-constrained environments. Specifically, it bridges the *"how"* of adaptation (explained by DC) with the *"why"* of resource preservation (explained by COR). In this hybrid perspective, *sensing* reflects the proactive search for potential resource acquisition, *seizing* involves the mobilization and protection of key assets, and *reconfiguring* represents the process of resource renewal or regeneration. These activities collectively embody the conservation principles

proposed by COR Theory. Thus, innovation is no longer viewed merely as a product of dynamic capability but as a strategic mechanism for resource preservation, allowing SMEs to turn limited inputs into sustainable outputs. Prior studies have explored the role of dynamic capability in fostering innovation and performance (Sijabat et al., 2021; Artika et al., 2024). Others have applied COR Theory to explain resilience, stress management, and adaptive performance in organizational contexts (Wan & Chun, 2025). However, there remains a lack of integrative research that empirically tests how dynamic capability and COR interact in SMEs, especially in the context of developing economies and creative agri-industries such as coffee. Most empirical works focus on manufacturing or high-technology sectors in developed countries, leaving a theoretical and contextual void in resource-constrained environments like Indonesia. The Indonesian coffee industry provides a compelling empirical setting to extend these theories. Entrepreneurs in this sector must balance short-term operational efficiency with long-term innovation, often under the stress of fluctuating bean prices, inconsistent quality control, and limited access to financing. Within this environment, resource orchestration how firms sense, seize, and reconfigure resources becomes a direct reflection of COR principles in practice. Firms that can efficiently mobilize and conserve their limited resources are more likely to achieve ambidextrous innovation a balance between exploitative innovation (improving existing processes) and explorative innovation (developing new products or markets) which ultimately enhances business performance. This study therefore seeks to fill both a theoretical and empirical gap by integrating Dynamic Capability Theory and Conservation of Resources Theory into a single framework. Theoretically, it proposes that dynamic capability serves as a *resource conservation mechanism*, transforming COR's conceptual foundation into measurable organizational behavior. Empirically, it examines the mediating role of ambidextrous innovation in linking dynamic capability to business performance among Indonesian coffee SMEs. Methodologically, the study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) to test these relationships, ensuring robustness through a large sample of 370 enterprises.

The main objectives of this study are threefold:

1. To analyze how dynamic capabilities sensing, seizing, and reconfiguring reflect resource conservation behavior in SMEs.
2. To test the effect of dynamic capability on ambidextrous innovation and business performance.
3. To extend the application of COR Theory by demonstrating its relevance to organizational resource management and innovation in resource-scarce environments.

By addressing these objectives, the study contributes new insights into the intersection between strategic management and organizational psychology, emphasizing that innovation in SMEs is not only a strategic necessity but also a psychological act of resource preservation. The proposed integration of DC and COR offers a novel understanding of how small enterprises in emerging markets achieve sustainability through resilience-driven innovation.

LITERATURE REVIEW

To establish a solid theoretical foundation for integrating Dynamic Capability (DC) and Conservation of Resources (COR) Theory in driving SME innovation and performance, this study reviews five core theoretical perspectives:

1. Dynamic Capability Theory

Dynamic Capability Theory posits that a firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments is crucial for sustaining competitive advantage (Teece, 2007). In the context of small and medium enterprises (SMEs), dynamic capabilities are conceptualized through three distinct routines: sensing opportunities and threats, seizing those opportunities through resource mobilization, and reconfiguring organizational assets to maintain alignment with market demands (Abbas et al., 2024). These routines allow firms operating in volatile agri-based sectors, such as the Indonesian coffee industry, to adapt their operational models without falling into rigidity.

2. Conservation of Resources (COR) Theory

Originally developed in organizational psychology, Conservation of Resources (COR) Theory states that individuals and organizations strive to acquire, retain, foster, and protect their valuable resources, such as capital, knowledge, technology, and social capital (Hobfoll, 1989). The fundamental tenet of COR Theory is that resource loss is psychologically and operationally threatening, prompting entities to invest remaining resources strategically to prevent further depletion and foster resilience (Hobfoll et al., 2018). Within organizational settings, COR Theory provides the motivational underpinning for why firms engage in strategic behaviors under environmental stress and resource scarcity (Wan & Chun, 2025).

3. Ambidextrous Innovation Theory

Ambidextrous Innovation refers to an organization's capacity to simultaneously pursue incremental efficiency (exploitation) and radical novelty (exploration) (Chang, 2022). Exploitative innovation focuses on refining existing processes, improving current product lines, and serving established customer segments, whereas explorative innovation involves experimentation, discovering new markets, and developing novel offerings. For resource-constrained SMEs, achieving ambidexterity is critical because relying solely on efficiency leads to stagnation, while excessive exploration causes resource dissipation (Adomako et al., 2025). Balancing these dual innovation modes serves as the primary operational bridge connecting strategic capabilities to business outcomes (Yu & Kim, 2020).

4. Resource-Based View (RBV) and Resource Orchestration

While the traditional Resource-Based View (RBV) asserts that heterogeneous, valuable, rare, inimitable, and non-substitutable (VRIN) resources drive superior firm performance, it assumes relative environmental

stability. To account for volatile market conditions, modern strategic management extends RBV into the concept of Resource Orchestration (Rossignoli & Guevara, 2024). Resource orchestration emphasizes that possessing resources alone is insufficient; managers must effectively structure, bundle, and leverage their resource portfolios. In resource-scarce environments like emerging economies, orchestration acts as the practical mechanism through which firms transform limited inputs into innovative outputs (Anggadwita et al., 2022).

5. Strategic Integration of Capabilities and Resource Conservation

Synthesizing Dynamic Capability and COR Theory establishes a behavioral-strategic framework where capabilities operationalize resource conservation goals (Zainal & Ramadhani, 2023). Specifically, sensing aligns with proactive resource acquisition and environmental scanning, seizing corresponds to the active protection and utilization of assets against external shocks, and reconfiguring represents the renewal process that regenerates the firm's resource base (Choi & Moon, 2023). By integrating these perspectives, innovation is viewed not merely as a technological output, but as an organizational survival mechanism driven by the psychological and strategic necessity to preserve and expand resources under constraint (Santoro et al., 2021).

RESEARCH METHOD

This study adopted a quantitative, explanatory research design aimed at examining the causal relationship between Dynamic Capability (DC), Ambidextrous Innovation (AI), and Business Performance (BP) under the integrative lens of Conservation of Resources (COR) Theory. The explanatory design was chosen because it allows for testing the strength and direction of influence among variables while empirically validating a theoretical framework (Aini & Yuliaji, 2024). The conceptual framework integrates the logic of Dynamic Capability with COR Theory. In this model, *sensing*, *seizing*, and *reconfiguring* represent three dimensions of DC that operationalize resource acquisition, protection, and renewal core tenets of COR Theory. Ambidextrous Innovation (both explorative and exploitative) acts as a mediating mechanism that channels these capabilities toward improved Business Performance (financial, operational, and customer-related outcomes). Figure 1 illustrates the conceptual model of the study. The research population comprised small and medium enterprises (SMEs) operating within Indonesia's coffee sector, including café owners, roasteries, and coffee bean processors. These enterprises were selected due to their dual dependence on tangible (equipment, finances) and intangible (knowledge, brand, networks) resources—aligning with the principles of COR Theory. A purposive sampling technique was used to ensure representation of firms that actively engage in innovation activities. The final sample consisted of 370 valid respondents drawn from Java, Bali, and Sulawesi regions. These areas were chosen for their prominence in Indonesia's specialty coffee ecosystem. Data were collected through a structured questionnaire distributed online and offline between February and June 2024. Respondents were typically business owners, senior managers, or innovation leaders, ensuring that information was obtained

from decision-makers knowledgeable about organizational resources and innovation processes. To ensure data reliability, preliminary screening and a pilot test with 30 participants were conducted. The pilot results confirmed item clarity and contextual appropriateness, yielding Cronbach's Alpha values above 0.7 for all constructs. All constructs in the model were operationalized using validated scales adapted from prior studies but modified to fit the context of Indonesian SMEs.

RESULTS AND DISCUSSION

From the total of 370 valid responses collected, 61% were from small-sized enterprises (fewer than 20 employees), and 39% were medium-sized. The majority of respondents (68%) had operated for more than five years, showing that most participants were experienced entrepreneurs with relatively established operations. Regarding business focus, 42% engaged in café management, 36% in coffee bean roasting, and 22% in green bean processing. The mean values for the constructs were as follows: Dynamic Capability (M = 6.05, SD = 0.82), Ambidextrous Innovation (M = 5.99, SD = 0.89), and Business Performance (M = 6.02, SD = 0.85) on a 7-point Likert scale. These results indicate that most SMEs perceive themselves as highly adaptive and innovation-oriented, yet they remain constrained by limited financial and technological resources. This perception provides empirical grounding for integrating COR Theory, as it highlights the firms' continuous struggle to protect and reallocate scarce resources.The reliability and validity assessments confirmed that all constructs met the required thresholds. Factor loadings for all indicators exceeded 0.70, demonstrating high indicator reliability. Composite Reliability (CR) values ranged from 0.927 to 0.944, indicating excellent internal consistency, while Average Variance Extracted (AVE) values exceeded 0.70, confirming convergent validity. Discriminant validity assessed using the Fornell Larcker criterion confirmed that each construct was distinct from others. Thus, the measurement model demonstrated sufficient psychometric soundness to proceed to structural analysis, strengthening the confidence in the results.

The structural model was assessed using bootstrapping (5,000 resamples) to test the hypothesized relationships among the constructs.

Table 1 summarizes the path coefficients, t-statistics, and significance values.

Hypothesis	Relationship	β	t-Statistic	p-Value	Decision
H1	Dynamic Capability → Ambidextrous Innovation	0.877	18.392	0.000	Supported
H2	Ambidextrous Innovation → Business Performance	0.980	23.062	0.000	Supported
H3	Dynamic Capability → Business Performance (via AI)	0.859	14.379	0.000	Supported

The R^2 value for Ambidextrous Innovation (0.768) indicates that 76.8% of its variance is explained by Dynamic Capability. Meanwhile, R^2 for Business Performance (0.960) shows that 96% of its variance is jointly explained by Dynamic Capability and Innovation, demonstrating strong predictive relevance.

The Stone-Geisser Q^2 values for both endogenous variables exceeded 0.35, confirming substantial predictive accuracy. In addition, the Standardized Root Mean Square Residual (SRMR = 0.068) and Normed Fit Index (NFI = 0.92) indicate a satisfactory overall model fit, confirming that the empirical data adequately support the theoretical model.nThe findings strongly support all proposed hypotheses, confirming that Dynamic Capability significantly influences both innovation and performance, and that Ambidextrous Innovation acts as a crucial mediating variable. This mediation reflects how innovation translates strategic capabilities into measurable outcomes a concept at the heart of both Dynamic Capability and COR Theory. The positive and significant effect of Dynamic Capability on Ambidextrous Innovation ($\beta = 0.877$, $p < 0.01$) suggests that firms with strong sensing, seizing, and reconfiguring capabilities are more capable of engaging in both exploitative and explorative innovation. From the lens of COR Theory, this finding reveals that dynamic capability is not merely a mechanism of adaptation but also of resource conservation and regeneration. When SMEs *sense* environmental changes, they proactively seek to acquire new resources (e.g., knowledge, partnerships). Through *seizing*, they mobilize and protect these resources to prevent loss. Finally, *reconfiguring* represents the renewal phase, where resources are realigned to sustain performance. This cyclical pattern mirrors the COR principle of resource investment and protection whereby firms invest existing resources to gain new ones and avoid depletion (Hobfoll, 1989; Wan & Chun, 2025). The significant path between Ambidextrous Innovation and Business Performance ($\beta = 0.980$, $p < 0.01$) confirms that innovation serves as the operational bridge connecting dynamic capabilities to performance. This aligns with *Adomako et al. (2025)*, who found that firms balancing exploitative and explorative activities achieve superior sustainability outcomes. Within the COR framework, innovation represents an organizational response to resource stress a strategic means of transforming resource scarcity into competitive strength. Moreover, the mediating effect of innovation ($\beta = 0.859$, $p < 0.01$) validates that capabilities alone are insufficient without being channeled into innovation-oriented actions. SMEs that fail to convert their dynamic abilities into innovative solutions risk resource stagnation or loss. This insight reinforces COR Theory's assertion that resource protection requires proactive engagement, not passive conservation. Integrating COR Theory into Dynamic Capability research introduces a psychological dimension to strategic management. It explains *why* organizations exert effort to develop capabilities under constraints — because the fear of resource loss motivates adaptive behaviors. Conversely, Dynamic Capability provides the *how*, operationalizing these behaviors into measurable organizational routines (sensing, seizing, reconfiguring).

Thus, this study's findings demonstrate a symbiotic relationship:

- COR Theory explains the *motivation* to preserve and expand resources.
- Dynamic Capability provides the *mechanism* to implement that motivation through innovation.

The integration of both frameworks advances the understanding of innovation in SMEs beyond economic logic toward a more behavioral and

resilience-oriented paradigm. Compared with prior research, this study contributes a fresh theoretical synthesis. Previous studies, such as *Sijabat et al. (2021)* and *Haider et al. (2024)*, have established that Dynamic Capability influences innovation and performance, yet they have not explicitly connected this process to resource conservation behavior. Similarly, *Wan & Chun (2025)* used COR Theory to explain resilience in organizations but did not operationalize it in an empirical innovation framework.

This study bridges these two streams of literature, providing the first empirical evidence that the mechanisms of resource conservation (as outlined in COR Theory) can be represented and measured through the dynamic capability dimensions of sensing, seizing, and reconfiguring. The use of empirical data from Indonesia's coffee industry adds contextual novelty by validating these relationships in a resource-scarce, developing-economy setting a context rarely explored in strategic management research. Furthermore, the results support the argument of *Teece (2007)* that the renewal of firm resources is central to long-term competitiveness but extend it by embedding psychological motivation for resource preservation. The combination of adaptive ability and conservation intent forms the dual foundation of sustainable innovation.

CONCLUSION

The primary objective of this study was to integrate Dynamic Capability Theory and Conservation of Resources (COR) Theory to explain how small and medium enterprises (SMEs) in Indonesia's coffee industry sustain innovation and performance amid resource limitations. The integration aimed to demonstrate that dynamic capabilities comprising sensing, seizing, and reconfiguring function not only as mechanisms for strategic adaptation but also as organizational expressions of resource conservation and regeneration, as described in COR Theory. Empirical analysis using Structural Equation Modeling–Partial Least Squares (SEM–PLS) on data from 370 Indonesian coffee SMEs revealed that Dynamic Capability has a strong positive influence on Ambidextrous Innovation ($\beta = 0.877$, $p < 0.01$), and that Ambidextrous Innovation significantly enhances Business Performance ($\beta = 0.980$, $p < 0.01$). Moreover, the mediation effect ($\beta = 0.859$, $p < 0.01$) confirms that innovation serves as a bridge translating dynamic capabilities into measurable business outcomes. The overall model fit indices ($R^2AI = 0.768$; $R^2BP = 0.960$; SRMR = 0.068) affirm the robustness of the model and its predictive strength. From a theoretical perspective, the findings provide substantial evidence for extending COR Theory into the domain of strategic management. Traditionally, COR has been used to explain individual behavior under stress and resource loss. This study broadens its application by conceptualizing organizational-level behaviors through Dynamic Capability as manifestations of resource conservation logic. Sensing aligns with the acquisition of new resources, seizing corresponds to their utilization and protection, and reconfiguring represents the renewal process that prevents depletion. In this way, innovation becomes a *conservation-driven transformation mechanism*, not merely a function of technological progress but an act of organizational resilience and regeneration. Furthermore, this research enhances Dynamic Capability Theory by incorporating a motivational

foundation derived from COR. Previous studies have emphasized *what firms do* (adaptation mechanisms) but rarely explored *why firms do it* (psychological motivation). The integration of COR addresses this missing dimension by asserting that dynamic capabilities are developed in response to perceived resource threats and opportunities. This dual-theory integration thus produces a behavioral-strategic synthesis—a new paradigm for understanding how SMEs navigate turbulence through motivation, adaptation, and conservation.

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