

Implementation of Dynamic Capability and Sustainable Business Model in the Fashion Industry during the COVID-19 Pandemic - Case Study: Syalwa Indonesia

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Abstract- The spread of COVID-19 has caused the sharpest economic decline since World War II in an unprecedented way. This study is focused on finding out how the concepts of Dynamic Capability (DC) and Sustainable Business Model enable the fashion industry to adapt and survive unpredictable market changes. The data collection method used was direct observation of the “Syalwa Indonesia” fashion industry in Magelang, Central Java, Indonesia. This study shows that fashion entrepreneurs can carry out several strategies based on the application of Dynamic Capability (DC) and Sustainable Business Model to save their business, such as; make operational changes, make cost cuts, add new product lines, and procure various promos and strengthen key partners.

Index Terms—Fashion Industry, COVID-19, Dynamic Capability, Sustainable Business Model

I. INTRODUCTION

Currently, all countries around the world are facing the COVID-19 pandemic, which is a virus that initially spread in China and then spread to various countries, including Indonesia. The COVID-19 pandemic is one of the most unexpected public health crises of late. In the current scenario, COVID-19 has affected all sectors of society and caused huge losses globally and cannot be predicted with certainty (Ali & Alharbi, 2020). International Monetary Fund (IMF) in March 2020 stated that they expect a global recession to be as bad as the global financial crisis 2007-8 (Ozili & Arun, 2020). The spread of COVID-19 has caused the sharpest economic downturn since World War II and has affected all countries in an unprecedented way (Tröster & Küblböck, 2020). For the first time in five years, Indonesia's GDP has contracted due to the effects of the COVID-19 pandemic (BPS, 2021). Hadi and Supardi

(2020) have presented a chart of the business sectors affected by the COVID-19 pandemic, both positively and negatively affected. The fashion industry is a manufacturing business that has been negatively affected by the COVID-19 pandemic.



Potential sectors affected by the COVID-19 pandemic (Hadi & Supardi, 2020)

In previous years, fashion was one of the top three creative industries that contributed to Gross Domestic Product (GDP) and contributed 18.01% to Indonesia's national economy (Munaf, 2018). However, after the COVID-19 pandemic, Indonesia's fashion industry experienced negative growth (BPS, 2021). The profits of the global fashion industry are expected to fall by 93% throughout 2020 (Amed, et al., 2020). Various fashion labels around the world have also closed their outlets (Hackers, 2020). Therefore, the fashion industry players need to make movements to face the crisis and minimize losses.

Dynamic Capability (DC) is a strategic management theory that focuses on the company's ability to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment including the fashion industry (Teece, Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance, 2007). The application of Dynamic Capability (DC) allows the fashion industry to adapt and survive unpredictable market changes. The application of Dynamic Capability (DC) in the fashion industry can create new trends, especially in the Sustainable Business Model.

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II. LITERATURE REVIEW

A. *Dynamic Capability (DC)*

Dynamic Capability (DC) represents the company's ability to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment. Dynamic Capability (DC) enables business firms to create, deploy, and protect intangible assets that support superior long-term business performance (Teece, Explicating Dynamic Capabilities: The Nature and Microfoundations of (Sustainable) Enterprise Performance, 2007). Da Giau, Foss, Furlan, & Vinelli (2019) stated that during the last two decades, the Dynamic Capability (DC) perspective has become the basis for strategic management. With the complex and fast-changing environment, Dynamic Capability (DC) has become a winning strategy for companies to gain competitive advantage (Qiu, Jie, Wang, & Zhao, 2019).

Da Giau, Foss, Furlan, & Vinelli (2019) cites Teece's theory which states that, for analytical purposes, DC can be divided into three groups - sensing, seizing, and transforming. Sensability relates to market scanning and exploration activities in which the company "identifies emerging opportunities and creates knowledge." Seizing capabilities are processes and routines that assimilate and integrate knowledge gained from new market opportunities. Finally, transformation capabilities are the processes and routines that companies use to recombine their operating resources and capabilities.

Dynamic Capability (DC) strongly enabling the creation and implementation of an effective Business Model (Teece, Business Models and Dynamic Capabilities, 2017). The application of Dynamic Capability (DC) in the fashion industry can create new trends, especially in the Sustainable Business Model, in this case, Zero Waste Fashion.

B. *Sustainable Business Model*

Sustainable Business Model Sustainable Business Model is a business model that combines pro-active multi-stakeholder management and monetary and non-monetary value creation for various stakeholders with a long-term perspective. When the concept was first drafted, its main aim was to put companies into service from a transformation to a more sustainable economic system and to have an impact integrating sustainability considerations into organizations and helping companies to achieve their sustainability ambitions. (Geissdoerfer, Vladimirova, & Evans, 2018).

Sustainable Business Model will create customer and social value by integrating social, environmental, and

business activities. Businesses that adopt the concept of a Sustainable Business Model have three characteristics that must be met, including:

1. Companies must establish voluntary activities to contribute to solutions to social or environmental problems. This is an activity that is intended for the community or the natural environment where it is carried out not only because of the reaction of regulations and law enforcement as part of conventional business behavior.
2. Such activities must create a positive business or economic effect that contributes positively to the company's success that can be measured or debated convincingly. These effects can be in the form of cost savings, increased sales or competitiveness, increased profitability, customer retention or reputation, etc. The cause and effect relationship can be direct or indirect, however, it should not be speculative but based on sound business argumentation.
3. There must be clear and convincing arguments that certain management activities have caused or will lead to both the desired social or environmental effects, as well as economic effects. Sustainable business is characterized by creating economic success through certain environmental or social activities.

(Schaltegger, Lüdeke-Freund, & Hansen, 2012)

Table 1. Trends and drivers of sustainability-related business model innovation for fashion businesses (Todeschini, et al., 2017)

<i>Macro-trend</i>	Driver of sustainable innovation	Where does it drive innovation in the business model?
<i>Circular economy</i>	<i>Recycling</i>	<i>Cost structure, key activities, key partners</i>
	<i>Vegan</i>	<i>Key partners, key resources, channels, value proposition</i>
	<i>Upcycling</i>	<i>Key resources, key activities, value proposition</i>
<i>Corporate social responsibility</i>	<i>Sweatshop free</i>	<i>Customer relationship, key resources, key activities</i>
	<i>Fair trade</i>	<i>Customer relationship, key partners</i>
	<i>Locally sourced</i>	<i>Customer relationship, value proposition, key partners</i>
<i>Sharing economy and collaborative consumption</i>	<i>Fashion library</i>	<i>Customer relationship, value proposition,</i>
	<i>Second hand</i>	<i>Value proposition, channels, customer relationship, revenue streams</i>
	<i>Collaboration</i>	<i>Key partners, key activities, key resources, delivery channels, customer relationship</i>
<i>Technological innovation</i>	<i>Sustainable raw materials</i>	<i>Key resources, customer relationship, cost structure</i>
	<i>Zero waste</i>	<i>Key resources, key activities, cost structure</i>
	<i>Wearables</i>	<i>Key resources, key activities, key partners, value proposition, cost structure</i>
	<i>Capsule wardrobe</i>	<i>Customer relationship, value proposition, revenue streams</i>
<i>Consumer awareness</i>	<i>Lowsumerism</i>	<i>Customer relationship, value proposition, revenue streams</i>
	<i>Slow fashion</i>	<i>Value proposition, customer relationship</i>

Table 1 describes the trends and drivers of business model innovation related to the Sustainable Business Model in the fashion business. The business discussed in the writing of this paper uses a technological innovation approach by raising zero waste and consumer awareness by lifting slow fashion.

Zero waste is a driver based on the idea of minimizing material waste in apparel production. This results in innovations for sustainability by reducing the use of raw materials through the development and adoption of new products with more efficient processes. Adopting a zero waste approach requires innovation in key resources, key activities, and cost structure in the Business Model. With this approach, it is hoped that the apparel production process will produce near zero waste (Todeschini, Nogueira Cortimiglia, Daniela Callegaro-de-Menezes, & Ghezzi, 2017).

Meanwhile, *Slow Fashion* is a process of production and commercialization of clothing that is contrary to the fast fashion paradigm. Slow Fashion encourages innovation in value propositions and customer relationships as companies direct their offerings towards improving perceived quality and authenticity and addressing customer concerns in terms of the environment (by reusing or recycling materials) and social impact (prioritizing locally made products and local partners. and adopting fair trade principles) (Todeschini, Nogueira Cortimiglia, Daniela Callegaro-de-Menezes, & Ghezzi, 2017).

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III. METHOD

This research was conducted using a case study research method in an Syalwa Indonesia fashion industry that was founded in 2014 in Magelang, Central Java. This business uses a zero waste and slow fashion approach in conducting its business. The data used are primary data. The data collection method used is by using the triangulation method which involves multiple methods in data collection, namely using observation, in-depth interviews, and field notes. (Carter, Bryant-Lukosius, DiCenso, Blythe, & Neville, 2014).

This research is focused on knowing the extent of the concept *Dynamic Capability (DC)* and *Sustainable Business Model* enables the industry *fashion* to adapt and survive unpredictable market changes such as the COVID-19 pandemic.



IV. RESULT

Da Giau, Foss, Furlan, & Vinelli (2019) cites Teece's theory which states that, for analytical purposes, DC can be divided into three groups - sensing, seizing, and transforming. In his sensing practice, Syalwa identifies and assesses opportunities outside the company such as inspiration to determine the next product design model or fashion and trends that are needed by the community. In the practice of seizing, Syalwa Indonesia mobilizes resources to capture the value of these opportunities. Whereas in transforming practice, Syalwa Indonesia always carries out continuous renewal in accordance with the opportunities and capabilities it has.

Following up on the results of business evaluation during the current period of the Syalwa Indonesia business practice, there are several strategies that were implemented during the COVID-19 pandemic, namely as follows:

1. Syalwa evaluated the entire business process and compiled changes in business strategy, marketing, human resources, operations, and financial savings.

2. Syalwa collaborates with Modeling Schools and Agencies to save costs for catalog photoshoots and procurement of virtual fashion show events due to restrictions on social interaction.



3. Syalwa Indonesia reduces marketing costs and focuses only on marketing that results in sales conversions due to a significant decrease in revenue.
4. Syalwa added product lines in the form of cloth masks and more casual clothing designs so that they can be used indoors.



5. Syalwa uses a seasonal promo strategy and a strategy to strengthen key partners to increase sales.



6. Syalwa applies the concept of Sustainable Business Model in his business model by fulfilling the following three characteristics:
- The company engages in voluntary activities to contribute to solutions to social or environmental problems. In this case, Syalwa contributes by reducing production waste by implementing Zero Waste Fashion and Slow Fashion.
 - Such activities must create a positive business or economic effect that contributes positively to the company's success that can be measured or debated convincingly. By implementing Zero Waste Fashion, Syalwa did a reverse logistic, reducing the cost of raw materials and overnight stock so that budgeting could be more efficient.
 - There is clear argumentation that certain management activities have caused or will lead to either the desired social or environmental effects, as well as economic effects. Syalwa Indonesia management activities are able to have a positive effect in saving production costs and convince the public in the environmental care that is conveyed at each of its events.



V. DISCUSSION

Dynamic Capability (DC) is a strategic management theory that focuses on the company's ability to integrate, build, and reconfigure internal and external competencies to cope with a rapidly changing environment. The COVID-19 pandemic is one of the unexpected events that has greatly affected changes in consumer behavior and has had a negative impact on the fashion industry. Syalwa Indonesia is a fashion industry that applies DC in the conduct of its business.

Implementation of *Dynamic Capability (DC)*, can be divided into three groups - sensing, seizing, and transforming. In its sensing practice, the fashion industry identifies and

assesses opportunities outside the company such as inspiration to determine the next product design model or fashion and trends that are needed by society. During the COVID-19 pandemic, people experienced a decrease in purchasing power and tended to allocate their funds to basic needs because of the economic impact. People are required to wear masks and carry out social restrictions. Seeing this phenomenon, the fashion industry can determine products and business models that adapt to the market.

In seizing practice, the fashion industry mobilizes resources to capture the value of these opportunities. The opportunity that exists during the COVID-19 pandemic is to issue cloth mask products. The fashion industry must also adjust its business operating system due to the implementation of social restrictions such as online sales and virtual events. The decline in people's purchasing power also requires the fashion industry to minimize expenses by making cost cuts according to their capabilities. These savings can be in the form of reducing the allocation of marketing funds as well as saving on raw materials with Zero Waste Fashion and reverse logistics.

In transforming practice, the fashion industry always carries out continuous renewal in accordance with the opportunities and capabilities it has. The Sustainable Business Model will create customer and social value by integrating social, environmental, and business activities. In this case, the fashion industry can save on the use of raw materials by implementing Zero Waste Fashion, but on the other hand it can integrate environmental concerns to create a sustainable business environment. Company policies in making decisions during the COVID-19 pandemic will greatly affect the company's ability to maintain its business and minimize negative impacts when facing a crisis.

VI. CONCLUSION

The business world is a world full of uncertainties, one of which is the phenomenon of the COVID-19 pandemic. The fashion business, which is a manufacturing business, is a sector that has been negatively affected by the COVID-19 pandemic. Following up on the results of business evaluations during the COVID-19 pandemic, fashion businesses can carry out several strategies based on the application of Dynamic Capability (DC) and the Sustainable Business Model to save their businesses. These strategies include:

- Changing the operational system by adjusting policies that arise due to environmental changes, such as limiting social interactions and implementing virtual activities.
- Doing cost cutting by saving raw materials by using reverse logistics and saving on marketing costs where only focus on marketing that results in sales conversions.
- Procurement of new product lines that are more in line with changing market conditions, such as procuring masks or fashion products that can be worn at home.

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4. Procurement of various promos and strengthening of key partners to strengthen business financial conditions.

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