

Indonesia's Micro, Small and Medium Enterprises Innovation Strategy During COVID-19 Pandemic

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Abstract- *This study aims to analyze the innovation strategy, the link between innovation and Indonesian MSMEs, the challenges of MSMEs in innovation, and the MSME innovation strategy during the Covid 19 pandemic. This type of research is a literature review, with a qualitative approach. The data used are secondary data, obtained from articles that have been published for the last 10 years. Data analysis techniques include: material collection, data reduction stage, analysis and synthesis stage, and presentation of conclusions. The Covid-19 pandemic has reduced people's purchasing power, forcing MSMEs to be able to survive in the current situation by implementing an innovation strategy. Innovation strategies are needed in MSMEs to reduce various business risks and help businesses find new challenges for the development and growth of MSMEs. Various obstacles in managing innovation, namely the lack of an innovation structure, corporate resistance, lack of management resources, and limited collaboration. Innovative strategies that are appropriate to be applied by MSMEs during the Covid-19 pandemic crisis are product innovation, process innovation, position innovation and paradigm innovation.*

Indexed Terms- *Innovation, MSME, Covid 19, Indonesia*

I. INTRODUCTION

The development of the world economy in recent years has been marked by various upheavals, such as a surge in the share of government debt in several European countries, which has resulted in tightening government liquidity, which according to several parties has the potential to reduce economic activity in the region, as well as fluctuations in world oil prices which are inseparable from the heated political situation in the Middle East region. This condition will result in a decrease in public demand and an increase

in the price of input goods, which in turn will be able to spread to other countries as a consequence of the increasing openness and dependence of the world economy, including Indonesia.

As known, Micro, Small and Medium Enterprises (MSMEs) has a very important role in the national economy such as the ability to absorb labor. During the 1997-1998 crisis [1]. several MSMEs were able to survive in crisis conditions and after the crisis, even certain MSMEs in the export-oriented cocoa and tobacco agricultural sector benefited from the increase in commodity prices on the international market. The resilience of MSMEs in the 1998 crisis was partly because most MSMEs produced consumer goods and services with low elasticity of demand for income so that the level of public income did not affect the demand for the goods produced [2], [3].

We are in the midst of innovation results. There are innovations in knowledge, technology, ICT, economics, education, social, and so on. Innovations can also be grouped into big innovations and small but very many innovations [4]. Innovation doesn't have to be expensive. Innovation can be done by anyone, anytime, anywhere. If our ancestors weren't innovative, we would all be living in caves, in the dark. The verb "innova" which means to renew and change. Innovation can be defined as the "process" and/or "outcome" of developing and utilizing or mobilizing knowledge, skills (including technological skills) and experience to create or improve new products (goods and/or services), processes, and systems, which provide value. meaningful or significant (especially economic and social) [5]. Innovation can also be said to be a new change towards improvement, which is different or different from the previous one, which is done intentionally and planned or not by chance.

Innovation can be positive or negative. Positive innovation is defined as the process of making changes

to something that has been established by introducing something new that provides added value for customers. Negative innovation causes customers to be reluctant to use the product because it has no added value, destroys taste and loses customer trust [6]. Innovation in a broader context, that successful innovation implies not only economic success but also social success. Successful innovation is one that creates great value for consumers, for communities, and the environment at the same time.

Innovation is economic success due to the introduction of new ways or new combinations of old ways of transforming inputs into outputs that create major changes in the relationship between use value and price offered to consumers and/or users. By definition, innovation is a concept that addresses the application of new ideas, products or processes [7]. Therefore, companies/business entities are expected to form new ideas in dealing with competitors, customers and existing markets.

The global Covid 19 pandemic that has also occurred in Indonesia has made many parties seek to participate in overcoming it. One of the effects of the Covid 19 pandemic, are SMEs in Indonesia [8]–[10]. Based on data from the ministry of cooperatives, which illustrates that 1,785 cooperative and 163,713 MSME actors are affected by the Covid 19 virus pandemic. Most cooperatives affected by Covid 19 are engaged in daily necessities-days, while the MSME sector that is most affected is food and beverage.

On the other hand, data from the Central Statistics Agency (2019) [11] states that the contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) reached 61.41 percent in 2018. This contribution shows the role of MSMEs as the backbone of Indonesia's national economy. There is a big task in the ranks of the Indonesian government related to the current Covid 19 pandemic: first, maintaining the safety and health of the Indonesian people as the main focus and second, maintaining the pace of economic growth. One solution to this problem is to implement an innovation strategy.

Innovation as a new idea that is applied to initiate or improve a product or process or service is very much needed in the MSME sector in the midst of the current

Covid 19 pandemic [12], [13]. Therefore, the formulation of the problem posed is what is the innovation strategy of Indonesian MSMEs during the Covid 19 pandemic? The purpose of this paper is to analyze the innovation strategy, the link between innovation and Indonesian MSMEs, the challenges of MSMEs in innovation, as well as MSME innovation strategies and the Covid 19 pandemic.

II. METHODS

This type of research is a literature review, with a qualitative approach. The data used in the article is secondary data, obtained from articles that have been published for the last 10 years regarding the innovation strategy of MSMEs in Indonesia. Data collection was obtained from various library sources such as Google Scholar, Springerlink, Researchgate, Emerald and so on. The analysis used in this literature review includes four stages that must be carried out sequentially to provide an acceptable answer to the question, namely: 1) The stage of finding and collecting material on MSME innovation; 2) The reduction and coding stage, filtering and classifying the material to suit the topic of discussion; 3) The analysis and synthesis stage, examines and explores detailed information about the material obtained;

The database analysis was carried out through several criteria: 1) Articles on “MSME innovation”; 2) Articles published between 2011 and 2021, to see the latest evidence; 3) Research articles, excluding comments, posters and quotes; 4) Quantitative data issued by institutions authorized to handle and related to MSMEs. After the first screening, the authors independently reviewed the found articles with their titles and abstracts, to check their suitability with the research objectives. Then, they checked the entire contents of each of these articles, and compared them with data from authorized government agencies.

III. RESULT AND DISCUSSION

A. Innovation Strategy

MSMEs can drive innovation in organizations and most importantly focus on innovation to help achieve faster growth in achieving their business goals. Therefore, a tool is needed to assess the extent to which innovation has been carried out by SMEs. The

innovation assessment tool is designed to help companies better understand and broaden their horizons, thereby driving overall innovation.

Innovation is essentially a conceptualization activity, as well as the idea of solving problems by bringing economic value to the company and social value to society [14], [15]. So, innovation departs from something that already exists, then is added value. Innovation starts from things that seem trivial by opening their eyes and ears to listen to the aspirations or complaints of consumers, employees, the environment and society. The subject of the application of innovation itself can be individual, group or company. This means that in the company there can be individuals or groups who are very brilliant and innovative. But the ideal is that the company becomes an institutionalized place for gathered people to exploit new ideas [16].

Expertiser [17], [18] agree to define innovation strategy as a basic tool that determines the direction of business innovation based on business strategy and strategic goals. While, [19], [20] argues that strategic innovation is the creation of growth strategies, new technologies, new services, new ways of doing things or a business model that changes the game and generates significant new value for consumers, and customers. An innovation strategy is needed in MSMEs because in many industries, it will be more risk if the company does not innovate. Both consumers and industry have experienced periodic changes and improvements to the products offered. As a result, some companies feel lucky to be able to innovate strategies.

The innovation strategy also helps businesses find new challenges for their development and growth. Innovation strategy is a management concept, consisting of many internal and external activities that increase the innovation potential of a business. It is necessary to emphasize the importance and role that influences the formation of innovation strategies. These roles come from business employees, managers, and customers. Global challenges and advances in information technology certainly bring changes to the life and business flow of an organization or company. This makes it important for innovation strategies to help companies survive change. According to

expertiser [21], a good organization is an organization that can see opportunities in situations of uncertainty.

B. Innovation and MSME

Experience in developed countries shows that MSMEs are a source of production and technological innovation, creative and innovative entrepreneurial growth, creation of skilled workers and flexibility of production processes to deal with rapidly changing market demands. Small industries are more efficient than large industries in meeting fast market demands. The capabilities of these small industries are largely determined by a number of factors. Among them are human resources, mastery of technology, access to information, output and input markets [22].

Innovation itself was initially studied more in large companies, most of which were traditionally associated with large multinational companies [23]. The rise of innovation from small companies is relatively recent, while large companies have the advantage of innovation in capital-intensive industries with economies of scale, while small companies have been recognized as important innovators in the field of high technology.

Small companies face particular problems in formulating their innovation strategies related to deficiencies that arise due to limited resources and scope of technological capabilities. The risks of responding to market and technological opportunities and choosing the appropriate course of action at the right time (not too early or too late) make innovation strategies a major challenge for their management. Small and large companies have different roles in innovation activities depending on the resources and skills required. Small companies have a number of unique features such as scarce resources, low market influence and informal communication, which make them different from large companies.

The strength of small firms lies not in their resources (at least physically), but in their behavioral characteristics, such as flexibility and management. The choice of innovation strategy carried out by the company itself varies greatly depending on the condition of the company and its response to environmental changes. The characteristics inherent in small and medium-sized companies can be advantages

or strengths that actually hinder their development (growth constraint). The combination of strengths and weaknesses and their interaction with the external situation will determine its development prospects.

C. MSME Challenges in Innovation

Expert figure [24] conducted a study that focused on innovation management for new product development. The aim of the research is for SMEs to successfully overcome barriers and manage concepts for new products. Here is an integrated framework that enables SMEs to overcome barriers to managing innovation such as describing specific stages, procedures and outcomes.

Table 1. Identification of Barriers to Managing Innovation

| Innovation Barriers | Problem Description | Intervention Design |
|------------------------------|---|---|
| Lack of innovation structure | Idea generation, screening and evaluation happen at the same time. Criticism of ideas results in low employee morale and high resilience. Realistic view of innovation performance. | The current map of new product development allows understanding for changing needs. Management and employee trainer. New screening and feasibility tools to increase product concept trust. |
| Company fight | Traditionally experienced with product development and engineering. Lack of structure leads to resistance and frustration. Employees show defensive tendencies | Change the mindset of the organization. Various roles in the NPD (New Product Development) process with an emphasis on skills. |
| Lack of management resources | The daily tasks outside the NPD have led to a commitment to innovation. | Allocate tasks according to individual abilities and expertise. |

| | | |
|-----------------------|--|---|
| | Poor communication practices. Low investment in innovation and increased monitoring costs. | Creation of clear roles for specific NPD tasks. Creation of an open information system for NPD staff |
| Limited collaboration | Limited time and finances to be able to expand to a wider market. Lack of information about other SME competitors and the latest technology. | Using tools to check for new possibilities to increase knowledge and confidence in new product concepts through the integration of knowledge between users and outside the company. |

Source: Flinders, et.al (2019) [24]

D. MSMEs, Innovation Strategies and the Covid 19 Pandemic

March 2020, the Covid pandemic began to spread in Indonesia. One of them has an impact on the MSME sector. SMEs cannot be separated from the bad impact of the Covid-19 pandemic. Many MSMEs experienced a decrease in income and had to stop their business. Quoted from https://radarsolo.jawapos.com/_/ (2020), based on a survey conducted by the international labor organization (ILO) in Indonesia in the period 6-24 April 2020, it was found that almost 70 percent of MSMEs stopped production. As many as 63 percent of MSMEs ask their employees to take paid or unpaid leave. As many as 90 percent experienced cash flow problems.

Many experts and speakers argue that MSMEs must innovate in order to survive in the midst of a pandemic. Innovation is considered as a generic drug that is able to bring MSMEs to survive and get out of the crisis. The current condition is like an airplane that is hit by turbulent winds which causes some engines and other equipment to malfunction. When the engine is damaged, the pilot must be able to improvise, make creativity and breakthroughs in order to land the plane with the least risk.

The link between the pandemic and the economic slowdown is that the economy slows down due to the effects of social and physical distancing [25], [26]. The existence of social and physical distancing then causes delays in the delivery of products and services from producers to consumers. For example, the existence of social and physical distancing causes people to be unable to attend wedding receptions, conferences, lectures, business meetings, tourist visits, meetings and so on. The Covid-19 pandemic has also reduced people's interest and purchasing power to visit restaurants, malls and other crowded centers. As a result, the income of MSMEs is reduced.

Not all innovations are feasible to be applied by MSMEs during the Covid-19 pandemic crisis. Some of the innovations that need to be done during the Covid-19 pandemic include:

- 1) Product innovation, in the form of introducing new products to consumers, is difficult, because new products are synonymous with additional costs. In new products, there are additional commercialization and promotion costs that must be borne by consumers. In the midst of declining consumer purchasing power, consumers may put the brakes on buying new products, rather than using their old products.
- 2) Process innovation, related to new ways of delivering products to consumers, is very possible. MSMEs can use online media to deliver their products to consumers. For example, during the Covid-19 pandemic, a wedding catering company innovated by offering a delivery service that allowed invited guests to enjoy a meal while watching a wedding online at home. Likewise with private tutoring services, which offer an online learning model. Process innovation in the form of updating production methods that need to be considered. MSMEs need to think about production processes that can reduce the use of fixed costs. Fixed costs are costs that are fixed regardless of the volume of product produced. In conditions of low demand, the fixed cost per unit of product is high. One component of fixed costs is the salary of permanent employees. With the new way of working, it is hoped that it will reduce the payroll model that is based on fixed costs and shift it to variable costs. In MSMEs, where the payroll

system tends to be more flexible than large companies, this can be done.

- 3) Positional Innovation, is carried out when companies shift their old products to new markets. In positional innovation, companies try to make adjustments so that their old products can be accepted in new markets. For example, films that should be shown in theaters, offered to pay television networks, or home cleaning products are offered to the health market. Currently, many SMEs are found in the convection industry, some of which shift their fashion products to personal protective equipment (PPE), masks and other products related to personal protection.
- 4) Paradigm Innovation, related to changing the way organizations view what they do. Big companies such as Amazon, Google, and Skype, have redefined the advertising, retail and telecommunications industries through online media. In this approach, MSMEs need to redefine their business, so that it is more relevant to the current business. Business innovation in a pandemic situation must pay attention to two important aspects, namely: financial resources and markets. From a financial perspective, the pandemic has generally eroded MSME resources, along with a decline in their income. Their financial resources will be used more to survive. That means, innovations that require large financial resources, such as new product launches, should be avoided. MSMEs need to focus more on innovation with less cost, such as process and position innovation. The market, on the other hand, is characterized by weakening purchasing power and accompanied by changes in consumer preferences. Consumers prefer to shop for goods that are important and urgent, compared to goods that are less important and less urgent. Therefore, the chosen innovation is not only in line with resources, but also market accessibility.

CONCLUSION

The conclusion of this paper is that an innovation strategy is needed in Indonesian MSMEs during the Covid 19 pandemic to reduce various business risks and help businesses find new challenges for the development and growth of MSMEs. MSMEs are a source of production and technological innovation,

creative entrepreneurial growth, creation of skilled workforce and flexibility of production processes to deal with rapidly changing market demands. The Covid-19 pandemic has also reduced people's purchasing power. Innovative strategies that are appropriate to be applied by MSMEs during the Covid-19 pandemic crisis are product innovation, process innovation, position innovation and paradigm innovation.

The suggestion that the author proposes to improve this paper is to do original research on determining the development of MSMEs during the pandemic and/or post-Covid 19 period in Indonesia and in various countries in the world, by developing various relevant variables. Other suggestions for policy makers and related parties as well as MSME actors, so that this paper can be used as a basis in formulating policies and solving various problems in the management of MSMEs to be able to improve their business activities and be able to compete in the world trade industry.

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