

Sustainable Development Innovation: “Increasing Sme Competence In Aspects Of Business Concept Development

Rodhiah

Faculty of Economics & Business Tarumanagara
University Jakarta Indonesia
rodhiah@fe.untar.ac.id

Abstract

One of the main considerations in establishing a Creative Industry in Indonesia is the existence of an appropriate and sustainable business concept, but the problem is that not all Small and Medium Enterprises (SMEs) in Indonesia have and think about this. This is because there is no innovation model for developing business concepts that can be used as a guide for SMEs in Indonesia. The main objective of this research is to produce a business innovation model for SMEs in the handicraft sector. This model contains a continuous innovation matrix that will make the sustainable business concept achievable. The sample of this research is 55 SMEs in the potential craft sector in the Serang, South Tangerang, Tangerang City, and Cilegon areas. The research data were collected through interviews, FGDs, and questionnaires. From the data collected, analyzed and made a matrix of SME business innovation models which can be implemented in the handicraft sector SMEs in Banten Province. The model from this research is expected to be an efficient framework that is useful for assisting SMEs in the craft sector during the current COVID-19 pandemic.

Keywords

Creative Industry, Business Concept, sustainable development, SMEs

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Introduction

Globalization has resulted in rather rapid growth in different places. Three factors contribute to its increase. To begin, the jobless and underemployed populations are big and growing. Second, the share of urban employees employed in the industrial sector is unlikely to rise and may perhaps be declining. Third, the population and its growth rate are so rapid that the government is unable to provide adequate health services, housing, and transportation. These three things are characteristic of every city that is experiencing rapid growth in economic activity. This situation causes competition in the business world to become increasingly fierce. Responding to situations like this requires the involvement of various parties, both companies, individuals, as well as other productive sectors such as Small and Medium Enterprises (SMEs) (Aqmalia, 2013).

As we know, the position of SMEs may be in the lowest position in the country's economic structure, but actually contribute the most in income to the country (Cull, Davis, Lamoreaux, & Rosenthal, 2006). The level of competition in SMEs is very high and tight. Many SMEs have emerged, but many have gone bankrupt in name. To increase resilience and capability in competitive SMEs, it is necessary to look at the whole situation with an innovation system approach (Trisnawati, 2016).

When we talk about innovation, then of course the best innovation in the business world is innovation that does not only focus on products, but also innovation in all aspects related to interrelated systems in the business world. One of the most influential aspects in the business world apart from the product itself, namely the market or business concept that is applied and carried out in the business unit, in this case SMEs in Indonesia.

(Lee, Park, Yoon, & Park, 2010) stated that SMEs have characteristics that are flexible in responding to change, but SMEs often lack the resources or ability to innovate, act flexibly or develop nationally or internationally. SMEs often face market failures due to the more challenging environment in which they operate and compete. This poses a major challenge as most of the efforts regarding strategy formulation are focused mainly on overcoming the competition (Papazov & Mihaylova, 2016).

SMEs in Indonesia have increased and contributed to the national economy in Indonesia. However, a company or SME will not last forever. If you look at the theory of Organizational Life Cycle (Lester, Parnell, & Carraher, 2003), it states that there are five stages of an organization, namely existence, survival, success, renewal, and decline. This can be interpreted that in fact there will be times when a company or SME will experience these five phases and there is a possibility that it will decline in the end. In the current era, in the long term many companies or SMEs will not be able to survive, even if they have great (product) innovation capabilities (Gassmann, Frankenberger, & Csik, 2013). Even with great ability, entrepreneurs still need to set business boundaries and define the products/services offered (Trimi & Berbegal-Mirabent, 2012). Although it is often said that one of the effective ways to maintain and improve the competitiveness of SMEs is continuous innovation. However, innovation is not easy for many SMEs in developing countries who generally do not have the necessary capital and skills to expand and develop their businesses (Tambunan, 2011).

According to data from Innosight, the average lifespan (existence) of 500 S&P (Standards and Poor's) companies has fallen from 33 years in 1963 to 24 years in 2016. In addition, this average is expected to fall to 12 years in 2021. Only 64 companies that have managed to stay on the S&P 500 list for more than 50 years (Anthony, Viguerie, Waldeck, & Innovation, 2016). This is a number that can be said to be a threat to all companies, both large and small companies. This is an astonishing fact that the competitive level in the market or industry in all fields will continue to increase. Therefore, companies, whether large or small, must continue to make changes that are in accordance with current market conditions or even prepare themselves for the future.

If SMEs want to survive, they cannot rely solely on product or service innovation. As is well known, today most companies operate in a highly competitive business environment characterized by higher complexity, faster change, and increasing competition (Morris, 2013). Due to globalization and increasingly fierce competition, companies find it harder to stay competitive (Taran, Boer, & Lindgren, 2015). This situation has not only affected companies, but has also touched entire industries and even countries (Morris, 2013). In today's era, there is no big or small company to go bankrupt or fail, all companies regardless of size or resources they have must feel threatened by more competitive market conditions.

Companies or even SMEs must do more in navigating the competition in the business world. Not

only large companies, SMEs must also be able to survive the upcoming changes. To deal with some of the challenges posed by such a dynamic environment, a new concept has been gaining popularity in recent times, namely the business model (BM). Practically oriented studies are also on the rise (Zott, Amit, & Massa, 2011). Factors that characterize today's market such as "change in technology, deregulation, emergence of the internet, sustainability, globalization, e-commerce, and more knowledge-based economy and business practices such as offshoring and outsourcing" are some of the forces that directly/indirectly are behind the surge in interest in business models (Teece, 2010)

As time goes by and with the current pandemic conditions, it is not wrong if one of the main considerations in establishing a Creative Industry in Indonesia is the existence of an appropriate and sustainable business concept; but the problem is that not all Small and Medium Enterprises (SMEs) in Indonesia have and think about this. This is because there is no innovation model for developing business concepts that can be used as a guide for SMEs in Indonesia. From the explanation above, our main goal of this research is to produce a matrix model of Sustainable Development Innovation, especially in the field of developing concepts or business models for Small and Medium Enterprises (SMEs) in the Serang, South Tangerang, Tangerang City, and Cilegon areas. This model contains a continuous innovation matrix that will make the development of business concepts or business models (BM) in the handicraft sector SMEs in the 4 research areas can be fulfilled properly.

Literature Review

Small and Medium Enterprises (SMEs)

SMEs mostly compete based on a narrow focus and specialization, unlike most large companies. This relates not only to products, markets, and customers (Berends, Jelinek, Reymen, & Stultiëns, 2014), but also to prices, costs, and manufacturing capabilities (Cagliano, Blackmon, & Voss, 2001). Much of the value of SMEs is assigned to quality of design and production, speed of delivery and dependability, and flexibility and responsiveness to customer needs (Cagliano et al., 2001). SMEs are known for their simple organizational structure with multiple layers of management (Hudson Smith & Smith, 2007), enabling closer interaction of employees and innovative responsiveness to competitors' moves so that they are flexible in responding to changes in the general business environment (Hudson Smith & Smith, 2007; Papazov & Mihaylova, 2016) confirms this view and adds that SMEs do have to react and adapt to market changes as they are largely unable to drive the market.

Typically, smaller organizations (SMEs) benefit from a variety of advantages, including agility, rapid decision-making, shared vision, informal culture, and flexibility (Arbussa, Bikfalvi, & Marquès, 2017). All of this can contribute to their ability to be more inventive. Innovation is critical for all businesses since it has a direct impact on their growth, capacity, and performance (Rice et al., 2015). According to (Salavou, Baltas, & Lioukas, 2004) SMEs that are learning-oriented facing strong competition have a tendency to be more innovative and resilient in the market.

Innovative and personable entrepreneur/manager plays a key role in SME innovation adoption. On the other hand, we also have external factors such as globalization. In today's global economic market, SMEs will not only compete with traditional rivals but they will also face competition from global rivals. As stated by (Gunasekaran, Rai, & Griffin, 2011) (Gunasekaran et al., 2011) to remain competitive, SMEs need to rethink their operating strategies, be ready to accept and adopt changes and use them to their advantage against their competitors.

Business Model (Bm)

In the context of SMEs, BM can also be used as used in large companies, because the concept of BM is a reflection of organizational strategy (Casadesus-Masanell & Ricart, 2010). (Zott et al., 2011) also defines a company's business model as "a system of interrelated and interdependent activities that determine the way a company conducts its business with its customers, partners and vendors. SMEs need to start familiarizing themselves with the business model and technology to make it more suitable their products for an ever-changing market in a short period of time. In addition, some aspects of complexity, which are common in today's market can be reduced (complexity) with a business model as it helps identify key issues and key relationships between them (Osterwalder, 2004).

(Trimi & Berbegal-Mirabent, 2012) stated that the usefulness of BM helps managers or owners to make more informed decisions which should lead to greater chances of success. However, making the BM concept a reality is often a hurdle for SMEs or even large companies (Gassmann et al., 2013). SMEs can use BM to map or visualize how they do business and increase the value of their offerings. Strategic focus is needed for every SME. However, SMEs often lack the necessary resources and skills to determine how to transform and generate. Therefore, flexible BM is needed for SMEs, enabling them to efficiently change the strategic choices that outline their business logic according to the ever-changing market (Trimi & Berbegal-Mirabent, 2012). But Many managers and investors experience great disillusionment with their misguided assumption that simply knowing this concept is enough. So knowing the concept of BM is not enough, companies also need to know how to use it. Further knowing how to implement it is not enough, companies must be able to know when to change it and how to change it.

Many businesses today may have strong ideas about how to enhance the products or services they provide to their consumers, but the amount to which they benefit from their innovations is mainly determined by the business model they adopt (Chesbrough, 2010). Even if it is underpinned by cutting-edge technology, product or service-based innovation will not thrive in an era like this. Many academics have pointed out the need of BM innovation in order to remain competitive in the global economy. According to (Doz & Kosonen, 2010), "Today some companies fail not because of poor choices in corporate plans or mediocre performance, but because they continue to do what was once too appropriate and fall within the rigidity of their business model". Companies need to learn to modify BM faster, more frequently, and to a much greater extent than they have in the past.

Business Model Innovation (BMI)

BM innovation, also known as Business Model Innovation (BMI), is a prominent topic in the literature that has lately been explored by numerous researchers. BMI develops innovative methods to generate and distribute current products and services, as well as new ways to extract value from them (Yang, Evans, Vladimirova, & Rana, 2017). According to (Bernd, Vincent, & Peter, 2016), BMI is a description of the design process for the introduction of a new BM into the market, which is accompanied by changes to the value proposition and/or set of values, with the goal of generating or securing a sustainable competitive advantage. According to (Amit & Zott, 2012), the majority of companies (54 %) prefer new BM over new products and services as a source of future competitive advantage, and they suggest that innovative BM can create new markets or enable companies to create and exploit new opportunities in existing markets.

SMEs need to learn and understand what BM and BMI are. With the additional knowledge of understanding business models can help SMEs improve and be more innovative even with much less resources than large companies. A survey conducted by consultants Boston and Businessweekly (Albergaria, Nouws, & Delerue-Matos, 2013), shows that BMI provides higher and more sustainable returns (profits) than product and process innovation. In addition, companies that innovate their business models are four times more profitable. A survey conducted by IBM by (Rometty, 2006), concluded that companies that focus more on optimizing their business models grow faster and have higher operating margins than their competitors. BMI is equally important for companies large and small because treating such a disruptive innovation has the same effect on all companies regardless of size. In addition, small companies can also benefit from their BM innovations.

Research Methods

Types of research

This study uses a qualitative descriptive method, which describes the nature of something that is ongoing at the time of the research and examines the causes of a particular symptom.

Population Identification and Research Samples.

This study uses the population of the handicraft sector in 4 locations in the city of Banten. Sampling of SMEs in the handicraft sector in these 4 cities was carried out using a purposive sampling

technique, namely: based on certain considerations that were estimated to be representative of the population. The selected sample is creative industry SMEs that have a business capital of Rp. 50 million – Rp. 500 million, and MSMEs that earn between 20 million –50 million. Based on these criteria, craftsmen who represent each region will be selected with one potential craftsman, namely the cities of Tangerang, South Tangerang, Serang, and Cilegon.

Data Collection Procedures

There are several ways to collect data, including literature studies, direct observation, interviews, secondary data from other sources, or a combination thereof. Because the data needed are primary and secondary data, this study uses a combination of several methods. Data collection was done by observation and interviews. As for the development of the model and its application design, it is guided by existing theories from previous research, interviewing resource persons for SME owners and managers, and secondary data, including conducting Focus Group Discussions (FGD) with related parties.

Data analysis

This study uses qualitative and quantitative analysis. The results of observations and documentation studies were analyzed quantitatively to get an overview of the current conditions of the handicraft sector SMEs in the 4 research areas. The next analysis is qualitative in nature referring to sustainable development aspects based on previous studies and through a process of applied activities that focus on developing business concepts or market concepts including business models (BM), business model innovations (BMI), market opportunities, and market offerings. This process will produce a matrix model for developing business concepts for SMEs in the handicraft sector.

Research Results And Discussion

Research result

This research was conducted in 4 cities in the province of Banten. Covering the city of Serang, Cilegon City, Tangerang City and South Tangerang city. Samples of creative products in the field of handicrafts include: Batik, shell crafts, banana fronds, bamboo, handicrafts, knitting bags, embroidery bags, water hyacinth leather. Crafts made from recycled material and others. The number of respondents or research subjects involved in this study were 55 SMEs in the handicraft sector in 4 research areas. Each SME is represented by a respondent consisting of 61.6% men and 38.4% women including 10 sources (8 men; 2 women) who were interviewed in this study.

The results of the questionnaire from the respondents from 55 SMEs that became the research sample showed that only 4 of the 55 SMEs whose product sales were stable and increasing, the rest tended to decline and there were also few buyers during the pandemic. Nearly 64% of respondents also stated that the marketing model carried out during the pandemic affected the market and the rest stated that the market was not affected by the marketing model, only affected by the COVID-19 pandemic. Of the 55 SMEs that became the research sample, only 34% of SMEs have a written business concept, this shows that most of the handicraft sector SMEs do not have a solid business concept when running their SME business.

The results of interviews with 10 owners-leaders of the handicraft sector SMEs in the Serang, South Tangerang, Tangerang City, and Cilegon areas also get an up-to-date overview of the current condition of SMEs. From the results of the interview, we get data that 80% of the business concepts that are owned and implemented by SME leaders are still standard and minimal in innovation. The business concepts they apply, on average, tend to be what they are, namely selling online and offline, but there is no innovation that makes their products widely known and viral among handicraft consumers. During this pandemic, the interviewees acknowledged that the market opportunity was actually wide open, but they seemed confused about how to use it as a market offer for their goods. Seven out of 10 SME owners-leaders-managers agree that the problem of developing business concepts during the COVID-19 pandemic is a problem that must be immediately resolved, because if left unchecked, their businesses and SMEs are threatened with bankruptcy. If this is the case, then it is necessary to have a mechanism or a clear framework, in

realizing the right business concept to increase the sustainable development of existing craft SMEs.

Discussion

Taking references from the literature and the results of interviews and questionnaires, this study seeks to develop a systematic and efficient business model or concept in the form of a matrix model that is easy to understand and practice; so that the output or output can be measured and evaluated as early as possible to minimize the failure of SMEs in the future. Business concept development has been carried out by (Łobacz, Głodek, & Finance, 2015) where the matrix model divided into 2 parts, namely the activity section and the output section. The activity section consists of 3 stages, each of which produces a different but interconnected output with the final result being a 'market offer' for each products that SMEs produce. The stages in the activity section are (1) there is a process of seeking market opportunities; (2) look for sources of profit; and (3) development of market offerings. If the three stages in this part of the activity are carried out well, it will produce 3 good outputs or outputs at each stage, namely: (1) knowledge of market opportunities; (2) the establishment of a business model to run; and (3) there is always a market offer for the product of the SME concerned (Łobacz et al., 2015). (Wirtz, Göttel, & Daiser, 2017) has done is one of our references in creating an innovation model for the SME business concept in this research.

According to the findings of the data analysis conducted during the study, handicraft sector SMEs in four areas of Banten province have various methods of marketing their products, but there is one commonality that must be addressed immediately: how they effectively capture market opportunities in order to create a market offer. In the view of the Market Based View (MBV) theory, a company in determining its strategy will consider external conditions. Companies need to structurally analyze the industry they will enter. The concept of MBV theory is based on the concept developed by (Porter, 1996) namely the competitive force model. In order to be able to have a competitive advantage in its business environment, companies need to pay attention to five external driving factors, including: the threat of new players, competition between companies in the industry, the threat of substitute products, the power of suppliers, and the power of buyers. The combined strength of these five factors will determine a company's competitive advantage in an industry (ANDIYANTO, Miyasto, & Sufian, 2017).

According to (Albergaria et al., 2013; Porter, 1996), the five external variables stated above are the first item that firms should consider when developing a marketing plan or company strategy. Along with that, it is only combined with internal resources owned by the firm, such as talents, assets, and unique capabilities, in order to gain a competitive edge in its business environment. The combination of Resource Based View (RBV) and MBV will improve the company's approach for achieving competitive advantage even more.

According to (ANDIYANTO et al., 2017), the business performance of a company or SME can be influenced by several variables, including innovation, market orientation, and competitive advantage. Innovation has the greatest influence on business performance, followed by market orientation and competitive advantage. Companies are advised to innovate so that their business performance increases. In addition, companies also need to be market-oriented. Consumer tastes in the craft sector can be very dynamic and always change from time to time. The handicraft sector SMEs in Banten Province must be able to adapt to these conditions by always innovating in various fields, including by creating new designs according to market trends and current consumer tastes. This condition is expected to help boost the number of sales. Process development also needs to be done to get a more efficient process, so that costs can be reduced, prices can become more competitive and profit margins can increase. In addition, it is also necessary to develop the existing marketing system, so that the market that is reached is wider so that it has the opportunity to increase the number of customers and sales volume. Business performance is expected to increase if the company always innovates (ANDIYANTO et al., 2017). Business performance can also be improved by being market oriented. In modern times like today, information technology is growing so that information is easier to obtain. Consumers easily get information about the goods they want, both in terms of price, design and product quality. Consumers have relatively many choices to decide where they will buy the product. Therefore, SME players need to seek as much market information as possible to find out what things are needed by consumers and what are the current market needs, so that this information can be used to develop strategies to provide customer satisfaction. In addition, it is also necessary to dig

up information about competitors' strategies so that they can predict and anticipate various threats that may occur in the market. By having a lot of information about market conditions, customer needs and strategies carried out by competitors, SMEs can plan a strategy that is right on target and can have an impact on increasing business performance (ANDIYANTO et al., 2017). Another way to improve business performance is to create a competitive advantage for the company. SMEs that are market-oriented and innovate will have a higher competitive advantage. Its competitive advantages include fast order completion times, quality products, unique products, and competitive prices. With these advantages, the company will have higher competitiveness in improving business performance (ANDIYANTO et al., 2017).

Most of the SMEs in the handicraft sector in Banten province are seen as passive and less aggressive in capturing existing market opportunities, both domestic and foreign market opportunities. Most of them have offline galleries and don't have online galleries, so during a pandemic like the current one, their galleries tend to be quiet, even if there are no visitors or buyers who come to see and buy their goods. With the current pandemic conditions, SMEs in the handicraft sector should take advantage of online market opportunities, even if they have to hold exhibitions, the exhibitions must be online and virtual. Innovative marketing methods will reduce marketing costs and automatically make products more affordable for many consumers who are currently also affected by the COVID-19 pandemic where consumer conditions are currently price sensitive. The following is a matrix model that we developed from several theories and previous research.

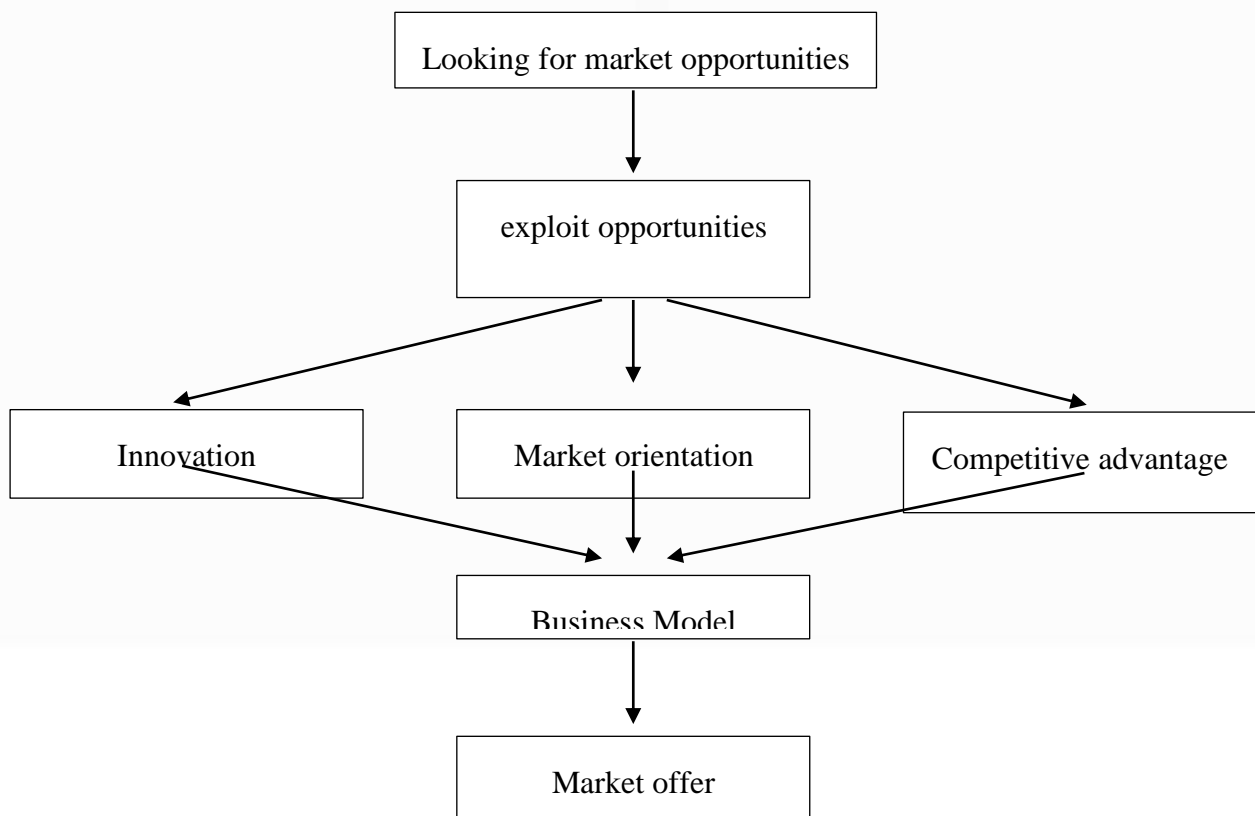


Figure 1. SME business innovation model

Business Model Innovation (BMI) research as we did in this study is still relatively rare; but we know that SMEs in several countries such as Indonesia are one of the drivers of the economy of that country. This research is expected to contribute on the continued development of SMEs, because by applying the BMI or the matrix model formed in this study, SMEs can be more structured in running their business, whether in the field of services or products. With a more structured development, the existence of an SME is expected to continue and develop into the future.

Conclusion

Determining the right business concept will greatly affect the performance of an SME in capturing market opportunities and obtaining market offers. By always innovating, understanding market orientation, and having competitiveness, these are the main things that must be immediately fulfilled by all SMEs, not only the craft sector but also SMEs from other sectors. With the business innovation model in this study, it is hoped that the craft sector SMEs can survive during the COVID-19 pandemic, and can even develop better in the future.

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