

CHAPTER I

INTRODUCTION

1.1 Overview of Research Objects

Micro, Small, and Medium Enterprises (MSMEs) play important role in the economic development of Indonesia. Their significance is highlighted by their substantial contribution to the country's GDP. Between 2007 and 2012, the GDP generated by MSMEs up from Rp. 2,107,868.10 billion to Rp. 4,869,568.10 billion, reflecting an average growth rate of 18.33% per year. In comparison, large enterprises had a lower contribution growth rate of 15.75% annually. Furthermore, data from BPS indicates that in 2012, MSMEs employed 97.16% of the industrial workforce in Indonesia, translating to 107.66 million workers, while large businesses accounted for just 2.84% of employment in that sector (Veranita, 2019).

Bandung is one of the cities in West Java that has great potential in developing MSMEs. The development of MSME Food in the city of Bandung approximately around 2000, this is due to the development of the economy in the city of Bandung which continues to show development every year (Ginting, 2019). The details can be contained in

Table 1.1. Development of MSME in Bandung City, West Java

No	Description	2018	2019	2020
1	Micro	4115	4301	4527
2	Small	357	372	390
3	Medium	274	276	281
Total		4746	4948	5198

Source: Bandung City MSME and Industry and Trade Office, (2022).

Table 1.1. shows the development of the number of MSMEs in the city of Bandung, West Java, which continues to increase every year. In 2018 there were 4115 MSMEs, increasing in 2019 to 4301 MSMEs, and in 2020 it increased again to 4527 MSMEs. In 2018 there were 357 MSMEs, in 2019 there were 372 MSMEs and in 2020 this increased to 390 MSMEs. Medium Enterprises in 2018 were 272

MSMEs, in 2019 this increased to 276 MSMEs and in 2020 there were 281 MSMEs. The number of MSMEs is more than large-scale businesses, so MSMEs are the most dominating business sector in Bandung City, West Java.

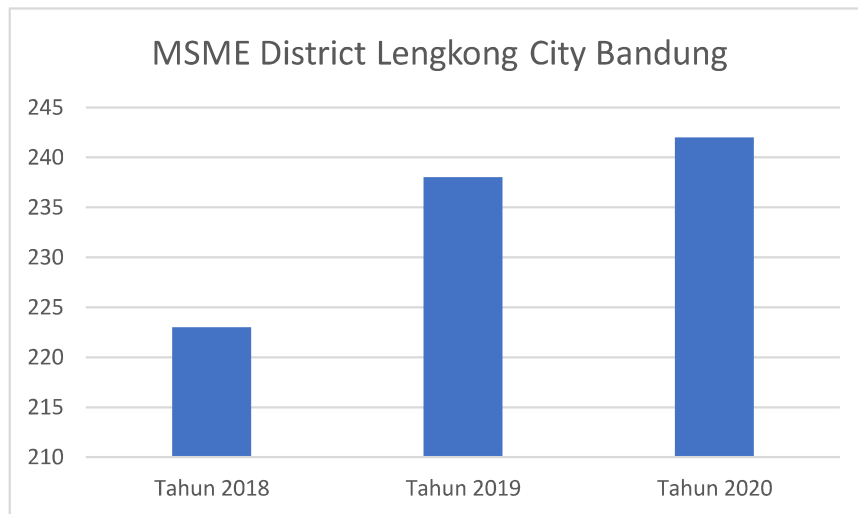
Lengkong District, located in Bandung City, West Java, has experienced a steady growth in Micro, Small, and Medium Enterprises (MSMEs). This trend is largely driven by an increasing entrepreneurial awareness among individuals, prompted by the disparity between the number of job seekers and the available job opportunities. MSMEs play important role in enhancing the rural economy. However, the development of MSMEs itself is very slow and loses in competition with large companies, particularly in the age of free trade and globalization (Rokhayati, 2016). Based on data from MSMEs in 2020 in Lengkong District, Bandung City, it occupies the second position with the largest number of MSMEs. Here's the data:

Table 1.2. Data MSME District Lengkong City Bandung Year 2018-2020

Year	Total MSME
2018	223
2019	238
2020	242

Source: MSME Lengkong District, Bandung City, 2022

Based on table 1.2. MSME data for Lengkong District, Bandung City, there was an increase in the number of MSMEs from 2018 to 2020. This data shows that there was an increase in MSMEs by 2.13% from 2018 to 2019. Meanwhile, from 2019 to 2020 there was an increase of 0.5%. In 2019 there was an increase of 15 MSMEs, and in 2019 there was an increase of 4 MSMEs. The following is a graph of the increase in MSMEs in Lengkong District, Bandung City:



Figures 1.1. Graph of MSME Development in Lengkong District, Bandung City

1.2 Research Background

One of Indonesia's top priorities for economic development is the growth of Micro, Small, and Medium-Sized Enterprises (MSMEs). The foundation of the people's economy, this industry works to alleviate poverty and create jobs in addition to addressing the issue of income inequality and between business actors. By strengthening the regional economy and national economic resilience, the growth of microenterprises can increase the economic sector's base and significantly accelerate structural change (Fibriyani, 2018). Considering that Industry 4.0 has had an impact on almost all industries, entrepreneurs must prepare their businesses well (Hatammimi and Krisnawati, 2018).

Small or micro businesses have experienced a lot of development because they are considered the simplest businesses and the company's operational processes are the closest or affordable to consumers. Because of this, and supported by innovative ideas from small business actors on the market, products produced by small businesses are often the choice for consumers. The success of small businesses that are currently developing is also heavily influenced by the variety of products. offered by small business actors and also small business actors tend to understand more about consumer desires (Situmorang, 2018).

MSMEs that want to survive and be more advanced in these conditions need to develop new strategies (Bilqies, 2017). Competitive strategy involves building and leveraging strategic resources to gain a competitive edge. This advantage serves two purposes: driving business performance and countering competitors' strengths. (Suhaeni, 2018).

MSMEs who want to develop are willing to take risks and are committed to creating innovation (Bilqies, 2017). Strategic innovation is an important factor for organizations, sustainable and competitive advantage financial performance (Nybakk, 2013). Strategic innovation involves developing groundbreaking strategies, technologies, services or business models that disrupt markets and create substantial value for customers (Kusniawati, 2021).

Micro, Small, and Medium Enterprises (MSMEs) are businesses classified into three categories, regulated by Indonesian Law No. 20/2008, characterized by limited assets up to Rp.50.000.000 and annual sales up to Rp.300.000.000

Micro, Small, and Medium Enterprises (MSME) in Indonesia can be said to be developing well, because the number of MSME in Indonesia continues to grow and they are also a contributor to the country's foreign exchange. The MSME management itself can vary, starting from the management per business unit, as well as in the form of a collection of MSMEs that form MSME centers that usually sell or produce similar goods.

This research took Food Business MSMEs in Lengkong District, Bandung City, because based on data from Bandung City MSMEs, Lengkong District and Lengkong District Food Business MSMEs, Bandung City, are among the MSMEs with the largest number in Bandung City, namely 86 MSMEs. The following is MSME data with the classification of business types in Lengkong District, Bandung City in table 1.3:

Table 1.3. MSME data is based on the classification of business types in Lengkong District, Bandung City 2020

No	Type of Business	Total MSME
1	Food	86
2	Fashion	54
3	Commerce	37
4	Handicraft	20
5	Services	30
6	Culinary	1
7	etc	14
	Total	242

Source: MSME, Lengkong District, Bandung City, 2022

Table 1.3 shows that there are several types of MSME groups, one of which is food MSME. Food MSME are the type of business with the largest number of SMEs in Lengkong District, Bandung City. Food MSME is included in the food MSME sector including the agriculture, livestock, forestry and fishery sectors; and MSME Food is included in the food crops sub-sector. According to Central Bureau of Statistics (2006) in catalog 9102021 and Central Bureau of Statistics (2006b) in catalog 9102038, the standard classification of food MSMEs in Indonesia includes restaurants, food stalls, bars, food and beverage shops, mobile food and beverage sellers and catering services (Ginting, 2019)

According to Nuri Nuraeni in her interview on the online news Jabarekspres.com, MSMEs in Bandung struggle with capital shortages, poor financial management, lack of innovation, inadequate digital marketing, and licensing hurdles, exacerbating pandemic-related revenue declines. (Nizar, 201).

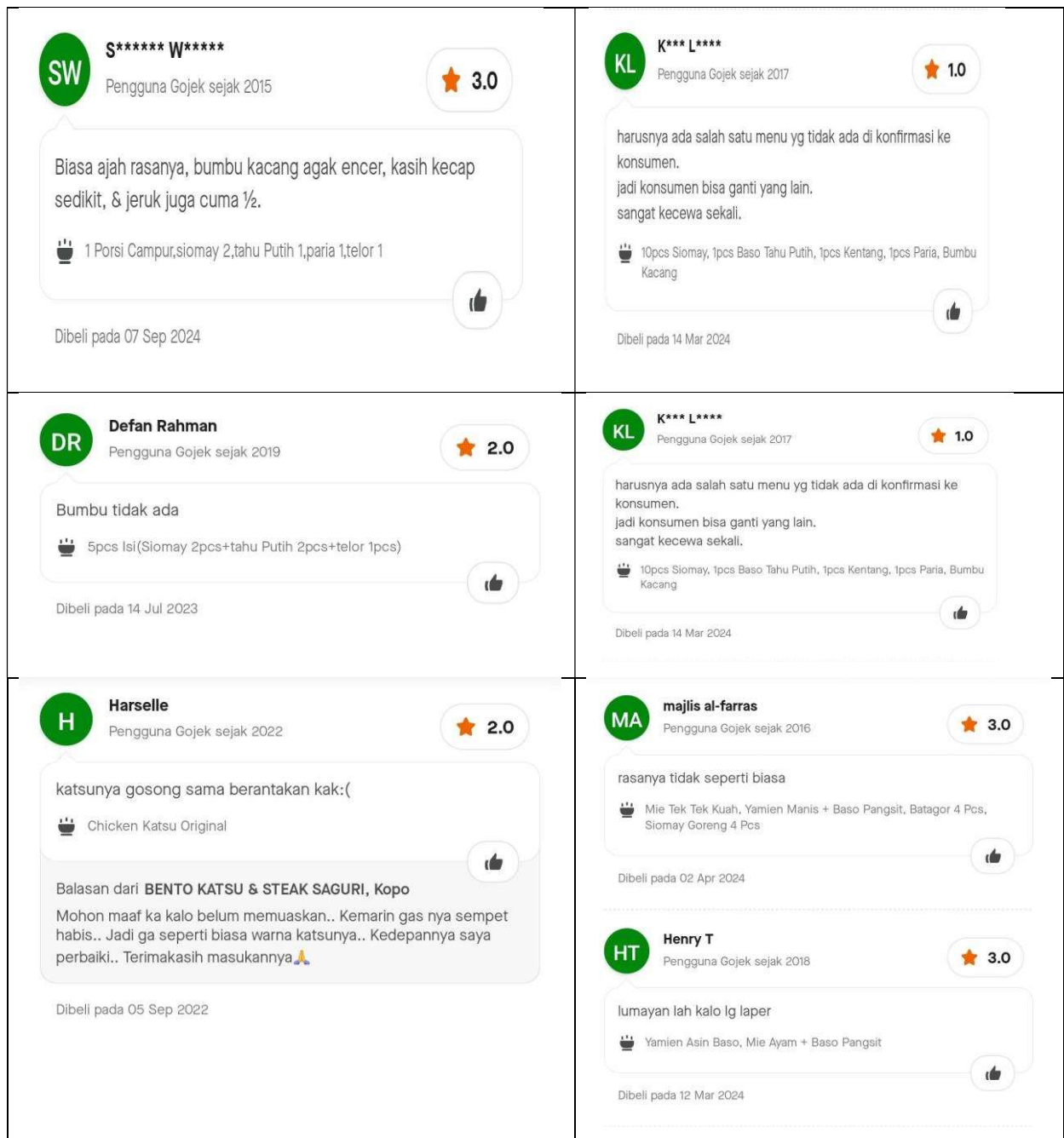
The Covid-19 pandemic also affected the decline in MSME turnover. Data from the MSME Service stated that business actors in the culinary field had decreased by up to 97%. The average turnover has decreased by 65% from the turnover before it was affected. MSMEs Culinary business types such as packaged snacks, ready-to-eat foods, and soft drinks have decreased, varying from 60% to

97%. However, specifically for honey products and traditional medicines, they experienced a 100% increase (Jabarekspres.com/, 2021).

Intensifying competition and rapid technological progress have made product differentiation increasingly challenging (Setiono, 2016). Accordingly, because the methods put in place are still ineffective, this issue may also occur in small and medium-sized businesses, also known as micro, small, and medium-sized enterprises (MSMEs). By putting an innovation plan into practice, MSMEs which are also a part of the economy need to become even more competitive. Innovation and creativity-based competitive advantage should be given priority since they are more durable and last longer. Organizational obstacles, specifically when it comes to implementing innovation, including the required investment amount (Nirwana, 2024).

This worry is actually unwarranted because innovation is institutionalized, constant, and sustainable more critically, it doesn't have to begin with anything expensive and sophisticated. Product innovation is a key consideration for businesses when developing new products. Because it is the product of a company that may be supplied to the market for consumption and serves as a tool for the company to accomplish its objectives, the product is the focal point of marketing efforts. A product must have advantages over rivals in terms of quality, style, form, size, packaging, service, warranty, and taste in order to persuade consumers to try and buy it. Several MSME received negative feedback on complaints about MSME products in relation to product innovation and MSME food business.

Various negative comments regarding MSME Food Business products at the Gofood service provider are shown in Figure 1.4:



Figures 1. 2 Complaints about MSME Products from Bandung City Food Business Source: Gofood accessed August 6, 2022

The problem that occurs in Lengkong MSMEs is related to product innovation, according to local people who have purchased the product, namely because there is a lack of product variety, and they only make food that is familiar in Lengkong. The problems that occur related to marketing innovation are due to lack of marketing due to limited capital. The problem that occurs in Lengkong

MSMEs is related to process innovation, namely because the process is not detailed enough. Based on data from Kompasiana (2023), Bandung MSMEs still have several shortcomings in promoting products and services, such as the absence of labels and a lack of knowledge on how to apply DKV principles correctly and effectively on packaging. So that consumers do not know well the products or services offered by MSMEs, one of the partners being worked on is Marin Banana Chips. So a grant is needed for Packaging Label Design Using DKV Principles for Marin Banana Chips. The solution will be created by designing and applying packaging design using the DKV principle.

Research related to the effect of product innovation on the performance of SMEs. According to Kalay (2015), Canh (2019), Karagulut (2016), Farhang (2018), Kipto (2019) the results of his research show that product innovation affects performance. In contrast to research Muslikh, (2018) that product innovation has no effect on performance.

Research related to the effect of marketing innovation on the performance of MSMEs. According to Kalay (2015), Kenea (2020), Kipto (2019), Ulfah (2020) in his research results show that marketing innovation affects performance. In contrast to research Karagulut (2016) that marketing innovation has no effect on performance.

Research related to the effect of process innovation on MSME performance. According to Kalay (2015) Karagulut (2016), Kipto (2019) in his research results show that process innovation affects performance. In contrast to Muslikh's research (2018) that process innovation has no effect on performance.

Research related to the influence of information technology on the performance of SMEs. Kipto (2019) Kenea (2020), Canh (2019), Beyene (2016) shows that product innovation affects performance. In contrast to Kalay's research (2015), the results of his research show that information technology has no effect on performance.

Based on the gap research, there are still many studies with inconsistent results from previous studies. The difference between this research and previous

research is the research object and the number of respondents. This study used the MSME research object in Lengkong District, Bandung City.

This research is the result of a replication of Kiptoo & Koech (2019) with the title "The Influence of Innovation Strategy on Organizational Performance" using the variables product innovation, marketing innovation, process innovation, technology innovation and performance. Based on the background above, the researcher is interested in conducting research on "The Influence of Product Innovation, Marketing Innovation, and Process Innovation on the Performance of MSMEs in the Food Business in Lengkong District, Bandung City".

1.3 Problem Formulation

Based on the background of this research, the problem is formulated for this research.

1. What influence product innovation affect the performance of MSMEs in the Food Business in Lengkong District, Bandung City?
2. What influence marketing innovation affect the performance of MSMEs in the Food Business in Lengkong District, Bandung City?
3. What influence process innovation affect the performance of MSMEs in the Food Business in Lengkong District, Bandung City?

1.4 Research Objectives

Based on the formulation of the problem above, the purpose of this study is to:

1. Knowing product innovation affects the performance of MSMEs in the Food Business in Lengkong District, Bandung City.
2. Knowing that marketing innovation has an effect on the performance of MSME Food Businesses in Lengkong District, Bandung City.
3. Knowing process innovation influences the performance of MSME Food Businesses in Lengkong District, Bandung City.

1.5 Research Purposes

The benefits of this research are divided into two parts as follows:

1.5.1 Theoretical Benefits

The theoretical aspect of this research is to apply the theories that have been obtained during lectures, provide information about innovation strategies and MSME performance, provide information for students who are seeking information about their influence on MSME performance and analytical techniques, and as a Final Undergraduate Education Project in the International ICT Business study program at Telkom University.

1.5.2 Practical Benefits

The theoretical aspects of this research are applying theories that have been obtained during lectures, providing information about innovation strategies and MSME performance and providing information for students who are looking for information about MSME performance and combined data analytical techniques and as a Bachelor's Final Project in the study program Telkom University International ICT Business.

1.6 Aims of Research

This research has limitations that aim to prevent the problem from spreading and maintain the consistency of the researcher's goals. These limitations are as follows:

- 1) Observation period is Agustus 2024-Januari 2025.
- 2) The people who are used as respondents are MSME Usaha makanan di District Lengkong City Bandung.
- 3) Description of what preferences kinerja MSME Usaha makanan di District Lengkong City Bandung.

1.7 Systematically Writting

The systematic writing of this research is as follows:

- a. CHAPTER I PRELIMINARY

The first chapter shows a general, concise, and concise explanation of the phenomenon and research content.

b. CHAPTER II LITERATURE REVIEW AND SCOPE OF RESEARCH

The second chapter describes clearly, concisely, and concisely, the theories related to the topic and research variables to be used as the basis for the preparation of a framework of thought and the formulation of hypotheses.

c. CHAPTER III RESEARCH METHOD

The third chapter provides an explanation of the approaches, methods, and techniques used to collect and analyze data that can answer or explain research problems.

d. CHAPTER IV RESEARCH RESULTS AND DISCUSSION

The fourth chapter describes the results of the research conducted by the author on the object along with a discussion consisting of respondents' analysis of variables, statistical analysis, and analysis of the influence of variables..

e. CHAPTER V CONCLUSIONS AND RECOMMENDATIONS

The fifth chapter is part of the research which contains conclusions from the results of the research discussion and suggestions given by the author which are expected to be useful both for the object of research and other interested parties.