

Identification of Driving Factors of Sustainable Innovation in MSMEs in the Food, Beverage, and Service Sectors in West Java

Mediany Kriseka Putri^{1*}, Faisal Ahsan Anjangsara²

Manajemen Bisnis Telekomunikasi dan Informatika, Fakultas Ekonomi dan Bisnis, Universitas Telkom

Corresponding Author: Mediany Kriseka Putri

medianykep@telkomuniversity.ac.id

ARTICLE INFO

Keywords: Sustainable, Innovation, MSMEs, West Java

Received : 23, July

Revised : 13, August

Accepted: 27, August

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ABSTRACT

This research aims to explore sustainable innovation within MSMEs in West Java, focusing on understanding, and driving factors. Utilizing a qualitative approach, we conducted interviews with 11 MSMEs from the food, beverage, and service sectors. Our findings indicate varying levels of awareness of sustainable innovation, with primary external drivers being market competition and consumer demand, while the internal driver is MSMEs decision. The study highlights the need for targeted support to enhance SME innovation capabilities, and emphasizing the role of continuous learning. These insights contribute to the broader knowledge of sustainable practices in MSMEs.

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) sector plays a crucial role in the economy, significantly contributing to employment and local economic growth. In the dynamic business environment, sustainable innovation emerges as a key element influencing MSMEs' competitiveness and their impact on economic, social, and environmental resilience. Daryanto (2013) emphasizes that, in addition to being part of economic growth, MSMEs must prioritize high levels of innovation and creativity to enhance business growth. This study aims to understand MSMEs' knowledge of sustainable innovation and explore the factors driving its adoption within their business environment.

This research focuses on MSMEs in three sectors: food, beverages, and services, chosen due to their substantial representation among MSMEs in West Java. By selecting a representative sample, the study seeks to detail various levels of MSMEs' understanding of sustainable innovation. The chosen sectors not only significantly contribute to the regional GDP but also provide essential income and employment opportunities for many communities.

Conducted in West Java, the research highlights the region as having the highest number of MSMEs in Indonesia. Although West Java is the province with the highest number of MSMEs in Indonesia, many of them have yet to implement sustainable innovation effectively. Sustainable innovation is crucial for enhancing competitiveness and long-term resilience. However, many MSMEs in this region remain focused on day-to-day operations and have not prioritized the development and implementation of sustainable innovation. This situation reveals a significant gap between the potential and the actual practice of innovation within West Java's MSMEs, which necessitates this research to identify the driving factors affecting the adoption of sustainable innovation in the food, beverage, and service sectors in the region. By understanding MSMEs awareness and drivers to sustainable innovation, this study can provide valuable insights to promote more sustainable transformation, this study seeks to bridge the gap between existing theories and field realities.

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LITERATURE REVIEW

Sustainable innovation is an interactive process involving incremental operational improvements, learning, and radical innovation. The primary goal is to integrate operational efficiency with adaptive strategic policies. Sustainable innovation in business development includes product, process, and marketing innovation (Satyarini & Fitriani, 2018). According to Nastion et al. (2019), the term "innovation" originates from the Latin word "innovatio," meaning renewal or change. The Indonesian Dictionary defines innovation as (1) the process of introducing something new or renewing, and (2) discoveries that differ from what is already known, including ideas, methods, or tools.

Sustainable Innovation

According to Boons & Lüdeke-Freund (2013), sustainable innovation provides competitive solutions for companies while also improving environmental and social performance. This includes developing new products, business processes, and business models. Adams et al. (2006) define sustainable innovation as the process by which organizations develop and implement new ideas to support growth and sustainability while simultaneously reducing negative environmental impacts and enhancing social contributions. In summary, sustainable innovation integrates environmental and social considerations into the innovation process to create sustainable value for companies, society, and the environment. Rogers (1962) states that innovation spreads through a population in well-organized stages, with five adopter categories: innovators, early adopters, early majority, late majority, and laggards. Each category has specific characteristics in adopting innovation, influenced by factors such as the innovation's characteristics (e.g., relative advantage, compatibility, complexity, observability, and trialability), communication channels, social systems, and time.

Driving factors of Sustainable Innovation

Rogers (2003) suggests that innovation is often driven by intense market competition, requiring businesses to continuously innovate to remain competitive and maintain market share. Von Hippel (1986) highlights consumer demand as a primary driver of innovation, with companies innovating to meet evolving consumer needs. Gonzales-Gemio et al. (2020) argue that sustainable innovation can enhance customer satisfaction by providing better products and services tailored to their needs.

MSMEs

According to Lawton Smith et al. (2018), MSMEs are defined by specific employee counts and usually have turnover or balance sheet limits, varying by country. In the EU, MSMEs are identified as companies with fewer than 250 employees, an annual turnover not exceeding €50 million, or an annual balance sheet not exceeding €43 million. Indonesian economist Tulus T.H. Tambunan categorizes MSMEs based on asset value and annual turnover. Micro businesses have maximum assets of IDR 50 million (excluding land and buildings) or an annual turnover of up to IDR 300 million. Small businesses have assets between IDR 50 million and IDR 500 million or an annual turnover between IDR 300 million and IDR 2.5 billion. Medium businesses have assets between IDR 500 million and IDR 10 billion or an annual turnover between IDR 2.5 billion and IDR 50 billion. MSMEs play a crucial role in creating productive employment, particularly in Indonesia, and contribute to economic growth and development. They also help address unemployment issues by increasing job opportunities and income for the community (Putri & Madhani, 2023).

Research Framework

This conceptual framework illustrates how sustainable innovation in MSMEs is influenced by both internal and external factors. Business decisions serve as the key internal factor, where MSMEs choose to innovate in order to enhance their efficiency and competitiveness. This decision is driven by the internal need to continuously evolve and adapt to changing market dynamics. On the other hand, external factors such as business competition and consumer demand are also major drivers of sustainable innovation. Business competition forces MSMEs to continuously innovate to remain relevant and competitive in the market. Meanwhile, growing consumer demand for more environmentally friendly and sustainable products and services compels MSMEs to adapt and develop innovations that align with consumer expectations. The combination of these internal and external factors makes sustainable innovation a crucial strategy for MSMEs to achieve long-term sustainability in their business.

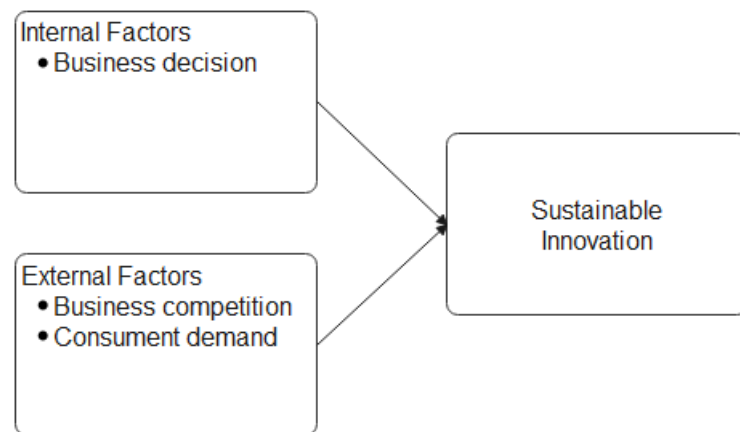


Figure 1. Conceptual Framework

METHODOLOGY

Research Methodology

This study investigates driving factors of sustainable innovation in the development of Micro, Small, and Medium Enterprises (MSMEs) in West Java, particularly within the food, beverage, and service sectors. Utilizing a qualitative research methodology based on postpositivism, this research employs interviews to gather in-depth insights from MSME actors. Data collection was conducted through interview, and analysis focused on understanding the meaning rather than generalizing results. The findings reveal varying levels of understanding and adoption of sustainable innovation among MSMEs, highlighting key drivers such as market competition and consumer demand. This research provides practical guidance for MSMEs to identify opportunities and overcome challenges related to sustainable innovation. The study emphasizes the importance of integrating innovative practices to enhance competitiveness and sustainability, contributing to economic growth and social welfare in the region. By focusing on descriptive analysis, this study offers a detailed examination of the factors that drive sustainable innovation in MSMEs, providing valuable insights for policymakers and business practitioners.

Operational Variables

According to Sugiyono (2019), operational variables are attributes or values of an object, person or activity that have certain variations and will be determined by researchers to be studied and then draw conclusions. The following is a table for the operationalization of this research variable.

Tabel 1. Operational Variables			
Variable	Question	Sources	Expected answer
Sustainable Innovation	What do you know about sustainable innovation in MSMEs	- Business owners - Manager - Staff	Resource persons can explain what sustainable innovation is according to them
	What makes you do sustainable innovation in your business	- Business owners - Manager - Staff	The speakers explained what makes them make sustainable innovations in their businesses

RESEARCH RESULT AND DISCUSSION

Interview were held at MSMEs in the Food, Beverage, and Service Sectors in West Java to identify the driving factors of sustainable innovation in MSMEs and their perspective of sustainable innovation in MSMEs. 11 respondent were 11 respondents were involved in this research.

MSMEs' Understanding of Sustainable Innovation

Based on the research results all respondents understand and have a similar perspective on the definition of sustainable innovation in the context of MSMEs. The understanding of the informants aligns with the theory of sustainable innovation proposed by Adams, R. et al. (2006), which defines sustainable innovation as the process by which organizations develop and implement new ideas aimed at supporting the growth and sustainability of the company.

Table 2. Respondents answer of first question in interview

Answers	Quantity
Activities, ideas, or innovations carried out for business sustainability.	7
The implementation of new ideas to continuously improve competitiveness	2
Something MSMEs must do to prevent stagnation	1
Total	10

Factors Driving Sustainable Innovation

The research results reveal several factors driving sustainable innovation. According to the coding results from NVivo, there are three main factors driving MSMEs to innovate sustainably. 60% of the informants stated that their businesses innovate sustainably due to market competition, aligning with Rogers, E.M. (2003) who stated that innovation is often driven by intense market competition. Business actors need to continuously innovate to remain competitive and maintain their market share. 20% of the respondents innovate due to consumer demand, and the remainder innovate to make things easier for consumers, as seen in the table below.

Table 4. Respondents answer of third question in interview

Answers	Quantity
Market competition	6
Consumer demand	2
To make things easier for consumers	2
Total	10

The findings from this research reveal significant insights into the driving factors of sustainable innovation within MSMEs in the food, beverage, and service sectors in West Java. The identification of key drivers such as regulatory pressure, consumer demand, and environmental awareness highlights the growing importance of sustainable practices in maintaining competitiveness in the market. These factors emphasize the role of external pressures and changing market dynamics as crucial motivators for MSMEs to adopt sustainable innovations.

The results also indicate that the level of sustainable innovation adoption among MSMEs in West Java varies significantly depending on the sector and the specific business context. This variability suggests that a one-size-fits-all approach to promoting sustainable innovation may not be effective, and that tailored strategies are necessary to address opportunities faced by different types of MSMEs.

The discussion points to a complex interplay of factors influencing sustainable innovation in MSMEs. While there is a growing recognition of the importance of sustainability, the successful implementation of sustainable innovations.

CONCLUSIONS AND RECOMMENDATIONS

The study reveals that the understanding of sustainable innovation among SME actors varies yet is similar. Some respondents understand sustainable innovation in MSMEs as activities, ideas, or innovations carried out for business sustainability. Others view it as the implementation of new ideas to continuously improve competitiveness, and some see it as a necessity for preventing stagnation in MSMEs. This indicates that their understanding aligns

with the theory proposed by Adams, R. et al. (2006), which defines sustainable innovation as the process by which organizations develop and implement new ideas aimed at supporting the growth and sustainability of the company. Additionally, the understanding that sustainable innovation is necessary to avoid stagnation in small and medium enterprises is crucial. Innovation should be part of the long-term strategy for MSMEs to ensure growth and adaptation to market dynamics, as stated by Adams, R., Jeanrenaud, S., Bessant, J., Denyer, D., & Overy, P. (2016).

The respondents have different driving factors for innovation. Some innovate due to consumer demand, while others do so because of increasing business competition. Although their methods of innovation differ, their common goal is to ensure that their businesses remain competitive in their respective fields.

This research, while comprehensive in its scope, is subject to certain limitations. Firstly, the study is limited to MSMEs in the food, beverage, and service sectors in West Java, which may not fully represent the broader landscape of MSMEs in Indonesia or other regions. Future research could expand the geographical scope to include a wider range of regions and sectors, providing a more holistic view of sustainable innovation in MSMEs across different contexts.

Secondly, the study primarily relies on qualitative data, which, while rich in detail, may not capture the full extent of the trends and patterns in sustainable innovation adoption. Future research could incorporate quantitative methods to complement the qualitative insights and provide a more robust analysis of the factors influencing sustainable innovation.

Moreover, the research does not fully explore the long-term impacts of sustainable innovation on the business performance of MSMEs. Future studies could investigate the relationship between sustainable innovation and business outcomes such as profitability, market share, and customer satisfaction over an extended period. This would provide valuable insights into the effectiveness of sustainable innovation strategies in enhancing the competitiveness and resilience of MSMEs.

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