

CHAPTER I

INTRODUCTION

1.1 Research Background

As time goes by, people and the way they think change in order to adapt, that is human nature. More and more new technologies are introduced to the world, by which each and every one of them is unique and innovative. Despite bringing advantages, these rapid changes also lead to troubles for some small retailers in Indonesia. According to Tirta, one of the Board of Commissioners of Indonesian Financial Services Authority (*Otoritas Jasa Keuangan*), many small retailers have not utilized digital technology, especially in marketing and market access (marketplace). (Muhammad, 2022).

Research states that small independent retailers are in danger due to the large number of competitors. (Hensel, 2021). This creates a very intense competitive business environment especially in online marketplaces, these factors lead to a decline in small retailer's revenue and even the closing of some small shops, which leads to more retail spaces (Hensel, Visser, Overdiek & Sjoer, 2021). These small retailers should find a solution on how to cope with this fierce business environment, and one of them is to learn, understand, and implement innovative business strategies. For example, creativity creates a very important impact on the performance of one's business (Visser, 2021). But being creative only is not enough. This creativity should be implemented and also combined with their cognitive

business skills. To be able to succeed or survive in business competition, especially during start-up phase and when competition is tough, it is crucial for these small independent retailers to have specific business skills that they understand and apply to their businesses. For example, creativity is one of the simplest values of an entrepreneur. Because when one's creative, he/she can generate many unique new ideas that may have never been thought of by other people before. However, creativity alone doesn't measure success. Many factors lead to business success, and creativity is just one of them. Another one is that the owner must have the initiative to run or improve their business. Successful entrepreneurs are people who can make their own rules. But of course, with careful consideration and calculation. For that it takes initiative and high creativity to be able to do it. (Waringin, 2017)

In Indonesia, small independent retailers, also known as *UMKM*, are classified by several criteria such as they are in the micro class, small and small-medium, which means that their income is not more than Rp. 300,000,000 per year for micro, not more than Rp. 500,000,000 for small and between Rp. 500,000,000 – Rp. 2,500,000,000 for small-medium. Above that is included as medium and large businesses. (Sukorejo, 2022). This paper will focus on the micro businesses all around Indonesia. This paper is written to prove the importance of innovative skills to these micro business owners. In addition, whether the theories they learned are important and relatable and can be implemented to their business.

According to Sahut, JM., Peris-Ortiz, M. (2014), small businesses offer the most supportive environment for entrepreneurship and innovation, which are not always supported by the knowledge and resources typical of large-scale production

but instead call for commitment and close cooperation between company members. Both small and large companies have advantages and disadvantages regarding innovation. This research paper will focus on small businesses.

Schumpeter's (1934, 1950) work contains connections between entrepreneurship, innovation, and businesses from the very beginning of the entrepreneurial literature. Innovation and economic development can be carried out by the same people who control the productive or commercial process (in the enterprise) or by the new (innovator people) that typically, in a new venture or start-up small enterprise, achieve new combinations or innovations. This is in accordance with (Schumpeter, 1934), who also asserts that as entrepreneurs make new combinations of factors and the new combinations appear discontinuously.

According to Shane (2012), entrepreneurship encompasses more than the process of recognizing chances for profit. Innovation is a critical component of entrepreneurship. It also entails developing a business concept on how to combine resources to take advantage of those opportunities, and in this case, small independent retailers. Innovation is important not only to entrepreneurs but also to retailers, because innovation doesn't have to be the product, it can also be the owner's way of thinking, how the business is carried out, and how the money is managed. It is not only depending on the owners, but also on opportunities too; "the fundamental notion that entrepreneurship is a process that depends on both individuals and opportunities" (Shane, 2012).

Equipped with innovative decision-making skills, despite having smaller opportunities, small retailers may have a bigger chance to grow and succeed. This

paper will give answers to the huge main question, on whether innovative strategic decision-making skills really effect the business performance of small independent retailers in Indonesia.

Based on the description above, the title of this research is “THE EFFECTS OF INNOVATIVE STRATEGIC DECISION-MAKING SKILLS ON SMALL INDEPENDENT RETAILERS’ PERFORMANCE IN INDONESIA”

1.2 Research Questions

After detecting on what problems to research about, the research question will be created based on the background problem, below are the research questions that will be answered in this research:

1. Do creative abilities positively impact inspirational networking?
2. Do creative abilities positively impact small retailers’ performance?
3. Do creative abilities positively impact cognitive analytical business skills?
4. Do cognitive analytical business skills positively impact small retailers’ performance?
5. Do inspirational networking positively impact small retailers’ performance?

1.3 Research Objectives

According to the research questions, the objectives of this study are:

1. To determine whether creative abilities positively impact inspirational networking.
2. To determine whether creative abilities positively impact small independent retailers’ performance.

3. To determine whether creative abilities positively impact cognitive analytical business skills.
4. To determine whether cognitive analytical business skills positively impact small retailers' performance.
5. To determine whether inspirational networking positively impact small retailers' business performance.

1.4 Research Contributions

The purposes or goals of this study is to make both theoretical and managerial contributions.

1. Theoretical Contributions

The theoretical contribution of this research paper is the knowledge of the impact of innovative strategic decision-making skills on small independent retailers in Indonesia.

2. Managerial Contributions

The managerial contribution of this research paper is to help readers or future retailers know how important innovative strategic decision-making skills is and how much impact it does to small independent retailers, so that they might use this research as a reference.

1.5 Research Limitation

The research's scope is constrained by a lack of funding, resources, labor, and time; therefore, it is limited to:

1. The respondents are people who live in Indonesia, between the age of 18-55, who run a small retail business (*UMKM*). The reason for choosing this group is because the age 18-55 is included in the productive age group in Indonesia (Suharto, 2022).
2. The questionnaire will be distributed to at least 170 respondents over the internet.

1.6 Research Outline

This research paper is divided into five chapters as follows:

Chapter 1 – Introduction

The background, problem statement, research questions, research objectives, research limits, as well as theoretical and managerial difficulties, will all be covered in chapter one.

Chapter 2 - Literature Review

The theories, concepts, and earlier discoveries in Chapter 2 will serve as the direction and theoretical framework for this investigation.

Chapter 3 - Research Methodology

Chapter 3 explains the details on how researchers gain the data and how the data is processed. Included in this chapter is: research paradigm, type of study, research object, sample, population, research design and data collection.

Chapter 4 – Result and Discussion

The study results, important respondent profiles, the outcomes of the research problems, discussion and analysis of the ideas and variables, and the relationships between the research results are all included in chapter 4.

Chapter 5 - Conclusion and Recommendations

The conclusion of this study, theoretical and managerial ramifications, and recommendations or ideas for further research are included in chapter 5.

