

# **CHAPTER I**

## **INTRODUCTION**

The first chapter will give the reader an overview of why this research was conducted, including the background, research problems, research questions, research objectives, research benefits, research contributions, research scope, and research outline.

### **1.1. Background**

The number of MSME or Micro, Small Medium Enterprise in Indonesia has reached 64.2 million which has had a large positive impact on the country, which is the contribution to gross domestic product (GDP) reached 61.07% or 8,574.89 trillion rupiahs (Kemenkeu, 2022). MSMEs itself create new job opportunities for Indonesian citizens in fighting unemployment due to the lack of employment opportunities in the country. MSMEs have succeeded in creating jobs and helping provide a very large number of job opportunities, the number reached 97% in 2020 (Nurhaliza, 2022). In addition, MSMEs contribute 15.69% for export in Indonesia (Anggraeni, 2022). is very supportive of the development of MSMEs, especially in COVID-19 conditions, this is proven through the support of the Indonesian government through Komite Penanganan Covid-19 dan Pemulihan Ekonomi Nasional (PC-PEN) which is continuous from 2020 to 2022. Government support in 2020 reached 157.7 trillion, by

2021 reached 117.3 trillion, and 64.68 trillion by 2022 to help MSMEs recover from the impact of COVID-19. Besides government support during the COVID-19 period, the governments are also active in helping MSMEs in their development through Kredit Usaha Rakyat (KUR). By 2022, the number of KUR disbursements has reached 1,042 trillion and a total of 76 trillion since 2015 (Hadiyanto, 2022).

### Program PC PEN untuk UMKM

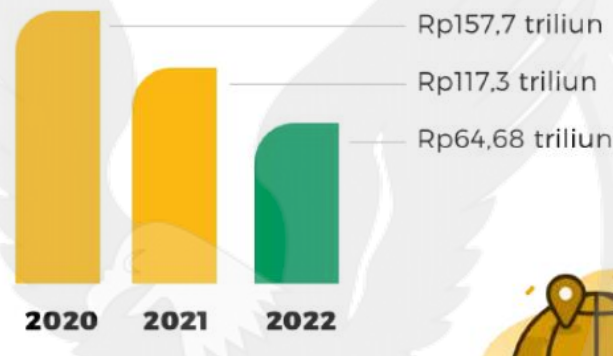


Image 1. Program PC PEN untuk UMKM

Source: MTI\_2\_2022.pdf (Hadiyanto, 2022)

One of the MSME industries that has great potential is the Food and Beverage industry. Processed products by food and beverage industry in the country are increasingly innovative and diverse so that they are able to compete with imported products even with the large industries (Banjarnahor, 2020). According to Kemenperin (2017), Food and beverage industry is one of the sectors that drives the growth of the national economy in Indonesia. In 2017 it was recorded that the food and beverage industry contributed to gross domestic product reaching 34.95% in the third quarter.

The potential and contribution of this industry do not stop here. Research conducted by the Ministry of Industry found that the food and beverage industry experienced an average growth of 8.16% between 2015 and 2019. The most surprising information is that the food and beverage industry experienced a positive growth of 1.58% even though it was affected by the pandemic throughout the fourth quarter of 2020 (Kemenperin, 2021).

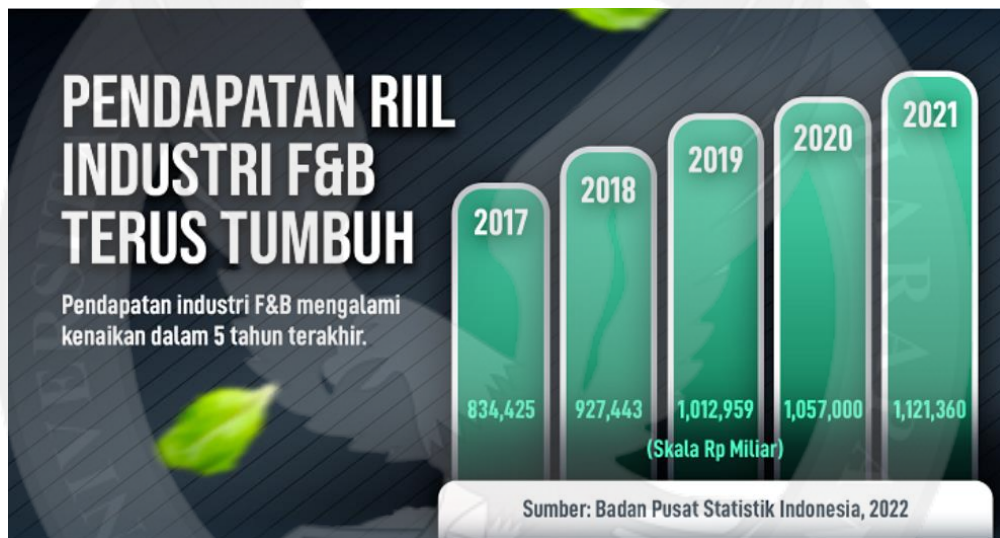


Image 2. *PENDAPATAN RIIL INDUSTRI F&B TERUS TUMBUH*

Source: [INFOGRAFIK] *Menilik Geliat Industri F&B Pasca Pandemi - LandX | LandX*

Food and beverage industries recorded a decline in income in the early stages of the COVID-19 pandemic as a consequence of social distancing, dine-in bans, and work from home (WFH) policies. While the pandemic poses challenges, it also offers opportunities for MSME industry entrepreneurs to take advantage of various strategies, such as digitization, innovation, and etc in order to growth and survive in this difficult

situation (Soenarso & Dewi, 2022). For the first quarter of 2022, the various strategies implemented to survive through the Pandemic have resulted in an increase in gross domestic product of 37.77% in the non-oil and gas processing sector. Government has recognized the development of this industry so it is included in the Indonesia 4.0 roadmap as a development priority (Kemenperin, 2022).



Image 3. LAJU PERTUMBUHAN INDUSTRI F&B 2017-2021

Source: [INFOGRAFIK] Menilik Geliat Industri F&B Pasca Pandemi - LandX | LandX

The same thing also happened to the development of the food and beverage industry in the JABODETABEK area. Jakarta's economy is experiencing a depression where the poverty rate in Jakarta continues to increase which is in line with the unemployment rate, which is 261.500 people. However, the unemployment problem has begun getting better due to the existence of the food and beverage industry which

is present in absorbing labour (Dirgantara, 2021). Based on research conducted by the Central Bureau of Statistics, found that the food and beverage industry is one of the industries that contributes the most to absorbing labour, which is equal to 27%. (Pusparisa, 2021). It could be said that the economy in the JABODETABEK region was saved by the existence of food and beverage industry (Dirgantara, 2021). From there, it can be seen how important the development of the Food and Beverage industry is for this country. From this, it can conclude that the food and beverage industry have tremendous potential, despite being affected by COVID-19, it can still rise again and grow stronger. This revival and growth can be achieved because of the unyielding spirit of entrepreneurship and appropriate strategies in facing the challenges ahead.

A successful company must have the impetus of a strategy that is prepared to be able to achieve the vision and goal. According to Joewono (2012), a business strategy is like a chess game strategy with several steps, such as systematic thinking, planning, speed in decision-making, courage to take risks and passion for winning every competition. Strategy is a long-term plan that has been made for the company to achieve the vision and mission that has been set. The intended strategy includes objectives, types of products to be offered, and market segmentation to be targeted (Reddy, 2018). Based on the theory described earlier, it can be concluded that a successful company must have a strategy that has been well prepared so it can increase the chance of succes to achive the company's goals. One of the indicators that distinguish successful companies from companies that failed to survive is strategy

itself. Of course, not all strategies can bring the company to the path of success, but a well-prepared strategy will increase the chance and opportunity to achieve success. A mature strategy is a strategy that is prepared based on conducted market analysis and knowing the capacity of company's capabilities such as its unique values, resources, and consideration of challenges (Sudewo, 2021).

In addition to strategic factors in influencing the performance of the business, there are two other factor that effecting the business performance itself. First, entrepreneurial competence. Entrepreneur competence can be interpreted as characteristics that must be possessed by an entrepreneur such as knowledge, mentality, and skills (Rahmi, 2019). With entrepreneurial competence, it will help an entrepreneur to adapt to change so as to form an entrepreneur who will be mentally strong in facing challenges (OECD, 2018). Beside from being able to face changes and obstacles, entrepreneurial competence itself affects how the strategy is formed so that it will affect the performance of the company itself (Falatehan, 2022; Rehman et al., 2020). Second, Product innovation can be said to be a very important process to achieve success by winning the hearts of consumers, but most companies ignore the importance of product innovation itself. Companies that do not carry out product innovations will be very easily rivalled by their competitors who do product innovations that can answer the needs of consumers (Diomira, 2020). Therefore, the strategy formed from product innovation can be an important factor in improving the performance of this company itself (Hariyanti & Nuryanti, 2021; Pratiwi & Sulistyowati, 2020). From that statement,

it can be concluded that the strategy formed through entrepreneur competence and product innovation is an important key to survive from business competition and improving the business performance itself.

## **1.2. Research Problem**

MSMEs in Indonesia are one of the victims of the economic turbulence caused by the COVID-19 pandemic. This resulted in a decrease in turnover of 75%, efforts to reduce labour costs by 43%, and 22% experiencing difficulties in paying loans for business needs or basic needs (Hadiyanto, 2022). This also applies to the food and beverage industry in the JABODETABEK area. Throughout the pandemic, the food and beverage industry has also experienced a significant decline in daily income. The areas that were most significantly affected were Depok, Tangerang, West Jakarta and East Jakarta (Pernando, 2020). the problems experienced by MSMEs especially for food and industry beverage during the COVID-19 pandemic can be divided into two forms, which are non-financial problems and financial problems. According to the results of research conducted by Bappenas (2020), non-financial problems include difficulties in obtaining raw materials, inflationary raw material prices, difficulties in distributing products, reduced market demand, labour shortages, and others.

## Masalah non-keuangan yang dihadapi selama pandemi COVID-19

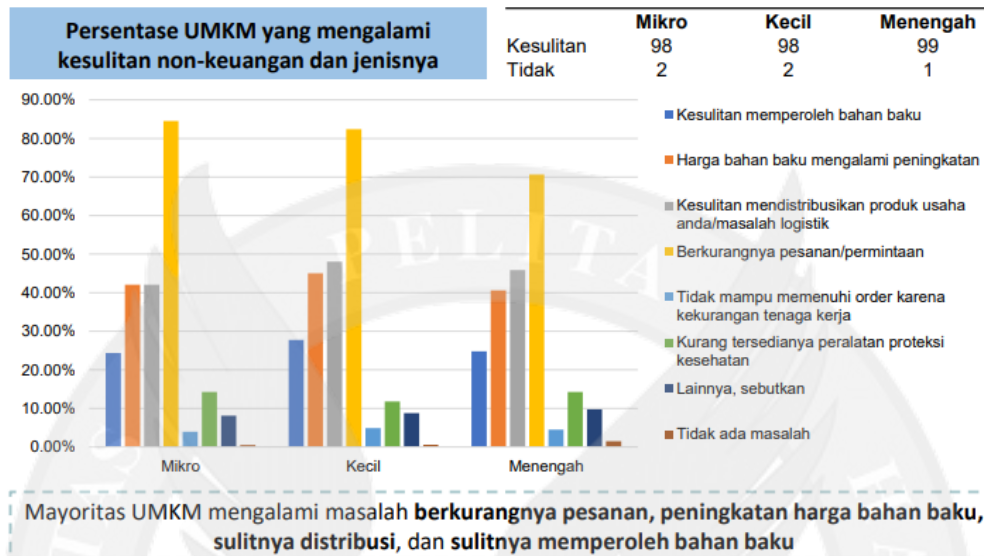


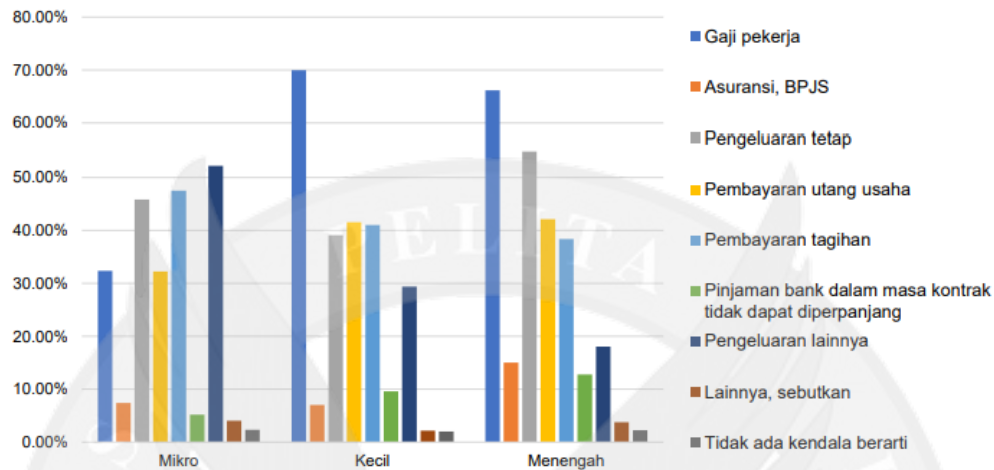
Image 4. *Presentasi UMKM yang mengalami kesulitan non-keuangan*

Source: *STUDI KEBUTUHAN PEMULIHAN USAHA BAGI UMKM INDONESIA (kominfo.go.id)*

Meanwhile, the financial problems experienced by Indonesian MSMEs include workers' salaries, insurance, company fixed expenses, debt payments, bill payments, and others.



## Masalah keuangan yang dihadapi karena pandemi COVID-19



Masalah keuangan UMKM berkuat di **pengeluaran berjenis tetap (non-variabel)**

Image 5. Presentasi UMKM yang mengalami kesulitan non-keuangan

Source: STUDI KEBUTUHAN PEMULIHAN USAHA BAGI UMKM INDONESIA ([kominfo.go.id](http://kominfo.go.id))

2021-2022 is a recovery period for Indonesian MSMEs because the number of COVID-19 transmissions is starting to decrease, so the economy is slowly regenerate. During the transition period, MSMEs still experience challenges such as low productivity which causes MSMEs hard to survive (Hadiyanto, 2022). Besides the effect of COVID-19, there was an internal factor causing UMKM entrepreneurs failed to survive. According to Toarik (2021), based on the World Economic Forum 2021 states “99% of MSME businesses in Indonesia fail as a result of the products being offered that are not in accordance with market needs”. Therefore, to increase the success and ability to compete in the market, requires the right strategy to improve the company's performance.

In formulating a strategy, every company has its own way to achieve the organization's vision and goal (Q. Nugraha, 2014). One of the ways in formulating strategies is through entrepreneurial competence and product innovation. The strategy built on those foundations will form a company strategy that can help MSME owners to be able to regenerate and compete by improving company performance. According to Hariyanti & Nuryanti (2022) research, it is proven that the strategy formed through entrepreneurial competence and product innovation has a significant effect on improving company performance in her research.

Therefore, this research wants to examine whether the strategy formulated through entrepreneurial competence and product innovation will improve the performance of MSME businesses just like the research conducted by Hariyanti & Nuryanti, especially in Jakarta, Bogor, Depok, Tangerang, and Bekasi (JABODETABEK). This research will collect respondents from decision-makers in the MSMEs, more specifically in the food and beverage industry such as business owners, supervisors, managers, and so on. Therefore, this research can measure whether the strategy formed through entrepreneurial competence product innovation will improve the performance of MSME companies especially in Food and Beverage Industry at JABODETABEK.

### **1.3. Research Question**

Based on the background that has been stated above, it can be break down into several research questions that can help researchers to achieve the purpose of this research. The following is the research question:

- a. Does entrepreneurial competence have a significant effect on business strategy in Micro, Small Medium Enterprises (MSMEs)?
- b. Does product innovation have a significant effect on business strategy in Micro, Small Medium Enterprises (MSMEs)?
- c. Does entrepreneurial competence have a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)?
- d. Does product innovation have a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)?
- e. Does the business strategy have a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)?

### **1.4. Research Objective**

This research was conducted to find the answers to the research question has been formed in section 1.3. The following are the objectives of the research to be carried out:

- a. To examine whether entrepreneurial competence has a significant effect on business strategy in Micro, Small Medium Enterprises (MSMEs)

- b. To examine whether product innovation has a significant effect on business strategy in Micro, Small Medium Enterprises (MSMEs)
- c. To examine whether entrepreneurial competence has a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)
- d. To examine whether product innovation has a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)
- e. To examine whether the business strategy has a significant effect on performance in Micro, Small Medium Enterprises (MSMEs)

### **1.5. Research Benefits**

The benefits that can be received by researchers, future researchers, companies, and entrepreneurs through this research are as follows:

1. For researchers, the results of this research can share new knowledge about whether business strategies formed through entrepreneurial competence and product innovation will affect company performance.
2. For future researchers, the results obtained through this research are expected to be a reference and help further researchers in developing this research.
3. For companies, the results of this research can provide new knowledge about the importance of business strategies formed through

entrepreneurial competence and product innovation in influencing company performance.

## **1.6. Research Scope**

The scope of this research aims to assist researchers in limiting the research range so that the research carried out can run according to the intended purpose. The following is the scope of this research:

1. This research will discuss building business strategies through entrepreneurial competencies and product innovations to improve company performance in Micro, Small Medium Enterprises (MSMEs).
2. This research was conducted to know whether the business strategy formed through entrepreneurial competence and product innovation will affect the improvement of company performance in Micro, Small Medium enterprises (MSMEs).
3. Respondents selected for this research were the owners of Micro, Small Medium Enterprises (MSMEs) and decision-makers in the company such as supervisors, operational managers, etc.
4. The areas chosen for this research are Jakarta, Bogor, Depok, Tangerang, and Bekasi (JABODETABEK) which are one of the

largest Micro, Small Medium Enterprise (MSMEs) locations in Indonesia.

5. Micro, Small Medium enterprises (MSMEs) discussed in this research are about the food and beverage industry.

### **1.7. Research Contribution**

Researchers expect this research can give theoretical contributions to the development of knowledge and practical contributions which can be explained as follows:

1. Theoretical Contributions

Through the research conducted, this theoretical contribution is expected able to develop a theory regarding the influence of business strategies formed through entrepreneurial competence and product innovation in improving the performance of Micro, Small Medium Enterprises (MSMEs) in Indonesia. It is hoped that this theory can provide an understanding of how the strategy itself can affect the company's performance, especially in the scope of Micro, Small Medium Enterprises (MSMEs). Therefore, this research is expected to be a reference for future researchers to conduct further research on this topic to improve it.

2. Practical Contribution

Through the research conducted, practical contributions can be expected to become the foundation for the company in developing the knowledge on how companies can form effective strategies to improve company performance. In addition, it is hoped that this research can help entrepreneurs in developing their businesses through entrepreneurial competencies and product innovations in forming an effective strategy for the success of their companies.

### **1.8. Research Outline**

This research paper contains a systematic outline explanation which has been divided into 5 chapters in total. The following is an outline explanation of each chapter contained in this research:

#### **CHAPTER I                      BACKGROUND**

The first chapter is the starting chapter which explains the introduction of this research which consists of eight sub-chapters in total, which are the background, problem formulation, research questions, research objectives, research benefits, research scope, research contributions, and research outline.

#### **CHAPTER II                      THEORETICAL BACKGROUND**

The second chapter aims to explain the theoretical review which will discuss more deeply each variable to be tested, a literature review of each variable, the

relationship between each variable in the form of a hypothesis and a conceptual structure that describes the research model.

### **CHAPTER III RESEARCH METHODOLOGY**

The third chapter aims to explain the research methodology which contains the methods that will be used to test the formed hypothesis whether it affects significantly or not, to see the relationship between each variable. In addition, the third chapter also explains the methods of data collection that will be carried out quantitatively.

### **CHAPTER IV DATA ANALYSIS AND DISCUSSION**

The fourth chapter aims to explain the results of the analytical data obtained through quantitative data collection and data has been checked statistically; this data analysis is the result of test conducted to show the relationship between each variable.

### **CHAPTER V DATA ANALYSIS AND DISCUSSION**

The fifth chapter is the last chapter which aims to discuss the conclusions from the results of the analysis and discussion of the data that has been carried out in the previous chapters. This chapter lists the theoretical implications, managerial implications, limitations of the research experienced, and recommendations that can be submitted to future researchers.