The Role of Creativity and Innovation in Business Competition: A Phenomenology of Micro Small and Medium Enterprises in East Indonesia

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Abstract: This research was conducted to answer two questions namely what kinds of problems faced by MSMEs in East Indonesia in general and how the creativity and innovation should be enhanced so that MSMEs have competitive advantage in running the business. This research uses qualitative method with phenomenological approach. The results of this study indicate that the level of creativity and innovation of MSMEs in East Indonesia is still low so that many MSMEs are not growing because of less able to compete. It needs immediate improvements so that Indonesian MSMEs can continue to grow and have a strong competitiveness.

Keywords: Small and medium entreprises, creativity, innovation.

INTRODUCTION

The presence of Micro, Small and Medium Enterprises (MSMEs) is the basis for the growth of many countries in the world, including Indonesia. In the last ten years, the presence of MSMEs in Indonesia has increased rapidly. The central statistics agency noted the growth of MSMEs in Indonesia reached 55.3 million in 2010, at the end of 2012, it reached 56.53 million, and in 2013, it reached 56.5 million. It can be seen that MSMEs have a big influence on economic growth in Indonesia. That is why the cooperation of government is needed to support market development through innovation management in developing countries. Innovation can not be released in business life because innovation is a spirit or soul in a company to grow. Today, innovation can flourish anywhere and be done by anyone. Innovation can not only be done by large companies, but even small companies need to innovate for the sake of continuity of business. Therefore, innovation management is an important factor to determine the development of small and medium enterprises (MSMEs).

The role of MSMEs in the economy of a country is very important. MSMEs symbolize the power of a country's economic development. As expressed by John V. Petrof in Sumaryana and Dewi [1] that in general MSMEs contribute positively to economic development in terms of the following: (1). Serves bringing potential buyers and sellers together and disseminating information about the quality of the product performed adequately. (2). Small companies absorb resources directly in economic activity (3). The decline in demand for imported goods, domestic prices are rapidly transmitted to the entire community thus stimulating demand for domestic products as well as the potential for high domestic and export growth. (4). The largest small companies in the country will benefit economic development and improve people's living standards.

MSMEs in Indonesia have an important role as economic support. The main driver of the economy in Indonesia has been basically the MSME sector. In this regard, at least there are several main functions of MSMEs in moving the Indonesian economy, namely (1) MSME sector as a provider of employment for millions of people who are not accommodated in the formal sector, (2) MSME sector has contributed to the formation of Gross Domestic Product (GDP); and (3) MSME Sector as a source of foreign exchange earners through the export of various types of products produced by this sector.

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According to Sri Winarni [2], in general, small businesses have characteristics such as the following: (1) in general, it is in the form of individual business and still does not possess the legal base, (2) Legal aspect of business is weak, (3) Organizational structure is simple with flexible division of work, (4) Most of them do not have a financial report and do not separate between private asset and corporate asset, (5) Low quality of management without any business plan, (6) The main source of business capital is personal asset, (7) Limited Human Resources, (8) The owner has a strong inner bond with the company, so that all the obligations of the company become the owner’s.

MSMEs have an important position in Indonesian economy, because the amount is very large. But that huge amount has not supported yet by a quality business. MSMEs’ performance in Indonesia shows a significant progress when viewed from the number of MSMEs and the absorption of MSMEs on labors. However there are still many problems encountered. In addition to the above difficulties, the problems of creativity and innovation are often said to be the factors that cause MSMEs to slowly develop and make it difficult to catch up from a similar MSMEs that are increasingly mushrooming as well as having to compete with large companies so that eventually the business that has been pioneered must be stopped.

Based on the above description, this study focuses on 2 research questions, namely: (1) What are the problems faced by MSMEs in East Indonesia and (2) How are the creativity and innovation enhanced so that MSMEs have the advantage to compete with both MSMEs and other big businesses.

**LITERATURE REVIEW**

**Creativity**

Clarkson [3] has mentioned that there are many traits which have been associated with creativity, such as divergent thinking, introversion, self-esteem, tolerance for ambiguity, willingness to take risks, behavioral flexibility, emotional variability, ability to absorb imagery, and even the tendency to neurosis and psychosis (p. 6). Reid and Petocz [4] mention that creativity is viewed in different ways in different disciplines: in education it is called “innovation”; in business “entrepreneurship”; in mathematics it is sometimes equated with “problem-solving”, and in music it is “performance or composition.

Donald N. MacKinnon [5] has outlined three different kinds of creativity used as a basis for research at the Institute of Personality Assesment and Research Laboratory (IPAR), Berkeley, California. The first is artistic creativity, which reflects the creator's inner needs, perceptions and motivations. The second type is scientific and technological creativity, which deals with some problem of the environment and results in novel solutions but exhibits little of the inventor's personality. The third type is hybrid creativity, found in such fields as architecture that exhibits both a novel problem solution and the personality of the creator.

An idea is creative when it brings a new insight to a given situation. The process of creativity includes the ability to change one's approach to a problem, to produce ideas that are both relevant and unusual, to see beyond the immediate situation, and to redefine the problem or some aspect of it [6].

Creativity and entrepreneurship are points of interest of many researchers, chiefly because of the impacts they make on employment, innovation and economic development. The relative literature gets these concepts analyzed both individually and altogether, depending on their treatment that could be realized either in the creative entrepreneurship context or out of it. Creative entrepreneurship actions could be analyzed starting from few aspects, the most important of which are the following: future profitability and growth, forms of employment, access to financial resources, market access and possibility of further education, specialization and training [7].

The central role in entrepreneurship is the ability to create or to innovate something new, for example: a new organization, a new view of the market, new corporate values, new manufacturing processes, products and new services, new ways of managing things, new ways of making decisions. Suryana [8] states that creativity is "thinking something new." "Creativity is the ability to develop new ideas and to discover new ways of solving problems in facing the opportunity.

Anne Roe in Psychological Approaches to Creativity in Science, New York University cited in Frinces [9] states that the requirements of creative people are: a) Openness to experience, b) Observations see in the usual way (observavnce seeing things in unusual ways), c) Desire (curiosity), d) Tolerance to ambiguity, e) Independence in judgment, thought and action, f) Require and accept autonomy, g) Autonomy (needing and assuming autonomy) self (self reliance), h) Not subject to group supervision (not being subject to group standard and control). Availability to take calculated risks (willing to take calculated risks).

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Innovation

Schumpeter [10] was the first person to identify the importance of innovation and entrepreneurship for development and growth. An innovation is any thought, behaviour or thing that is new because it is qualitatively different from existing forms [11]. Schumpeter defined innovations as product, process and organizational changes that do not necessarily originate from new scientific discoveries [12], but may arise from a combination of already existing technologies and their application in a new context [12]. Previous research has investigated the characteristics and entrepreneurial behaviour of owner-managers and how these relate to decisions concerning innovative activities in their organizations [13] [14] [15] [16]. For example, Caird [14] found that the innovator is highly important in the commercial success of innovative products in MSMEs.

Since knowledge is a fundamental factor in the innovation and assimilation of new technologies [17] [18], individual training plays an important role contributing to the internal learning and the generation of new ideas within the business [19]. The innovative activity of organizations significantly influences competitiveness which is based on inimitable skills and abilities. Achieving a higher competitiveness by means of innovations means the ability to produce less costly products of better quality compared to those manufactured by competitors [20].

Innovation can be shaped by two levels of intensity: incremental or radical. Incremental generates small improvements in existing products, processes or services, improving the way of doing something that was previously done. In turn, radical innovation begets more intense ruptures, causing a deep change in services, products or processes [21]. Realization of innovations brings about many problems relevant to newly emerged situations. Innovations dictate, unlike the standard routine activities, numerous more active approaches of their agents. Whereas it is not possible to get all effects of a planned business anticipated, innovations do bring uncertainties about [22].

Keeh, Hean Tat, Nguyen, Mai, Ping [23] state that innovation is very important with the following reasons: (1) Technology is changing very rapidly as new products, processes and services emerge from competitors, and this encourages entrepreneurs to compete and succeed. What must be done is to adapt to new technological innovations, (2) The effect of environmental changes on the product life cycle is shorter, which means that old products or services must be replaced with the new ones in quick time, and this can happen because there are creative thinking that leads to innovation, (3) Consumers today are smarter, categorical and demanding. They expect more in terms of quality, renewal and price. Innovative skills are therefore needed to satisfy the needs of consumers while keeping them, (4) With the rapidly changing market and technology, the true good idea can be more easily duplicated, and this requires better and newer product usage, faster and continuous service, (5) Innovation can lead to faster growth, increase market segments, and create better corporate positions.

Marketers who have an entrepreneurial spirit to achieve marketing and company goals must have a marketing and entrepreneurship concept especially for Small Medium Enterprises (MSMEs). Foreman, Pick et al. [24] state that there is a link between creativity, innovation and marketing and entrepreneurship. Assumptions of Schumpeter [22] suggest that economic development takes place by combining actions of innovative process with: (1) introduction of new products, (2) introduction of new production methods, (3) opening of new markets, (4) development of new suppliers of raw materials and other inputs, and, (5) creation of new market structures in an industry.

The "Innovation or Dead" jargon is the usual thing that big companies are buzzing about. Jargon is to remind how important innovation for the continuity of the company. This is due to many companies being closed for being late in innovation because competition is unavoidable. New products and services have sprung up within a short span of time. Companies that are lulled by their greatness will eventually be overwhelmed by competition. Herein lies the importance of innovation. Innovation process shows how the firms/organization and individuals can transform creative ideas into powerful agents of change for long run benefits and survival in the markets. Thus innovation is a great opportunity for people engaged in business where they plan dreams to be translated into reality. Therefore, innovators are visionaries, the reason is simple. To sustain the high energy and dogged determination needed to succeed, to push the idea through to the market place, a powerful vision is vital for every organization [25].

RESEARCH METHODOLOGY

In this research, a phenomenology approach was adopted. Phenomenology is an approach to qualitative research that focuses on the commonality of a lived experience within a particular group. The fundamental goal of the approach is to arrive at a description of the nature of the particular phenomenon [26]. With roots in philosophy, psychology and education, phenomenology attempts to extract the most pure, untainted data and in some interpretations of the approach, bracketing is used by the researcher to document personal experiences with the subject to help remove him or herself from the process. One method of bracketing is memoing [27]. A phenomenological study describes the meaning for several individuals of their lived experiences of a concept or a phenomenon. Phenomenologists focus on describing what all participants have in common as they experience a phenomenon (e.g., grief is universally experienced). The basic
purpose of phenomenology is to reduce individual experiences with a phenomenon to a description of the universal essence (a “grasp of the very nature of the thing,” [28]. According to Jasper [29], phenomenology considers that the “true meaning of phenomena be explored through the experience of them as described by the individual”. Phenomenology is an inductive, descriptive research method. The task is to investigate and describe all phenomena including human experiences in the way these appear [30].

Phenomenology is a highly appropriate approach to researching human experience [31] and it tries to uncover concealed meaning in the phenomenon embedded in the words of the narrative [32]. As a research method, phenomenology is a rigorous, critical, systematic investigation of phenomena [33]. Those advantages make this approach suitable with my research. The subjects in this study were chosen based on purposive sampling in which the technique of determining the informants is using certain criteria [34], namely the informants who are part of the trial group studied. Data in this research consist of primary data and secondary data. The data were collected through the techniques of participant observation, in-depth interviews and documentation [35-37].

Primary data were obtained from direct data sources by interviewing informants, consisting of 10 MSME entrepreneurs from East Nusa Tenggara, South Sulawesi, North Sulawesi and Papua to dig deeper their perspectives on the barriers in developing their business. Interview was also conducted with 8 suppliers of MSME’s products to know more what strengths and weaknesses of Indonesian MSME’s products. An official of Creative Economic Board was also interviewed to know what should be done to improve the development of MSME. Secondary data were obtained from the results of previous review or research review. Participant observation was done by following the activities of MSME’s products making. After the research data gathered, the author performed the steps of reduction, display data, verification and conclusion [34] [36]. Reduction is done by classifying interview data and observation to the themes according to research objectives. Then the data presented in accordance with the presentation of qualitative data through narration. After that, the data is then confirmed to see the validity before the conclusion is made. Researchers also used literature studies conducted by collecting materials from various books and related references. Library study is done by tracing data about the desired information through online media and through references to sources related to the research topic.

**Research Findings**

From the interviews conducted with MSMEs’ entrepreneurs, it is found that there are still many problems faced in running their business, especially in facing the competition both with similar MSMEs and with larger companies. These issues are related to:

a. **Products**

One of the problems that is often experienced by Small and Medium Enterprises (MSMEs) is production. A number of external factors usually cause the production process takes a long time, so the time of delivery becomes not timely. Basic materials are sometimes still difficult to get in the districts so it must be ordered specifically from other places, whereas the demand continues to come. As a result, they have the risk of loosing customers. In addition to causing delay, it also spends higher production costs. In addition, the limited technology and skilled human resources become the main problem faced by MSMEs when it comes to the process of production.

The products produced by MSMEs are not inferior to similar products produced by large companies. It's just that the product packaging that looks still less attractive often leads consumers to the company production. Packaging is still the biggest obstacle faced by many MSMEs. They still have to import from other regions. Indeed, packaging is not the only important thing. But, packaging provides a great allure for consumers. Some typical food production produced by large companies is even judged by the taste of nothing special, but they display an interesting packaging. Here is the importance of creativity.

A strong competitor of MSME business is the emergence of new businesses owned by Indonesian artists. In the city of Makassar for example are more than 7 culinary businesses that promote the big names of the artists and in the city of Manado are 3 culinary businesses of artists. The presences of trademarks that sell the names of artists are suspected to shift the existence of local souvenirs developed by MSMEs business actors. Actually, this highly competitive business competition should be responded positively by the actors of MSMEs. One way to solve production problems is to encourage MSMEs to participate in competency tests, as well as provide certification fulfillment facilities, such as halal labeling, nutrition facts in products, to cooperate with health offices for household food industry certificates (PIRT). Therefore, high creativity is needed. The perpetrators of MSMEs need to keep thinking of something new for the products they produce. Do not stop developing new ideas to find new ways to solve problems to capture opportunities.
Productivity is an important indicator for MSME’s performance. The level of productivity is influenced by access to productive resources (capital, raw materials, skilled labor, and technology), access to business assistance, creativity and innovation, capacity to apply standardization and improve product quality, as well as problems, government policies that are less effective in supporting the development of MSMEs. Innovative MSMEs based on high creativity and innovation ability will be able to compete and produce low cost products.

b. Capital

Limited capital makes limited volume of production. Bank financial institutions are the largest source of capital that can be utilized by small business actors. However, to partner with banks, small businesses are required to present business proposals that are feasible or and profitable. Besides, the bank financial institution requires a small business must be bankable which can meet the bank's requirements. Here is the problem. As a result of prudent banking, it makes it more difficult for small businesses to access capital sources. Small businesses that have difficulty accessing banks will look for shortcuts. They go to the money lenders for loan but small businesses should be willing to pay a high interest.

There is a mistaken assumption as if small businesses did not question the high interest cost of moneylenders. It is a wrong assumption. They are forced to use money lenders because they have difficulty accessing capital from banks. In the MSMEs’ Law, funding should be part of business development, not a conducive climate creation. This funding becomes a classical problem in MSMEs, but apparently this new law also has not answered in real terms how MSMEs get fund easily. In fact, the clarity of collateral and the form of collateral is not elaborated in detail in this Law.

c. Marketing

Marketing is one of problems often faced by business actors of MSMEs. Many actors of MSMEs can produce and package their products interestingly but difficult to market it, because they do not have effective product marketing strategy. For marketing issues, various memorandum of understanding (MoU) have been done. Especially to work on the online market, for example with the Ministry of Communications and Information Technology related to Go Online MSMEs program. However, there are still many MSMEs actors who do not understand the technology related to online marketing. In this case MSMEs should not be afraid of the invasion of artist’s products. Each has the same chance. The most important thing is that MSMEs should be more creative and innovative in everything including the marketing strategy.

A problem that still needs to be considered is the lack of ability of MSMEs’ entrepreneurs to access the wider market. Good quality production which is not completed with the wider market will not be enough to help the survival of MSMEs. Therefore steps to overcome the marketing problem of MSMEs are needed. It is time for business actors to prepare themselves to enter a new era of marketing of MSMEs’ products. So far, the weakness of market access has been the problem for almost all MSMEs in the country, as a result of the lack of ability to compete with large companies, and the lack of opportunities provided by large companies to make MSMEs as their business partners. They still lack of detailed information about which markets can be penetrated by the resulting product. This is the reason why MSME looks so weak. "We've been able to produce and maintain quality but once we will market the product, we are always confused. Many are rejecting our products for various reasons, so we have to find a strategy how to market the product. " From the cases above, we know that the human resources of MSMEs marketing also look less creative and innovative. Marketing force who has an entrepreneurial spirit to achieve marketing goals must have the concept of marketing and entrepreneurship especially for MSMEs since marketing and entrepreneurship are closely related to creativity and innovation.

d. Service

Today's service system is a very important part of business services. MSMEs should recognize the importance of service quality as an appeal to consumers. Many large companies are expanding rapidly because of their ability to deliver great service to their customers. Limited understanding of service strategy makes MSMEs unknowingly frustrate their customers. Generally disappointment occurs because MSMEs fail to provide good service to consumers, either because the number of orders that must be met with limited resources or because the production is sent to customers less in accordance with the order. In general, MSMEs are still weak in service strategy.

The results of interviews with MSMEs actors show that from several training sessions have been organized by government and private companies, service excellence is rarely given. Training related to services on how to serve consumers with friendly and sincere so that consumers will feel appreciated is a very important thing. Unfortunately, in general, the training provided is limited to production strategy or technical or related to financing.
scheme and financial report. Creating an innovative service system will deliver a new, exciting surprise for every customer.

Innovation in service is very important because technology is changing very rapidly in the presence of new products. They grow not only offering their goods but also selling their service strategies. The old services should be replaced with the new ones in quick time, and this can happen if there is creative thinking that leads to innovation. It encourages entrepreneurial efforts to compete and succeed. So MSMEs must be able to adapt to new technology innovation, including services.

e. Partnership

In facing the business competition in the 21st century, MSMEs are required to restructure and reorganize with the aim to meet increasingly specific consumer demand, rapidly changing, high quality products, and low prices. It is necessary to develop mutual partnerships among the MSMEs, or between MSMEs and large entrepreneurs in or out of country, to avoid monopoly in business. Beside that, it aims to expand market share and more efficient business management. In addition, this partnership is very important to enhance the creativity and innovation of MSMEs’ products. Thus MSMEs will have the strength in competing with other business actors, both from domestic and international.

In partnership, MSMEs are difficult to develop themselves because the the position looks weak in the business agreement. So the Business Competition Supervisory Commission (KPPU) seeks to give understanding about those rights to the MSMEs, including the importance of making agreements with big business actors. “In order there is a clear written agreement, so if there is any unfulfilled agreement, they can report to KPPU.”

The important thing in the partnership is the matter of agreement. For instance, the case that occurred in Tegal, MSME had received an order to produce ship components, especially for ship windows. However, when the products were ready, purchase was cancelled. It happened since there was no written agreement. As a result, the cash flow of MSME was disrupted and finally the business stopped. KPPU has held a meeting with Commission VI of the House of Representatives to discuss about this matter. This means that the state must be present there. In addition, the agreement must be mutually beneficial. What now happens to many MSMEs is that they are not considered as a partner but MSME is more often positioned as a worker.

f. Human Resources

MSMEs in Indonesia are increasing in number. But it is not followed by the quality improvement of the human resources. With a series of training, the level of MSMEs in Indonesia is expected to increase. The quality of human resources in MSMEs sector is still low in which most of them only Elementary School graduates. The key to improve the quality of MSMEs’ human resources should start from a continuous quality improvement through selective training or recruitment of workers.

What is often a problem in MSMEs’ human resources is that many of those only work as part timers and it will impact to the inefficiency of MSMEs’ production. Training to improve the quality of MSMEs that needs to be given is technical production, technology, marketing, sales, branding, customer service, legal aspect, administration, finance, tax, operational, and human resource, especially related to creativity and innovation. So far, training is rarely given both by the government and private sector so that the perpetrators of MSMEs feel less paid attention. Even if there is training, it is usually hold only for a short time and after that there is no advocacy and sustainability so that MSMEs do not know who is who to contact if they find problems or things to be consulted.

The existence of artists’ business should be used as a reflection and motivation by the MSMEs’ actors. The MSMEs should further optimize their creativity to produce innovation that has competitive advantage. These local wisdom-based entrepreneurs should be able to fight not only in the national market but also in the regional markets of ASEAN and the world market. Today’s global market place is fiercely competitive. Organizations that fail to bring to market innovative products that create value for their customers will quickly find that their competitors have done so, and that their own existence is in danger.

DISCUSSION

From the explanation described above, it is known that the level of creativity and innovation of MSMEs in Indonesia is still very low. This can be seen from the products yielded. Production processes that take a long time and still use the conventional equipment and left behind from the technology side causes production costs to be higher. The packaging is less attractive, so the consumer is less interested to buy although in terms of quality it is quite good. This proves that creativity has a big role in the development of MSMEs. It is in line with the statement of Suryana [8] saying...
that creativity is "thinking something new". "Creativity is the ability to develop new ideas and to find new ways to solve problems to face opportunities ".

From the above data, it can be described that until now MSMEs still have difficulty in accessing funding, because in general they still do not understand how to make a good proposal. This is not surprising because most of the MSMEs actors are elementary school graduates. Therefore, it has become the duty and responsibility of the government and local governments to be able to assist in providing easiness of funding access. The phenomenon that occurs in the field is not in accordance with Law No. 20/2008 article 8.c which states that the central government and local governments provide the ease in obtaining funding quickly, precisely, cheaply, and not discriminatory in the service, in accordance with the provisions of legislation; and d. assists MSMEs' actors to obtain financing and other services / financial products provided by banks and non-bank financial institutions, both using conventional and sharia systems guaranteed by the government.

In addition, in terms of marketing in general, MSMEs are still experiencing difficulties. There are still many business actors who do not understand the strategy to market their products. It has similar problems with services. In general, MSMEs do not understand that service is a very important thing in business. Both of these aspects namely marketing and service are demanding creativity and innovation. Innovation is important because in today's global era technology is changing very rapidly as new products, processes and services emerge from competitors, and this encourages entrepreneurial efforts to compete and succeed. Therefore all actors of MSMEs should be able to adapt to new technological innovations. Old products or services must be replaced with the new ones and this can happen because there is creative thinking that leads to innovation. This is in line with what was said by Keeh, Hean Tat, Nguyen, Mai, Ping [23].

From all the aspects above, in the end, we know that all is related to the competence of human resources. Only creative and innovative human resources can survive and compete against other business competitors, as stated by [20]. Creativity and innovation do not come naturally without knowledge. Therefore, learning is very important to broaden the insight and perspective of the MSMEs actors.

CONCLUSION AND RECOMMENDATION

From the data analysis and discussion above, it can be concluded that the level of creativity and innovation of MSMEs in Indonesia is still very low so that many MSMEs are not growing because of less able to compete. It needs immediate improvements so that Indonesian MSMEs can continue to grow and have a strong competitiveness. Improvements must be made from various aspects, namely: the quality of products, packaging, access of financing, marketing strategy, services, partnership, and human resources. Government and private parties should cooperate in providing advocacy and training for the optimum result. For further research, the author recommends that study can be conducted on how the ideal training and advocacy system for the development of MSMEs in Indonesia with different approaches.

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