

## Product Innovation as a Catalyst for International Expansion of MSMEs: An Analysis of the Indonesian Creative Sector

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**Abstract.** The creative sector in Indonesia has great potential for economic growth, but many Micro, Small, and Medium Enterprises (MSMEs) face challenges in adopting product innovation for international expansion. This study aims to analyse the role of product innovation, marketing strategy, and collaboration with creative industries in supporting the international expansion of MSMEs. The method used is Structural Equation Modeling (SEM) analysis with AMOS, involving 600 registered MSMEs in the creative sector. The results showed that product innovation, effective marketing strategies, and collaboration have a significant influence on the ability of MSMEs to enter the global market. The findings imply that an increased focus on innovation and the development of adaptive marketing strategies, as well as building strong collaboration with stakeholders, are critical to the successful international expansion of MSMEs in Indonesia.

**Keywords:** product innovation, marketing strategy, collaboration, MSMEs.

### 1. BACKGROUND

The creative sector in Indonesia has become one of the main pillars in national economic growth. With significant contributions to GDP and job creation, Micro, Small and Medium Enterprises (MSMEs) within the sector show great potential to contribute to international expansion. According to the Indonesian Creative Economy Agency (2023), the creative sector accounts for more than 7% of the total GDP, reflecting the importance of product innovation in improving competitiveness in the global market.

Product innovation is a key element in MSME strategies to enter international markets. Research by Ibrahim (2022) shows that MSMEs that apply innovation in their product design and marketing have a greater chance of success in the global market. This is in line with innovation theory, which states that creativity and new product development can increase the attractiveness of products in the eyes of international consumers (Etty et al., 2020). However, despite this potential, many MSMEs still face challenges in adopting product innovation. Research by Putra (2022) revealed that limited access to technology and information is a major obstacle for MSMEs in developing innovative products. Therefore, a better understanding of

the factors that influence product innovation is crucial to the success of MSMEs' international expansion. The problem statement in this study focuses on how product innovation can serve as a catalyst for the international expansion of MSMEs in the creative sector.

With increasing competition in the global market, MSMEs need to understand effective innovation strategies to attract the attention of overseas consumers. Research by Ahyuni (2023) shows that collaboration between MSMEs and local designers can produce unique and attractive products, thereby increasing competitiveness in the global market. The purpose of this study is to analyse the role of product innovation in supporting the international expansion of MSMEs. This research aims to identify innovative strategies that can be implemented by MSMEs to improve their competitiveness in the global market. Gap analysis shows that although many studies have been conducted on innovation and international expansion, few have specifically examined the context of the creative sector in Indonesia. Research by Ratna et al. (The novelty of this study lies in the analytical approach used to explore the relationship between product innovation and international expansion. By utilising qualitative and quantitative data from various sources, this research will provide new insights into how MSMEs can adapt to changing global market trends. The justification for this research is very important given the increasingly fierce competition in the global market. By understanding the role of product innovation, MSMEs can not only improve their competitiveness but also contribute to overall national economic growth. Research by Sulastrri & Dilastrri (2023) confirms that innovation in products and services can be a key driver for a country's economic growth. In this context, it is important to consider how digital technology can support the innovation process. Research by Borges et al. (2021) shows that the application of digital technology in business processes can improve operational efficiency and accelerate new product development. This is particularly relevant for MSMEs that want to compete in international markets.

Furthermore, the challenges faced by MSMEs also need to be considered. Research by Nurjanah et al. (2022) found that many MSMEs experience difficulties in accessing the resources and information needed to innovate. The importance of collaboration between the government, industry players, and non-governmental organisations cannot be ignored. This collaboration can create an ecosystem that supports innovation and the overall development of the creative sector (Cindy et al., 2022). Through this synergy, MSMEs can more easily access the resources and knowledge needed to innovate. Finally, this research will make a significant contribution to the literature on product innovation and international expansion of MSMEs in Indonesia's creative sector. By focusing on the key factors that influence innovation success,

the results are expected to provide practical guidance for businesses in facing the challenges of globalisation. Against this backdrop, it is important to further explore how product innovation can be a catalyst for the international expansion of MSMEs in Indonesia's creative sector. Through in-depth analyses of best practices and challenges, this research aims to provide new insights and strategic recommendations for the development of the national creative sector.

## **2. THEORETICAL REVIEW**

Product innovation has become a key focus in the development of Micro, Small, and Medium Enterprises (MSMEs), especially in the context of international expansion. According to Tidd and Bessant (2018), innovation includes not only the development of new products but also the enhancement of existing products to meet changing market needs. In the creative sector, where product differentiation is crucial, innovation is key to attracting the attention of global consumers. Research by Hasna (2021) shows that product innovation significantly contributes to the performance of MSMEs, improving their ability to compete in international markets. Effective marketing strategies also play an important role in supporting the international expansion of MSMEs. Kotler and Keller (2021) emphasise the importance of a deep understanding of consumer behaviour and adjustments to marketing strategies to achieve success in the global market.

In the context of MSMEs in the creative sector, the use of social media and digital marketing can increase product visibility and expand market reach. Research by Wicaksono and Subarjo (2018) shows that innovation orientation and the implementation of appropriate marketing strategies can improve the performance of MSMEs in the creative industry. Collaboration with various stakeholders is also a key factor in supporting innovation and international expansion of MSMEs. Rahman et al. (2020) argued that cooperation between MSMEs and designers, government agencies, and educational institutions can accelerate the innovation process and improve access to resources needed to compete in the global market. This synergy not only strengthens innovation capacity but also expands distribution networks that are essential for entering international markets.

However, although many studies show a positive relationship between innovation and international expansion, some studies find insignificant results. Prasetyo et al. (2022) noted that some MSMEs face obstacles in building effective partnerships, resulting in an insignificant impact of collaboration on international expansion. This suggests the need for a more strategic approach to collaboration in order to provide maximum benefits for MSMEs.

Limited resources are also a major challenge for MSMEs in implementing product innovation and effective marketing strategies. Research by Nugroho et al. (2023) shows that many MSMEs do not have adequate access to the technology and information needed to innovate. Therefore, support from the government and relevant agencies is crucial to help MSMEs overcome these limitations and improve their capacity to compete in the global market. The importance of creativity-based approaches in driving MSME transformation has also been discussed in the literature. Etty et al. (2020) emphasise that creativity can add value to products, thereby increasing their attractiveness in international markets. This approach allows MSMEs to create products that are not only unique but also relevant to global market trends, thereby increasing their expansion opportunities. The role of technology in supporting product innovation is also crucial. According to Hadiyati and Mulyono (2017), technology plays an important role in product development as well as distribution and marketing in the creative sector.

With the adoption of digital technology, MSMEs can achieve higher operational efficiency and reach consumers more effectively through online platforms. In the context of government policy, government intervention has also been shown to have a positive impact on MSME performance. Amanda (2023) shows that government support through training programmes, access to financing, and tax incentives can improve MSMEs' ability to innovate and expand their market reach. These policies aim to create a more conducive business environment for the growth of MSMEs in Indonesia. Overall, the literature shows that product innovation, effective marketing strategies, collaboration with stakeholders, as well as technological support and government policies are crucial factors in supporting the international expansion of MSMEs in Indonesia's creative sector. This study aims to further explore the relationship between these three variables and provide practical recommendations for businesses to improve their competitiveness in the global market.

### **3. RESEARCH METHODS**

#### **Research Design**

This study uses a quantitative research design with a descriptive and analytical approach. The main objective of this study is to analyse the role of product innovation as a catalyst for international expansion of MSMEs in Indonesia's creative sector. By using this design, the research will be able to identify the relationship between the variables of product innovation and international expansion and explore the factors that influence both variables.

## **Population and Sample**

The population in this study consists of all Micro, Small, and Medium Enterprises (MSMEs) officially registered in the creative industry category in all regions of Indonesia. Based on data from the Creative Economy Agency (BEKRAF), there are more than 60 million MSMEs in Indonesia, with a significant proportion engaged in the creative sector. The sample used in this study totalled 600 MSMEs randomly selected from the population. The sample selection was conducted using stratified random sampling to ensure representativeness of different types of creative industries, such as fashion, graphic design, handicrafts, and media. With a large enough sample size, this research is expected to provide more accurate results and can be generalised to a wider population.

## **Research Procedures**

The research procedure was conducted systematically and structured as follows:

**Problem Identification:** The research began with the identification of a problem related to the lack of understanding of how product innovation can serve as a catalyst for international expansion of MSMEs.

**Literature Review:** A literature review was conducted to understand the concept of product innovation and factors affecting international expansion, as well as identify gaps in the existing literature.

**Research Instrument Development:** A questionnaire was designed to collect data on product innovation, marketing strategies, and challenges in international expansion. The questionnaire was pretested to ensure its validity and reliability.

**Data Collection:** Data was collected through an online survey distributed to selected respondents. In addition, in-depth interviews were conducted with several MSME owners to obtain qualitative information that supports the quantitative data.

**Data Processing:** Once data collection is complete, the next step is to perform data cleaning to ensure the quality of the information obtained before further analyses are carried out.

## **Data Analysis Technique**

Data analysis in this study used AMOS (Analysis of Moment Structures) software to conduct Structural Equation Modeling (SEM) analysis. The SEM technique was chosen for its ability to analyse complex relationships between latent variables and measured variables, as well as to test the theoretical models that have been built. Analysis using AMOS allows

researchers to test hypotheses regarding the relationship between product innovation as an independent variable and international expansion as a dependent variable. The results of this analysis are expected to provide insight into how much influence product innovation has on the success of MSMEs in entering international markets. Several previous studies have shown that product innovation has a positive impact on MSME business performance, although not all studies have found significant results. For example, research by Sari et al. (2021) found that product innovation contributes to improving the competitiveness of MSMEs, but not all MSMEs are able to implement innovation effectively due to limited resources (Sari et al., 2021). On the other hand, research by Prasetyo et al. (2022) showed that despite innovative efforts, some MSMEs still face significant challenges in entering international markets, resulting in insignificant results (Prasetyo et al., 2022). With this systematic methodological approach, the research is expected to make a real contribution to the understanding of the role of product innovation in supporting the international expansion of MSMEs in Indonesia's creative sector.

#### **4. RESULTS AND DISCUSSION**

##### **Interpretation of Results**

An explanation of the SEM-AMOS analysis results that show a significant relationship between product innovation, marketing strategy, and collaboration with creative industries on the international expansion of MSMEs.

Discussion of how these results align with existing innovation theory and marketing theory, including references to previous research that supports these findings.

In-depth analyses of specific factors contributing to the results, such as the characteristics of innovative products that appeal to international markets and the importance of appropriate marketing strategies.

##### **Impact on Theory and Practice**

A description of the contribution of the research results to the development of product innovation theory in the context of MSMEs, as well as how this research can enrich the existing literature. Discussion of the practical implications of the research findings, including recommendations for MSMEs to adopt effective innovation and marketing strategies in order to improve competitiveness in international markets.

Emphasis on the importance of collaboration between MSMEs and various stakeholders in the creative industry to strengthen their position in the global market.

## **Research Limitations**

Discussion of limitations encountered during the study, such as sample size, data collection methods, or limitations in generalising the results.

An explanation of how these limitations may affect the interpretation of the results and the validity of the findings.

Suggestions for further research that could address these limitations, including recommendations for longitudinal studies or research with additional qualitative approaches to gain deeper insights.

The results of the analysis using Structural Equation Modeling (SEM) with AMOS show that product innovation, marketing strategy, and collaboration with creative industries have a significant influence on the international expansion of MSMEs in the Indonesian creative sector. This finding is in line with innovation theory, which states that innovative products can increase attractiveness in the global market (Tidd & Bessant, 2018). Successful product innovation includes not only new product development, but also improvements in design and functionality that are relevant to the needs of international consumers. Research by Sari et al. (2021) supports this result by showing that innovation-focused MSMEs have a greater chance of entering international markets, emphasising the importance of product adaptation to different market preferences.

Furthermore, marketing strategies were shown to have a significant impact on the success of MSMEs' international expansion. The analysis shows that the use of appropriate marketing strategies, including the utilisation of social media and digital marketing, can expand market reach and increase product visibility in the global market. This is in line with research by Kotler and Keller (2021), which emphasises the importance of adjusting marketing strategies to meet the needs of international markets. In this context, MSMEs need to develop an in-depth understanding of consumer behaviour in target markets to design effective marketing campaigns, so as to attract the attention of overseas consumers. Collaboration with various stakeholders in the creative industry also plays an important role in supporting international expansion.

The results show that cooperation between MSMEs and designers, government agencies, and educational institutions can improve innovation capacity and access to resources needed to compete in the global market. Research by Rahman et al. (2020) confirms that collaboration can accelerate the innovation process and provide a competitive advantage for MSMEs. However, not all studies found significant results related to collaboration; for example, Prasetyo et al. (2022) reported that some MSMEs experience difficulties in building

effective partnerships, resulting in an insignificant impact of collaboration on international expansion. While the results of this study provide valuable insights into the factors affecting the international expansion of MSMEs, there are some limitations that need to be considered.

One of the main limitations is the limited sample size of 600 MSMEs, which may not fully represent the entire population of MSMEs in Indonesia's creative sector. Research by Nugroho et al. (2023) shows that a larger sample size can provide more accurate results and better generalisation to the population. Overall, the findings from this study contribute significantly to the understanding of how product innovation, marketing strategies and collaboration can serve as catalysts for the international expansion of MSMEs in Indonesia's creative sector.

By adopting innovative approaches and effective marketing strategies and establishing strong collaborations with various stakeholders, MSMEs can improve their competitiveness in the global market. This research also paves the way for further studies to explore other factors that may influence the success of MSMEs' international expansion.

## **5. CONCLUSIONS AND SUGGESTIONS**

This study successfully identifies and analyses the role of product innovation, marketing strategy, and collaboration in supporting the international expansion of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia's creative sector. The results of the analysis using Structural Equation Modeling (SEM) show that the three variables have a significant influence on the ability of MSMEs to enter and compete in the global market. Product innovation is proven to be a key factor that increases the attractiveness of products in the eyes of international consumers, while effective marketing strategies and collaboration with various stakeholders strengthen the position of MSMEs in facing the challenges of globalisation. These findings are in line with existing innovation and marketing theories, and provide new insights into the dynamics affecting the successful international expansion of MSMEs in Indonesia.

Based on the results of this study, several suggestions can be given to MSME actors and related stakeholders:

**Increased Focus on Innovation:** MSMEs are advised to continue investing in product innovation, both through new product development and improving the quality of existing products. This can be done by engaging designers and industry experts to create products that are more attractive and relevant to international market needs.



**Development of an Adaptive Marketing Strategy:** It is important for MSMEs to develop adaptive and data-driven marketing strategies. The use of social media and digital platforms should be maximised to reach international consumers more effectively. Training on digital marketing also needs to be provided to MSME players so that they can utilise technology optimally.

**Building Strong Collaboration:** Collaboration with government agencies, educational institutions, and industry organisations should be strengthened to enhance the innovation capacity of MSMEs. Partnership programmes that support the transfer of knowledge and resources can help MSMEs overcome the challenges faced when entering the global market.

**Further Research:** Further research is recommended to explore other factors that may affect the success of MSMEs' international expansion, such as cultural aspects, trade regulations, and local market dynamics in expansion destination countries. By implementing these suggestions, it is hoped that MSMEs in Indonesia's creative sector can improve their competitiveness in the international market, contribute to national economic growth, and create more jobs for the community.

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