
LITERATURE REVIEW: INNOVATION STRATEGIES TO IMPROVE COMPETITIVENESS IN MSMES

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ABSTRACT

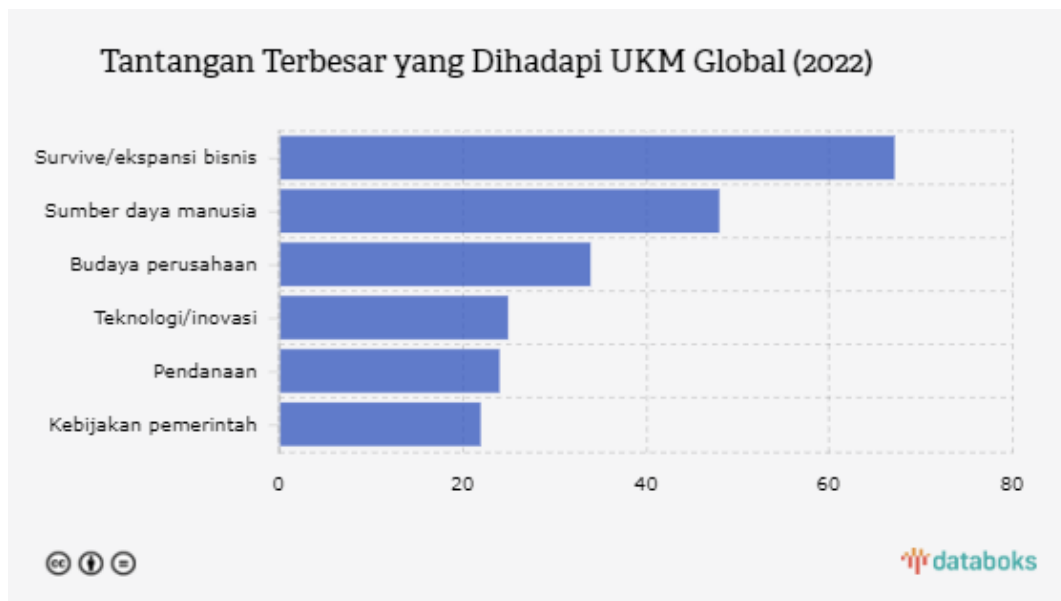
This study aims to examine innovation strategies that MSMEs can implement to increase competitiveness through a literature review. This study uses a descriptive approach by examining various scientific literature sources such as journals, books, and relevant articles. The results of the study indicate that MSME innovation strategies to increase competitiveness can be implemented through product innovation, process innovation, and digital technology-based marketing innovations such as the use of e-commerce and social media. These strategies have been proven to increase business efficiency, productivity, and expand market reach. However, their implementation still faces several obstacles, such as limited resources and low technological literacy. In addition, the success of MSME innovation is influenced by internal factors such as entrepreneurial interest, effective management, product and service quality, and the ability to build brands and creative promotions. While external factors include business networks, government regulatory support, access to financing, technological advances, and market understanding. Thus, the synergy of innovation and digitalization, along with the support of internal and external factors, is the main key to increasing the competitiveness and sustainability of MSMEs in the era of modern business competition.

Keywords: Innovation Strategy, Competitiveness, MSMEs, Literature Review

INTRODUCTION

In the era of globalization and the increasingly rapid development of the digital economy, innovation and technology play a key role in maintaining business competitiveness, including in the Micro, Small, and Medium Enterprises (MSMEs) sector. MSMEs hold a strategic position within the economic structure due to their ability to absorb a large workforce and act as a driving force for local economic activity. However, amidst the rapid flow of change, MSMEs face significant challenges in adapting to technological advances and implementing sustainable innovation.

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the global economy, including in Indonesia, contributing significantly to job creation and economic growth. However, a 2022 global survey by Databoks shows that one of the biggest challenges faced by MSMEs is their ability to utilize technology and innovation, accounting for 25% of the total major challenges. This challenge falls behind business survival and expansion (70%) and human resource management (50%), but plays a strategic role in determining business sustainability in the digital era. As the following data is attached below:



Source: <https://databoks.katadata.co.id>

Figure 1. The Biggest Challenges for SMEs, from Expansion to Innovation

The data above shows that underutilization of technology and low innovation capabilities are often caused by limited digital literacy, access to modern technology, and a lack of human resources competent in developing technology-based products or services. This situation directly impacts the competitiveness of MSMEs, especially when faced with rapid market changes and increasingly dynamic consumer demands.

Based on the data above, the low utilization of technology and innovation among MSMEs is generally caused by limited digital literacy, access to technology, and a lack of competent human resources. This condition impacts the low competitiveness of MSMEs in facing market changes and evolving consumer needs. Therefore, this research is important to conduct to examine effective innovation strategies through a literature review, so that relevant and applicable strategic models can be identified for MSMEs in facing the challenges of digital transformation.

In order to increase competitiveness, it is necessary to provide regular training, as in the research of Effendy, et. al (2025) that the need for "Human resource development is the main key to increasing competitiveness. They actively provide training to their employees and teams to improve digital skills, such as product design training, online marketing, and online store management."

. In line with research by Effendy et al. (2024), "The digital era has driven changes in job demand trends. Businesses or companies will focus on prioritizing the use of technology and maximizing data to achieve their goals."

In the digital era, the ability to market and promote a business digitally has become a very important requirement for business continuity and growth, but not all Gen Z are able to apply it in running a business.

Related Digitalization or digital promotion currently, as in research by Budiyanto & Effendy (2020), among the obstacles to business development are

"Limited business facilities and infrastructure, particularly related to technological tools. Most MSMEs use rudimentary technology, making it difficult to compete in terms of quality and quantity." Whereas "Promotion is very effective when carried out through online media, especially more effective promotion through social media compared to promotion through electronic media and print media." (Effendy, & Sunarsi, 2020).

Therefore, this research is crucial to examine various effective innovation strategies for enhancing the competitiveness of MSMEs, based on the results of the literature review. By understanding innovative approaches that have proven successful in various contexts, it is hoped that relevant and applicable strategy development models can be identified for MSMEs, particularly in facing the current challenges of technology and digital transformation.

From the problems above, it is very necessary to know the factors that can determine MSMEs so that they can develop further and compete in the current digital era. Therefore, to overcome these problems, research is needed on "Literature Review: Innovation Strategies to Increase the Competitiveness of MSMEs."

LITERATURE REVIEW

1. Understanding Innovation

Innovation According to Hurley and Hult in Wijaya, et al., (2019) can be interpreted as "A company's mechanism for adapting to a dynamic environment, where the company must be able to produce new, innovative ideas which then lead to

new, higher quality products to meet customer needs."

Another definition of innovation is that "Innovation is not limited to something tangible such as objects but also includes actions or movements towards changes in the social order of life." (Pervaiz and Charles, 2010).

So according to the author, innovation is the company's ability to adapt to a constantly changing environment through new ideas, both in the form of products and actions, so that it can improve quality and meet customer needs.

2. Understanding Competitiveness

The definition of competitiveness is "An effort that must be made by business or economic actors to continue to exist in carrying out their activities." (Sulistiyan et al., 2020).

According to Mashuri and Nurjannah (2020), competition or competitiveness is "the essence of a company's success or failure. Competition determines the appropriateness of a company's activities that can support its performance, such as innovation or good implementation."

From the definition above, according to the author, competitiveness is the ability and efforts of a company to survive and excel in competition, through appropriate strategies such as innovation and effective implementation of business activities so that the company's performance continues to improve.

METHOD

This research uses a descriptive exploratory approach by analyzing "Literature Review: Innovation Strategy

to Increase the Competitiveness of MSMEs". This scientific work is developed using an approach to literature review or library research. According to Sudaryanto & Wijayanti in Effendy, et al., (2025), that, "This conceptual approach is carried out by referring to several sources, such as books, scientific journals, and the internet, all existing descriptions of ideas are combined in a single framework of thought."

According to Arikunto (2014) regarding literature review, namely "Collecting data related to things or variables in the form of books, transcripts, notes, magazines, newspapers, articles, agendas, meeting minutes and so on."

A. Data Analysis Methods

Table 1. Literature Search Database Source

<i>Research Database</i>	<i>WEB Address</i>
<i>Google Scholar</i>	https://scholar.google.co.id
<i>Google Search</i>	https://www.google.co.id/?hl=id
<i>Scopus Preview</i>	https://www.scopus.com/home.uri
<i>Research gate</i>	https://www.researchgate.net
<i>Katadata Databox</i>	https://databoks.katadata.co.id

Articles or journals that met the inclusion and exclusion criteria were then selected for further analysis. This literature review used sources spanning the last 10 years, 2016–2025, accessible in full-text PDF format and derived from peer-reviewed scientific journals. The articles reviewed were research journals in Indonesian and English.

RESEARCH RESULTS

The results of this study are drawn from various sources that discuss literature reviews on innovation strategies to increase the competitiveness of MSMEs. Based on this literature review, it can be seen that

The data analysis used in this study, using the literature review method, provides a comprehensive explanation of how to analyze the concepts under study. The approach used in this data analysis process is the exposition method, which "presents existing data and facts to ultimately identify correlations between them." (Ulhaq et al., 2020)

B. SLiterature Search Strategy

The successorThe publication article is published on Google, Google Scholar, and Research Gate using the selected keywords, namely "Innovation Strategy to Increase the Competitiveness of MSMEs" in English and Indonesian.

innovation strategies implemented by MSMEs play a crucial role in increasing business competitiveness, both through product development, improving service quality, utilizing technology, and implementing more creative and effective marketing strategies.

This is in line with research by Purnomo et al. (2025), which states that "The innovation strategies implemented by MSMEs in the creative sector include product, process, and marketing innovation. Product innovation focuses on developing products that align with market trends, while process innovation focuses more on operational efficiency

by utilizing technology. Marketing innovation relies heavily on digital platforms to expand market reach."

Based on the author's interpretation, these results indicate that innovation is not limited to creating new products but also encompasses how MSMEs conduct business processes more efficiently and are able to reach a wider market through modern marketing strategies. This indicates that MSME competitiveness is highly dependent on the ability of business actors to read market trends and utilize technology as a tool to strengthen their business. Furthermore, innovation and digitalization strategies can be effectively implemented within the JAWARA MSME ecosystem, including through digital training, e-commerce development, and optimization of social media-based marketing (Yuliani, et al., 2023). According to the author, this illustrates that strengthening digital competencies is a crucial step to ensure MSMEs are not left behind in the increasingly online market competition.

According to Sunarto et al. (2025), "The implementation of e-commerce, digital marketing, and customer management systems has been proven to optimize business potential and open up wider expansion opportunities for business actors in Bojongsari." From the author's perspective, this finding confirms that digitalization not only helps increase sales but also builds long-term relationships with consumers through better customer management. In essence, "This innovative approach is expected to be a concrete solution for micro and small business actors in facing modern business challenges."

(Munawarah & Hermawan, 2023). The author believes that innovation and technological adaptation are realistic solutions, especially in the face of fierce competition, changes in consumer behavior, and global market pressures.

In addition to innovation strategies, the literature also explains that the success of MSME innovation is influenced by several important factors. According to Winarni, & Mahsun, (2021), the success factors for micro and small businesses are as follows: 1) Entrepreneurial interest plays a very important role in the success of MSMEs in addition to other interrelated dimensions such as the dimension of management change, the dimension of change. 2) Networks are used to regulate coordination and realize cooperation between elements within the organization, where the formation of networks always begins with comfortable communication and this is greatly influenced by character. 3) Brands are an important part of marketing activities because creative products in micro, small, and medium enterprises are more attractive to consumers. Products that are sold attractively will certainly attract more consumer attention, the brand on a product will show the professionalism and quality of the product. 4) Promotion plays a very significant role in business progress. Creative promotional strategies that differ from general promotional methods, the many promotional media available now also make an entrepreneur have many choices for carrying out promotions.

Based on this description, it can be concluded that innovation and digitalization are key strategies supporting increased MSME

competitiveness. To clarify the literature review results, the following table summarizes the main themes,

subthemes, and implications of the findings from several relevant studies:

Table 2. Results of Thematic Synthesis of SLR Strategy and Competitiveness of MSMEs

Main Theme	Subtheme/Category	Supporting Studies (Researcher & Publication Year)	Implications of Findings
MSME Innovation Strategy	Product, Process, and Marketing Innovation	Purnomo, et al. (2025)	Innovation increases the competitiveness of MSMEs through digital products, processes, and marketing.
Digitalization of MSMEs	Digital Training, E-commerce, Social Media	Yuliani, et al. (2023)	Digitalization helps MSMEs expand their markets and improve business efficiency.
Implementation of Business Technology	E-commerce, Digital Marketing, Customer Management	Sunarto, et al. (2025)	Digital technology opens up opportunities for business expansion and increased sales.
Solutions to Modern Business Challenges	Innovative Approach of MSMEs	Munawarah & Hermawan (2023)	Innovation is the solution to facing modern business competition.
Success Factors for MSMEs	Entrepreneurial Interest, Networking, Branding, Promotion	Winarni & Mahsun (2021)	The success of MSMEs is influenced by motivation, networking, branding, and promotion.
Supporting Factors for MSME Competitiveness	Internal, External, and Market Factors	Salim, et al. (2024)	The competitiveness of MSMEs is determined by management, external support, and market understanding.

Source: Data processed by the Author (2026)

Based on the synthesis table above, it can be concluded that the main dominant theme in the literature review is the innovation and digitalization strategies of MSMEs. The author interprets product, process, and marketing innovation as the main factors driving MSME competitiveness, especially when combined with the use of technology such as e-commerce and digital marketing. Furthermore, the literature also shows that MSME success is not only influenced by innovation capabilities, but also supported by internal factors such as management and service quality, external factors such as government regulations and access to financing, and market factors such as understanding consumer needs. Thus, the author concludes that increasing MSME competitiveness requires a targeted innovation strategy and strong digital ecosystem and managerial support so that MSMEs can develop sustainably.

DISCUSSION

Based on the results of the literature review, the author assesses that the success of MSME innovation is not only determined by the ability to create new products, but is also greatly influenced by the readiness of business actors in managing other supporting factors. MSME innovation will not run optimally if business actors do not have strong motivation in entrepreneurship, because motivation is the main driver to continue to survive, adapt, and make business improvements amid market competition. Furthermore, the ability to build networks is also an important aspect because networks can open access to collaboration with suppliers, distributors, and consumers, so that MSMEs have greater opportunities to

expand the market. In this case, networks are not only related to business relationships, but also related to communication and trust that can strengthen business sustainability. The next factor that is very decisive is marketing strategy, because a good product will not produce maximum results if it is not marketed effectively. Therefore, MSMEs need to build branding, strengthen brand image, and create attractive promotional strategies to be able to compete and be recognized by consumers.

In line with this, Salim et al. (2024) explained that the competitiveness of MSMEs is influenced by three main factors: internal, external, and market factors. Internal factors include effective management, product innovation, and service quality. The authors interpret that effective management is crucial because it is directly related to the management of resources such as labor, capital, raw materials, and business financial management. If management is weak, MSMEs will have difficulty managing production, controlling costs, and maintaining product quality. Furthermore, product innovation must also be carried out consistently so that MSMEs can adapt products to changing trends and consumer needs. Furthermore, service quality is a crucial factor because good service can increase customer satisfaction, create loyalty, and build a stronger business reputation in the market.

According to Salim et al. (2024), external factors originate from the external environment, such as government regulations, access to financing, and technological advances. The authors assess that government

policies significantly influence the sustainability of MSMEs, particularly through assistance programs, training, subsidies, and ease of licensing. Appropriate regulatory support will increase MSMEs' opportunities to grow more rapidly. Furthermore, access to financing is also a major challenge because many MSMEs struggle to obtain capital to increase production capacity or develop innovations. Therefore, easy access to credit, financial assistance, and government-based funding programs can be important factors in strengthening competitiveness.

Technological advances also have a significant impact because they can increase business efficiency, accelerate production processes, and expand marketing through digital platforms. However, the authors also assess that technology can be an obstacle if MSMEs lack digital capabilities or lack supporting facilities.

The third factor is market factors, which include understanding and effectively marketing to consumer needs. The author interprets market factors as crucial because MSMEs must be able to read demand trends, understand customer preferences, and adapt product and pricing strategies to market conditions. If MSMEs lack market understanding, their products may not meet market needs, making it difficult to compete. Furthermore, effective marketing is also necessary for MSME products to reach more consumers, both through traditional marketing and digital marketing such as social media and e-commerce.

According to the author's interpretation, Salim et al.'s (2024) explanation emphasizes that MSME competitiveness is formed from the

interrelationship between internal, external, and market factors that support each other. This means that product innovation alone is not enough if business management is still weak, promotions are not running optimally, and access to capital and technological support is limited. Therefore, MSMEs need to develop a comprehensive strategy, starting from improving managerial capabilities, strengthening innovation and service quality, developing branding and promotions, to utilizing digital technology as a means of market expansion. In conclusion, this literature review shows that innovation and digitalization are the main keys to increasing MSME competitiveness, but their success still requires support from business actors' motivation, extensive business networks, strong branding, creative promotions, effective internal management, and external support such as government regulations, access to financing, and technological developments so that MSMEs can develop sustainably and be able to survive in modern business competition.

CONCLUSION

In conclusion, based on the results and discussion of the literature review, it can be seen that MSMEs' innovation strategies to increase competitiveness are implemented through product, process, and marketing innovations based on digital technology, such as e-commerce and social media. This strategy has been proven to increase efficiency, productivity, and expand market reach, although its implementation still faces obstacles such as limited resources and low technological literacy.

Furthermore, based on a literature review, the success of MSME innovation is influenced by a combination of internal and external factors. Internal factors include entrepreneurial interest, effective management, product innovation, service quality, and the ability to build a brand and creative promotional strategies. External factors include business networks, government regulatory support, access to financing, technological advancements, and

appropriate market and marketing understanding.

Thus, the synergy between innovation and digitalization, along with support from internal, external, and market factors, is key to increasing the competitiveness and sustainability of MSMEs. Therefore, MSMEs need to implement a comprehensive and sustainable innovation strategy by strengthening business actors' motivation, business networks, and the use of digital technology to survive and thrive in modern business competition.

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