



The Effect of Innovation and Promotion on the Performance of Micro, Small, and Medium-Sized Enterprises in the Province of South Sulawesi, Indonesia

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Abstract. This study examines the effects of innovation and promotion on business performance in South Sulawesi's Micro, Small, and Medium-Sized Enterprises (MSMEs). The research design is explanatory research with quantitative methods. This research is located in South Sulawesi Province, Indonesia. The object of research is MSMEs located in South Sulawesi with a research sample of 170 MSMEs. The type of data collection is primary data with a questionnaire through a google form. The Statistical Product and Service Solution (SPSS) version 25 was used to process the data in this study's multiple linear regression analysis. The results show that, partially, innovation has a positive and significant impact on MSME business performance, and promotion has a positive and significant impact on the business performance of MSMEs in South Sulawesi. Simultaneously, Innovation and Promotion significantly impact the business performance of MSMEs in South Sulawesi.

Keywords: Innovation · Promotion · Business Performance · MSMEs

1 Introduction

MSMEs (micro, small, and medium-sized enterprises) are vital to the economies of many nations, allowing them to expand and endure the global financial crisis. MSMEs are typically described as developing and industrialized nations' economic engines and lifeblood. MSMEs are a vital source of business experience, innovation, and employment, and they play a vital part in the economic growth of many nations. MSMEs will significantly influence the economies of emerging countries due to their capacity to defend themselves and grow. MSMEs employ a sizable section of the population in developing countries, contributing 33% of the GDP and 45% of total employment [1]. MSMEs are significant economic forces within a nation or region [2]. MSMEs are one of the stable industrial sectors with solid fundamentals that can face a country's economic crisis and are less impacted by global crises that can hit the world at any time, such as from the effects of wars such as the war between Russia and Ukraine or disease outbreaks such as the one that occurred during this is the covid-19 pandemic, because

the majority produce consumer goods and services with a low elasticity of demand and use of income and also low capital obtained from bank [3].

For Indonesia, a developing nation, to continue expanding and be resilient to potential economic crises, the Indonesian government has taken several steps to enhance the capabilities of MSMEs. MSMEs, including cooperatives, are currently utilized as a national development strategy to advance the people's economy. This is being done because MSMEs in Indonesia may serve a variety of crucial roles, including job creation, lowering unemployment and poverty rates, and reducing income disparities and excessive urbanization [4]. The existence of MSMEs in Indonesia has proven its role. MSMEs play an important role in various fields of life in Indonesia, namely the social, economic, and political fields. In the social sector, MSMEs provide increased income for the community and also open up job opportunities [5]. In 2018, 64,19 million MSMEs existed in Indonesia. In addition, MSMEs contributed 61.07% to the GDP, 14.37% to exports, and 97.30% to employment [6].

Innovation is essential for MSMEs to enhance their goods and build customer loyalty. Innovation capability is the ability to continually transform one's knowledge and ideas into new products, techniques, and procedures to generate value for company stakeholders. The capacity for innovation is a core competency for MSMEs that aims to allow them to compete. Innovation has become a process that must be carried out on products by MSMEs [7]. Investment in human resource capacity development, especially in employee training, will be very useful in carrying out product innovation, especially in increasing business capacity significantly with a more stable business, where highly trained and educated employees are very important in innovating. Investment in training programs for employees by MSMEs is an integral aspect of the innovation management process of MSMEs and, as such, must consistently be implemented to encourage increased innovation for products from MSMEs [8]. The promotion comprises all parts of the marketing mix that are frequently employed as persuasive communication strategies. In marketing, one of the aspects of the market mix is typically referred to as "promotion". Plans for promotions may be used for several goals, including raising sales, convincing customers to adopt unique items, generating brand equity, positioning, grabbing the initiative in a competitive setting, and creating a positive impression of the business [9].

2 Methods

2.1 Research Design

Explanatory research with quantitative techniques is the study approach that begins with data collecting, continues with data interpretation, and culminates with presenting results.

2.2 Location and Sample

MSMEs operating in South Sulawesi Province, Indonesia is the subject of this study. This study's sample consisted of 170 MSMEs.

2.3 Data Collection and Data Analysis

This research uses primary data obtained from questionnaires circulated using Google Form. This research uses Statistical Product and Service Solution version 25 in data processing.

3 Findings and Discussion

3.1 Research Instrument Test

All variables in this study had Cronbach’s alpha values of more than 0.60, suggesting that all variables passed the reliability test and all research statements that passed the validity test, as indicated by the calculated r-value greater than the r table value (0.151).

3.2 Multiple Regression Test

Multiple regression analysis using SPSS version 25 indicates a link between the independent variable and the independent variable, as well as variance in the direction of that relationship. The impact and direction of the association are depicted in the table below:

The regression analysis results in the table above indicate that innovation and promotion factors positively affect the performance of MSMEs in the province of South Sulawesi. The regression equation is derived from the following analysis results:

$$Y = 1,584 + 0,208X_1 + 0,396X_2 \tag{1}$$

The following can be concluded from the multiple regression equation’s results:

- a) Constant (a)
The constant value is 1.584, which means that the business performance of MSMEs in South Sulawesi is 1.584 if Innovation and Promotion are 0 (zero) or constant.
- b) The Impact of Innovation on MSMEs Performance
Based on Table 1, the leverage coefficient value for innovation was determined to be 0.208 and is positive. This indicates that there is a positive relationship between innovation and MSME business performance in South Sulawesi, with the relationship being that if the value of innovation increases by 1 unit, business performance will increase by 0.208 and vice versa.

Table 1. The Effect of Innovation and Promotion on MSMEs Performance.

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
11	(Constant)	1.584	.443	
	Innovation (X1)	.208	.099	.161
	Promotion (X2)	.396	.096	.315

Table 2. Calculation Results of F-test

Model		Sum of Squares	df	Mean Square	F	Sig.
11	Regression	10.862	2	5.431	16.075	.000 ^b
	Residual	56.085	166	.338		
	Total	66.947	168			

Dependent Variable: Business Performance (Y), Predictors: (Constant), Promotion (X2), Innovation (X1)

c) Effect of Promotion on MSMEs Performance

The value that we get is based on Table 1, with promotion having a leverage coefficient of 0.396 and a positive sign which can be explained that promotion has an effect on the direction of MSME business performance in South Sulawesi. This can be explained by when the promotion value increases by 1 unit, then the value of business performance will increase by 0.396.

3.3 Simultaneous Testing (F Test)

The f Test is used to evaluate the combined effect of promotion and innovation on business success. By examining the values of F-count and F-table, this is accomplished. In South Sulawesi, innovation and promotion have a significant impact on MSMEs' business performance if F-count is higher than F-table or the significance is less than 0.05 (0.05). On the other hand, if F-count is lower than F-table or the significance is greater than 0.05 (> 0.05), innovation and promotion have little impact on MSMEs' business performance. The following results of the f test calculation are displayed:

Based on Table 2, the calculation results using the SPSS version 25 program with a Fcount value of 16.075, then the Fcount value taken from Ftable with a sample of 170 MSMEs, the t-table value is 2.66, meaning that Fcount is greater than F-table ($16,075 > 2.66$). The significance value obtained is 0.00, which means that the significance value is smaller than 0.05 (< 0.05). The results of this study indicate that simultaneously innovation and promotion have a significant effect on the business performance of MSMEs in South Sulawesi Province.

3.4 T Test (Partial Test)

To find out whether innovation and promotion partially have a significant or insignificant effect on the performance of MSMEs, a t-test is carried out. The test results are summarized in the following table:

a) Partial Impact of Innovation on MSMEs Performance

Table 3 displays an innovative T-count value of 2.106 and a t-table value of 1.654. The study's findings thus show that the t-count is higher than the t-table ($2.106 > 1.654$) or that the innovation significance value is 0.037, which shows that it is less than 0.05 ($0.037 < 0.05$), indicating that innovation has a significant impact on the business performance of MSMEs in South Sulawesi.

Table 3. Partial Impact of Innovation and Promotion on MSMEs Performance.

Model		t	Sig.
1	(Constant)	3.580	.000
	Innovation (X1)	2.106	.037
	Promotion (X2)	4.126	.000

Dependent Variable: Business Performance (Y)

Table 4. The Impact of Innovation and Promotion on MSMEs Performance

Model	R	R Square	Adjusted R Square	Std. An Error in the Estimate
1	.403 ^a	.162	.152	.58126

Predictors: (Constant), Promotion (X2), Innovation (X1), and Dependent Variable: Business Performance (Y)

b) Partial Effect of Promotion on MSMEs Performance

The T-count number from the promotion is 4.126 in Table 3, while the t-table value is 1.654. The study’s findings thus show that the promotion’s t-count is higher than the table’s t-count (4.126 > 1.654) or that innovation’s significance value is 0.000, indicating that the promotion has a significant impact on MSMEs in South Sulawesi’s business performance.

3.5 Coefficient of Determination Test (R²)

In measuring the magnitude of the relationship between many variables, the coefficient of determination is used. This is done to measure how much influence all independents, namely innovation and promotion, have on the dependent variable, namely business performance. The strength of the influence of innovation and promotion will be considered weak if it has a coefficient of determination close to 0 (zero). If the coefficient of determination is greater than 5%, the ability of innovation and promotion to influence business performance will be stronger. The following table will show the value of the coefficient of determination as follows:

Table 4 demonstrates that whereas unstudied factors account for 83.8% of the variation, Innovation and Promotion account for 16.2% of the influence on business success. The fact that R Square is more than 5% shows that the independent variable properly explains the variance of the dependent variable.

3.6 Discussion

3.6.1 The Impact of Innovation on MSMEs Performance is Positive and Significant

Innovation has a positive and significant impact on the business performance of MSMEs in the South Sulawesi Province, according to the findings of this study. The research

result also suggests that the business performance of MSMEs reinventing their goods significantly affects the Innovation of MSMEs' products in South Sulawesi. Enhancing the value of existing items or generating appealing new ones are examples of innovations. If MSMEs wish to improve their business performance, they must not rely solely on their present inventory. Instead, they must be able to perceive what their customers want and innovate their products to maximize consumer happiness and production.

This study is consistent with Octasyilva et al. conclusion that innovation directly or indirectly influences performance. Innovativeness is the propensity to generate new goods, services, processes, technologies, and models. The willingness to innovate and create something new to get a competitive edge will make MSMEs more dynamic and, eventually, more effective. The research result indicates that the more the Innovation of an MSME, the greater the likelihood that its adaptability will rise [9]. This research is also in line with research conducted by Thereza & Hidayah. They conducted a study located in the Province of Jakarta, Indonesia, with 80 MSMEs as respondents, with the results showing that innovation has innovation on business performance. Innovation has a positive and significant impact on the business performance of MSMEs in Jakarta [10, 11].

3.6.2 The Impact of Promotion on MSMEs Performance is Positive and Significant

According to other research findings, promotion significantly and favourably affects the performance of MSMEs in the South Sulawesi Province. Thus, promotion is one of the most crucial elements in raising MSMEs' performance. Promotional activities can be carried out in various ways, such as promotion, which is currently the most effective with relatively low cost, namely promoting through social media. Because marketing done through social media will be able to improve business performance in MSMEs [12, 13]. Placing advertisements in electronic media like radio, newspapers, and television is one strategy that can be used for promotion. However, some MSMEs in South Sulawesi may be unable to do this since they have low capital.

This study has results that are in accordance with research by Grabara with the results that each company with a different activity profile can find the most suitable form of advertising for it and thus that promotion has a significant influence on MSME business performance or an increase in the number of customers. As changes occur all the time in the advertising market, new advertising strategies continue to take many forms and provide every company with the opportunity to use the advertising tools they want to improve their business performance [14]. This research is also in line with [15, 16] results in research that digital marketing has a positive and significant influence on the performance of MSMEs.

4 Conclusion

Based on the findings of the study we previously mentioned, it can be said that (1) innovation has a favourable and significant impact on company performance in MSMEs in South Sulawesi Province, and (2) promotion has a favourable and considerable impact on the business performance of MSMEs in South Sulawesi Province, (3) innovation and marketing also have a significant impact on this performance.

MSMEs and stakeholders in South Sulawesi Province should continuously innovate their products by boosting added value in existing products and creating new products since these are two variables that can increase MSME company performance. Promotion is equally crucial for MSMEs, so more must be done to spread awareness of MSME products. The government offers MSMEs a venue for product promotion in their local areas so that MSMEs can access the market.

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