

## The Relationship Between Core Competencies And Product Innovation In Micro, Small And Medium Enterprises

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### ABSTRACT

*This study aims to analyze the relationship between core competencies and product innovation in Micro, Small, and Medium Enterprises (MSMEs). Core competencies refer to the unique capabilities and resources possessed by the organization, which provide a competitive advantage and enable the creation of value for customers. Meanwhile, product innovation is defined as the process of developing new ideas into relevant and superior products or services. This review is carried out through the literature review method by collecting and evaluating relevant research. The results of the study show that core competencies, such as knowledge, skills, and organizational culture, are an important basis in the development of product innovation. Strong core competencies can increase the competitiveness of MSMEs through superior product innovation, opening up new market opportunities, and increasing customer satisfaction and loyalty. In addition, product innovation driven by core competencies also plays an important role in maintaining business sustainability, especially in the midst of increasingly fierce market competition. Thus, MSMEs need to continue to improve their core competencies to create product innovations that not only meet customer needs but also provide significant added value.*

**Keywords:** core competencies, product innovation, MSMEs

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the economy of many countries, including Indonesia. However, to survive and thrive in an era of increasingly fierce competition, MSMEs are required to continue to innovate. Product innovation, as a form of innovation, is considered the key to the success of MSMEs in increasing competitiveness and winning the market. Although many studies have been conducted on the importance of innovation for MSMEs, there are still few studies that specifically examine the relationship between core competencies and product innovation in MSMEs. In fact, a deep understanding of this relationship is very important to formulate a more effective MSME development strategy.

MSMEs are faced with increasingly complex challenges in maintaining the sustainability of their businesses. One of the strategies that can be taken is through product innovation. However, not all MSMEs are able to innovate effectively. This study aims to identify factors that affect the ability of MSMEs to innovate products, with a focus on the role of core competencies.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in Indonesia's economy, contributing significantly to economic growth and job creation. In the last decade, the number of MSMEs in Indonesia has shown a significant increase, making it a dominant sector in the national business landscape. However, despite the great potential, many MSMEs face serious challenges in terms of competitiveness and product innovation. Therefore, it is important to explore the relationship between core competencies and product innovation in the context of MSMEs.

Core competencies are a set of knowledge, skills, and qualities required by business actors to carry out business activities effectively. According to Suryana, (2014), core competencies include creativity and innovation needed to create added value and competitive advantage. This creativity is essential for developing new ideas and finding innovative ways to face increasingly tight market challenges. On the other hand, product innovation is one of the key factors in maintaining the sustainability of MSME businesses. Innovation includes not only the development of new products but also improvements to existing products to remain relevant to consumer needs. Research shows that product innovation has a positive influence on the competitive advantage of MSMEs, where the ability to innovate can increase the attractiveness of products in the market.

In this context, this study aims to analyze the relationship between core competencies and product innovation in MSMEs in Indonesia. By understanding how these two variables affect each other, it is hoped that it can provide insights for MSME actors to improve their performance and competitiveness in an increasingly competitive global market. This study will also discuss the managerial implications of these findings and provide recommendations for the development of more effective innovation strategies among MSMEs (Suryana, 2014).

## METHODS

The method used is literature review. Namely a method carried out with an approach to collect and evaluate relevant research on a specific topic. The stages are carried out as follows:

1. Conceptual Phase, This phase involves formulating and limiting problems, as well as understanding the problems that occur. In this phase, the researcher identifies the problem, recognizes the purpose of the research, and creates research boundaries so that the scope of the research is clear.
2. Design Phase, This phase involves the design of research parameters and research models. After the research problem is formulated, the researcher designs the research design to be used.
3. Dissemination Phase, making a report on research results in the form of a journal. It can also be said that literature review is a series of activities related to the method of collecting library data and information by digging up knowledge or knowledge from sources such as books, papers, diktat.

## RESULTS AND DISCUSSION

### *Core Competencies of Entrepreneurship*

It is undeniable that the sustainability of a company's life depends heavily on the resilience of entrepreneurs to achieve a competitive advantage with the strategies used. According to Collin Montgomery (1998: 5), corporate strategies are the ways in which companies create value through the configuration and coordination of multimarketing activities. Although in modern company management as it is today, there has been a shift in strategy, from the company's strategy to maximize profits for shareholders (stockholders), shifting to maximizing profits for all stakeholders in the company/stakeholders, namely individuals or groups who have interests in the company's activities, such as employees, management, buyers, the community, suppliers, shareholders, distributors, and government. However, the concept of profit cannot be ruled out and is an important tool for companies to create benefits for stakeholders (Ernawati, 2019).

Entrepreneurship is an attitude, soul and ability to create something new that is very valuable and useful for oneself and others (Sari, & Sinambela, 2024). Entrepreneurship is a mental attitude and soul that is always active or creative, empowered, creative, creative and unpretentious and strives in order to increase income in its business activities. A person who has character is always dissatisfied with what he has achieved. An entrepreneur is a person who is skilled in taking advantage of opportunities in developing his business with the aim of improving his life. Entrepreneurs are people who have the ability to see and assess business opportunities, gather the resources needed to take the right action, take profits and have the nature, disposition and the willingness to realize innovative ideas into the real world creatively in order to achieve success/increase income (Rasyid & Indah, 2018) creatively in order to achieve success/increase income.

Entrepreneurship is the process of creating something new at the value of using the time and effort required, bearing the financial, physical, and social risks that accompany it, receiving the monetary rewards generated, as well as personal satisfaction and freedom. This definition emphasizes the four basic aspects of being an entrepreneur.

First, Entrepreneurship involves the process of creating and creating a new value. The invention must have value for the entrepreneur and for the customer for whom the invention is developed. Second, Entrepreneurship requires a certain amount of time and effort needed. Only those who go through the entrepreneurial process appreciate the vast amount of time as well as effort required to create something new and make it operational. Third, the definition involves the award of being an entrepreneur (Almira & Sutanto, 2018). The most important reward is freedom, then personal satisfaction. For a profit-making entrepreneur, monetary rewards are also important. For some for-profit entrepreneurs, money is an indicator of the level of success achieved. Four, Taking the risks required is the final aspect of entrepreneurship. Because actions take time Dalimunthe (2017), while future outcomes are unpredictable, the outcome of those actions contains uncertainty.

Furthermore, this uncertainty is then reinforced by the typical basic nature of entrepreneurial actions, such as the creation of new products, new services, new ventures and so on. "Entrepreneurs must decide to act even when faced with uncertainty the range of outcomes of their actions. Furthermore, entrepreneurs will respond and create change through entrepreneurial actions, while entrepreneurial actions refer to behavior as a form of response to decisions based on uncertain considerations regarding opportunities.

The company's profit is a reflection of strategic management performance that has succeeded in satisfying stakeholders. Therefore, one of the tasks of strategic management is to create profits that can be used as a source of funds for investment and increase benefits for stakeholders According to Albert Wijaya (1993), corporate profits are still a small source and a measure of success, but not the final goal of a company. It is said to be very important because if the company does not make a profit, then it cannot provide benefits for its stakeholders. This means that it cannot increase gaji, cannot pay dividends to sahari holders, cannot expand its business, and cannot pay taxes (Apriyanti, 2018).

In the neoclassical microeconomics techti of the Austrian school, it is stated that companies can gain profits if they have unique advantages to avoid perfect competition. According to Schumpeter (1934) these profits can only be created from inventions made by entrepreneurs Inventions from entrepreneurs can create profits through the invention of new ways to provide the best service to customers. According to Richud A. D'Aveni (1994-253), the invention of entrepreneurs is the result of a dynamic creative process of creators who seek to create market imbalances. Why entrepreneurs can create market imbalances! Because it is entrepreneurs who create new and different goods and create value in the market.

According to Mahoney and Pandian (1992), to face increasingly complex competition and external crises, small companies can use the theory of resource-based strategy. This theory prioritizes the development of superior internal capabilities, which are not

transparent, difficult to imitate or divert by competitors, and provide long-term competitiveness that exceeds current demands in the market and is immune to recession. According to this theory, the company's resources in the form of land, technology, labor (including capabilities and knowledge), capital, and routine habits can be managed specifically to obtain continuous advantages from competition.

Therefore, according to the resource-based theory, quoted by Schoemaker (1980), the focus of the company in creating competitive advantage to seek big profits proposed by Porter (1985) is a short-term and static strategy, while what is needed is long-term competitiveness to achieve sustainable profits (Albert Wijaya, 1993. 47) To achieve sustainable profits, companies must try to find and grow The specific capabilities of all resources that may not have been optimally utilized and can be transformed into unique productive opportunities, including through the continuous search for new ideas or broader management insights. According to this theory. Companies can benefit from better use of resources, i.e. through the following:

1. Good organizational and administrative patterns
2. A combination of "tangible" physical assets such as human and natural resources and "intangible" assets such as creative thinking habits and managerial skills
3. Company Culture
4. Prompt work process and completion of new demands

### ***Product Innovation Concept***

Product innovation can be interpreted as the practical implementation of an idea into a new product or process. Innovation can come from individuals, companies, research at universities, laboratories. In addition, innovation) can be interpreted as the development and practical improvement of an initial invention into a technique that can be used (process innovation) or product (product innovation). Product innovation is any good, service, or idea that is considered something new. New product innovation or innovation in the context of marketing is goods, services, or ideas that are perceived as something new and different from pre-existing goods, services, or ideas (Fauzi & Mandala, 2019).

The word innovation can be interpreted as the process or result of development or utilization, skills and experience to create or improve a new product (good or service), process or system that provides significant value. Innovation usually refers to properties such as updating, changing, or making processes or products, as well as ways of doing things so that they become more effective. In the context of business or business, this means implementing new ideas, improving existing services, and making other products more dynamic.

The importance of innovation in entrepreneurship or entrepreneurship can be seen in the discovery of new ways that are better or more effective than before to produce products, services or solutions. In a product industry, manufacturers can provide new products from completely new raw materials or modified previous raw materials so that they form something more valuable. Innovation is very important for business resilience, regardless of the type of business, whether it is the creative sector, industry, fashion, natural resources and

so on. A common process in terms of creating innovation in small and micro businesses is that innovation usually starts with needs. Small and micro businesses are generally directly involved in their communities and they know exactly what their communities need. Furthermore, they try to answer these needs, whether it comes from their community or individuals or themselves with solutions. Meraka seized the opportunity to innovate to alleviate the problems of its community. Then, these solutions help business actors to get better, easier and more useful, and they get an improvement, whether it is in the form of formulas or business solutions in the future. In order to meet and seek the creativity and innovation needed in business, one of the important factors is to keep up with trends. However, as a producer, in addition to being required to innovate sustainably so as to produce more products, we must also pay attention to the quality factor, so as not to be sacrificed (Hartono et al , 2022).

### ***The Relationship Between Core Competencies and Product Innovation***

The relationship between core competencies and product innovation is significant in the context of modern business. Core competencies refer to the unique capabilities and resources possessed by an organization, which differentiate it from competitors and provide a competitive advantage. Core competencies include the knowledge, skills, and abilities necessary to create value for customers and stakeholders. This includes factors such as company culture, product quality, and technological innovation. Core competencies become the basis for companies to develop new products and adapt to market changes (Fauzi & Mandala, 2019).

Product innovation is often a direct result of a company's core competencies. For example, companies with competence in product design or advanced technology can more easily create innovative products that meet market needs. Creativity and the ability to develop new ideas are part of the core competencies that support innovation. Core competencies contribute to a company's competitiveness by allowing them to offer better or different products compared to competitors. Product innovation driven by core competencies can improve customer satisfaction and loyalty, as well as open up new opportunities in the market. Product quality. Companies may place more emphasis on quality than other considerations, such as price or innovation (Maryana & Permatasari, 2019). The products are more durable, reliable, perform better, or in other respects superior to competitors. The company has a reputation for high quality and often sets the standard in its industry. Purchasing power. Large, well-established companies often have significant purchasing power, making it possible to buy in larger quantities and at lower prices. These savings can then be passed on to customers, sometimes at prices below competitors. Companies that focus on developing their core competencies tend to be more successful in product innovation. By continuously improving the skills and knowledge of employees, as well as utilizing the latest technology, companies can create products that not only meet but also exceed customer expectations.

Superior product design and innovation can help a company stand out from its competitors. An organization that combines innovation and cutting-edge design can have a significant advantage over competitors and gain a reputation as a market leader. Sales and marketing. Some organizations stand out not because they have the most innovative or high-quality products, but because they market those products more effectively than other companies. Their marketing is often clever, original, memorable, persuasive, or in other ways very effective in making their products captivate consumers. Efficiency. An organization may be known for updating products faster, producing them faster, providing services faster, or otherwise demonstrating that the delivery of its products is reliable, consistent, and predictable (Nurdina & Aripabowo, 2022).

## CONCLUSION

A company's survival largely depends on the resilience of entrepreneurs in achieving a competitive advantage through the right strategies. Today, corporate strategies are shifting from focusing solely on shareholder profits to considering the interests of all stakeholders, such as employees, customers, communities, suppliers, and the government. However, profit remains a key measure of success because, without it, companies cannot grow, pay salaries, distribute dividends, or fulfill tax obligations.

According to the resource-based theory, small businesses can remain successful by developing internal capabilities, such as managing technology, labor, and capital. The main key is innovation—creating or improving products, processes, or systems that add significant value. Innovation helps businesses stay resilient and relevant by responding to community needs and adapting to ongoing trends.

Core competencies, such as expertise in product design or advanced technology, are essential to support innovation. Innovative and high-quality products improve customer satisfaction and loyalty, while also opening new opportunities. By upskilling employees and leveraging the latest technologies, companies can deliver superior products and compete more effectively in the market.

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