

ISBN: 978-621-96852-0-7

 **FUTURE  
SCIENCE**



**Thriving in a Disruptive World:  
How Entrepreneurs and  
Managers Learn for  
a Brighter Future**

Radityo Putro Handrito, Safrilia Ayu

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# Thriving in a Disruptive World: How Entrepreneurs and Managers Learn for a Brighter Future

## **Editor:**

Radityo Putro Handrito  
Safrilia Ayu Nani

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#72 Salang Street Matain, Subic. 2209. Philippines

**Mobile number:** 09088602939; 09088602939

ISBN: 978-621-96852-0-7

DOI: <https://doi.org/10.11594/futscipress23m>



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# CHAPTER 1

## Entrepreneurial Orientation and MSME Performance Improvement

Noermijati  
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Desi Tri Kurniawati

### Abstract

This study aims to discuss the importance of entrepreneurial orientation in improving MSME performance amid highly competitive markets. Micro, Small, and Medium-Sized Enterprises (MSME) have a strategic role in the national development of Indonesia, one of the countries with rapid MSME growth. MSMEs are small-scale businesses growing and trying to level themselves up as major businesses. In spite of their size and scale, their contribution to the national economy and people's economy is tremendous. However, MSMEs in Indonesia, in general, are still low in performance due to the low entrepreneurial orientation. Thus, in order to be able to improve their performance and to survive and compete in the domestic and international markets, MSME owners need to improve their entrepreneurial orientation. Further, entrepreneurial orientation with innovativeness, proactiveness, and risk-taking actions can improve the performance of the MSME. Different from other articles, this article expands the study and develops the discussion about the concept of innovativeness in entrepreneurial orientation theory by referring to innovative work behavior as the key to the creation of innovation at the individual level, especially in the MSME sphere, to improve their performance.

**Keywords:** Entrepreneurial orientation, MSMEs, performance improvement, market competition, strategic role

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<https://doi.org/10.11594/futscipress41>

## **1.1 Introduction**

MSMEs provide great benefits for developing countries like Indonesia. The vision of this country is to encourage the people's economy by developing small-scale MSMEs so that they are able to grow into bigger businesses. MSME development should be one of the priorities in this country since MSMEs are "The Little Ones with Big Benefits." Yustika (2005) stated that small, household, and medium industries are export-oriented, so they are very helpful for the government to earn foreign exchange. They have proven to be more flexible in dealing with various unfavorable economic conditions, such as the economic crisis. MSME growth absorbs labor, reduces the number of unemployed, and reduces poverty levels in this country, as well as increasing gross domestic product (GDP).

The role of micro, small, and medium-sized enterprises is instrumental in improving the economy. They play a strategic role in national development, are one of the driving forces of the economy in Indonesia and are the pillars of the people's economy. Indonesia is one of the countries with good MSME growth as their contribution to the country's GDP in 2016 was the highest of all Asian countries, i.e., 57.8% (Wilantara & Susilawati, 2016). In four years, until 2022, this figure had increased to 61.07% (the Ministry of Cooperatives and MSME). However, MSMEs in Indonesia still tend to only serve local markets, as shown by the low export value of 15%; this rate is below the Philippines, Thailand, and Malaysia (Wilantara & Susilawati, 2016). The low export value shows the low performance of Indonesian MSME (Lantu et al., 2016).

In the era of globalization, MSMEs are unstable, unsuccessful, remain small or undeveloped, and suffer from business competition. This condition is caused by their own hindrance, one of which is the expertise or the ability of their owners(Rokhayati,

2015). Kuncoro (2007) emphasized that business pressure and competition influence small and medium business units, in addition to globalization, technological improvements, demographic and social changes, the ability to innovate, financial support, and other entrepreneurial aspects.

The low MSME performance is caused by the weak entrepreneurial characteristics and the sub-optimality of the managers in running the business in a rapidly changing environment (Setiawan & Riza, 2022). The entrepreneurial characteristic is reflected in the orientation of the entrepreneurs in managing their business businesses. Thus, the low MSME performance can be caused by the low entrepreneurial orientation of their owners because, according to Gosselin (2005), entrepreneurial orientation and company performance are significantly related. This proves that the success of MSME development certainly needs to be supported by the ability of the business owners to improve the performance of their businesses and foster them to become major-scale ones.

## **1.2 Literature Review**

### **1.2.1 Entrepreneurial Orientation**

Porter (1985) defined entrepreneurial orientation as a company's benefits strategy in order to compete more effectively in the same marketplace and to create superior performance. High entrepreneurial orientation is the main factor for business profits. Hence, an entrepreneur has the chance to take advantage of opportunities, which ultimately has a positive effect on business performance (Wiklund & Shepherd, 2005). According to Lumpkin & Dess (2001), entrepreneurial orientation refers to processes, practices, and decisions that lead to new input. They also mentioned that entrepreneurial orientation has three

aspects: innovativeness, proactiveness, and taking risks. Furthermore, these three aspects are the main dimensions of the success of an entrepreneur's entrepreneurial orientation.

Innovativeness is the desire to update the quality of services and products. It is the tendency of companies to support and allow creative ideas and processes to introduce new products, new processes, and new technological leadership processes. Innovation is the development and implementation of creative thinking to solve organizational problems. Proactiveness is the ability of an entrepreneur to look ahead by introducing new products or services ahead of competition and by anticipating future changes in demand. Risk-taking is the courage of an entrepreneur to take risks from the uncertainty of the business climate with challenging goals in order to gain profit. Risk-taking shows the courage of an entrepreneur in making business decisions, proving his managerial abilities, and facing a very competitive business environment.

The success of entrepreneurs in managing their work, in general, can be seen from their attitude or ability to run their business. Directed attitudes and behavior, as well as high entrepreneurial orientation, will help an entrepreneur achieve success and meet the targeted business performance.

### **1.2.2 MSME Performance**

Law No. 20 of 2008 concerning MSME states that MSMEs are small companies with a certain amount of wealth and income owned and managed by a person or by a small group of people (Undang-undang Nomor 20 Tahun., 2008). Meanwhile, according to Kuwayama (2001), MSMEs are a collection of companies that are heterogeneous in size and nature, which, when used simultaneously, can provide-

significant direct and indirect contributions to national production, employment, and job creation.

Tambunan (2012) proposed that MSME could be classified into four groups as follows.

1. Livelihood Activities. Here, MSMEs are used as a job opportunity to make a living; it is more popular with the name of the informal sector; street vending is one of the examples.
2. Micro Enterprise. This type of MSME consists of artisans who do not yet have any entrepreneurial traits.
3. Small Dynamic Enterprise. This type of MSME has an entrepreneurial spirit and is able to take on subcontracting and exporting jobs.
4. Fast Moving Enterprise. In addition to its entrepreneurial spirit, MSMEs in this group are transforming into major businesses.

Performance is often considered a multidimensional construct that is not only associated with the entire organization but also with parts within the organization, including units of activity and process as well as individual employees (Sobirin, 2014). According to Rivai (2005), performance is the result of the overall success of individuals in a certain period when they carry out tasks as compared to possibilities such as targets, work outcomes, and criteria that have been previously set and mutually agreed upon. Hasibuan (2012) stated that performance is the achievement of individuals and organizations from the tasks assigned to them based on their experience, skills, seriousness, and time.

Mutegi et al. (2015) defined MSME performance as work outcomes achieved by individuals in accordance with their roles or tasks in a company within a certain

period; they are associated with a certain value or standard measure in the company where the individuals work. Furthermore, Wibowo (2008) asserted that business performance is a work outcome that is related to organizational strategic goals and customer satisfaction and contributes to the economy. Business performance refers to the attainment or achievement level of a company within a certain period of time.

### **1.2.3 Entrepreneurial Orientation and MSME Performance Improvement**

MSMEs are standalone productive economic business units considered small-scale businesses that have strong characteristics. These characteristics are the advantages and strengths of MSMEs. However, their compactness, especially in human and economic resource quality, can also be an obstacle to improving their performance and development (Tambunan, 2008).

One of the challenges faced by MSMEs in improving their performance is, in fact, business management. Their businesses are generally still managed in a traditional way, urging high entrepreneurial orientation from their entire human resources. High performance will certainly make them competitive in both domestic and international markets.

The entrepreneurial orientation of MSMEs is largely determined by the quality of their human resources. The said orientation is the personality of the owner, which is manifested through aggressive behavior in business competition, proactiveness and brave attitudes in taking business risks, and innovativeness for higher business performance. These four dimensions might be the key factors in the success of MSME owners in creating high performance. The entrepreneurial



orientation of an entrepreneur can boost business performance (Covin & Slevin, 1991).

The explanation above shows that MSME owners with entrepreneurial orientation require the four main dimensions to improve the performance of their business they are competitive aggressiveness, proactiveness, risk-taking, and innovativeness. In order to create high performance, owners, who are also the MSME's human resources, are required to be more aggressive in the market competition so that they can improve their business' market position in the midst of a very competitive market, in addition to the requirement of being more proactive in introducing its products to the market. MSME owners must also have the courage to take business risks amid business uncertainty. In addition, another key to competition, both domestic and international, is innovativeness. MSMEs, in general, still conduct a very simple production process, which results in a smaller number of innovative outputs or products. In this condition, MSME owners need to be aware of the importance of innovation in every stage of the production process to achieve effectiveness and efficiency and to produce more innovative products.

MSME owners who have an entrepreneurial orientation with competitive aggressiveness are more aggressive in responding and competing. They are also able to see opportunities to create more competitive prices for the new products they create to win the competition. They are able to improve their position in both domestic and international markets. Thus, MSME owners will not only increase MSME performance but also create high competitiveness. Renko et al. (2015) stated that entrepreneurial orientation is the role of an entrepreneur in repositioning his company to capture opportunities and increase the ability to

create the variations needed to compete in a highly unpredictable environment. This continuous repositioning is important for small, new companies in order to anticipate and respond to competitors' maneuvers (Covin & Slevin, 1991).

MSME owners who have an entrepreneurial orientation with proactive behavior are more vigorous in promoting their products and more mobile in building business cooperations with both domestic and foreign partners, and this can bring benefits so that their products have high competitiveness. Wiklund (1999) proposed that a high entrepreneurial orientation can increase a company's ability to market its products towards better business performance.

The information required in the process of creating innovation in MSME is the result of the owners' proactive actions, in which they explore and find information about consumer behavior in the market in relation to market needs and wants. This will enable their new products to meet the wants and needs of consumers in both domestic and international markets. Additionally, proactive actions can bring information about products that rival their products. This information enables MSME owners to take anticipatory actions to create products that have better performance than the products of their competitors. According to Olsen & Olaisen (1999), "proactiveness is the ability to create opportunities, or the ability to overcome or to address opportunities (or threats) of their compilation by themselves."

Lumpkin & Dess (2001) explained that proactiveness is "a perspective looking for existing opportunities, forward-looking by introducing new products or services before competitors and anticipating future demands to create change and shape the environment." Meanwhile, according to Aloulou & Fayolle (2005),

"proactivity is a response to opportunities that refer to how companies are related to market opportunities by taking initiative and leading in the marketplace."

MSME owners who are proactive in running their business continue to update the quality of their managerial processes, products, and services so that they are always superior and innovative and can become market leaders, which leads to higher business performance. In other words, proactiveness for MSMEs is the ability to create products that are superior to their competitors and enable their innovative efforts to provide satisfaction to consumers because, in the process, the created innovations are oriented to the wants and needs of the consumer.

MSME owners who have an entrepreneurial orientation with risk-taking behavior have the courage to take business risks amid business uncertainty. This action is obligatory for growing MSMEs, by which they are able to utilize their resources optimally to gain profit. This is because risk-taking is the willingness of organizations to decide and to act without certain knowledge about possible returns and about speculating on personal, financial, and business risks (Dess & G., 2005). According to Lumpkin & Dess (2001), risk-taking is an entrepreneur's action of daring to utilize the resources they have to run their business despite the uncertainty.

Risk-taking MSME owners, through precise calculations and planning, are able to manufacture products that exceed the sales target, are able to meet market demand, and can avoid market losses due to product supply shortages. Furthermore, they have the courage to enter new and different markets and do not avoid large investments.

The courage of entrepreneurs to face business risks and uncertainties is what can help them to achieve success. Then, courage accompanied by correct calculations about all possibilities that can occur will produce anticipatory actions to deal with problems and to respond to increases in unpredicted consumer needs, as well as to suppress or minimize possible risks. Their courage in taking risks and making plans can improve MSME performance, as Begley & Boyd (1987) have stated that the ability to take risks can improve organizational performance.

The increase in MSME's business performance is largely determined by the entrepreneurial orientation of their owners. This shows that entrepreneurial orientation is the key factor for the growth and innovation of a business (Hakala, 2013). Innovation is an important dimension in improving MSME performance because it is the ability to apply creativity in solving problems, and innovation is an opportunity to improve and enrich the life of a business (Suryana, 2013).

According to Larsen & Lewis (2007), one of the most important characteristics of entrepreneurs is their ability to innovate. Innovation is an idea, practice, or object that is considered new by an individual or other user unit (Hills, 2008). Kheng et al. (2013) explained that innovative behavior is an individual action that leads to the generation and implementation of new ideas to achieve a higher position or level in work and aspiration for more advanced organizational development. Without innovation, MSMEs will not be able to survive and compete in both domestic and international markets. Innovation, especially for growing small businesses, is an absolute requirement to achieve high performance to compete in a very competitive market (Porter, 1990).

Innovation leads to the creation of values for MSMEs, and such values differentiate one business from another. Thus, high innovation makes MSME able

to produce quality and unique products, leading to high performance. Innovation is considered a specific capability that creates a competitive advantage that is difficult to imitate for better business performance (Barney, 1991).

Innovation is an absolute requirement to create high performance so that MSMEs have high competitiveness. Entrepreneurial orientation with innovativeness for higher MSME performance can be realized through the innovative work behavior of the entrepreneurs, i.e., their owners. De Jong Den Hartog (2010) asserted that innovative work behavior influences various forms of innovation outcomes. Innovation development is determined by the MSME owners' understanding of innovative work behavior. Such behavior makes MSME owners motivated to continuously update and improve the quality of their managerial processes, work, products, and services so that their business can develop further. McGuirk et al. (2015) found that innovative work behavior is the establishment of a new business model, management technique, strategy, and organizational structure. Thus, innovative work behavior contributes to the development of innovation.

Innovative people are active in their studies and work, future-oriented, rich with bright ideas, positive, think rationally, value and make the best use of time, and like to do experiments and research. An innovative attitude is basically owned by everyone, but not everyone is able to develop it (Umam, 2018). The aforementioned traits are inherent in entrepreneurs. They are excellent human beings who always try to pursue and take advantage of opportunities by creating new goods and services, creating new organizational forms, processing new raw materials, and carrying out better and more efficient processes to win the competition (Reswanda, 2012).

According to Hidayat (2018), innovative behavior can be shaped by:

1. creating new ideas that give birth to new, more innovative programs,
2. fighting the fear of change and failure,
3. having strong motivation so that ideas can be applied easily and not giving up to failure,
4. accepting ideas offered by others, and
5. broadening horizons through reading to gain knowledge for new ideas.

George & Zhou (2001) showed that the characteristics of individuals with innovative behavior are:

1. find out about new technologies, processes, techniques, and new ideas,
2. generating creative ideas,
3. presenting ideas to others and championing them,
4. researching and providing necessary resources to realize the new ideas,
5. setting good plans and schedules to realize new ideas and
6. creative.

Janssen (2000) defined innovative work behavior as the creation, introduction, and application of deliberately new ideas that are useful in work roles, groups, or organizations in order to obtain excellent performance. The positive impacts of innovative work behavior are:

1. generating ideas for the workplace environment,
2. encouraging people to create new ideas to improve the workplace environment for the better and to create new techniques in completing work for higher effectiveness and efficiency,
3. promoting one's self at work,

4. having a greater chance of being promoted to a higher position because of successfully creating new ideas to solve problems,
5. realizing new ideas for the work environment and
6. providing opportunities for individuals to realize unexpressed new ideas that are useful for solving problems in the future.

De Jong & Den Hartog (2007) argued that innovative work behavior is present in anyone who actively seeks solutions to problems or to other people's needs and in anyone who realizes that trends are developing and require creative thinking. Below are the four indicators of innovative work behavior according to (J. et al., 2007).

1. *Idea Exploration*

The onsets of most innovations are coincidences. Ideas can be triggered by opportunities to improve conditions or to address threats that require a rapid response. Idea exploration includes endeavors to find ways to improve product, service, or process quality and attempts to do so using alternative means.

2. *Idea Generation*

Idea generation is a stage that may relate to a new product, service, or process, entrance to new markets, and work process improvement. In general, it is a solution for the identified problems. The key to generating ideas is combine and reorganizing the current information and concepts to solve problems or improve performance. Excellent idea generators are those who approach a problem or performance gap from a different angle.



### 3. *Idea Championing*

Idea championing is carried out after the ideas are generated. In general, ideas need to be promoted because they are frequently different from what has been usually done by a work group or organization. Most of the ideas are questionable whether the benefits will outweigh their development and implementation costs. Furthermore, resistance to change often occurs. Championing includes finding support and building coalitions by expressing enthusiasm and belief about successful innovation, showing persistence, and involving the right people.

### 4. *Idea Implementation*

Ideas need to be implemented. Considerable efforts, as well as result-oriented attitudes, are required to realize ideas. Idea implementation also makes innovation part of the regular work process and behavior, such as developing new products or work processes, testing them, and modifying them.

Based on several theories regarding innovative work behavior that have been stated above, it can be concluded that the creation of innovations in MSME management can be realized through the innovative work behavior of the MSME owners. The behavior is formed from four main aspects, which are integrated into stages of processes. The aspects and their explanation are as follows.

1. Idea exploration is a process of MSME's human resources in learning or knowing more about finding business innovation opportunities. Idea exploration is defined as the ability to come up with creative ideas and new working processes that produce more innovative products and services. The discovery of such creative ideas is not only about developing new products but also about creating new ways, which are acquired through the creation, the use, or the implementation of new



methods or technology. The human resources of the MSME must pay attention to interesting issues to find more creative ideas and more innovative work methods. According to (De Jong Den Hartog, 2010), people with innovative behavior are able to find opportunities for innovation, i.e., idea exploration, which can be followed by idea generation.

2. Idea generation is a process administered by the human resources of the MSME to generate creative ideas and develop them through innovative work processes. With idea generation, MSME owners are able to consistently and continuously develop innovative products according to the needs and wants of both domestic and international markets. Creative ideas that are developed are then fought for to be realized.
3. Idea championing is a process of the human resources of the MSME fighting for their creative ideas by promoting, disseminating, and realizing them. The idea of championing is then realized by implementing it.
4. Idea implementation is a process of the human resources of the MSME of executing the creative ideas, which have been generated through careful planning, to improve the MSME's performance. The creative ideas that have been generated are then applied or implemented. This stage embodies innovation in MSME management, in both more innovative work and more innovative products. At this stage, innovative ways, methods, and techniques should have been produced. In other words, this stage is the stage when innovations that can improve MSME performance have been produced.

It can be concluded that entrepreneurial orientation with innovation dimensions will be more effective if it is supported by the innovative work behavior of the MSME owners managing human resources. Here, human resources are the most important

factor in the MSME performance improvement because they have a strategic and central role in making business decisions, including in creating innovation. Thus, to improve MSME performance, the high entrepreneurial orientation of MSME owners as the human resource of their enterprises is more than necessary.

### **1.3 Conclusion**

MSMEs are required to have strong characteristics in order to become the key to the attainment of high performance on the brink of very dynamic and competitive market competition. Entrepreneurial orientation is a strong characteristic, which is also the key to success for entrepreneurs in managing their businesses. High entrepreneurial orientation makes MSME owners able to fulfill the four dimensions that are the key to improving the performance of their business. The dimensions are, first, competitive aggressiveness for a higher market position and, second, proactiveness for product promotion. MSME owners with high entrepreneurial orientation are more proactive in responding to market opportunities by anticipating future demands. The third dimension is risk-taking, which is the ability of MSME owners to increase business profits amid business uncertainty. The courage to take risks tends to provide excellent opportunities for MSMEs to create high performance so they can compete in both domestic and international markets. In this sense, MSMEs will be able to compete and level up themselves with other major businesses. The fourth dimension is innovativeness, which helps create more innovative work methods and products. Innovations in these matters are influenced by innovative work behavior from the MSME's human resources, namely the innovative work behavior of the owners.

Innovativeness is determined by the innovative work behavior that has gone through the integrated four stages toward innovation. The first stage is idea exploration, which is the ability to find creative ideas or new ways of working to produce more innovative products and services. The second stage is idea generation, which is the ability to produce ideas. The third stage is idea championing, in which the generated innovative ideas are fought for and realized. The final stage is idea implementation, which is the ability to execute creative ideas, such as more innovative work methods, techniques, and products.

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## CHAPTER 2

# The Budgetpreneur: Navigating Business Success on a Shoestring Budget for Gen Z

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### Abstract

This abstract explores the impact of the Gig Economy on Gen-Z entrepreneurs and the challenges they face due to limited financial resources. It discusses the importance of access to capital, alternative funding options such as crowdfunding, and leveraging non-financial resources and support systems. The abstract also highlights the role of university education in providing the necessary support and environment for aspiring entrepreneurs. Overall, it sheds light on the strategies and resources available to Gen-Z entrepreneurs to navigate the business landscape and succeed despite financial constraints.

**Keywords:** Gen-Z, entrepreneurship, limited financial resources, access to capital, crowdfunding

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## **2.1 Introduction**

The Gig Economy phenomenon has changed the world's perspective on how the economy should operate. This condition is caused by the rapid development of technology, which has broken down barriers in conducting business. The emergence of Artificial Intelligence and the Internet of Things has disrupted the business world with all the conveniences they bring. On the other hand, it is estimated that there will be 23 million jobs that can be replaced by automation processes (McKinsey, 2020).

Entrepreneurship has become a path for Gen-Z to create jobs for themselves and those around them (Youth Co: Lab, 2021). Herbalife Nutrition (2021) found that 70% of 4,093 respondents, millennials, and Gen-Z in the Asia-Pacific region, expressed interest in becoming entrepreneurs. The Gig Economy provides a logical reason for Gen-Z to participate in seizing various opportunities through entrepreneurship.

Many young entrepreneurs from Gen-Z face a common problem when they start their businesses – they often lack money and support. It's a puzzling situation because there are many helpful resources and tools available to make running a business easier. For example, there are financial institutions that offer options like crowdfunding, peer-to-peer lending, and unsecured business loans. There are also events where entrepreneurs can pitch their ideas and get support. On top of that, there's a whole ecosystem of support in place, including free digital services, contract manufacturing, access to knowledge, and other helpful services. All of these are meant to make it easier for young entrepreneurs to succeed despite the initial challenges they may face.



Budgetpreneur has become a term used to define Gen-Z who are struggling with their start-up businesses whilst limited in their financial resources. This chapter discusses how limited financial resources may be challenging for Gen-Z entrepreneurs and explores how they may navigate business challenges without the luxury of abundant financial resources.

## **2.2 Gen Z Struggle: No Money to Start**

From several focused group discussion sessions involving Gen Z entrepreneurs, it is evident that most of them experienced difficulties in raising sufficient startup capital to initiate a business venture. There are common challenges that Gen Z entrepreneurs consider to impede their ability to attract investors or receive the necessary financial backing. The financial struggles they confront are categorized as follows:

### **2.2.1 Debt Dilemma**

One of the most significant financial burdens faced by Gen Z is student loan debt. Many young entrepreneurs find themselves burdened by substantial loans, which makes it challenging to allocate funds for business development or even cover basic living expenses.

### **2.2.2 High "Lifestyle" Costs**

In numerous urban areas, the cost of living and lifestyle expenses are on the rise. Expenses such as rent, food, snacks, and personal care products, especially for women, have become substantial financial commitments. This leaves minimal room for investment in startups or innovative business ideas.

### **2.2.3 Limited Access to Banking Financing**

Banks and financial institutions often require a substantial credit history, collateral, or significant assets as prerequisites for obtaining a business loan. Gen Z, who typically have limited credit history and assets, frequently encountered rejection or unfavorable loan terms when seeking financial support.

### **2.2.4 Lack of Business Networks**

The importance of a robust business network cannot be overstated when it comes to finding investors or potential business partners. Gen Z may not have had the opportunity to establish a wide-ranging network within the business world.

### **2.2.5 Difficulty in Crafting a Business Plan**

Gen Z entrepreneurs may lack the experience required to create a compelling and well-structured business plan that can attract potential investors. This deficiency limits their chances to secure financial support.

### **2.2.6 Huge Financial Risks**

Initiating a business venture represents a substantial financial risk for Gen Z, given their limited experience in financial management. This lack of experience instills fear of losing their invested capital.

### **2.2.7 Influence of Parents**

Parents or family members often serve as sources of both emotional and financial support and can serve as role models. Generation Z students hold a great deal of respect for their parents, with more than half considering their family members' opinions and perspectives when making decisions.

### **2.3 It Can be Done**

As the aforementioned financial struggles described, running a business "without capital" may be considered "empty talk" for most people. However, we often disregard that it has been proven otherwise, and there are a number of individuals who have succeeded in navigating financial limitations to achieve success in the past. In other words, it can be done.

Take the example of a brokerage business, which is a job that anyone can do by utilizing information and connections to build friendships. Brokerage is a multi-sided business model. Several individuals with the highest wealth in the world are founders of multi-sided businesses. A prime example of such an individual is Jack Ma, who achieved his famous success with Alibaba Group Holdings Ltd. Born into an ordinary family with modest financial means, young Jack Ma began his career as a tour guide for foreign tourists in the West Lake area of Hangzhou City, China, and worked as a courier for three publishing companies simultaneously (Liu & Avery, 2009).

After three years of struggle and a period of unemployment, he was finally accepted into Hangzhou University. Upon graduation, he became an English lecturer at the Guangzhou Institute of Electrical Engineering. Recognizing the rapid growth of industries in Hangzhou, Jack Ma became the first person to establish a translation agency. Unfortunately, he had to work as a roaming souvenir trader to cover the operational costs of the translation agency Haibo, which he co-founded with retired English teachers.

The emergence of the internet reignited Jack Ma's wild ambition. His parents, wife, and loyal team became a support system that affirmed every idea he had to make them a reality. This time, Haibo Translation Agency became the

first Chinese company to have a website. Within a few hours of its launch, various business offers poured in from different countries via email. It was his introduction to the internet that laid the foundation for the establishment of Alibaba, connecting various domestic products with the international market and earning commissions from each sale.

Education propelled Jack Ma to think beyond his time. His care for the people around him provided him with immense positive energy. The support system from his loved ones solidified every step he took. His ability to never give up on pursuing something until the very end led to his success. This gives strong evidence strong coal wealth is not the primary key to Jack Ma's success.

Elon Musk. These two words seem like a magical mantra to manifest seemingly impossible dreams in the 21st century. He is an ambitious individual who relentlessly pursued his dreams to the very end. Since his childhood, Elon Musk has never spent a moment without a book in his hands. His love for reading is what later inspired various ideas deemed "insane."

Elon Musk's struggles started when his parents divorced early during his childhood. He was only eight years old. He viewed his father as an uninspiring figure who never gave him the encouragement and love a child deserves. Engaging in challenging activities became something that made him enjoy life. Making rockets from simple chemicals and occasionally getting into fights with a few friends are unforgettable memories for him. Elon Musk became even more ambitious during his college years. In 1997, he graduated with a dual bachelor's degree in economics and physics.

His career began with an internship at Pinnacle Research, followed by shifts at Rocket Science Games (RSG). Until one day, a Yellow Pages employee-

approached RSG, wanting their product to be digitized. Unfortunately, the company couldn't grasp how to profit from the workings of the internet. This gave birth to Zip2, Elon Musk's first company, along with his brother. Zip2 provided classified ads services with GPS maps to the sellers' addresses. The challenging journey of Zip2 was filled with hard work. Working late into the night and sleeping in the office became a routine. Zip2 often struggled to pay the bills and cover its operational costs. Internal conflicts during Zip2's success eventually led Elon Musk to sell it to Compaq. This sale earned him \$22 million at the age of 27. A similar story unfolded when Elon Musk joined X.com, which later became PayPal. In the end, PayPal was acquired by eBay for \$1.5 billion.

Today, we know Elon Musk as the CEO of Tesla, SpaceX, and Twitter. Some of the companies he owns after Zip2 were acquired through stock purchases. The success of these companies under Elon Musk's leadership is rooted in dreams and hard work. He derives his dreams and ideas from his education and his passion for reading. It's surprising that Elon Musk holds two academic degrees. On the other hand, his strong work ethic comes from the realization that living with challenges is an enjoyable adventure.

The remarkable journeys of Jack Ma and Elon Musk are considered beacons to inspire aspiring entrepreneurs to start their own adventures. Both Jack and Elon started with limited resources but propelled themselves to unimaginable heights through unwavering determination, perseverance, innovative thinking, and relentless pursuit of success. Their stories teach us that despite financial constraints, tenacity, a leap of faith, and innovation can end up in entrepreneurial triumphs.

## **2.4 Getting Started: Access to Capital**

It is commonly necessary for entrepreneurs to secure adequate financial resources, as this will enable them to navigate the various obstacles, enhance innovation, and ultimately increase their chances of success in the competitive business landscape (Hallberg, 1999; Beck, 2006; Zhang, 2018). The scarcity of financial capital poses significant challenges, such as halting the launch of a business as well as endangering its sustainability.

For example, when starting a business, thorough market research is crucial to increase the chances of survival for the business. This research provides important information for entrepreneurs to understand their target customers, figure out what they need, identify and assess their competitors, and make smart business decisions going forward. However, a lack of financial resources may disturb the effectiveness of market research and limit its scope. Commonly, thorough market research requires access to industry reports, market data, customer insights, and competitor analysis. Unfortunately, acquiring such valuable information usually comes with a big price tag, making it challenging for entrepreneurs with limited funds. As a result, their understanding of the market may be limited, and they miss out on important opportunities.

Another challenge that entrepreneurs face is how to scale their businesses and maintain continuous growth. Once their businesses are launched, further actions are needed to ensure their growth. Limited financial resources can hinder the implementation of growth strategies, such as investing in new products, expanding into new markets, or upgrading technology. Insufficient funds can also affect inventory management, making it difficult to meet increasing customer demand and optimize operations. Moreover, the lack of capital can make it harder to attract external-

funding, such as loans, investments, or partnerships, which are important for business growth.

Accessing capital can be a difficult task for Gen Z entrepreneurs as they embark on their business journeys. However, with a resourceful and strategic approach, there is an abundance of available avenues to overcome this obstacle. One option is to leverage personal savings, utilizing the money they have diligently accumulated over time. This demonstrates their commitment and dedication to their entrepreneurial journey. Additionally, Gen Z entrepreneurs can reach out to their support system of close relatives and friends who may be interested in supporting their businesses by investing or providing a loan. It is crucial to approach these arrangements with transparency, ensuring clear agreements and well-defined repayment plans to maintain healthy relationships.

Capital access through crowdfunding platforms has lately become one of the most sought-after innovative solutions for Gen Z entrepreneurs. Platforms such as Kickstarter, Indiegogo, and GoFundMe allow entrepreneurs to showcase their unique business ideas while connecting with a diverse audience of potential backers. By presenting a compelling pitch and offering rewards or equity in their company, entrepreneurs have remarkable opportunities to attract contributions from individuals who believe in their vision. Crowdfunding not only provides a means of funding but also serves as a marketing tool, generating an early buzz and building a community around the venture in an environment filled with potentially essential networks of entrepreneurs. This approach allows Gen Z entrepreneurs to tap into the power of collective support and gain exposure to potential customers and advocates.



Microloans from microfinance institutions and online lenders provide alternative funding options to support individuals with limited financial resources. These loans commonly have lower requirements and offer a concrete opportunity for Gen Z entrepreneurs to secure capital for their ventures. Additionally, grants targeted at supporting small businesses can be sought from organizations, government agencies, and foundations. Researching and applying for grants relevant to their business sector or demographic can increase the likelihood of obtaining funding. Furthermore, Gen Z entrepreneurs can leverage business incubators and accelerators, which provide not only capital but also a wealth of resources, mentorships, and networking opportunities. These programs present an ecosystem that fosters growth and development, connecting entrepreneurs with experienced professionals, potential investors, and like-minded peers. By actively participating in such programs, Gen Z entrepreneurs can gain valuable insights, receive advice to refine their business strategies and increase their chances of securing further funding and long-term success.

## **2.5 Resources and Support Systems**

Got a great and innovative idea but limited funds? Don't let that hold you back! There are plenty of ways to bring your business idea to life using non-financial resources and support systems. Build a solid foundation with your personal qualities, skills, and knowledge to access the resources and support you need.

According to Sambasivan et al. (2009), in their study on venture performance in Malaysia, we can begin by focusing on our personal qualities. For Generation Z, known as the digital generation, their personal qualities may differ.



This involves having personal qualities such as goal orientation, optimism, risk-taking, independence, and a healthy competitive spirit. Surveys indicate that Gen Z naturally possesses qualities like optimism, realism, open-mindedness, inclusivity, and goal orientation, which contribute to their entrepreneurial spirit.

According to a survey conducted by Deloitte in 2020, written by Gomez et al. (2020), the skills and knowledge that Gen Z should develop for future business success are (1) communication skills, problem-solving skills, creative and research skills, teamwork and collaboration skills; (2) Knowledge: knowledge of innovation, knowledge of products and services, and knowledge of diversity.

Entrepreneurs can enhance their skills and knowledge by gathering information on their own, participating in personal events, attending classes at universities or through informal education (mentorship), and getting exposure to entrepreneurial activities within the community. By actively developing their skills and knowledge, entrepreneurs indirectly increase opportunities for non-financial resources and a support system to materialize their business.

Let's map out what falls under non-financial resources based on several sources (Riepe & Uhl, 2020; Wang et al., 2009):

### **2.5.1 Business Networking or Connection**

This non-financial support is the key to helping small businesses succeed. Building extensive relationships with a united group of people based on shared interests, characteristics, goals, and culture is crucial. This involves engaging in activities such as sharing and seeking advice from potential business partners, becoming members of organizations, and having mentors. Another motive, which may not be immediately apparent, is to get closer to potential clients, establish new partnerships worldwide, and gain commercial connections to test products.

### **2.5.2 Fundraising Activities**

If you don't have substantial wealth, there are various options available to seek assistance through fundraising activities. Crowdfunding allows businesses to request public contributions, often in exchange for equity in the company. Angel investors provide capital to start a business in return for convertible debt or equity ownership. Another approach is bootstrapping, utilizing personal savings or assets to fund the business. Additionally, venture capital offers financing through equity participation for a specific period, typically in the form of shares, convertible bonds, or profit sharing. These avenues provide opportunities for individuals without significant personal wealth to obtain the necessary funds and support to start their businesses.

### **2.5.3 Marketing Activities**

In the initial stages of a business, it is crucial to seek support in marketing efforts. One effective approach is to leverage the power of free social media platforms to promote and showcase the business to a wide audience. These platforms, such as Facebook, Instagram, Twitter, and LinkedIn, provide an excellent opportunity to create brand awareness, engage with potential customers, and share the story behind the business.

### **2.5.4 Government or Institution Program**

#### **2.5.4.1 Business Incubators**

Business incubators (or "accelerators") typically concentrate on high-tech sectors by providing support to early-stage ventures. These programs are often competitive or invite-only, selecting businesses with promising long-term sustainability prospects to participate. Selected ventures receive various forms of assistance, including mentorship, administrative resources, logistical support,

technical guidance, and, in some cases, financial aid. The primary goal is to nurture and accelerate the growth of these businesses, helping them overcome challenges and achieve their full potential.

#### **2.5.4.1 Grants and subsidies**

Technically, a grant is a sum of money given conditionally to a business that does not require repayment. However, the awardees are legally obligated to use it according to the grant's terms and conditions.

#### **2.5.5 Family / Friends as Support System**

Entrepreneurs rely on friends and family for social, moral, financial, and emotional support. A study conducted by Wang et al. (2009) found that more than half of the respondents depended on their families in both formal and informal business roles that were crucial. Friends and family provide a support system to help business owners manage stress, maintain perspective, and improve work-life balance, even amidst the chaos and overwhelming responsibilities of starting and running a business. Family members and friends often provide informal loans and financial gifts based on trust. Therefore, it is important not to misuse that trust, as the stakes are high, and your main support system may be lost.

If we compare business to a mango tree, personal qualities are the roots of the tree, while skills and knowledge represent the trunk. Together, they grow branches in the form of non-financial resources and a support system, which naturally leads to the growth of leaves as financial capital and the fruition of a business, symbolized by mangoes.

## **2.6 The Art of Bootstrapping**

While securing adequate resources is undeniably crucial for entrepreneurs, it's equally important to recognize that not all aspiring business owners have the luxury of abundant capital at their disposal. For Gen Z entrepreneurs with limited funds, mastering the art of bootstrapping becomes an indispensable skill. Bootstrapping, the practice of starting and running a business with minimal external funding, requires creativity, resourcefulness, and a strategic mindset. Budgetpreneurs need to explore innovative approaches and practical strategies to build and sustain their businesses in a resource-constrained environment.

To illustrate how budgetpreneurs can implement bootstrapping, let's take a look at how Jane, a 22-year-old art school graduate, followed her dreams to launch an eco-friendly clothing brand despite her limited access to adequate funding. Highly skilled in graphic design and social media management, she was able to leverage her personal skills and turn them into valuable assets. The skills she acquired in art school enabled her to create her brand's logo, website, and digital content, saving significant professionals. Instead of seeking traditional investors, Jane took time to thoroughly craft attractive campaigns, which she offered to popular crowdfunding platforms such as Kickstarter. This provided her with the initial capital she needed while enabling her to build a community of loyal customers at a very early stage in her business. The projects she worked on during art school exposed her to design and fashion communities. As a passionate entrepreneur, she leveraged this to actively seek networking and mentorship, which provided her with valuable advice and insight into the fashion industry. Furthermore, she understood that the financial limitations she struggled with required her to learn continuously. She consistently explored free webinars, read industry-related books and sought out online resources to stay-

informed. By keeping up with the latest developments in the fashion industry, she was able to adapt her strategies when needed.

Over time, Jane's industrious and passionate approach increased her brand's traction. Consequently, she consistently reinvested profits back into the business. Her bootstrapping approach helped her overcome the initial financial hurdles and fostered a culture of resourcefulness and innovation within her company. Her story serves as a testament to the power of bootstrapping for Gen Z entrepreneurs.

## **2.7 University Support for Entrepreneurship**

Many universities provide non-financial resources and serve as support systems to help students realize their business ventures. These resources are often valuable in nurturing entrepreneurial skills and fostering a culture of innovation. However, seven out of ten Gen Z stated that during their university years, their daily time is mostly spent completing coursework rather than following funding schemes and exploring support services by the University.

Jane's involvement in projects during her time at art school is proof that, when managed correctly, education can have a significant impact on the success of an entrepreneurial journey. Entrepreneurship education encompasses the motivation to drive success, honing personal qualities and attitudes, and the formal development of skills and knowledge as competencies for graduating entrepreneurship students. Landing a dream job and launching a successful career may begin in the classroom, but that's just the beginning. Today's successful entrepreneurial professionals such as Jack Ma and Elon Musk are depicted as

techno-savvy individuals who possess higher intellectual capabilities, can navigate organizational dynamics, write clearly and concisely, speak confidently, and develop career visions and strategies. All of these aspects should be realized within the curriculum, activities, and student programs that can only be fully experienced when students fully and actively engage in university education.

The opportunity for extensive business learning experiences with professors, expert practitioners, and mentors in student business incubators, as well as broad networking, can be fully utilized at the university. Unfortunately, many students fail to either recognize the privileged status of being a student as an opportunity, fail to fully leverage it to develop their soft skills and knowledge or find time to explore support within the university to realize their business ideas. This poses a risk for students aspiring to become successful entrepreneurs who miss out on significant opportunities.

In addition, offering elective entrepreneurship courses for non-business majors is essential. It is common that universities only offer entrepreneurship classes on how to start a business within the business school alone. To support students in their entrepreneurial endeavors, universities should consider facilitating micro-financing opportunities, such as providing university-managed microfinance platforms and developing specialized courses in financing strategies. These will help students connect with mentors and other entrepreneurs for short-term loans under the university's supervision, as well as empower them with the financial knowledge and acumen necessary for success in the competitive business world. Moreover, universities can further enrich this ecosystem by fostering a culture of collaboration and innovation. By encouraging students to participate in business incubators, hackathons, and entrepreneurial competitions, educational institutions can create environments-

where creative ideas flourish and where resourceful Gen Z entrepreneurs can refine their skills, share experiences, and ultimately pave the way for a brighter, more sustainable future of business innovation.

## **2.8 Key Takeaways and Insight**

In the world of entrepreneurship, where limitations to financial access may seem to be a demoralizing hurdle, this chapter has shone light on the path that budgetpreneurs can take to move forward. By acknowledging the challenges faced by Jack Ma and Elon Musk, we learned that humble beginnings need not be a limitation; rather, they can be a source of inspiration. Next, we explored strategies to secure access to capital, recognizing that networking and resourcefulness are crucial. We've also emphasized the importance of building a strong support system and leveraging all available resources. The art of bootstrapping, a skill honed through careful planning and intelligent decision-making, emerged as a valuable approach to achieving success despite financial constraints. Lastly, we peeked at how universities can play a role in nurturing and empowering the next generation of business leaders. As Gen Z entrepreneurs start their journeys armed with determination, passion, and drive, hopefully, this chapter has provided them with additional insights to help them be better equipped to steer their businesses toward success in spite of the constraints of a shoestring budget.



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## CHAPTER 3

# Entrepreneurship Education in Higher Education and Government in Supporting New Entrepreneurs in Indonesia

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### Abstract

This article discusses the importance of entrepreneurship education and the role of universities and the government in fostering entrepreneurship in Indonesia. It explores the debate around the timing of entrepreneurship education, highlighting the benefits of introducing it at an earlier stage while emphasizing the value of university-level education. The article also presents reasons why Indonesia needs more entrepreneurs, including economic growth, job creation, innovation, regional development, and social impact. It identifies sectors with entrepreneurial opportunities and outlines the support systems provided by universities and the government. Lastly, it provides recommendations to strengthen entrepreneurship education, foster collaboration, streamline regulations, expand access to funding and resources, promote international exposure, and encourage social entrepreneurship and sustainability. Overall, this article emphasizes the need for continuous efforts to enhance the entrepreneurial ecosystem in Indonesia.

**Keywords:** Entrepreneurship, universities, government initiatives, entrepreneurship education, social entrepreneurship

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<https://doi.org/10.11594/futscipress43>

### **3.1 Introduction**

Entrepreneurship education at universities is still a matter of debate and can vary depending on individual perspectives. Some argue that starting entrepreneurship education at university may be considered “too late” because entrepreneurial skills and mindset can be nurtured early, such as in high school or even at the start of basic education. They believe that introducing entrepreneurial concepts and practical skills at a young age can help cultivate an entrepreneurial mindset and give students a head start in developing their entrepreneurial aspirations. Universities play an important role in shaping the innovation and entrepreneurship ecosystem. According to Schaeffer et al. (2018), the existence of a research university in an ecosystem is not only important for a successful ecosystem structure but also contributes to socio-economic development at the local level. Apart from that, universities also play a role in technology transfer and academic entrepreneurship.

College is a great time for entrepreneurship education. Secundo et al. (2017) show that universities can facilitate the entrepreneurship learning process to turn students' ideas into entrepreneurial practices. They argue that universities provide an environment that fosters critical thinking, exposes students to diverse knowledge and experiences, and offers resources and networks that can support entrepreneurial endeavors. University-level entrepreneurship education can provide a deeper understanding of business principles, expose students to real-world case studies, and provide access to mentorship and incubation programs that can benefit aspiring entrepreneurs.

It is important to note that entrepreneurship education is not just about starting a business but also about developing a mindset that includes innovation,

creativity, and problem-solving. Higher education plays an important role in educating and preparing students to become entrepreneurs. Through entrepreneurship education, students can gain the knowledge, skills, and practical experience necessary for the entrepreneurial process, which can further enhance their entrepreneurial intentions. These skills can be useful in a variety of career paths, even for those who may not immediately become entrepreneurs after graduation. Therefore, even if entrepreneurship education is introduced later in a person's academic journey, it can still contribute to his or her personal and professional development.

Here are some reasons why Indonesia still needs more entrepreneurs:

1. **Economic growth and job creation:** Entrepreneurship plays an important role in driving economic growth by creating new businesses, creating job opportunities, and contributing to the country's GDP. More entrepreneurs mean more startups, which can spur innovation, attract investment, and create jobs, especially in sectors with high growth potential.
2. **Tackling unemployment and underemployment:** Indonesia faces challenges related to unemployment and underemployment, especially among the younger generation. By encouraging entrepreneurship, individuals have the opportunity to create their own businesses, become self-employed, generate income for themselves, and potentially employ others. Entrepreneurship can be a viable way to overcome the problem of unemployment and underemployment.
3. **Innovation and competitiveness:** Entrepreneurs often bring fresh perspectives, innovative ideas, and creative solutions to societal challenges. These have the potential to disrupt existing industries, introduce new

technologies, and drive overall competitiveness. By encouraging more entrepreneurs, Indonesia can foster an innovative and competitive business environment.

4. Regional development and inclusive growth: Indonesia is a vast archipelagic country with regional disparities in terms of economic development. Encouraging entrepreneurship in various regions can contribute to more balanced regional development and inclusive growth. This can empower local communities, create economic opportunities in rural areas, and reduce the concentration of economic activity in city centers.
5. Social impact and sustainable development: Entrepreneurs have the potential to address social and environmental challenges through their businesses. By encouraging social entrepreneurship and sustainable business practices, Indonesia can achieve positive social impact, support sustainable development goals, and address pressing social and environmental issues.

In terms of opportunities for entrepreneurs in Indonesia, there are several sectors that offer the potential for growth and innovation. These include technology and digital startups, e-commerce, renewable energy, agritech, fintech, creative industries, tourism, healthcare, and emerging middle-class markets. Government initiatives, policies, and support programs, such as tax incentives, funding schemes, and business incubators, provide further opportunities for aspiring entrepreneurs.

It is important to note that entrepreneurial opportunities can arise by identifying gaps in the market, solving specific problems, leveraging Indonesia's diverse resources and cultural heritage, and adapting to evolving consumer needs.

However, success in entrepreneurship also depends on factors such as market research, access to funding, networks, mentorship, and the ability to navigate regulatory and bureaucratic challenges.

### **University Support System**

The effectiveness and impact of entrepreneurship education depend on a variety of factors, including curriculum, teaching methods, practical experience, and an individual's willingness to engage and apply the knowledge and skills acquired. It's never too late to develop an entrepreneurial mindset and acquire entrepreneurial skills, but introducing entrepreneurship education at an early stage can potentially give students more time to explore and experiment with entrepreneurial concepts. Entrepreneurship education plays an important role in driving economic growth and job creation, although there are still challenges in research and implementation (Campbell, 1966). Entrepreneurship education in tertiary institutions is a program or curriculum offered by tertiary institutions to equip students with the knowledge, skills, and understanding needed to become successful entrepreneurs.

These programs are usually found in faculties or departments related to business or management. The following are some components that are generally found in entrepreneurship education programs in tertiary institutions:

#### 1. Core subjects:

Students will learn the basic principles of entrepreneurship, including business planning, marketing strategy, financial management, product development, and operations management. They will also learn about business law, ethics, innovation, and related technologies.

## 2. Skills training:

Students will be provided with the opportunity to develop practical entrepreneurial skills, such as communicating effectively, thinking creatively, taking risks, managing teams, and overcoming obstacles in business. They may also engage in real projects or business simulations to hone those skills.

## 3. Internship or fieldwork opportunities:

Entrepreneurship programs often provide opportunities for students to intern at established companies or establish their own start-up businesses. This allows students to gain practical experience in running a business and building a professional network.

## 4. Mentor support and alumni network:

Universities often have mentor networks consisting of experienced entrepreneurs and industry experts who can provide advice and guidance to students. Apart from that, the alumni network can also be a source of inspiration, collaboration, and support for aspiring entrepreneurs.

## 5. Access to resources:

Students taking entrepreneurship courses at universities usually have access to a variety of resources, such as libraries, research laboratories, business incubation centers, and startup funding programs. This helps them in idea development, concept validation, and executing their business plans.

### **3.2 Government Support**

Along with global changes that occur in almost all aspects of life, attention to the importance of entrepreneurship is felt by almost everyone and every nation. Living in the era of reform, organizational reconstruction, streamlining structures,

and technological developments had an impact on changes in management's perspective in managing organizations that are more centered on managing capital-intensive organizations. To increase the productivity, efficiency, and effectiveness of the company, management is more focused on implementing the latest technology than investing in manpower. One way the government supports entrepreneurship is by creating an environment characterized by increased knowledge creation, reduced regulation, and development of regional policies (. In the context of economic liberalism, entrepreneurship is one of the driving and enhancing actors in the economic growth of a region. Entrepreneurs introduce new ideas and new technologies, enter new markets, and keep the market economy innovative, dynamic, and competitive. Government roles and policies can inhibit or encourage the growth of entrepreneurship. Government policies that respect private ownership and intervene in limited market operations tend to encourage productive entrepreneurial activity, whereas a government that is not limited to state authority ignores the protection of private property rights and intervenes forcefully in market operations, tends to encourage unproductive entrepreneurial activity (Acemoglu & Johnson, 2005).

In order to develop national entrepreneurship, various efforts have been made both by government agencies under the auspices of Presidential Instruction Number 4 of 1995 and by organizations that have grown from within society, including formal and non-formal educational institutions. Various efforts and strategies are carried out in a coordinated manner with the aim of increasing the role of society and creating a supportive atmosphere to continue developing the entrepreneurial spirit, attitudes, behavior, and abilities of Indonesian human resources. One way that formal-

education at the higher education level presents entrepreneurship material is in the Entrepreneurship Education course.

The following are the benefits of government support for small and medium enterprises to support Indonesia's national economy:

1. **Absorb More Workers.** Small and medium enterprises are considered to absorb the most labor compared to state-owned enterprises or other private companies. We know that most high-end companies need skilled professionals with higher education. Leaving without higher education and without a job Fortunately, with the existence of small and medium enterprises, employment opportunities are maximized and absorb more workers, even those with the lowest education.
2. **Increasing Foreign Exchange Earnings.** Several products of small and medium-scale enterprises have succeeded in penetrating the international market through exports, thereby increasing state revenues, not only from the oil and gas side. This potential will continue to grow if the state increasingly supports the development of small and medium enterprises, looks at this potential carefully, and utilizes it with better funding.
3. **Maximizing the Potential of Natural Resources.** With government support in helping finance small and medium businesses, it will stimulate more people to utilize the natural resources around them. Of course, this is better than if our natural resources were controlled by foreigners. This can also make us more independent in terms of natural resources such as food and clothing so that we do not always depend on imports due to free trade.



The Indonesian government has implemented various initiatives and programs to support the development of new entrepreneurs and grow the entrepreneurial ecosystem. Here are several ways the Indonesian government supports the creation of new entrepreneurs:

1. **Startup ecosystem development:** The government has taken steps to foster a startup ecosystem in Indonesia. The company has established technology hubs, innovation hubs, and startup incubators that provide resources, mentoring, and networking opportunities for aspiring entrepreneurs. Examples include Bandung Techno Park, Jogja Digital Valley, and Jakarta Creative Hub.
2. **Funding and investment support:** The government has launched several programs to provide financial and investment support to entrepreneurs. One important initiative is the National Entrepreneurship Development Program (Program Partnership and Community Development), which offers financial assistance, mentoring, and business development support to micro, small, and medium enterprises (MSMEs).
3. **Policy and regulatory reform:** The government has undertaken policy reforms to create a more conducive environment for entrepreneurship. This includes simplifying the business registration process, reducing bureaucratic obstacles, and implementing measures to facilitate ease of doing business. The introduction of the "Omnibus Law" is an example of efforts to simplify regulations and improve the business climate.
4. **Education and skills development:** The government has recognized the importance of entrepreneurship education and has integrated entrepreneurship programs into the national curriculum. It promotes entrepreneurship education at various levels, from primary school to university, to instill entrepreneurial skills, mindset, and

knowledge. The previously mentioned *Merdeka Belajar* initiative aims to provide flexibility and autonomy in the education system, which can support entrepreneurship education.

5. Incubation and acceleration programs: The government, through institutions such as the Ministry of Cooperatives and SMEs, supports entrepreneurship through the establishment of incubation and acceleration programs. These programs offer mentorship, training, access to facilities, and networking opportunities to early-stage startups, helping them refine their business models and scale their ventures.
6. Tax incentives and business support: The government provides tax incentives and other business support measures to encourage entrepreneurship. This includes tax breaks for MSMEs, simplified tax reporting processes, and investment incentives in certain sectors, such as technology and innovation.
7. Access to markets and international exposure: Governments encourage market access by organizing trade fairs, exhibitions, and mentoring events where entrepreneurs can showcase their products and services. It also facilitates international exposure through participation in international conferences, trade missions, and partnerships with foreign organizations.

It is important to note that specific initiatives and programs introduced by the Indonesian government to support entrepreneurship may evolve over time. Aspiring entrepreneurs should continue to follow government announcements, seek information from relevant government agencies, and explore the resources provided by those agencies to take advantage of available support. September 2021, "Freedom to Learn" is an education policy initiative in Indonesia that aims to provide more flexibility and autonomy in the higher education system. Every

student is allowed to take part in off-campus programs or study programs, and every program taken by off-campus students can be converted into the equivalent of 20 credits. The following is an overview of how universities in Indonesia can optimize their entrepreneurship programs in response to this initiative:

1. Curriculum flexibility: *Merdeka Belajar* encourages universities to offer a more flexible curriculum so that students have more control over their learning path. In the context of entrepreneurship education, universities can provide elective courses and modules related to broader entrepreneurship. This allows students to tailor their studies to their specific interests and aspirations in entrepreneurship.
2. Experiential learning opportunities: To optimize entrepreneurship programs under Merdeka Learning, universities can increase experiential learning opportunities. This can involve engaging students in real-world projects, internships, or collaborations with industry partners. By providing hands-on experience, students can apply theoretical knowledge and develop practical skills relevant to entrepreneurship.
3. Mentoring and networking: Universities can facilitate mentoring programs where experienced entrepreneurs or industry professionals' mentor and advise aspiring entrepreneurs. They may also host networking events, entrepreneurial competitions, or startup incubation programs to help students build connections, receive feedback on their ideas, and gain exposure to the entrepreneurial ecosystem.
4. Innovation and research support: *Merdeka Belajar* encourages universities to encourage innovation and research activities. In the context of entrepreneurship, universities can support students in conducting research on

entrepreneurial topics, developing innovative business models, or running entrepreneurial ventures based on their research findings. Universities can provide access to specific funding, resources, and facilities to support these initiatives.

5. Collaboration with external stakeholders: To optimize entrepreneurship programs, universities can strengthen collaboration with external stakeholders, such as government institutions, industrial partners, and community organizations. This collaboration can facilitate knowledge exchange, funding opportunities, mentorship, and practical exposure to the entrepreneurial ecosystem.

It is important to note that the specific strategies and initiatives adopted by Indonesian universities to optimize their entrepreneurship programs under Merdeka Learning may vary. Implementation of this policy depends on each university, its resources, and its specific goals and priorities in entrepreneurship education. To obtain the most up-to-date and comprehensive information, it is recommended to refer to official announcements, policy documents, and communications from the Indonesian Ministry of Education and Culture or certain universities implementing the *Merdeka Belajar* initiative. Indonesia, like many other countries, recognizes the importance of fostering entrepreneurship for various reasons. One of the special programs of independent learning that focuses on young entrepreneurs is Independent Entrepreneurs (self-employed). "Free Entrepreneurship" is an initiative introduced by the Indonesian government to empower the entrepreneurial movement in higher education. This aims to encourage students to become independent and creative entrepreneurs who can

contribute to the country's economic growth. Here's how the concept works and its key elements:

1. **Flexible curriculum:** The Independent Entrepreneurship concept puts forward a flexible curriculum that allows students to customize their learning based on their entrepreneurial interests and aspirations. This encourages universities to provide a variety of entrepreneurship courses, workshops, and extracurricular activities that equip students with practical skills and relevant knowledge to start and run their own businesses.
2. **Independent Campus:** This concept encourages universities to create an entrepreneurial ecosystem on campus known as an "Independent Campus." This involves establishing dedicated spaces, such as incubators, innovation centers, and co-working spaces, where students can collaborate, exchange ideas, access resources, and receive mentoring support from experienced entrepreneurs and industry experts.
3. **Entrepreneurial exposure:** This concept emphasizes providing students with real-world entrepreneurial experience. This can include internships at startups, participation in business competitions, networking events, industry visits, and guest lectures from successful entrepreneurs. These opportunities enable students to gain practical insight, build networks, and understand the challenges and opportunities of entrepreneurship.
4. **Financial support:** The concept of Independent Entrepreneurship encourages universities to collaborate with the government and private sector to provide financial support to entrepreneurial students. This could be in the form of grants, seed funding, scholarships, or access to microfinance programs.

Financial support helps students overcome initial capital barriers and encourages them to pursue their entrepreneurial aspirations.

5. **Mentoring and guidance:** This concept promotes the importance of mentoring and guidance for entrepreneurial students. This encourages universities to connect students with mentors, entrepreneurs, and industry professionals who can provide guidance, advice, and support throughout their entrepreneurial journey. Mentoring relationships can offer valuable insight and networking opportunities and help students overcome challenges they may face.
6. **Collaboration with industry:** This concept encourages universities to foster closer collaboration with industrial partners. This can involve involving industry experts in curriculum development, offering industry-specific training programs, facilitating internships and industry projects, and encouraging partnerships between students and the corporate world. This kind of collaboration gives students real-world exposure and improves their employment or entrepreneurial prospects.
7. **Entrepreneurial research and innovation:** This concept encourages universities to promote entrepreneurial research and innovation. This involves conducting research on entrepreneurship trends, challenges, and success factors, as well as exploring innovative approaches to entrepreneurship education and support. Research results can provide information in policymaking, improve entrepreneurial practices, and contribute to the advancement of knowledge in the field.

Applying the concept of Independent Entrepreneurship, universities can create a supportive environment that fosters an entrepreneurial mindset, provides practical experience, and equips students with the skills and resources necessary to start-

an entrepreneurial venture. This concept aims to inspire and empower students to become successful entrepreneurs who can contribute to the development of the Indonesian economy. Overall, by encouraging entrepreneurship and providing a supportive environment, Indonesia can unleash the potential of a young and dynamic generation, encourage economic growth, and overcome various social and economic challenges.

Indonesia's young generation is increasingly exploring various business ideas in various sectors. Here are some business ideas that are often chosen by young Indonesians:

1. E-commerce platforms: Young Indonesians have shown a strong interest in starting e-commerce platforms, capitalizing on the growing trend of online shopping in the country. These platforms can focus on specific niches such as fashion, beauty, electronics, or general merchandise.
2. Food and beverage businesses: The food and beverage industry is growing rapidly in Indonesia, and young entrepreneurs have taken advantage of this market by setting up cafes, food trucks, dessert shops, or unique food concepts. Health-conscious food options, specialty coffees, and artisanal products are popular.
3. Creative and design-related businesses: Young Indonesians are leveraging their creativity and design skills to start businesses in the fields of graphic design, web development, branding, content creation, and digital marketing. These businesses serve the growing demand for visual and digital communications services.
4. Travel and tourism services: The diversity of Indonesia's landscapes and cultural heritage has inspired many young entrepreneurs to set up businesses



related to travel and tourism. This includes offering tour packages, homestays, adventure sports activities, or organizing eco-tours to promote sustainable tourism.

5. Sustainable and ethical business: Indonesia's young generation is increasingly concerned about environmental issues and social impacts. They started businesses focused on sustainability, such as eco-friendly products, organic farming, waste management, renewable energy, and fair trade initiatives.
6. Technology startups: Indonesia's younger generation is starting to embrace technology and start technology-focused startups. This can include mobile app development, software solutions, fintech platforms, ride-hailing services, health technology, education, and other innovative digital ventures.
7. Social entrepreneurship: Many young Indonesians are driven by the desire to make a positive impact on society. They start social enterprises and non-profit organizations that address specific social or environmental issues, such as education, poverty alleviation, health services, or empowerment of marginalized communities.

It should be noted that the business ideas chosen by young Indonesians vary and continue to develop based on market trends, consumer demand, and personal interests. In addition, the entrepreneurial landscape in Indonesia is influenced by various factors, including government policies, access to funding, incubation programs, and the availability of support and mentoring networks. The main step for aspiring entrepreneurs is to conduct thorough market research, assess their own skills and resources, and identify unique opportunities or gaps in the market before starting a business.



Gen Z, the generation born between the mid-1990s and early 2010s, has shown a strong interest in social business and entrepreneurship. Here are some reasons why Gen Z chooses to get involved in social business:

1. **Goal-driven mindset:** Gen Z tends to have a strong sense of purpose and a desire to make a positive impact on society. They are passionate about solving social and environmental problems and believe that business can be a force for good. Social business allows them to align their personal values and passions with their entrepreneurial ventures.
2. **Social awareness:** Gen Z grew up in a hyper-connected world with easy access to information about global challenges and social injustice. They are more aware of social and environmental issues than previous generations and feel a responsibility to contribute to solutions. Social business gives them a platform to actively address these issues.
3. **Ethical consumerism:** Gen Z is known as a mindful consumer who prioritizes ethical and sustainable products and services. They value transparency, fair trade, environmental sustainability, and social impact. Starting a social business allows them to meet the demands of like-minded consumers and create products or services that align with their values.
4. **Influence of technology and social media:** Gen Z grew up in the digital era, surrounded by social media and online platforms. They have witnessed the power of technology and social media in amplifying social causes and driving change. They leverage these tools to raise awareness, mobilize support, and promote their social businesses.
5. **Collaboration and collective impact:** Gen Z values collaboration and community engagement. They are more likely to work collectively and collaborate with-

other parties to overcome social challenges. Social business often involves partnerships and collaborations with NGOs, community organizations, and other stakeholders, enabling Gen Z to leverage collective resources and expertise to achieve greater impact.

6. Entrepreneurial opportunities: Generation Z faces unique economic challenges, such as high unemployment and an increasingly competitive job market. Starting a social business can provide alternative avenues for creating job opportunities, pursuing passions, and having more control over their career path.
7. Authenticity and personal satisfaction: Gen Z seeks authenticity and meaningful experiences in their lives. Social business allows them to create a genuine connection between their personal values and their work. They find satisfaction in using their skills and entrepreneurial drive to contribute to causes they care deeply about.

It is important to note that not all members of Gen Z are solely interested in social business, as individual interests and aspirations may vary. However, the overall trend shows an increasing inclination towards social entrepreneurship and a desire to create businesses that have a positive impact.

### **3.3 Educational Support**

The demands of college graduates are not only to be able to work in companies and other agencies but also to have an entrepreneurial spirit to create new jobs by taking advantage of existing opportunities. Higher education institutions will face challenges in preparing and equipping human resources with the right competencies and skills to deal with technological developments so that

they are still able to contribute to economic growth and the welfare of the nation. Nasir (2018). Higher education institutions must be able to produce input (students) through an educational process that is capable of producing output (graduates) who are capable, characterized, and competitive. So, it is necessary to make adjustments to higher education systems and programs so that they are relevant to technological developments. One of them is through entrepreneurship education by utilizing digital technology. Changes in education in the 21st century must be followed by universities and applied to students so that they are ready to enter society after graduation. Advances in technology and science make the system adopted by every university must be changed gradually. Along with these needs and demands, this curriculum change is an effort to develop innovation against these demands.

Armed with entrepreneurship education, it is hoped that the unemployment rate among college graduates can be reduced. As we know, unemployment occurs because the educational orientation carried out in tertiary institutions is still focused on the ability to master science and technology. In fact, ideally, universities should also be oriented towards the entrepreneurial education paradigm. This means changing the mindset of a worker to how to create jobs or become an entrepreneur.

Prasetyo (2019) states that "In the context of the entrepreneurial education paradigm, education that leads to competence in the field of entrepreneurship needs to be given consistently from the start until students graduate. Work skills but also entrepreneurial skills. Therefore, the educational curriculum must be designed to prepare graduates for successful careers as workers, entrepreneurs, or entrepreneurs. Thus, there are no university graduates who are unemployed because those-

who are absorbed into the world of work have the ability to become workers. Entrepreneurship.

The characters that will be formed through entrepreneurship education are smart, trustworthy, and creative, including efforts to improve the 5C aspects (creative, cognitive, collaborative, competence, and cohesiveness), and are able to give birth to a generation of digital entrepreneurs. Digitalpreneurs are businesspeople who operate in the field of information and communication technology. Entrepreneurship education is really needed by students. By developing their intelligence in utilizing social media, they can create business opportunities through online business. Use the knowledge for positive and useful purposes by building entrepreneurial character, which includes creative, cognitive, collaborative, competent, and cohesive.

According to Law Number 20 of 2003 concerning the National Education System, Article 13 Paragraph 1 states that the educational path consists of formal, non-formal, and informal education, which can complement and enrich each other. Formal education is a path of family and environmental education that should make a major contribution to the success of education.

Entrepreneurship education that enters formal education at universities is one of the important things to do to build an entrepreneurial spirit. With entrepreneurship education, students focus on how to get business ideas and how to make them happen. Apart from that, entrepreneurship education can be integrated into learning in each course so that it can be developed, explicit, and linked to everyday life. Thus, learning with an entrepreneurial education perspective is not only in the cognitive realm but also includes the lives of students in society.

Someone who is referred to as an "entrepreneur" absolutely must have the ability to always think of something new, act on something new, and want to create added value. In this context, entrepreneurship education must be able to change students' mindsets, as stated by Kasmir (2006). Entrepreneurship education will encourage students to get to know and open a business. The mindset that was previously oriented towards becoming an employee is again oriented towards looking for employees. Thus, entrepreneurship can be taught by instilling entrepreneurial values that will shape entrepreneurial character and behavior so that students can later be independent in working or doing business.

The role of education for entrepreneurs can also change the mindset of students. The mindset of an entrepreneur stands out in many ways (Sunyaman, 2015). An entrepreneur is always trying to find new ways to increase the efficient use of resources. An entrepreneur will always look for alternatives when the available resources are limited. They tend to be job creators rather than job seekers. All of these characteristics are caused by the many positive, creative, financial, and productive mindsets he has.

The values contained in Entrepreneurship Education are as follows:

1. Independent. Attitudes and behaviors that do not easily depend on others to complete tasks or solve problems.
2. Be creative. Think and do something to produce a way or result that is different from existing products or services
3. Dare to take risks. A person's ability to like challenging work, be brave, and be able to take job risks
4. Action-oriented. Take the initiative to act rather than wait to wait before an undesirable event occurs.

5. Leadership. The attitude and behavior of someone who is always open to suggestions and criticism, easy to get along with, and willing to work together and direct others.
6. Hard work Behavior that shows genuine effort in completing tasks and overcoming or resolving obstacles.
7. Honesty is behavior that is based on making yourself a person who can always be trusted in your words, actions, and work.
8. Discipline: Actions that demonstrate orderly behavior and comply with various laws and regulations.
9. Innovative: Ability to apply creativity to solve problems and find opportunities to improve and enrich life.
10. Responsibility is the attitude and behavior of someone who is willing and able to carry out their duties and obligations.
11. Cooperation is behavior that is based on making oneself capable of establishing relationships with other people by carrying out actions and work.
12. Never give up, the attitude and behavior of someone who doesn't give up easily to achieve a goal with various alternatives.
13. Commitment is agreement about something someone does, either to themselves or to others.
14. Be realistic, the ability to use facts or reality as a basis for rational thinking in every decision-making process.
15. Curiosity, Attitudes, and actions that always seek to know in-depth and widely what is learned, seen, and heard.
16. Communication: Actions that show pleasure in talking, socializing, and working together.

17. Strong motivation to succeed. Attitudes and actions are always looking for the best solution.

A person has these values because of the education they receive. So, the role of education for entrepreneurs is very important so that every entrepreneurial individual becomes an entrepreneur with character. The development of new entrepreneurs is very important for economic growth, job creation, and social impact in Indonesia. Universities and governments play an important role in growing the entrepreneurial ecosystem and supporting aspiring entrepreneurs. Through entrepreneurship education, policy initiatives, funding support, and infrastructure development, Indonesia has made progress in promoting entrepreneurship. However, continued efforts are needed to increase the effectiveness of these initiatives and overcome existing challenges.

Recommendation:

1. Strengthening entrepreneurship education: Universities should continue to enhance entrepreneurship education by offering flexible and relevant curricula, incorporating experiential learning opportunities, and providing mentorship programs. Emphasis should be placed on practical skills, innovation, and ethical business practices.
2. Foster collaboration and networking: Universities can facilitate collaboration between academia, industry, government agencies, and community organizations. Such partnerships can provide students with real-world exposure, mentorship, and access to resources. Universities can also build alumni networks and entrepreneurial communities to encourage collaboration and knowledge sharing among aspiring entrepreneurs.



3. Simplify the regulatory process: The government must continue to simplify the business registration process, reduce bureaucratic obstacles, and simplify regulations. This will make it easier for prospective entrepreneurs to start and run a business, thereby encouraging a more conducive environment for entrepreneurship.
4. Expanding access to funding and resources: The government must continue to provide funding support, investment incentives, and access to financing options for entrepreneurs, especially for micro, small, and medium enterprises. Additionally, efforts should be made to increase access to business support services, incubation programs, and infrastructure, especially in underserved areas.
5. Promote international exposure and market access: Governments can support employers by facilitating international exposure through trade fairs, exhibitions, and trade missions. Providing a platform for entrepreneurs to showcase their products and services globally can open new markets and opportunities.
6. Promoting social entrepreneurship and sustainability: Both universities and government should promote social entrepreneurship and sustainable business practices. This includes integrating social and environmental considerations into entrepreneurship education, providing support for social entrepreneurs, and incentivizing sustainable business models.
7. Foster an entrepreneurial culture: Universities and governments should work together to foster an entrepreneurial culture by promoting entrepreneurial role models, hosting entrepreneurial events, and celebrating entrepreneurial-



success. This can help change society's attitudes towards entrepreneurship and encourage more individuals to take the entrepreneurial path.

By implementing these recommendations, universities and the government in Indonesia can better support the development of new entrepreneurs, create a supportive environment for startups, and encourage sustainable economic and social development. Please note that these recommendations are based on general insights and best practices. Specific implementation and strategies may vary based on local context, available resources, and the needs of Indonesia's growing entrepreneurial ecosystem.

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## CHAPTER 4

# Strategic Agility and Entrepreneurship Orientation to Improve Performance

Rofiaty

### Abstract

This study focuses on the challenges faced by entrepreneurs during the COVID-19 pandemic and the importance of strategic agility and entrepreneurial orientation in improving organizational performance. The impact of the pandemic requires entrepreneurs to think creatively and adapt their strategies to changing economic conditions. Strategic agility enables businesses to respond quickly to environmental changes, while entrepreneurial orientation drives innovation and risk-taking. The study highlights the role of strategic agility as a mediator between entrepreneurial orientation and company performance. Additionally, it emphasizes the significance of the green economy in promoting sustainable business practices. Overall, this research contributes to understanding how entrepreneurs can thrive amidst uncertainty and achieve desired performance outcomes.

**Keywords:** Entrepreneurs, COVID-19 pandemic, challenges, business strategies, economic conditions

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## 4.1 Introduction

During the COVID-19 outbreak, which is already in its second year now, most entrepreneurs have experienced substantial difficulties in dealing with commercial obstacles. The impact of the COVID-19 epidemic, whether direct or indirect, necessitates their ability to survive in difficult economic circumstances, which necessitates creative thinking in order to build trustworthy and flexible approaches. When everyone is angry, they must be creative in inventing techniques to convert less productive resources into productive ones in order to give economic and added value. There will always be huge challenges for entrepreneurs to face in this dynamic business environment. As a result, they must pursue innovations in corporate operations, such as the use of adaptive capabilities and intelligent techniques to respond to environmental changes, as part of their plan's reinforcement. To obtain the desired results in such instances, all entrepreneurs must have a strong entrepreneurial spirit.

Al-Mamary and Alshallaqi (2002) define organizational entrepreneurship as a three-dimensional process that takes into account autonomy, risk-taking, and proactiveness. Entrepreneurial strategy orientation can be a "driving force" for SME executives looking to improve company performance. Meanwhile, increased organizational performance acts as a gauge, indicating the organization's ability to increase business competitiveness. Al-Dhaafri and Al-Swidi (2016), as well as Al-Dhaafri and Alosani (2020), Mahrous and Genedy (2019), and Rofiaty (2019) explored the impact of entrepreneurial mentality on company performance. They believe that the entrepreneurial approach has a significant impact on corporate performance. In contrast, Pardi et al. (2014) demonstrate that an entrepreneurial approach just has little effect on organizational performance. Risk-taking, proactiveness, inventiveness, competitive aggressiveness, and autonomy are used to assess entrepreneurial-

attitude. The findings indicate that the owner's and managers' lack of courage in pursuing new chances is affected by their proactive attitude and boldness in taking every risk. Furthermore, Diaz and Sensini (2020) apply five criteria of entrepreneurial orientation: risk-taking, proactiveness, invention, competitive aggressiveness, and autonomy. According to the evidence, there are two indicators, competitive aggressiveness, and autonomy, that have little impact on business performance. These disparate findings highlight research gaps that must be filled in research.

In order to survive and grow in an increasingly competitive market, strategic agility must also support organizational performance (Itkien & Deksnys, 2018). SMEs must be strategic in their thinking. Strategic agility, according to Setili (2014), is crucial in adapting to turbulent/dynamic environmental changes in this era of disruption. According to Harraf et al. (2015), strategic agility should be prioritized when organizations strive for effectiveness and excellence. Strategic agility enables organizations to identify threats and opportunities faster than competitors and plan to gain a competitive advantage through market orientation and entrepreneurial orientation toward learning orientation, innovation, competitive advantages, and marketing performance (Tikkamäki & Mavengere, 2013). According to Cegarra-Navarro et al. (2016), Khalid et al. (2020), Kuleelung (2015), and Tahmasebifard et al. (2017), strategic agility has a significant impact on organizational performance.

Arokodare et al. (2019) contend that a more agile strategy could improve the company's success. Strategic agility is measured using human resources, information technology capabilities, response orientation/responsiveness to internal and external changes, strategic insights, and forward-thinking plans. Furthermore, Lyn Chan and Muthuveloo (2021) demonstrate that increased-

strategy agility can boost organizational performance. Green economy entrepreneurs, in particular, must be nimbler in order to improve performance and encourage the use of their entrepreneurial mindset to increase strategic agility and corporate performance. A more agile strategy, according to Arokodare et al. (2019), could boost the company's success. Human resources, information technology capabilities, response orientation/responsiveness to internal and external changes, strategic insights, and forward-thinking plans are used to assess strategic agility. Additionally, Lyn Chan and Muthuveloo (2021) show that enhanced strategy adaptability can improve organizational performance. Entrepreneurs in the green economy, in particular, must be more agile in order to improve performance and encourage the use of their entrepreneurial mindset to increase strategic agility and corporate performance.

Cegarra-Navarro et al. (2016) found that strategic agility can both direct and attenuate the impact of entrepreneurial orientation on business performance. Their findings show that strategic agility influences the influence of structured knowledge processes on knowledge application on corporate performance in the Spanish information and technology service sector as a mediator. The influence of absorption on corporate performance via strategic agility, according to Kale et al. (2019), is a moderating element in Turkey's tourist sector. Manufacturing agility, according to Budianto et al. (2021), mitigates the influence of lean manufacturing on operational performance in the Indonesian food industry. Therefore, Strategic agility, according to the following theory, may play a role in the impact of entrepreneurial orientation on business performance.

One technique for mitigating the economic impact of the COVID-19 pandemic is strategic agility in the green economy business. People and the environment are critical components of the green economy. Green economics

seeks to redirect our economy's focus away from economic growth and toward healthy, convivial human civilizations that do not endanger other species or the planet itself (Cato, 2012). As a result, the study's originality is that it focuses on the green economy, which is a concept that seeks to promote welfare and ecologically friendly businesses, reduce pollution, avoid increased greenhouse gas emissions, and mitigate the effects of climate change. The green economy has the potential to accelerate the pace of the Indonesian economy because when the economic, social, and environmental components are effectively mapped, green economy enterprises can achieve sustainability.

To confront the challenges of uncertain environmental changes, particularly in the era of the COVID-19 pandemic, the business world, particularly green economy SMEs, must be more adaptable in dealing with business competitiveness. Strategic agility was measured in this study by the speed with which change was responded to, flexibility, and reliability (Arokodare et al., 2019). Adapting to changes in the organization's operational processes, adjusting strategy to match developing market trends, allocating resources fast, and responding rapidly to existing opportunities are all part of responding to changes quickly. Flexibility is determined by correctly allocating resources in response to changes and being adaptable to operational modifications. Human resource knowledge, information technology, and foresight are all instances of dependable capabilities.

#### **4. 2 Strategic Agility**

Every company that has joined the digital era needs structures and technologies that may boost flexibility through the implementation of e-business processes. A good business plan always connects a company to its customers (B2C) and fosters ties with its suppliers (B2B). The concept of flexibility, according to-



Dunford et al., should penetrate all areas of an organization and be the driving force for organizational transformation. Organizations must understand that their ability to respond to unexpected market developments is critical to their survival. The shift from the traditional to the e-business or digital era represents a substantial change for enterprises. This shift takes into account a variety of e-organizational factors, including knowledge, alignment, society and culture, leadership, organizational structure, governance quality, and union relations. The growing number of organizations implementing internet-based strategies illustrates that the concept of e-business strategy addresses how the internet may transform businesses and provide competitive advantages by enabling flexibility across many domains (Cagliano et al., 2003).

Gölgeci et al. (2019) define agility as the ability to move quickly, flexibly, and decisively in anticipation of change, risk avoidance, and embracing existing opportunities. An organization is receptive to change, actively and comprehensively scans for new information, excels at making sense of ambiguous and uncertain situations, seizes opportunities quickly, and demonstrates proficiency in rapidly allocating and reallocating resources to support execution, according to the agility factors identified in this study. Itkien and Deksnys (2018) describe agility as an organization's ability to adjust its procedures, strategies, production lines, and resources in response to changes. Strategic agility, according to Chakravarty et al. (2013), is divided into two components: entrepreneurial agility (offensive agility) and adaptive agility (defensive agility). Rather than undergoing large structural changes, the firm can detect and respond to market dynamics defensively, such as defending itself and remaining afloat to recover from shocks. To obtain an advantage in changing conditions, the offensive goal comprises anticipating and proactively capturing-



market possibilities, allowing the organization to alter positions and tactics as well as accept new business practices.

Arokodare et al. (2019) explore the impact of strategic agility on performance as influenced by corporate culture and discover a significant influence and role. Strategic agility is the fundamental driver driving organizational performance improvement, and it is measured by strategic insight and foresight, response to internal and external changes, human resource capabilities, and information technology capabilities. Strategic agility antecedents (resources and capabilities), according to Lyn Chan and Muthuveloo (2021), are a significant positive driver of performance improvement.

One of the key advantages of agile techniques is their ability to rapidly adapt to changing realities, hence lowering overall risk. While longer-term goals can be established, the process for achieving them is far more adaptable. At the end of each sprint, built-in retrospectives ensure that the next sprint's priority and work quality are maximized. More predictive approaches, such as the waterfall process, try to meticulously map out future scenarios or requirements, limiting the ability to make changes along the way. This carries a high level of inherent risk in a rapidly changing environment, especially if the initial analysis or planning is incorrect.

The principle of agile is a "release early and often." Rather than being split into phases, testing is typically done on an ongoing basis and is included in the same literacy as writing a software program. This means that end users will be able to see more of the development work and progress and will understand it better. This inclusive method is very transparent and reduces the possibility of misalignment (which can grow over time in a non-iterative process), resulting in higher-quality feedback by allowing end users to make better decisions about the

true pain locations (Perkin & Abraham, 2017). Agile is not agile without its challenges. According to Perkin and Abraham, transitioning to an agile work environment necessitates significant cultural and operational changes. This transformation may conflict with established business processes and agendas. Agile deployments that are half-hearted, commonly known as implementing the 'agile waterfall' technique, typically fail. Businesses frequently believe they can predict future demands, events, and outcomes, particularly in highly complex and dynamic situations. However, because agile methodologies lack long-term predictability, many executives are hesitant to embark on a plan with unclear phases. Leaders may also be concerned by the absence of certain traditional aspects, such as substantial documentation in the early stages of a project. Agile consultants and intermediary roles, such as product owners or product managers, are frequently required to mitigate some of these risks. It's important to remember that the idea and values underlying this technique were articulated many years ago in the Agile Manifesto and should not be limited to technical teams involved in agile software development processes. There are several potential to use agile concepts in a range of other fields.

### **4.3 Entrepreneurial Orientation**

Entrepreneurship is the process of creating something in order to contribute economic value. Entrepreneurial orientation, according to Lumpkin and Dess (1996), involves several approaches, which are proactive, autonomy, risk-taking, creativity, and aggressive competition. Organizations with a high level of entrepreneurial orientation are risk-taking, innovative, and proactive and compete fiercely and autonomously, helping them to discover new opportunities and increase competitive advantage and performance (Chen et al., 2011). In general,

entrepreneurial orientation is characterized as a long-term activity targeted at developing innovative capabilities, risk management, resource optimization, and value creation in order to sustain customer and business interests.

Entrepreneurship is a continual attempt to improve innovative capabilities, risk management, resource efficiency, and value creation in order to retain customers and benefit the organization (Al-Mamary & Alshallaqi, 2022). This variable includes the following indicators: autonomy, the ability to make their own decisions regarding performance achievement; risk-taking, the courage to take opportunities in the uncertainty of decision-making; and proactiveness, entrepreneurial activities are active, dynamic, and high-spirited and never die due to obstacles, obstacles, and challenges to success.

Davis et al. (2010) investigates the influence of entrepreneurial orientation (proactive autonomy and risk-taking) in their study titled 'Entrepreneurial Orientation and Firm Performance: The Moderating Role of Managerial Power.' Statistical tests show that top managers who are prepared to take chances, enjoy tasks that are full of innovation, and have a highly proactive attitude (the higher the entrepreneurial orientation) can significantly improve performance. Entrepreneurial activities like risk-taking, autonomy, proactiveness, and innovation are regarded to be important in firm performance (Fadda & Soren, 2017).

Gupta and Batra (2016) investigated the effect of entrepreneurial orientation (proactive, autonomy, and risk-taking) on performance and discovered that top managers who dare to take risks, enjoy activities that are full of innovation, and have a highly proactive attitude (the stronger the entrepreneurial orientation) significantly improve performance. For reasons such as risk-taking, autonomy, proactiveness, and inventiveness, all of which are features of entrepreneurial orientation-

(Fadda & Soren, 2017), entrepreneurial activity is critical in corporate performance. Entrepreneurs, according to Jalali et al. (2014), can improve firm performance by enhancing entrepreneurial orientation, specifically risk-taking, proactiveness, and creativity. Risk tolerance has a long-term impact on strategic agility and company performance (Jia et al., 2014). Offering facilities such as activities to invite stakeholders to be more involved in supporting entrepreneurial activities and building more adaptive strategies, according to Cong et al. (2017), are essential components of entrepreneurial orientation. That is one of the most critical components of doing business in a global market, as firms compete with agility strategies that are more responsive to environmental changes than low costs.

Autonomy, or the ability to make one's own decisions on performance achievement, is a sign of an entrepreneurial mindset. Risk-taking is defined as the courage to make decisions in the face of opportunity and uncertainty in the business environment. It is also critical to be proactive, which includes entrepreneurs who are energetic and extremely enthusiastic about achieving goals, as well as competitive aggressiveness, which includes a willingness to take large risks in order to achieve superior performance and long-term competitive advantage.

#### **4.4 Firm Performance**

Management's efforts in allocating economic resources, both financial and non-financial, result in the success of the company. Performance is also an important activity for a business because it acts as a framework for evaluating all activities, including finance, marketing, human resources, and operations. Scholars and practitioners have debated the underlying nature of organizations-

and their measurement since the dawn of time. However, performance evaluation frequently becomes an issue since it appears to be solely for evaluating and ignores other aims, such as fostering competitiveness and individual capacities in carrying out duties, as well as other strategic goals. Performance cannot be ignored in strategy research since improving performance is one of many strategic goals (Sintaasih, 2011). Sales, sales growth rate, cash flow, operational net profit, return on investment, and the ability to capital/finance business growth from profits made are all performance indicators. A balanced scorecard is occasionally used to assess performance in finance, marketing, internal business, and learning and development.

The performance of an organization is crucial since it evaluates all of its financial, marketing, and human resource activities. Performance cannot be ignored in strategy research since improving performance is one of many strategic goals (George et al., 2019). In a literature review, Kimathi et al. (2015) identified company performance as one of the most meaningful measures of the influence of capital structure. Part or all of an organization's actions or activities within a certain period are referred to as performance by referring to a standard amount, such as historical costs or predicted costs, based on efficiency, accountability, or management responsibility (Christensen & Laegreid, 2015).

The extent to which a firm accomplishes its objectives is characterized as performance. So far, corporations have mostly focused on the resulting economic objectives. Environmental concerns have also become a corporate goal for the company in recent years. Companies are increasingly concerned about how to deal with pollution created by their operations, as well as climate change, global warming, and ozone depletion (Parida & Wincent, 2019). It inspires the organization to strive to create a green economy. The success of the company's

business objectives is visible in its performance. A company's performance in the green economy can be measured using financial performance, marketing performance, and human resource performance (Obeidat et al., 2020).

According to Robert and Anthony, 2001 and Rofiaty (2012), a performance measuring system is utilized to help select strategy. The first of four critical things to consider when developing a performance evaluation system is determining strategy. The most important aspect of this situation is that the organization's goals and targets be stated clearly and unequivocally. The strategy must be developed first for the entire organization, then for the functional levels below. Second, determine strategy measurement. Strategy measurement is essential in order to properly communicate the strategy to all organizational employees. The organization should prioritize only a few essential KPIs. In order for management not to overstate the significance of extraneous performance metrics. Finally, make measurement a part of your management system. Measurement must be both a formal and informal component of the organization, as well as a component of the company's culture and people resources. Fourth, evaluate outcome measurements on a regular basis. Management must regularly evaluate if organizational performance metrics are still viable enough to be established on a regular basis. Managers can monitor company strategy implementation by comparing actual results to strategic goals and objectives. Performance evaluation systems frequently incorporate a systematic approach to developing goals and objectives, as well as periodic reporting that indicates goal and objective achievement (Robert Simons, 1995).

Performance measurement can be done through an assessment with the application of green entrepreneurship and green innovation, also using business digitalization, including digital marketing or digital business as a

medium for improving performance, which is measured not only from the perspective of (1) business growth but also from the perspective of (2) increasing the welfare of the businesspeople (personal wealth), including the ability to purchase and access healthy or organic food, as well as the ability to acquaint business people with green entrepreneurship and green innovation.

Indeed, looking at the facts and information from the field, it is difficult to conclude anything other than that our world will continue to accelerate, most likely at an increasing rate. If we do not change our business practices, the consequences will be disastrous—for businesses, governments, economies, society, and, eventually, for the billions of people who live on our planet (Kotter, 2014). On the other hand, if we effectively implement new business models that can not only handle but also capitalize on this new environment, we will be able to generate better products and services, expand wealth, and create more and better jobs. It may be difficult to grasp. More global developments have the potential to have serious negative consequences. Some, on the other hand, have tremendous earning potential.

#### **4.5 Conclusion**

To compete effectively in the face of unexpected environmental changes, particularly during the COVID-19 pandemic, the business sector, particularly green economy SME, has to become more adaptive. This study emphasizes the importance of organizations embracing change, actively and comprehensively gathering new information about ongoing developments, excelling at making sense of ambiguous and uncertain situations, seizing opportunities quickly, and efficiently deploying and redeploying resources to support execution. Strategic agility emerges as the primary driver of organizational performance improvement, as measured by strategic insight-



and foresight, responsiveness to internal and external changes, human resource capabilities, and information technology capabilities.

Entrepreneurship is frequently seen as an important factor in organizational performance. There are some characteristics of an entrepreneurial orientation, which include risk-taking, autonomy, proactiveness, and invention ability. Entrepreneurial orientation, particularly, is a strong proactive attitude that has been found to boost performance significantly. Firm performance can be defined as the successful deployment of resources, both financially and non-financially, as a result of the management's efforts. However, performance evaluation frequently causes problems since it is frequently seen solely as an evaluation tool, ignoring additional purposes such as enhancing individual skills in task execution and achieving strategic goals. The performance of the corporation demonstrates its capacity to accomplish corporate objectives. Performance evaluation assists managers in controlling the execution of company strategy by comparing actual results to strategic goals and objectives.

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## CHAPTER 5

# Fintech: Entrepreneurial Funding Solutions

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### Abstract

Discussions on entrepreneurial finance always begin with a discussion of sources of entrepreneurial capital. Large capital requirements at the start require loose funding, which provides flexibility for entrepreneurs to carry out operational activities and form the image of the business that is being built. Entrepreneurial start-up funding therefore relies on owner's capital funding, venture capital, and preferably even if the entrepreneur can find potential investors such as angel investors. This paper discusses the aspect of entrepreneurial funding by utilizing fintech as a flexible funding alternative that is "easy" to access in accordance with the advantages possessed by fintech P2P (Peer-to-Peer) lending. To strengthen the author's argument in discussing fintech as a solution for entrepreneurial business growth, especially in terms of capital, this paper is supplemented by a literature study using bibliometrics.

**Keywords:** Entrepreneurial finance, Capital funding, Start-up funding, Owner's capital, and Venture capital

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<https://doi.org/10.11594/futscipress45>



## **5. 1 Funding Barriers For Entrepreneurs**

In the early stages of growth, entrepreneurs need collateral for assets and cash flows that still do not meet credit requirements, making it difficult for them to get funding. Equity constraints for entrepreneurs are the main obstacle because of the difficulty in obtaining credit approval from formal financial institutions and banks. This includes complex risk assessments and non-technical issues such as insufficient entrepreneurial data, that is, financial reporting that does not meet standards. Research by Suryanto et al. (2020) mentioned the obstacles faced by entrepreneurs, including lack of capital, lack of access to financial services, and lack of financial literacy regarding personal finance and business financial reporting.

How an entrepreneur deals with funding difficulties actually needs to sort out the entrepreneur in what category of funding is needed. Hwang et al. (2019) explain the types of entrepreneurs and the suitability of their funding needs based on examples, which are summarized in the following stages.

1. In the first stage, that is, the Early Stage, large investments require the sacrifice of investors who have loose conditions, and if possible, the need for production is funded by debt. At this stage, the entrepreneur does not have the capacity to borrow large amounts because of limited business resources other than capital.

2. The second stage is steady growth; entrepreneurs tend to seek crowdfunding investors (entrepreneurs are starting to be able to offer business returns), and entrepreneurs are already able to make loans for their operations. At this stage, the entrepreneur still does not meet the credit requirements.

3. The third stage, which is the Fast Growth stage, has a large market share so that it is able to attract venture capital, and in terms of ease of access to obtaining loans,



this type of entrepreneur has great opportunities. At this stage, the entrepreneur has become big and successful so that the owner is able to implement an exit and harvest strategy.

For further details, Hwang et al. (2019) provide examples of each stage in the explanation in Table 5.1.

**Table 5.1. Matching Types of Entrepreneurs to Types of Capital**

	<b>Equity</b>	<b>Debt</b>	<b>Other</b>
<b>Early stage</b>	Tech company that seeks angel investment or is applying to an accelerator	Farmer or small producer who has purchase orders from a large company and seeks a bank loan	Company with growth that does not fit technology investors' "hockey stick" profile but is too early stage for debt
<b>Steady-growth</b>	A local coffee shop that seeks crowdfunding	Mom and pop business that was established 20 years ago and sought a small business loan	A food truck or other capital-light business that has growth potential but does not qualify for a loan
<b>Fast Growth</b>	Tech company with market traction that seeks venture capital	A growing company that seeks a bank loan	A large, successful company with owners who would like to sell the company to its employees

Hwang, et. al., (2019)

From Table 5.1, it can be concluded that when an entrepreneur is at the early stage, the entrepreneur is less free to obtain funding from external sources, both equity and liabilities and is more hopeful that investors will be flexible in providing concessions for their investment in the business. At the steady growth stage, entrepreneurs have more freedom to gain trust in borrowing and have investors who are willing to invest in line with business development. Finally, in the fast-

growth stage, investor confidence and business credit credibility increase as the business grows into a corporate form of company.

Entrepreneurs' activities in small businesses have an important role in economic growth, especially in the private sector in both developed and developing countries. However, SMEs have constraints on their ability to survive and develop due to barriers to accessing bank credit. The existence of an information asymmetry between entrepreneurs and banks caused by a lack of financial reporting and business plans is one of the factors that makes banks reluctant to extend credit to small entrepreneurs (Erdogan, 2022). However, these conditions represent opportunities and market niches for more inclusive financial development with the help of technology and a wider range of financial access barriers. This is particularly true in countries where the proportion of banking services in the private sector is still low.

## **5.2 The Urgency of Financial Inclusion For Entrepreneurs**

Studies show that financial inclusion in developed countries, for example, Europe and North America, performs higher than in developing countries, namely Africa and Asia. This is determined by factors such as income, education, access to communication tools, financial depth, and banking health conditions (Wang & Guan, 2017).

The main problem with reducing poverty is the limited access of these people to formal financial services. The development of digital financial technology has led to financial inclusion with a wider reach in society. The increasing development of digital financial technology has increased wider access to the credit market for households and SMEs that were previously unbankable and had financial constraints.

For financial inclusion, which initially aims to encourage economic growth, to not end with being trapped in the debt that occurs in household consumers, it is necessary to have sufficient financial literacy, especially for SMEs, so that the benefits of financial technology can be useful in meeting funding for business development (Yue et al., 2022).

Financial inclusion thus becomes a common problem faced by all countries with an equal distribution of economies instead of countries with poor economies. The development of the internet and information technology has brought fintech as a solution to this problem. Demir et al. (2022) show that the existence of fintech is able to overcome income inequality both directly and through financial inclusion through its negative effect on income inequality. Further studies on the effects of fintech developments on financial inclusion based on regional areas by looking at potential risks and businesses in developing and developed countries are discussed in the paper by Hieminga et. al., (2016). The paper explains that countries with poor internet and innovation infrastructure have a high urgency for financial inclusion, in contrast to countries with better infrastructure. This condition explains that the development of internet access is the main means for the development of a country's economy, especially when it is associated with the ability to access funding and channel funds to expand financial reach to remote areas. This paper also explains that a country that has a significant number of small and medium-sized enterprises cannot be accommodated if it is not accompanied by the development of easily accessible financial infrastructure. Looking at fintech from the perspective of a provider of financial services for businesses, Koroleva (2022) measures the impact of fintech using the fintech ecosystem index on entrepreneurial growth. The findings-

prove that a high index value reflects an increase in a productive entrepreneurial economy.

If the discussion above discusses the role of fintech as a medium for financial inclusion for entrepreneurs, it is also necessary to know that financial services are not only about providing access to funding but also have another function, that is as collector of funds. Advances in internet technology provide a means for investors who do not have large funds but require investments that have adequate returns. Fintech is a digital technology-based financial institution that collects funds and offers returns as desired by prospective creditors. This form of fintech, known as crowdfunding, collects funds and distributes them to debtors who need loans. Temelkov and Samonikov (2018) discuss forms of fintech or crowdfunding funding service providers, which include the following: reward-based, donation-based, loan-based, and equity-based. Seeing the function of crowdfunding itself for growing entrepreneurs, this means that it is an alternative opportunity to carry out a working capital investment strategy, not only in investing in securities but also extending to new forms of investment that are easily accessible. The choice of crowdfunding options, as described above, also provides flexibility for entrepreneurs who wish to expand their business scale, not only by investing in low-risk savings but also by providing small returns. They can also invest in profitable investments, as well as having the option of social investing, that is, social missions that are mostly carried out by businessmen who hold humanity or sharia principles.

### **5.3 The Role of Fintech for Unbankable Communities To Medium Industries**

Looking at the larger lens, the country's economy, financial inclusion through fintech is shown in conditions of economic crisis (for example, the COVID-19 pandemic that hit the world in 2019) and even has a positive effect on reducing losses due to the impact of the stalled economy by reducing the country's GDP losses (Beirne et al., 2022). In addition to the effects on the macroeconomy, studies have also proven the role of fintech levers for the community's economy, starting from the smallest entities, that is, households and novice entrepreneurs, to medium-sized businesses. Research on the impact on households, including Agarwal and Chua (2020), explains that with access to consumer loans, the loan interest factor is no longer a major consideration, but access factors and ease of credit approval processes are more of a consideration. The reasons for this are summarized by the writings of Agarwal and Chua, who state that the screening process for prospective borrowers' data, apart from considering the credit track record, also includes the online track record of the prospective borrower, which includes shopping transactions and use of financial services, to further detect connection behavior, social behavior based on social interaction, and individual behavior based on the use of applications from data collected in artificial intelligent algorithms and internet cloud computing. Not to mention, if the prospective borrower has a digital track record through social media that is easily accessible by fintech, the more information the fintech has to analyze whether or not the prospective borrower is feasible.

From the perspective of industrial entities, that is, entrepreneurs, research by Suryanto et al. (2020) mentions the role of fintech catalysts for the growth of

SMEs in increasing ease of funding, financial transaction services, market expansion, and financial reporting. The study also explained the role of P2P lending as an alternative source of capital in transforming funding patterns in accordance with economic developments into the digital era, in which all forms of internet facilities provide unlimited access to areas that can only be reached by non-formal financial institutions, even those that are accessible to non-formal financial institutions. This fintech. Ease of access to microfinance is explained by Temelkov and Samonikov (2018), that is, in terms of reducing transaction and service costs for smaller loan values. This means that loans for small and medium enterprises are in accordance with the needs of entrepreneurs, especially in the early stages of business growth.

Thus, it can be concluded that the conditions of market imperfection described by Akerlof's theory of information asymmetry can be overcome by lenders through information such as credit scoring and customer due diligence, accompanied by individual digital data provided by third parties through artificial intelligence. Meanwhile, from the perspective of the borrower, it only provides information on the identity and credit history of the prospective borrower. For the borrower, this is an easy matter, so in the end, the borrower will think that the interest paid is commensurate with the advantages of choosing fintech P2P lending as a source of funding.

#### **5.4 Why Fintech?**

Fintech funding related to technological excellence. Lu (2018) explains that fintech analysis combines conventional information regarding the personal data of prospective credit customers with big data information based on algorithms of

prospective borrower activity, which provides third-party information providers with the necessary information to carry out credit analysis so that they can measure credit risk accurately. This applies to SME business owner data information. This technological advantage is what differentiates fintech from other traditional financial institutions, especially banking, which still pay great attention to the collateral element as a credit requirement. With the advantages of technology-based financial access, financial services provided by FinTech offer convenience, speed, and low costs. Through these advantages, fintech has played a role as a financial intermediary in terms of collecting funds and distributing them to those who need them.

With its technological advantages, fintech has a role in the payment system, as summarized by Rizal et al. (2018) as follows:

- Providing a market for business actors, especially SMEs, who rely on digital media as their marketing base.
- It becomes a tool for payment, settlement, and clearing.
- Helps implement investments more efficiently.
- Risk mitigation from conventional payment systems
- Helping those in need to save, borrow funds, and invest in capital.

Furthermore, the forms of technology owned by fintech can be taken into consideration in creating SME business value, including (Leong & Sung, 2018) a.

#### Fintech on Payments

Cashless payments using mobile payments are a solution for customer payment activities. Apart from that, the technology uses HCI (human-computer interactions) to record customer trust and retention or uses ERP, CRM, RFID, IoT,



and database management to manage the effectiveness of supplier and buyer transactions.

b. Fintech on Advisory Services

The use of fintech in terms of advisory services for investment advice, asset management consultation, insurance service, customer support, and management decision-making is robo-advisors.

c. FinTech on Financing

Fintech in this function is to improve information-sharing processes, lower transaction costs, enable new financing alternatives, or support better financing decision-making. By using crowdfunding, entrepreneurs can obtain funding at low costs.

d. FinTech on Compliance

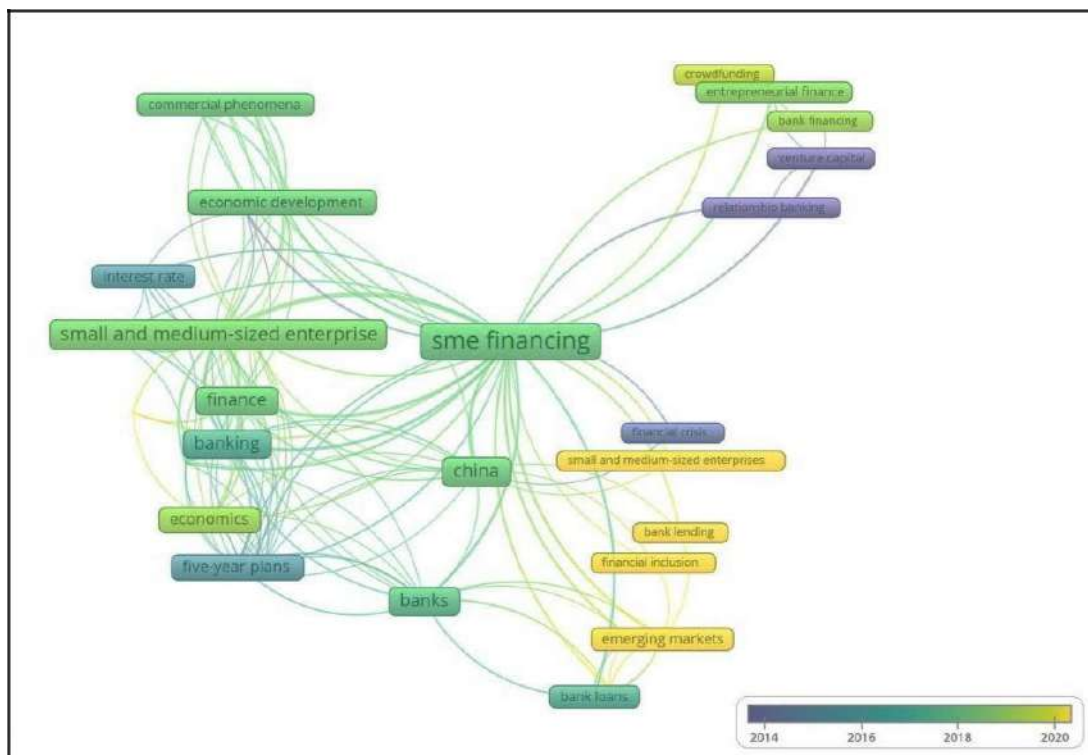
Fintech is related to internal control, namely compliance with regulations, and using technology to enhance regulatory processes, namely RegTech (Regulatory Technology).

## **5.5 Development of The Entrepreneurial Funding Literature**

To study literature studies on entrepreneurship funding, this paper uses visualization so that it focuses on discussing the development of research that has been done before. Bibliometric techniques are used to describe trends and patterns in research publications regarding the search term "SME financing." The context of small and medium enterprises was chosen to reduce the limitations of research that addresses the topic you want to study. In searching for reference sources, a reference database is used, that is, Scopus database analysis, and to visualize the results of the mapping, mapping tools are used, such as Vosviewer.



By using the keyword "SME financing," 76 documents were obtained, which were then filtered according to the type of document in the form of articles, the final publication stage, the type of data source in the form of journals, and the use of English. After filtering, 57 documents were obtained, which will be used for bibliometric mapping of SMEs funding with the keyword "SME financing." The map in Figure 5. 1 is based on a bibliographic database file, which is read from a Scopus database file.



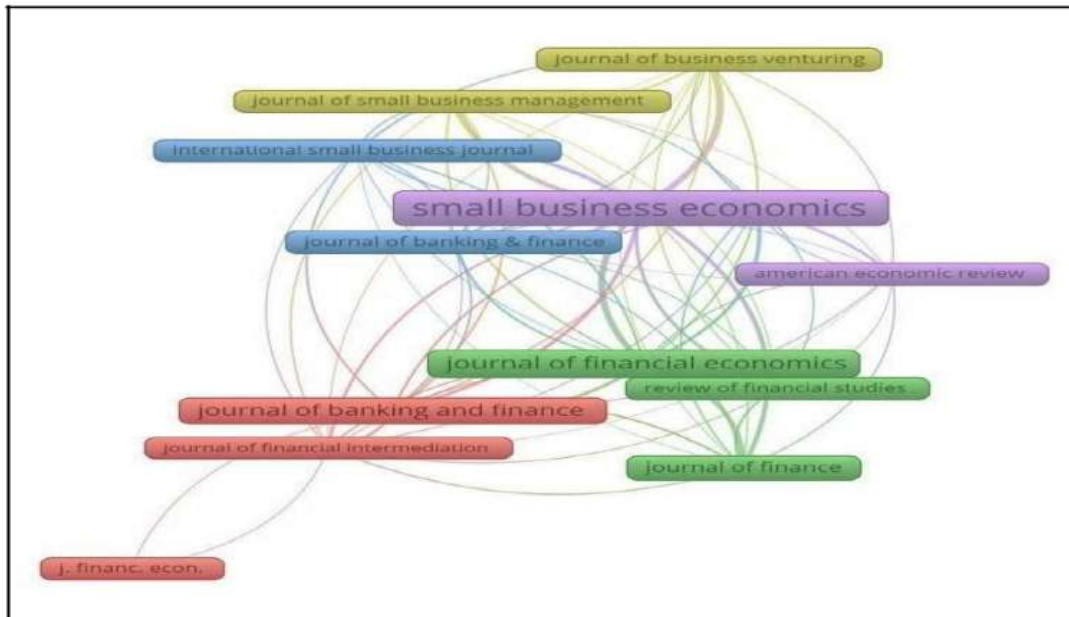
Source: Author (2023)

### Figure 5.1. Literature Visualization of SME Funding

The type of analysis uses co-occurrence, the calculation method uses full counting, and the unit of analysis uses all keywords. The minimum number of keyword occurrences is two, so 33 keyword items appear related to the keyword "SME financing." Based on the overlay visualization map, nine research clusters

were obtained based on the year the research was published, from before 2014 to the year after 2020. Cluster 1 is about "commercial phenomena," "economic development," "economic growth," "empirical analysis," and "industry." Cluster 2 is about "bank financing," "crowdfunding," "entrepreneurial finance," "relationship banking," and "venture capital." Cluster 3 on "China," "financial crisis," "small and medium-sized enterprises," and "SME financing." Cluster 4 contains "economics," "finance," "small and medium-sized enterprises," and "small and medium-sized enterprise financing." Cluster 5 contains "bank loans," "banks," "financial constraints," and "SMEs." Cluster 6 contains "bank lending," "emerging markets," and "financial inclusion." Cluster 7 contains "five-year plans," "international trade," and the "12th five-year plan". Cluster 8 contains "banking," "credit provision," and "investment." Cluster 9 contains "capital structure" and "interest rate." From the visual appearance, it can be concluded that studies on SME funding have mostly examined "SME entrepreneurship." Research on entrepreneurial funding in the context of SMEs also mostly discusses "bank loans" and "financial inclusion," which are mostly carried out in developing countries, in this case, that is studied in "China".

The map in Figure 2 is made based on bibliographic data, then VOS viewer reads data from bibliographic database files originating from the Scopus database. The type of analysis used is co-citation, with the unit of analysis being the cited source.



Source: Author (2023)

### Figure 5.2. Visualization of Research Publications

By using the threshold, the minimum number of citations from a source is 20, 13 sources are selected and meet the threshold, originating from 1405 sources. From processing the bibliographic database file, a network visualization map is obtained consisting of 5 cited source clusters. From Figure 2, Cluster 1 contains "j.finance.econ.", "journal of banking and finance", and the "journal of financial intermediaries". Cluster 2 contains "journals of finance", "journals of financial economics", and "reviews of financial studies". Cluster 3 contains the "international small business journal", the "Journal of Banking & finance", and the "journal of Finance." Cluster 4 contains the "journal of business ventures" and the "journal of small business management". Cluster 5 contains the "American economic review", and "small business economics". If journal publications related to topics are sorted by intensity, then the most intense publications are published in "banking and finance journals" and "financial intermediation journals." For publication in journals that are still developing, that is, publications in the "journal of financial economics",

"review of financial studies" and "journal of finance". Meanwhile, publications in journals that are still rare are the "Journal of Business Venture" and the "journal of Small Business Management". Then, what is still limited in its publication in the "International Small Business Journal."

Furthermore, if the relationships are arranged based on the highest citations, although there is repetition of mapping results in several journals, it is hoped that this will not reduce the informativeness of the data obtained. Thus, from the 13 journals that met the mapping, the results focused on the ten journals above, which are journals in 3 cluster groups. Cluster 1 includes the International Small Business Journal, the Journal of Business Venturing, the Journal of Small Business Management, Small Business Economics, and the Journal of Finance. Cluster 2 concludes: American Economic Review, Journal of Finance, Journal of Financial Economics, and Review of Financial Studies. Cluster 3 includes the Journal of Financial Economics, the Journal of Banking and Finance, and the Journal of Financial Intermediation.

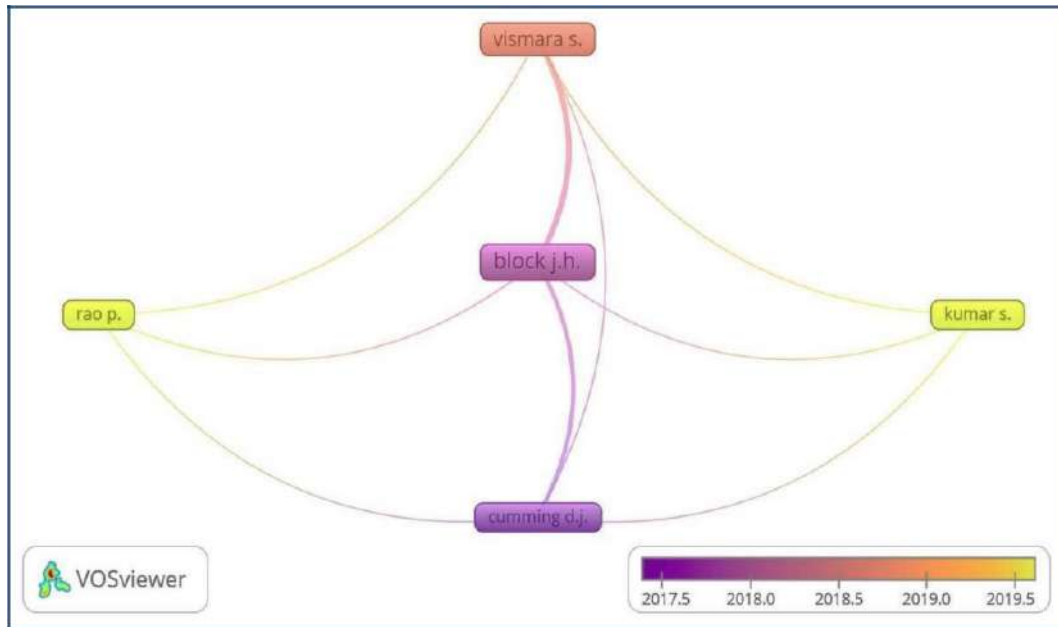
**Table 5.2. Journals Ranked by Quartile In The Scopus Database**

Journal title	Quartile	SJR	h-index
<b>Journal of banking and finance</b>	Q1 Finance	1.716	185
<b>Journal of financial intermediation</b>	Q1 Finance	5.384	87
<b>Journals of finance</b>	Q1 Finance	15.515	336
<b>Journals of financial economics</b>	Q1 Strategy and Management	10.601	289
<b>Reviews of financial studies</b>	Q1 Finance	12.239	218
<b>International Small Business Journal</b>	Q1 Business and International Management	2.257	104
<b>Journal of Business Venturing</b>	Q1 Management of Technology and Innovation	5.029	211
<b>Journal of Small Business Management</b>	Q1 Strategy and Management	1.556	127
<b>American economic review</b>	Q1 Economics and Econometrics	21.833	337
<b>Small business economics</b>	Q1 Economics and Econometrics	2.732	157

Source: Author (2023)

From the results of the cluster of journals that have the highest citation linkage, that is, the ten journals above, the data also shows that from the topic of SME funding, the journal that received the highest citations centered on the Journal of Small Business Management, with 567 citations, or 55%, referring to articles published in that journal, followed by the Journal of Banking and Finance, with a total of 151 citations.

Apart from mapping topical discussions and publications, the visualization results also display the following visual images about the popularity of the authors by citation.



Source: Author (2023)

**Figure 5.3. Visualization of the authors**

Referring to Figure 5.3 above, it can be seen that the researchers with the highest citations were in the range of 27 to 285 citations, most of which were carried out in the years 2017–2019. The researcher with the highest citations is Block J.H., followed by Vismara S. and Cumming D.J., while Rao P. and Kumar S. are in third place. Thus, it can be concluded that the development of the topic of funding in SMEs at the beginning of its development was initiated by the three top-cited researchers: Block J.H., Vismara S., and Cumming D.J.

## 5.6 Discussion from Bibliometrics Results

Many studies on the topic of SME funding state that the development of SMEs has an impact on industrial development and the country's economic growth. Including research by Van Song et al. (2022), SME financing is determined by the business's technical capabilities, where increased capabilities will increase formal financing and reduce non-formal financing and, as an effect, will increase economic growth as measured by GDP. However, the main problem for the development of SMEs is the asymmetry of information between capital owners and SMEs, which creates financial constraints. Factors influencing the financial constraints of SMEs are discussed by Ochinanwata et al. (2021), which explain that the public-private partnership model is used in developing countries such as Nigeria as a consideration where the lack of SME management capacity can be fulfilled by the mentoring function of investors who fall into the partnership financing category. This form of financing includes venture capital or business angels who provide assistance for the development of SMEs. Meanwhile, forms of fintech financing, such as crowdfunding, where investors only focus on providing capital and do not provide a consulting function in monitoring and managing SME businesses, are less preferred. However, many studies of SME funding in the form of fintech have raised the topic of crowdfunding.

Apart from crowdfunding, the type of fintech funding used to fund SMEs is Bitcoin, although its popularity is still less than that of more conventional funding. A study of the use of crowdfunding and blockchain funding by Festa et al. (2021) proves that both have a positive effect on entrepreneurial intentions. In this case, knowledge, availability, and access encourage entrepreneurship because crowdfunding opens-



wider access to financing, while Bitcoin offers cheaper transaction costs and more concise financial service procedures.

In order to ensure that the capital structure of SMEs is not hampered by financial constraints, Kumar and Rao (2016) explain that the SME capital market needs to expand the scope of its credit market so that SMEs do not depend on bank funding alone. In this way, the form of funding offered by fintech is the answer to expanding new financing channels, and the variety of credit facilities is the answer to flexibility.

Meanwhile, the research cluster also includes discussions based on the country context. Most research has been conducted in Europe and America, which represents developed countries, while research in Africa, Asia Pacific, and the Middle East, which can be representative of developing country markets, has not been carried out much (Rao et al., 2023).

## **5.7 Conclusion**

This paper uses a qualitative approach and is strengthened by systematic literature review techniques using bibliometric analysis to contribute to the use of fintech as a flexible funding alternative for entrepreneurs. This paper also underlines that the flexibility offered by fintech is an impetus for the government to establish binding but also supportive regulations for the development of fintech as a financial leverage for entrepreneurs. This is explained by the existence of non-technical factors besides technical factors, which are also the strengths of fintech in evaluating the quality of prospective borrowers.

Based on the visualization of the literature mapping, it is explained that the development of research on entrepreneurial funding is still interesting and in

progress. This is also indicated by the intensity of article publication in the main tier of articles in financial studies, even though the topic of entrepreneurship is a microfinance topic.

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## CHAPTER 6

# The Role of Micro, Small and Medium Enterprises for Bali's Economy (Contribution of Innovation to MSME Sustainability)

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### Abstract

The MSME sector is one of the sectors that has a significant impact on economic growth in Bali Province. In addition to contributing economically, MSMEs also have a social and cultural impact on society. MSME sustainability faces various challenges both from the internal side and the external environment, so to be able to maintain its long-term sustainability, MSMEs must have competitiveness. This study aims to explain the role of innovation for MSMEs in Bali to increase the competitiveness and sustainability of MSMEs. The results showed that innovation is one of the factors that determine the success of MSME business because, through innovation, MSMEs can adapt and also survive changes in the external environment and create competitiveness. Most MSMEs in Bali implement marketing, product, and process innovations, but there are still few that innovate management, organization, and services. The results of this research are expected to be recommendations for MSME business actors and stakeholders to improve the culture of sustainable innovation in MSMEs in Bali in order to increase their competitiveness in the global market.

**Keywords:** Innovation, MSMEs

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<https://doi.org/10.11594/futscipress46>

## **6. 1 Introduction**

One of the economic sectors that contributes to the progress in Indonesia is Micro, Small, and Medium Enterprises (MSMEs), which are very much growing in Indonesia. Based on the world's perspective, it is recognized that MSMEs play a vital role in economic development and growth, not only in developing countries but also in developed countries. The role of MSMEs is very large for Indonesia's economic growth, with the number reaching 99 percent of all business units. The contribution of MSMEs to GDP also reached 60.5 percent, and labor absorption reached 96.9 percent of the total national employment (Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2022). MSMEs are also believed to have high economic resilience so that they can support the financial system and economic stability. MSMEs also contribute to the country's foreign exchange receipts because the market share of MSMEs is not only national but also begins to penetrate the international market so that MSME income can help in increasing the country's foreign exchange. Evidence of the role of MSMEs in the formation of GDP can be seen in the following figure.



Source: BPS (2023)

**Figure 6.1. Indonesia's Gross Domestic Product (GDP) 2016 – 2022**

Based on Figure 6.1, Indonesia’s GDP has increased every year, but when 2020 experienced a decline due to the peak of the COVID-19 Pandemic hitting the entire world, including Indonesia, this influenced Indonesia's economic condition. Figure 6.1 also shows Indonesia's GDP growth starting from 2016 (before covid) to 2022, when covid 19 cases are declining. It appears that in 2016-2018, Indonesia's GDP growth averaged 5 percent, but in 2020, GDP growth experienced a significant decline, even reaching -2.05 percent, and slowly improved in the following years so that in 2022, GDP growth reached 5.31 percent (the highest for the last seven years). The impact of the COVID-19 pandemic on the economy in Indonesia was more severe than before during the economic crisis of 1997-1998, which stopped economic activities because many companies closed their businesses, causing very high unemployment because this pandemic had a very broad impact. (Lutfi, et al; 2020).

MSMEs not only have a significant impact on a country's economy but also have an impact on regional income. MSMEs are popular businesses that operate a lot in the regions and move the wheels of the regional economy. The existence of MSMEs can help to introduce unique and distinctive products from each region to be known more widely. The diversity of cultures, customs, and tribes in Indonesia is one of the great potentials that can be developed to advance MSMEs both regionally and nationally because not a few business actors offer typical regional products as their superior products (Suardika, 2018).

## **6.2 Micro, Small and Medium Enterprises in Bali**

Bali Province is famous as one of the tourist destinations, but besides being famous for its natural beauty, Bali also has a strong economic potential. One of the main economic supporting sectors in Bali is the MSME sector. The role of MSMEs is clearly felt by Bali Province because it is the largest foreign exchange contributor in the tourism sector. The

The development of the tourism sector will also affect economic development, including MSMEs. Based on data from the Cooperatives and MSMEs Office of Bali Province, the number of MSMEs in Bali reached 440,609 in May 2022, where this number increased by 6.4 percent compared to 2021, which was 412,265 units. These businesses are classified into four types of businesses, namely agriculture, non-agriculture, trade, and various services. The majority of MSMEs are engaged in the trade sector (58 percent), agricultural industry (20 percent), non-agricultural industry (14 percent), and various services (8 percent) (Bali et al. Office, 2022). The distribution of MSMEs is almost evenly distributed throughout all regions in Bali, both urban and rural.



The high growth of MSMEs in Bali has had a positive impact on the economy of Bali, including job creation, equitable development, results, especially in the economic sector, and an increase in gross regional domestic income. In addition, the tourism aspect can foster the entrepreneurial spirit of residents to carry out business activities based on local wisdom (Priyatna, 2023). MSMEs also make a significant contribution to Bali's Gross Domestic Product (GDP).

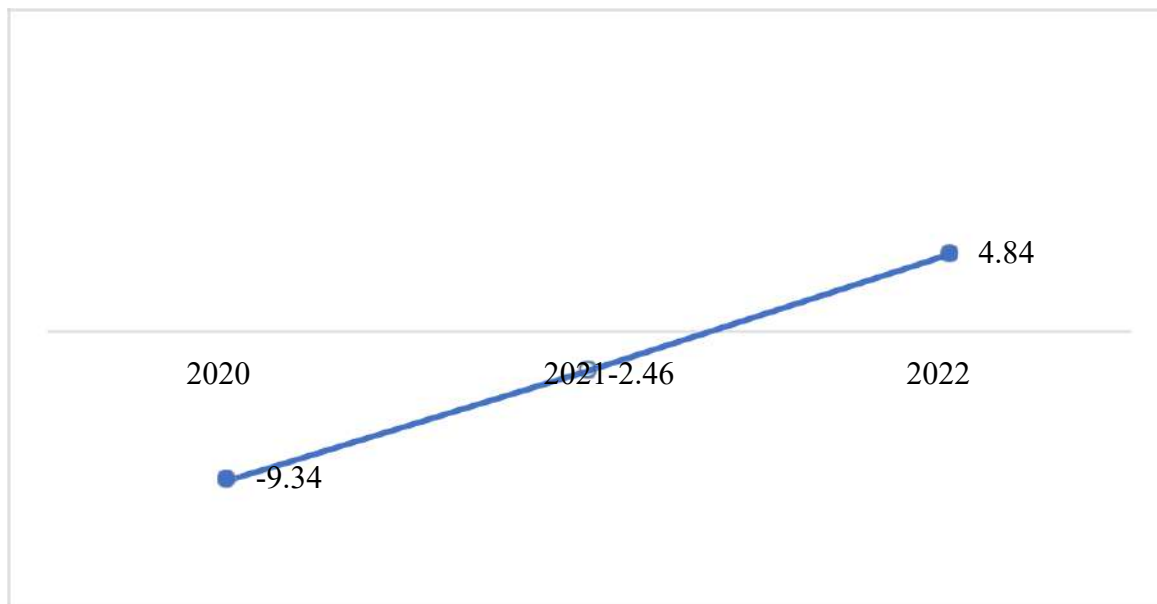
In addition to having an economic impact, the existence of MSMEs also has a social impact; among others, MSMEs are a sector that provides opportunities to maintain local culture because the products produced are related to cultural and artistic heritage. On the other hand, MSMEs are one of the business sectors that are widely managed by women, so this sector is often referred to as one of the forums for women's empowerment that provides opportunities for women to participate in economic activities and empower them socially and economically.

### **6.3 Challenges Faced by MSMEs in Bali**

Tourism is the main pillar of Bali's economic growth, but conditions reversed during the pandemic. The implementation of various policies to break the chain of spread of COVID-19 has an impact on the number of tourists visiting Bali, both domestic and foreign tourists. This has caused a domino effect for various business actors ranging from the provision of food and beverage accommodation, forestry and fisheries agriculture, construction, wholesale and retail trade, processing industry, and transportation and warehousing. During economic contraction, Micro, Small, and Medium Enterprises (MSMEs) have a big share in reviving Bali's economy. MSMEs have the potential to be developed in terms of

business capacity, product quality, and product marketing expansion (Ulum, 2022).

The role of MSMEs, as explained in the introduction, shows that MSMEs are the largest contributors to national and regional income, including Bali. The development of GDP growth in Bali Province with dominant support from MSMEs can be seen in the following figure.



Source: BPS Bali (2022)

**Figure 6.2. GDP Growth of Bali Province (%) Year 2020 - 2022**

Based on Figure 6.2, Bali's GDP growth over the last three years has increased every year after experiencing negative growth of up to -9.34% in 2020 due to the COVID-19 pandemic. The COVID-19 pandemic that has hit the world, including Bali, has had a significant impact on Bali's economy (Amah et al., 2021; Aristana et al., 2022), including the MSME sector. However, with the COVID-19 pandemic, almost all MSMEs nationally and especially in Bali, experienced a decline in performance (Pramuki & Kusumawati (2020), which can-

be seen from the gross regional domestic growth of regions in Indonesia as presented in the following figure.



Source: BPS (2021)

### Figure 6.3. Growth of Indonesia's Gross Regional Domestic Product

Based on Figure 6.3, when viewed from the growth of GDP, the islands of Bali and Nusa Tenggara experienced the highest decline, reaching 5.01 percent, and contributed the lowest to GDP at 2.94%. This is because Bali's GRDP is strongly supported by the tourism sector. Based on the economic report of Bali Province from Bank Indonesia (2021), the ongoing COVID-19 pandemic had an impact on Bali's economy.

Performance in 2020, which has contracted. Bali's economy in 2020 recorded growth of -9.31% (yoy), decreasing compared to the previous year, which grew 5.60% (yoy). The cause of the decline in Bali's GRDP is that several countries are still carrying out travel restrictions and lockdown policies. This then has an impact on decreasing the number of foreign tourist visits to Bali, thus suppressing tourism

performance. The economic impact of the COVID-19 pandemic has also been felt by the MSME sector.

If it is related to the challenges faced by MSMEs in Bali province, it is certainly inseparable from the fluctuations in the tourism business as the largest contributor sector to the income of Bali Province. Based on initial observations about the problems faced by MSMEs in Bali, it can be concluded that most MSME players in Bali are less able to combine local values and traditions, so most MSMEs in Bali have a short business cycle, which, of course, will have an impact on the performance of the business they live.

Supported by a study conducted by Sunariani et al. (2017), Karta et al. (2018), and Gunawan et al. (2023), Some of the problems faced by MSMEs in Bali include the following.

- 1) Limited education and level of human resource knowledge because most of these businesses grow traditionally and are hereditary businesses, resulting in MSMEs finding it difficult to develop optimally and adopt new technological developments to increase the competitiveness of the products they produce. In other words, the rapid growth of MSMEs is not followed by strategic and managerial capabilities to increase competitiveness.
- 2) MSMEs in Bali also have weaknesses in business networking (networking); the product innovation produced is limited and has less competitive quality.
- 3) Balinese people are known as people who uphold their traditions and customs. The value of local wisdom also affects MSME actors in running a business. Without realizing it, MSME actors in Bali have carried out social responsibility practices based on the value of local wisdom. However, the weak

understanding of the concept of social responsibility and unsupportive resources causes the practice to be not integrated into business strategies.

- 4) The role of stakeholders is still very minimal, so the quantity and quality of Balinese MSME products experience many obstacles. Long bureaucracy, impartial regulations, incompetent resources, and very minimal capital affect the performance and competitive advantage of MSMEs.

The Cooperatives and MSMEs Office of Bali Province, in the 2022 Strategic Plan, stated that the main problems faced by Balinese MSMEs are the low education, skills, experience, and access to information for MSME actors. Most MSMEs do not have adequate entrepreneurial capacity, which can be seen from the MSME business pattern, which is still focused on production and market demand. In addition, there is still low business growth and competitiveness of MSMEs, and there is still a lack of economic and business partnership cooperation involving MSMEs in Bali.

#### **6.4 The Role of Innovation in MSME Sustainability in Bali**

Many companies innovate to survive during increasingly intense competition. The success of many products is determined by the innovations made by the company. Innovation is born from a new idea. The ability to give birth and generate a new helpful idea is known as creativity. Innovation without creativity will not work because innovation and creativity are a unity that cannot be separated and are usually used interchangeably. Innovation is a combination of creativity and commercialization (Stamm, 2008).

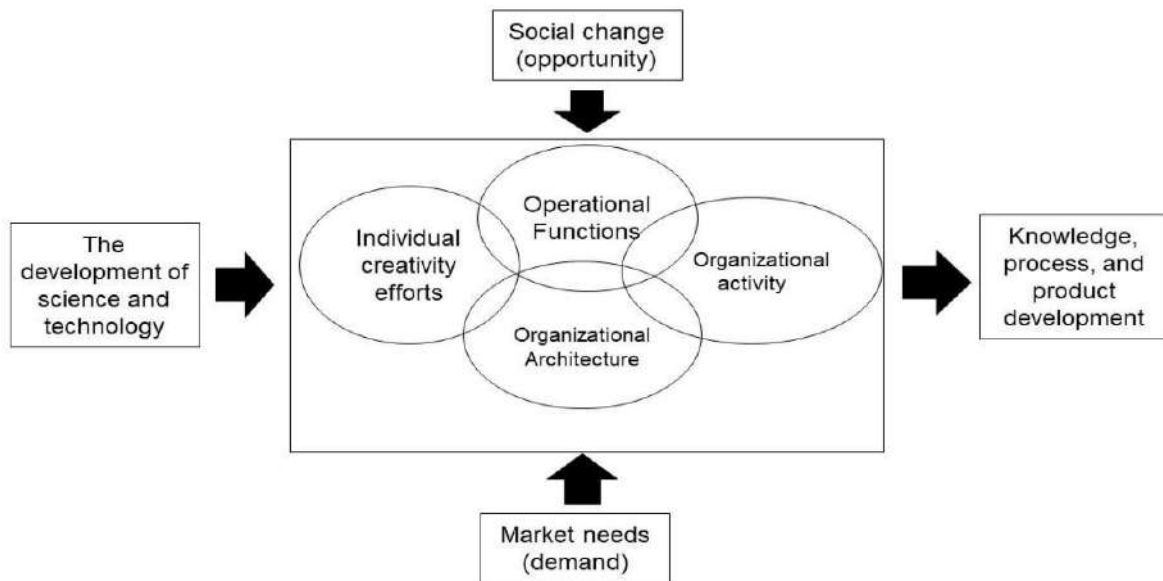
Innovation has various meanings because it encompasses many processes. Innovation is the entire process when an invention is transformed into a

commercial product that can be sold to make a profit. Innovation is not just making a new product. Still, more than that, it has an understanding of managing all activities related to the process of creating ideas, developing technology, production, and marketing of a new product, manufacturing processes, and equipment (Harsasi, 2016).

According to Drucker (2012), innovation is a specific tool for companies to export or take advantage of change as an opportunity to run a different business, which is presented as a discipline, learning, and practice. Ellitian and Anatan (2009) briefly define innovation as changes made in organizations that include creativity in creating new products, services, ideas, or processes both existing in the organization and developing from outside the organization.

Innovation is a process that includes an economic perspective, a business strategy perspective, and organizational behavior that seeks to review internal activities. It was also found that companies established relationships with other companies in the form of trading, competing, and cooperating with each other. Trott (2008) states that the innovation process is a combination of creative efforts from individuals, operational functions, and organizational activities as well as corporate architecture and with driving factors, namely the development of science and technology, social change, and market needs. These elements together result in the organization's efforts to develop knowledge, support processes, and finally be able to develop new products. The innovation process is briefly presented in the following figure.





Source: Trott (2008)

**Figure 6.4. Innovation Process**

Industrial innovation not only includes major (radical) innovations but also minor innovations in the form of increasing technology absorption. This results in the company not only relying on its internal strengths but also requires good cooperation with external parties. In general, the purpose of innovation is viewed from four (4) perspectives, which are as follows (Makmur & Thahier, 2015).

- 1) Budget or financial perspective, which is always looking for innovation to find new ways to use a relatively small budget but get a lot of results.
- 2) Customer perspective, that is, all elements in the company constantly innovate to find many customers and provide the best service.
- 3) Internal business management perspective, namely that every of management must have innovation to create a conducive atmosphere within the company.
- 4) Perspective of growth or expansion of business fields.



Micro, small, and medium enterprises (MSMEs) have become potential as one the competitive advantages, important facilitators of long-term growth, and an essential strategy for the survival of local businesses when competing with large companies, especially in times of crisis as shock absorbers or absorbers of economic contraction especially in Indonesia. Because the MSME sector is the backbone of the world economy and contributes tremendously to employment and added value for developed and developing countries (OECD, 2017).

To achieve a competitive advantage, MSMEs need to align their internal and external resources. This led to a gradual reinforcement of the concept of 'open' innovation first introduced by Chesbrough (2003) to describe a set of practices developed by many.

Organizations enhance their innovative capabilities. The concept of open innovation is a development of dynamic capability theory that emphasizes the ability of companies to achieve competitive advantage. Open innovation is associated with how a company's innovation activities are carried out with other organizations (van de Vrande et al., 2009). The concept of open innovation represents the concept of holistic innovation management that deliberately explores and exploits various sources for innovation opportunities through various channels, such as customers, rival companies, suppliers, academic institutions, and governments (West & Gallagher, 2006). Companies can utilize the resources available within the company and external resources obtained through the establishment of relational relationships with social networks (Borch & Madsen, 2007).

Research shows that open innovation is one way that MSMEs can use to overcome their challenges and increase their profitability (Gassmann et al., 2010).

Some other researchers argue that MSMEs can benefit more from open innovation than large companies because of their less bureaucracy, greater willingness to take risks, and faster ability to react to a changing environment (Parida et al., 2012).

In general, MSMEs can take advantage of several types of innovations to improve business performance and create competitive advantages that can be in the form of product, process, organization, and service innovations. Processing imitation is usually followed by process innovation, which is then described as the industrial innovation cycle. The description of the types of innovation models that can be adapted by MSMEs, as revealed by Harsasi (2016), is presented in the following table.

**Table 6.1. Innovation Type**

Innovation Type	Example
Product Innovation	Product development or improvement
Process Innovation	Development of new manufacturing processes
Organizational innovation	Formation of new divisions, development of internal information systems, development of new accounting systems
Management innovation	Total quality management (TQM) system application
Production innovation	Application of time just-in-time (JIT) system, use of software for new product development, quality control system
Commercial or marketing innovation	Drafting new funding, new marketing approaches, new distribution channels
Service innovation	Internet-based services so that service is faster

Source : Harsasi (2016)

In some competitive contexts, MSMEs represent a particular source of innovation and have the potential to act as an integration system. Although MSMEs are flexible and focused on specific products/services/technologies and can benefit in accelerating innovation, few.

They demonstrate sufficient capacity to self-manage the entire innovation process. This tends to encourage them to collaborate with external companies, organizations, or partners (Edwards et al., 2005; Lee et al., 2010) and adopt a so-called open approach to innovation. Through open innovation, MSMEs can obtain the following benefits (Bogers et al., 2017).

- 1) Reducing research and development costs, MSMEs have limitations in terms of resources and capabilities. Through open innovation, MSMEs can gain new knowledge shared by cooperation partners.
- 2) Cooperation with customers: Through open innovation, MSMEs can attract customers to participate in innovation activities; this can help companies find out customer behavior and market trends that are developing today so that the accuracy of market research activities and customer segmentation becomes more accurate.
- 3) Digital transformation, through open innovation, MSMEs must adjust their structure, culture, and management processes with cooperation partners so that transformation activities to increase innovation activities must be carried out.
- 4) Improve company performance: Through open innovation, companies can obtain new information and knowledge from external parties that can help improve company performance.

Open innovation has helped organizations in creating synergistic relationships between internal and external sources of innovative knowledge. Recently, organizations have begun to involve consumers and other parties who have a direct interest in the development of the final product in their innovation process (Sulistia, 2022). Open innovation can be measured based on breadth and depth indicators of innovation. Related research has been conducted by Hartono & Kusumawardhan (2018), using breadth to measure the number of external knowledge sources applied by companies in innovation activities and depth to measure the extent to which companies are able to absorb knowledge from various existing external sources to carry out innovation activities.

Research and development (R&D) in the concept of open innovation can make an important contribution to MSME innovation (Kim et al., 2016) because R&D activities within companies combine internal research, expertise, and capabilities with external knowledge. Then, in addition to carrying out formal cooperation, information from internal and external parties has a role in increasing the company's knowledge and ability to create new innovations in the company, including MSMEs (Mention, 2011).

### **6.5 Contribution of Innovation to the Sustainability of Bali MSMEs**

The literature review found empirical evidence that MSMEs that survive are MSMEs that quickly adapt and implement good crisis management. MSMEs that are unable to learn, manage knowledge according to changing situations, and innovate do not have the ability to

Survive (Wichitsathian & Nakruang, 2019). The optimization of knowledge sharing is expected to create and strengthen problem-solving strategies,

ultimately fostering their culture of innovation. Empirical research analysis on RBV notes that organizational capabilities or organizational resources and factors related to innovation are important for small business success and key drivers to explain MSME business performance. Based on Barney's RBV theory (1991) and Campbell and Park's (2016) research, organizational capabilities can lead to positive performance through value creation, as well as through innovation and strong network ties (Santarelli & Tran, 2013).

A culture of innovation is very important, especially for MSMEs. The pandemic encourages organizations to continue to innovate by maintaining good relationships with customers, optimizing available resources, and focusing on developing their products (Arsawan et al., 2020). Innovation is seen as important during crises, as business organizations need resistance capabilities by imposing various scenarios in uncertain contexts. MSMEs are generally companies that have a reactive, flexible, and risky organizational structure, but MSMEs tend to be more innovative than large companies.

Historically, technological advances have been a major force behind sustaining economic growth, improving living standards, and offering better health outcomes. Overall, investment in science and innovation has been resilient in the face of the biggest economic downturn in decades. Based on the 2022 Global Innovation Index report released by the World Intellectual Property Organization (WIPO), Indonesia achieved a score of 27.90 and ranked 75 out of 132 countries. Indonesia also managed to rise 12 places from the ranking in 2021 (Sulistia, 2022). However, this ranking is still low compared to other ASEAN countries such as Singapore, Malaysia, Thailand, the Philippines, and Vietnam. This is due to several factors, namely the low investment of Indonesian companies in research and development, indicating-

market failure factors contributing to low innovation in Indonesia. When there is a market failure, the government usually intervenes in policies and institutions. In this case, the problems faced by Indonesia are weak law enforcement on intellectual property rights, low research budget, low quality of education, underdeveloped research universities, and lack of support for foreign trade policy. Without a strong reason why a nation needs to innovate, government intervention in the form of policies and institutions will only lead to mismanagement and reallocation of resources (Abdini, 2022).

Developing a company's innovation, including MSMEs, must not only rely on the strengths of internal ones. Collaboration with external parties is very necessary and useful to limit the cost of innovation, time efficiency, technology development, minimize risk, find new ideas, and for solving common problems (Alfarobi, 2022). Open innovation has helped organizations in creating synergistic relationships between internal and external sources of innovative knowledge.

This also applies to MSMEs in the province of Bali. Based on initial observations about the problems faced by MSMEs in Bali, it can be concluded that most MSME players in Bali are less able to combine local values and traditions, so most MSMEs in Bali have a short business cycle, which, of course, will have an impact on the performance of the business they live. The mentality of MSME actors, namely the spirit of entrepreneurship, can also be said to be still low. The spirit referred to here is the willingness to continue to innovate, tenacious without giving up, willing to sacrifice, and dare to take risks. The rural atmosphere that is the background of MSMEs often has a role in shaping performance. For example, the rhythm of MSME work in the regions runs casually and less actively, so it is often the cause of missing opportunities. (Sunariani, et al (2017).



In fact, Bali is creative. This trait is inherent in almost all segments of people's lives. When in the space of religiosity, the community does not just arrange offerings, but there are many creative elements in their presentation. When in free spaces, many things can be done, such as making paintings, sculptures, craft knick-knacks, and more, which proves that no space and time is wasted. In some ways, people are even able to use their free time for big things, and this is one of the forerunners of the growth of innovation.

Tourism is a sector that has a broad multiplayer effect and provides opportunities for various industries to develop through services to the needs of tourists. Through contact with the world of tourism, local cultural products develop more rapidly secularly with creative innovations to meet the satisfaction of the tourist market. This innovation is needed to adapt the local products made to the perception of tourists about the area they visit. In the early stages of this development, various resistances from local communities will emerge because new products offered to tourists are considered to pollute local culture. However, with the development of the economy and technology in society, innovations in various cultural products and their modern use will be increasingly acceptable to the community (Abdullah, 2016).

Without innovation and business transformation, MSMEs will find it difficult to recover from the crisis amid the pandemic. Especially in today's digital ecosystem, there are so many changes that take place so quickly, especially from the latest product trends. Research by Alfrian and Pitaloka (2020) explains that there are four survival strategies for MSMEs, including MSMEs in Bali, namely, 1) marketing with digital marketing, 2) strengthening human resources, 3) carrying out creative innovation, and 4) improving services to consumers. The following is



a summary of the contribution of innovation to the sustainability and sustainability of Balinese MSMEs.

Brief research was conducted on MSMEs in Bali regarding the type of innovation used by taking 300 samples of MSMEs based on literature. Harsasi (2016) presented the summary as follows.

**Table 6.2. Implementation of Innovation Types in MSMEs in Bali**

<b>Innovation Type</b>	<b>Number of MSMEs (Unit)</b>	<b>Percentage (%)</b>
Product	57	19
Organization	0	0
Management	2	1
Process	80	27
Marketing	138	46
Service	23	8
<b>Total</b>	<b>300</b>	<b>100</b>

Source: Research Results, Data processed (2023)

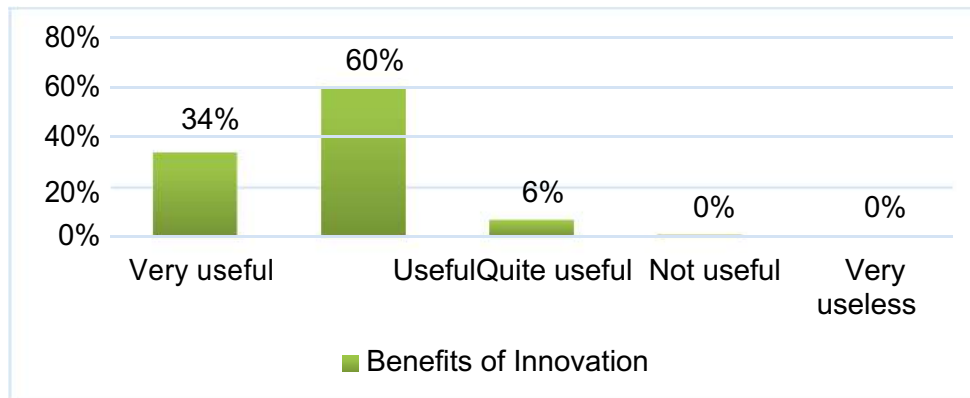
Based on Table 6.2, it can be explained that most MSMEs in Bali carry out marketing innovations (46%), one of which is approaching new marketing methods, namely through various social media platforms (digital marketing). Many Balinese MSMEs are now marketing their products through marketplaces or selling online with various benefits. In addition, the government always conducts coaching and provides innovation training, be it digital / marketing innovation, products, and so on. The goal is to market its products widely and not only utilize the conventional-

market so that MSME products are widely known in the global market.

In addition to marketing innovation, as many as 27% of Balinese MSMEs innovate processes, namely creating new business processes that are more effective and efficient. Process innovations carried out by Balinese MSMEs include the creation of a more efficient inventory management system, improvement in the quality of product delivery, and the use of an easier and more efficient payment system. Now, Balinese MSMEs have done a lot of payment processes using QRIS services or transfers to minimize the use of cash (cashless). Balinese MSMEs also innovate products (19%), including developing more modern product output. The COVID-19 pandemic has indirectly forced MSME players to release all their creativity so that the products produced look more modern, attractive, and durable. One of them is to change various food ingredients that originally spoiled quickly to be more durable by drying/preservation. In addition, there are several MSMEs innovating products by changing and adding painting techniques to products to increase the economic value and sales of these products. This innovation is mostly carried out by handicraft MSMEs.

There is an interesting thing when the results of this research are obtained, namely that only a few MSME actors in Bali innovate services (8%), management (1%), and even no MSME actors innovate organizations. This can be a recommendation for stakeholders to encourage and coach MSME actors in Bali to innovate services, management, and organizations. One of the implementations of service innovation carried out by MSME players in Bali is to use internet-based services so that services to consumers become faster.

The results of the research also explore the perceptions of MSME actors regarding the benefits of innovation for the sustainability of the business carried out. The following picture presents the perception of Balinese MSME actors towards benefiting innovation.



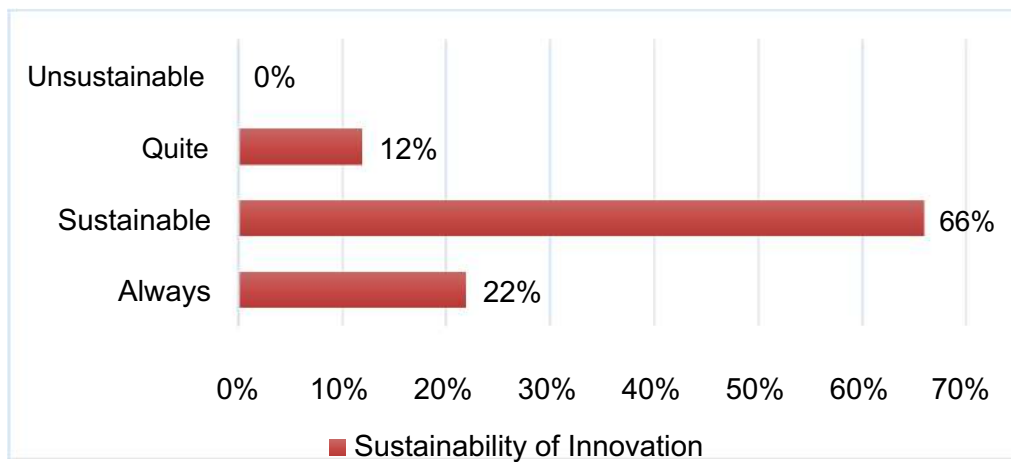
Source: Primary Data, Processed (2023)

**Figure 6.5. Benefits of Innovation for Balinese MSMEs**

Figure 6.5 shows that most MSME players state that innovation provides significant benefits for the continuity of the business they run. As many as 60% stated that innovation is beneficial for business, 34% stated that it is very useful, and only 6% of MSME players in Bali stated that innovation is quite beneficial for the continuity of their business/business. This indicates that innovation can help companies find new ways to increase productivity, reduce costs, and improve the quality of products and services offered.

Innovation is one way that can be done by MSME players in Bali to survive during the challenges of changing times that cannot be avoided, such as advances in technology and information changes. This results in business actors having to innovate continuously to have a qualified competitive advantage later.

The following is a summary of the perceptions of MSME actors in Bali regarding the sustainability of the innovation process.



Source: Primary Data, Processed (2023)

### Figure 6.6. Sustainability of Innovation

Based on Figure 6.6, it can be explained that almost all MSME players in Bali innovate sustainably. As many as 66% stated that the business they run innovates continuously and is usually done if their business activities find problems or threats, both internal and external. It is proven that when the COVID-19 pandemic case hit the Balinese economy, causing various problems and threats that significantly affected the survival of the business they run, it is absolute and inevitable MSME players in Bali must innovate to maintain their business. However, there are some MSME players (12%) who always innovate and do not see something as a problem or threat. These innovative MSME actors seem to see everything that affects the course of their business as an opportunity that must be utilized as well as possible, which is characterized by always making small improvements or improvements to existing products or services. This is done because its goal is to continuously compete-

and increase its competitive advantage in the market.

When MSME players innovate, of course, they cannot avoid the various obstacles faced. These obstacles can come from within the organization or from external parties of the company. Based on the results of research, information was obtained that as many as 62% of MSME players in Bali are very constrained in the process of implementing innovations that have been made, while the remaining 38% stated that these obstacles must exist but can still be overcome quickly. There are two main obstacles faced by MSME players in Bali in implementing the innovations that have been made, namely:

- 1) In the process of creating an innovation idea, it turns out that the company involves only the management team. The company has not involved all members of the organization in the formulation of ideas and innovation strategies for the business it runs, so there is resistance or resistance to the process of change that occurs during its business.
- 2) Infrastructure, social, and behavioral problems. The distribution of digital infrastructure as one of the innovation tools has not been evenly distributed throughout Bali and Indonesia, becoming an obstacle for MSME players to innovate in the digital era. In addition, even though it already has digitalization support facilities, relatives are rarely used to obtain useful information for the progress of the company.

## **6.6 The Government's Role in MSME Innovation in Bali**

The role of the government in supporting the innovation of Micro, Small, and Medium Enterprises (MSMEs) in Bali is very important. The government has

a strategic role in creating an environment that supports the growth and development of MSMEs and encourages them.

Only affects economic growth but can also help in maintaining and preserving local culture. With the right support from the government, MSMEs in Bali can become more innovative and competitive and contribute more to the economy and sustainable development. Some of the things that become the role of the government in supporting the development of innovation in Bali include:

1. policies to protect MSME intellectual property related to product innovation, such as trademarks and patents.
2. Universities and research institutions to provide research resources and technical assistance to MSMEs that seek to innovate.
3. to MSMEs, such as low-interest rate loans or grants, to support innovation and business development projects.
4. developing an innovation ecosystem that supports MSMEs, which is realized by establishing business incubators, cooperation spaces, and innovation centers in collaboration with universities and the private sector to increase innovation in MSMEs.

## **6.7 Conclusion**

Based on the above review and explanation regarding the role of MSMEs in the Balinese economy and the contribution of innovation to MSME sustainability, it can be concluded that MSMEs are actually felt to play a role for Bali Province because in the midst of economic contraction, Micro, Small and Medium Enterprises (MSMEs) have a big role in reviving the Balinese economy. In addition to having an economic impact, the existence of MSMEs also has a social impact,

one of which is to provide opportunities to maintain local culture because the products produced are related to cultural and artistic heritage and one of the forums for women's empowerment because MSMEs provide opportunities for women to participate in economic activities. Thirty percent (30%) of MSME players in Bali are women, which indicates the beginning of gender equality in running a business.

Without innovation and business transformation, MSMEs will find it difficult to recover from the crisis during a pandemic. Especially in today's digital ecosystem, there are so many changes that take place so quickly, especially from the latest product trends. There are several types of innovations that can be done by MSME actors. Most MSMEs in Bali carry out marketing innovations (46%), one of which approaches new marketing methods, namely through various social media platforms (digital marketing); 27% innovate processes, one of which is using an easier and more efficient payment system, namely using QRIS services or transfers so as to minimize the use of cash (cashless). Balinese MSMEs also innovate products (19%), one of which is by changing various food ingredients that originally spoiled quickly to be more durable by drying/preservation. In addition, there are especially handicraft MSMEs, innovating products by changing and adding painting techniques to products so as to increase the economic value and sales of these products. However, only a few MSME players in Bali innovate services (8%), management (1%), and even no MSME players innovate organizations. This can be a recommendation for stakeholders to encourage and coach MSME actors in Bali to innovate services, management, and organizations.



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# CHAPTER 7

## Knowledge Management Orientation as SME Resilience in Disruption Era

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### Abstract

This article explores the challenges posed by the disruptive era in the business environment and the importance of adapting to change. It emphasizes the role of Knowledge Management Orientation (KMO) in improving company performance and resilience. The article discusses key components of KMO, including organizational memory, knowledge sharing, knowledge absorption, and knowledge receptivity. Practical strategies for implementing KMO are provided, highlighting the significance of knowledge retention for Micro, Small, and Medium Enterprises (MSMEs) to navigate the era of disruption successfully.

**Keywords:** Business environment, Knowledge Management Orientation (KMO), company performance, Micro, Small, and Medium Enterprises (MSMEs)

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<https://doi.org/10.11594/futscipress47>

## **7.1 SME's On Disruption Era**

The current business environment is faced with intense pressure globally. Businesspeople on a corporate scale, micro-scale, and micro-scale are required to adapt to change and uncertainty. Changes in the business environment have entered the era of disruption, which has no precedence in the past and is unpredictable<sup>1,2</sup>. The era of disruption begins with the development of technological sophistication. The sophistication of digital era technology has changed human behavior in communicating, shopping, searching for information, and doing business as a whole. The era of disruption will increase uncertainty and change rapidly with new technologies and innovations changing the way traditional business operates.

Business actors who are unable to adapt to technological updates face big challenges in maintaining the market. The era of disruption has forced business actors to be more responsive, innovative, and adaptive to ongoing changes. On the other hand, information disclosure and technological updates can provide space for business players to create innovations, develop business scale, or expand markets. However, these benefits will be difficult to capture when business people are reluctant to create databases and share knowledge and information<sup>4</sup>. Even though the era of disruption opened up space for development, MSMEs are faced with uncertainty, instability, and increased business risk. MSMEs will be required to compete with innovative startups and often have greater flexibility in dealing with change. MSMEs must adapt to changes in business systems in response to environmental changes they face, for example, switching to the use of online-based business systems <sup>5</sup>.

MSMEs in Indonesia have had a long history of supporting the economy both on a micro and macro basis. The ability of MSMEs to move the wheels of the economy can be seen from the absorption of labor in their business. Based on 2021 BPS (Central Bureau of Statistics) data, the absorption capacity of MSME workers has continued to increase since 1998. It can be seen that during the 1998 crisis, there were 64 million workers; this increased to 114 million workers. The Ministry of Cooperatives and Small and Medium Enterprises (KemenkopUKM) in March 2021 stated that the number of MSMEs had reached 64.2 business units with a contribution of 61% to the gross domestic product or IDR 8,573 trillion. The increase in the number of MSMEs is linear, with an increase in labor absorption by being able to absorb 97% of the total workforce and collect 60% of the total investment in Indonesia. Not only that, the resilience of MSME actors in facing economic pressures is also demonstrated by the increasing number of business actors in several regions in Indonesia<sup>7</sup>.

This phenomenon explains the adaptability of MSMEs to the environmental changes they face. The adaptability of MSMEs to environmental changes has made MSMEs a productive business unit and a locomotive for supporting the macro and micro economy in Indonesia. In this context, it is important for MSME players to develop strategies that can overcome the challenges of the era of disruption by building a culture of innovation, increasing adaptability, utilizing digital technology, establishing strategic partnerships, and strengthening understanding of changing customer needs and preferences, as well as being able to manage and optimally utilize knowledge within the company<sup>8,9,10</sup>.

## **7.2 Types of Knowledge**

### **7.2.1 Explicit Knowledge**

Explicit knowledge is a key element in knowledge management that plays a crucial role in modern organizations. In this paragraph, we will provide a detailed explanation of what explicit knowledge means, its main characteristics, its role in organizations, and how to manage it efficiently. Explicit knowledge refers to the type of knowledge that can be expressed, articulated, and documented clearly. It is knowledge that can be communicated tangibly through written or spoken words. Explicit knowledge is often reflected in the form of data, facts, and information expressed in written documents, reports, books, manuals, guides, notes, or in digital formats such as databases and document management systems. One significant characteristic of explicit knowledge is that it can be proven and tested for its accuracy with objective facts or evidence. For example, a company's annual sales data, instructions in a programming guide, or product information listed in a brochure are examples of explicit knowledge. This explicit knowledge has an organized and clear structure, making it easily accessible and understandable to others.

Explicit knowledge plays several essential roles in organizations:

**Supporting Informed Decision-Making:** Explicit knowledge serves as the foundation for information-based decision-making. Data, facts, and information available in the form of explicit knowledge help managers and leaders in organizations make better-informed decisions.

**Facilitating Learning and Training:** Explicit knowledge plays a vital role in the learning and training processes. It is used to create training courses, manuals,

guides, and other learning materials that help employees improve their skills and knowledge.

**Enabling Collaboration:** Organizations can combine explicit knowledge from various sources to support collaboration among teams, departments, and business units. This aids in solving complex problems and advancing joint projects.

**Enhancing Efficiency and Productivity:** Explicit knowledge allows organizations to develop standard procedures and work guides that can improve efficiency and productivity. Documenting business processes helps reduce errors and enhance service or product quality.

**Managing Risk:** Explicit knowledge can be used to analyze risks and make better decisions in addressing them. This helps organizations avoid potential problems and take appropriate actions when risks occur.

**Ensuring Business Continuity:** Explicit knowledge plays a crucial role in maintaining business continuity. Documentation of business processes, IT systems, and emergency procedures can help organizations deal with emergencies or changes in key personnel.

In addition to its significant roles, the management of explicit knowledge is an integral part of knowledge management within an organization. Managing explicit knowledge involves a series of practices and procedures designed to collect, organize, store, and efficiently distribute this knowledge. The key steps in managing explicit knowledge include:

**Collecting and Identifying Relevant Sources:** This involves gathering and identifying relevant sources of explicit knowledge, which may include internal documents, data, reports, or other valuable information.



**Documentation:** Converting implicit knowledge into a written or digital form that can be accessed by individuals or other members of the organization. This may involve creating manuals, guides, or reports based on the available knowledge.

**Indexing and Metadata:** Establishing an efficient indexing system and using appropriate metadata to aid in searching and categorizing knowledge. Metadata provides additional information that describes content and helps identify, categorize, and group documents or information.

**Storage:** Ensuring that explicit knowledge is stored securely, easily accessible, and available to those who need it. Document management systems or databases are essential tools for storing explicit knowledge.

**Updating and Revision:** Ensuring that explicit knowledge is periodically updated to maintain its accuracy. Also, documents or guides should be revised when there are changes in business processes or practices.

**Distribution:** Providing appropriate access to individuals or teams that require explicit knowledge. This can be done through knowledge-sharing portals, email, or document management systems.

**Training and Communication:** Ensuring that members of the organization know how to effectively utilize explicit knowledge. This may involve training in the use of knowledge management tools and internal communication about the availability of explicit knowledge.

With efficient management, explicit knowledge can become a highly valuable asset for an organization. It can enhance efficiency, productivity, and the organization's ability to make informed decisions. Additionally, explicit knowledge aids in adapting to changes, managing risks, and maintaining business continuity.

Therefore, modern organizations must give serious attention to the management of explicit knowledge to fully harness its potential.

### **7.2.2 Tacit Knowledge**

Tacit knowledge is a type of knowledge that is difficult to communicate or formalize. Tacit knowledge emerges from within individuals, driven by factors such as experience, beliefs, intuition, and personal insights. Tacit knowledge is often reflective and resides in the subconscious mind. Tacit knowledge is highly significant in the context of businesses and organizations as it can drive competitive advantage. Tacit knowledge can result in unique decision-making for an organization. The uniqueness of tacit knowledge stems from how individuals think, differing experiences, or unique intuitions that set them apart from others, leading to innovative solutions. In certain contexts, tacit knowledge can facilitate more efficient and effective execution of tasks. An individual's understanding of tacit knowledge contributes to organizational learning. Organizations can learn and adapt more quickly when they leverage tacit knowledge from their employees, facilitating a culture of continuous learning and improvement. Tacit knowledge is often used as a critical solution to address complex problems that cannot be resolved solely with explicit knowledge or written information.

The importance of tacit knowledge can be compared to explicit knowledge, which is formal and easily articulated and documented information. Explicit knowledge encompasses facts, data, procedures, and information that can be written, stored, and shared. It can be found in textbooks, manuals, databases, and other written documents. On the other hand, tacit knowledge is informal and challenging to codify. It includes insights, intuitions, skills, and personal experiences inherent to individuals. Tacit knowledge resides in the minds of

humans and is often shared through personal interactions, observations, and direct experiences. Explicit knowledge and tacit knowledge are two complementary forms of knowledge within organizations. Explicit knowledge can be used to codify and document processes, while tacit knowledge provides context, judgment, and nuances necessary for effectively applying that knowledge.

Effectively harnessing tacit knowledge is crucial for organizations to address unforeseen challenges. Several strategies can be employed for this purpose. Firstly, organizations can create communities of practice by placing employees with similar roles or expertise into interactive groups, enabling them to share experiences and learn from each other. Such communities facilitate the transfer of tacit knowledge through interactions among employees. Secondly, organizations can encourage mentoring programs where experienced employees pass on their tacit knowledge to newer ones through direct training and observation. This helps preserve valuable skills. Thirdly, the use of storytelling techniques is a powerful way to transfer tacit knowledge. Employees can be invited to share stories about their experiences, challenges, and solutions. Storytelling sessions can become a formal part of the organizational culture. Fourthly, organizations can organize workshops or training sessions specifically designed to capture and transfer tacit knowledge. These sessions can focus on problem-solving techniques, decision-making processes, or other skills that are difficult to document. Fifthly, although tacit knowledge is challenging to fully document, it is still possible to create repositories that capture essential insights, best practices, and lessons learned. These repositories can include videos, audio recordings, or written narratives. Sixthly, organizations can leverage technology to

facilitate knowledge sharing. This may involve creating internal social networks, collaboration tools, or artificial intelligence (AI) systems that help locate relevant tacit knowledge within the organization. Lastly, recognition and incentives can motivate employees to contribute to sharing and capturing tacit knowledge voluntarily. While capturing and managing tacit knowledge is crucial, there are several challenges in this process. Firstly, some employees may be reluctant to share their tacit knowledge, fearing that it may diminish their value in the organization or that others may misuse their expertise. Secondly, tacit knowledge is challenging to codify, making it difficult to store and retrieve when needed.

### **7.2.3 Implicit Knowledge**

Implicit knowledge represents a critical yet often overlooked aspect of knowledge management within various organizational contexts. This form of knowledge is challenging to articulate explicitly and is deeply rooted in an individual's experiences, skills, intuition, and mental processes. Unlike explicit knowledge, which can be readily documented and conveyed in a clear and structured manner, implicit knowledge remains largely unspoken and resides within the minds of individuals. The key characteristic of implicit knowledge is its unstructured nature. It defies easy categorization or description because it is intimately connected to an individual's unique perspective and personal experiences. This type of knowledge is challenging to codify into explicit forms, making it elusive to traditional knowledge management techniques.

Implicit knowledge plays a pivotal role within organizations despite its intangible nature. Its significance can be observed in various organizational functions and contexts:

**Skills and Expertise:** Implicit knowledge often encompasses practical skills and expertise that individuals acquire through hands-on experience. For instance, a seasoned craftsman possesses tacit knowledge about the precise techniques needed for crafting intricate designs, knowledge that may be challenging to convey in written instructions.

**Intuition and Personal Insight:** Implicit knowledge often underlies an individual's intuition and personal insights. Experienced professionals frequently rely on their tacit knowledge when making judgment calls, even when they cannot explicitly explain their reasoning.

**Leadership and Decision-Making:** Leaders often rely on their tacit knowledge when making strategic decisions. They draw upon their personal experiences and gut feelings, which are rooted in implicit knowledge, to navigate complex challenges.

**Organizational Culture:** Implicit knowledge is intricately linked to an organization's culture, norms, and values. This cultural knowledge guides employees' behaviors and actions, even though it may not be explicitly documented.

**Innovation:** Implicit knowledge can be a catalyst for innovation. When employees feel comfortable sharing their intuitions and unconventional ideas, organizations can harness the power of tacit knowledge to drive creative solutions.

It's important to recognize that explicit and implicit knowledge are not mutually exclusive; rather, they often coexist and complement each other. Explicit knowledge can serve as a foundation upon which tacit knowledge is built, and vice versa. For example, a professional handbook may provide explicit instructions, but it's often the tacit knowledge gained through practical experience that truly enhances one's mastery of a subject.

### **7.3 Knowledge Management Orientation Introduction**

The concept of Knowledge Management Orientation (KMO) is derived from the basic concept of knowledge management<sup>11</sup>. Knowledge Management Orientation (KMO) is a process for acquiring, sharing, and applying knowledge as a corporate asset<sup>12</sup>. Knowledge Management Orientation (KMO) can be used as a company's relative tendency to build regulations and strategies that are achieved (organizational memory) as well as tendencies to share (share knowledge), assimilate (absorb knowledge), and receive updated information and knowledge<sup>13</sup>.

Knowledge Management Orientation (KMO) is based on an organization's ability to create a learning culture, facilitate knowledge sharing, and manage and use knowledge effectively. The application of Knowledge Management Orientation can be measured using the following indicators: Knowledge Management Orientation (KMO) was adopted from research<sup>1,12,13,14</sup>.

## **7. 4 Knowledge Management Orientation Component**

### **7.4.1 Organizational Memory (OM)**

Organizational memory is defined as knowledge learned from previous experience as a basis for decision-making. Knowledge and information come from experience, regulations, goals, assumptions, and past behavior. The benefits of organizational memory are generally used for a centralized and structured approach to distributed knowledge. In that sense, organizational memory has a knowledge storage function as well as a starting point for the knowledge acquisition process in the future. Ideally, organizational memory should provide a



mechanism that captures organizational lessons, preserves lessons for future use, and facilitates the basis for decisions decision-making.

#### **7.4.2 Sharing knowledge (knowledge sharing/KS)**

Knowledge sharing is often referred to as the process of transferring knowledge, skills, and technology between sub-units owned by an organization. Organizational willingness to share knowledge is highly dependent on the role of decision-makers in the company. The exchange of information and knowledge is very necessary to create a company's competitiveness, especially if the company depends on tacit knowledge applied in company practices.

#### **7.4.3 Absorption of knowledge (knowledge absorption/KA)**

Knowledge absorption is defined as the company's ability to recognize the value of updated information and knowledge, assimilate it, and then apply it. Absorption of knowledge is a key point in the exploration and exploitation of knowledge. Knowledge exploration focuses on activities to detect and obtain new information and knowledge, while knowledge exploitation emphasizes activities to utilize available information and knowledge. In the exploration process, the role of knowledge absorption is to transform the resulting information into knowledge that is embedded within the company. This context involves evaluating and filtering information according to the suitability of benefits for the company. Whereas in the exploitation process, the company will focus on activities to understand various types of knowledge, maintain knowledge according to its different nature, and choose effective ways to utilize each type of knowledge.

#### **7.4.4 Acceptance of knowledge (knowledge receptivity/KR)**

Acquisition of knowledge reflects the ease with which new ideas are taken up within the firm. This relates to new ideas and knowledge then being conveyed,



responded to and evaluated by stakeholders in the company. People must have a positive disposition toward new knowledge if that knowledge is to be integrated effectively into company operations. The context of receiving knowledge can be reflected through the involvement of employees who have curiosity, are willing to explore new ideas, and consider the possibility of implementing these new ideas, as well as the encouragement of managers in encouraging employees to contribute new ideas without fear. Conceptually, closely related to Knowledge acquisition is the concept of 'problem orientation' - the degree to which new ideas are judged according to their merits and detached from the identity and status of the contributors. Problem orientation helps open channels of communication and strengthens mechanisms for evaluating the quality and usefulness of information processed.

## **7.5 Knowledge Management Orientation on SME's Performance**

The concept of knowledge management orientation refers to an organization's ability to create a learning culture, share knowledge activities, and manage information effectively. Referring to the resource-based view theory, knowledge management orientation (KMO) is one of the intangible assets that is a factor in supporting the improvement of company performance. Several studies have explained the relationship between knowledge management orientation and increased company performance 13,14,15. This relationship is formed when existing knowledge within the organization is used to improve organizational performance by increasing the company's capability to produce performance effectively<sup>11</sup>. In other words, the application of knowledge is believed to be the key to business success.

Farooq and Vij15 also state that the effective application of knowledge will help reduce costs and gain a market competitive advantage, which will ultimately improve company performance. Not only that, Knowledge Management Orientation in companies that are not managed properly will hinder and weaken the effectiveness of company activities. Utilization of Knowledge Management Orientation will generate and disseminate external knowledge about the market and steps in its utilization to deal with market uncertainty<sup>13</sup>. In addition to the effective application of knowledge that can improve company performance through reducing costs, knowledge management orientation (KMO) can also encourage companies to create an environment or organizational culture that supports the process of creating innovation.

A productive company environment will encourage employees to follow processes, procedures, and structures as a reference in creating production efficiency. Other things that can encourage the use of knowledge management orientation in improving company performance include explaining that the codification and storage of past knowledge, including valuable information, can stimulate and encourage employees to solve problems more quickly and consistently. Furthermore, databases in the form of documents, regulatory projects, patents, licenses, and administrative permits are the starting point for creating updated information<sup>16</sup>. In other words, the knowledge management orientation relationship is a complex relationship. In this case, companies must not only see how knowledge management is implemented but companies must also develop knowledge management capabilities so as to encourage employees to exploit knowledge management in improving company performance.

## **7.6 Knowledge Management Orientation Shaping SME's Resilience**

Based on the findings of Dunga's research (2022), knowledge management orientation does not improve performance when the knowledge possessed by companies or MSMEs is general knowledge. Furthermore, Knowledge Management Orientation does not have a massive impact on the company when the process of obtaining, absorbing, utilizing, and receiving information has not been implemented systematically and measurably by the company. The application of a knowledge management orientation to business in the long term will enable business actors to be more effective and dynamic in running their business. However, the process of implementing a knowledge management orientation for MSME actors must be accompanied by human resource skills in managing information and the availability of systems that support the implementation of knowledge management in companies, which include storing company knowledge, sharing knowledge, absorbing knowledge, and receiving knowledge.

Knowledge management orientation is a company's intangible asset that can be used to improve company performance and competitiveness. Business actors can start by setting up a system to store and capture knowledge. Information and knowledge with a good management system can then be shared with all the company's human resources so that they can be absorbed and accepted. So, in the long term, the orientation of knowledge management can be the basis for preparing corporate strategic and tactical planning.

Knowledge Management Orientation is needed by companies, especially those on a micro scale, to survive in the era of disruption. Implementation of Knowledge Management Orientation for SMEs involves strategies and practices to effectively retain critical knowledge within the organization. Retaining knowledge

is particularly important for SMEs due to their limited resources and potential vulnerability to knowledge loss when employees leave or retire. Tactical steps that can be used by MSMEs to implement Knowledge Management Orientation include:

#### **7.6.1 Identify Critical Knowledge**

The initial process is carried out by identifying key knowledge areas that are critical for the success of the business. This includes both explicit knowledge (documents, manuals, procedures) and tacit knowledge (expertise, experiences, insights) held by employees. Understanding the specific knowledge that needs to be retained will help prioritize retention efforts.

#### **7.6.2 Capture and Document Knowledge**

Implement processes and mechanisms to capture and document critical knowledge. Encourage employees to document their expertise, lessons learned, and best practices. This can be done through knowledge-sharing sessions, interviews, or structured documentation templates. Creating a knowledge repository or a centralized platform can facilitate easy access and retrieval of knowledge.

#### **7.6.3 Create a knowledge-sharing culture.**

Foster a culture of knowledge sharing and collaboration within the organization. Encourage employees to share their knowledge and experiences with their colleagues. Provide platforms, such as internal forums, wikis, or collaborative tools, to facilitate knowledge exchange. Recognize and reward employees who actively contribute to knowledge-sharing initiatives.

#### **7.6.4 Mentorship and Succession Planning**

Implement mentorship programs to facilitate knowledge transfer from experienced employees to younger or newer employees. Encourage senior-

employees to mentor and guide junior staff, passing on their expertise and insights. Develop succession plans to identify and groom potential successors for key roles, ensuring a smooth transition and knowledge continuity. Continuous Learning and Development

Invest in training and development programs to continuously enhance the knowledge and skills of employees. Offer opportunities for employees to learn new technologies, industry trends, and best practices. This not only enhances the knowledge base within the organization but also helps employees feel valued and motivated, reducing turnover.

#### **7.6.5 Leverage Technology**

Utilize technology tools and platforms to support knowledge retention efforts. Implement knowledge management systems, document repositories, or collaboration tools that enable easy access to information and knowledge sharing. Leverage digital learning platforms for training and development initiatives. Use technology to capture and preserve critical knowledge, ensuring its availability for future reference.

By implementing a Knowledge Management Orientation focused on retention, SMEs can preserve critical knowledge, mitigate the risks associated with knowledge loss, and foster a learning culture within the organization. Retaining knowledge ensures the continuity of operations, supports innovation and growth, and enables SMEs to build a competitive advantage in their industry.

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# CHAPTER 8

## Increasing SME Competitiveness through Digital Technology

Moh. Erfan Arif

### Abstract

Small and medium enterprises (SMEs) need to be supported by various parties so that their strategic roles, such as employment, economic stability, and others, can be felt by the community. SMEs that can make a big contribution to society are those that have competitiveness, could maintain their position in the market by meeting product supply, and are able to respond quickly to changes in demand. SMEs need to have competitiveness because they face intense competition, not only with local products but also with imported products. This competitiveness can be determined by business environmental factors and the capabilities possessed by SME owners. Competitiveness can be built by improving the quality of human capital, which includes experience, abilities, knowledge, and expertise. One significant effort to increase the competitiveness of SMEs is by utilizing digital technology, which can make it easier to reach the target market. The use of digital technology through various types of platforms in business also opens opportunities for SMEs to not only serve local markets but also internationally. The opportunity for SMEs to reach foreign markets needs to be fully supported by the government and related parties because the number of export-oriented Indonesian SMEs is still small. In other words, optimizing the use of digital technology by SMEs can expand market reach, both domestic and foreign, which will automatically contribute to the international trade balance.

**Keywords:** SME competitiveness, competition, digital technology, internationalization

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<https://doi.org/10.11594/futscipress48>

### **8.1 Competitiveness and Sustainability of SMEs**

The Small and Medium Enterprises (SME) sector in Indonesia plays an important role in driving economic growth because it is one of the most dynamic and diverse developing sectors. The big role of SMEs in the economy does not only apply to developing countries like Indonesia but also to developed countries. SME activities can directly make a major contribution to the country's Gross Domestic Product (GDP), playing a role in job creation and community empowerment (Tambunan, 2012).

The expected strategic role of SMEs in the form of economic stability of a country is very dependent on the performance of these SMEs. The dependence of economic stability on SMEs is due to their strategic role in absorbing labor, developing entrepreneurship, and increasing business skills (Ayandibu & Houghton, 2017). Apart from that, (Das et al., 2020) emphasized that SMEs contribute greatly to ensuring the sustainability of the country's and regional economies. However, the competitiveness of Indonesian SMEs currently still needs improvement so that their positive role becomes greater.

Irawan Prilianti (2020) emphasized the large role of SMEs as reliable drivers of the country's economy because this SME group has high survival power in facing various economic turmoil, both local and global. In various cases of economic recession, SMEs can still maintain and increase their contribution to regional and national economic growth, as well as increase state tax revenues (Febriyantoro & Arisandi, 2018).

Based on the results of the economic census in Indonesia in 2020, the number of SMEs that are the basis of people's lives reached 64.2 million. This

number is more than 20% of the total population of Indonesia. A number of SMEs have proven capable of absorbing 98.5% of the workforce, contributing to GDP absorption of 61.07% and collecting 60.4% of total investment (Indrawati, 2021). The large role and contribution of SMEs to the economy shows the importance of the efforts of the government or various parties in fostering and developing them. Regarding the large role of SMEs, various efforts must be made to ensure their existence is guaranteed. Moreover, the challenges faced by SMEs currently do not only come from within, but the invasion of products from abroad is also a real threat. Various efforts to develop SMEs include the aim of increasing their competitiveness in facing competition and threats from various sides. So that its existence continues to provide great added value to the country's economy. Consequently, SMEs need to strengthen themselves so that they have sufficient competitiveness to face competition (Oktaviana & Widiastuti, 2018).

Competitiveness is interpreted by Daryanto & Hafizrianda (2010) as the ability to maintain its position in the market by meeting product supply appropriately, quickly, and at competitive prices flexibly, being able to respond to changes in demand quickly and through product differentiation. This will be one of the keys to success for SMEs in increasing their innovation capacity and effective marketing. Competitiveness is also defined as the strength in trying to be superior to competitors and the rate of change in added value for each unit of input that the company will obtain (Rasbin & Ginting, 2011).

As one of the key factors, the process of creating competitiveness cannot be separated from business activities, especially in the process of producing products, both goods and services, in order to win the competition. Competition is a natural thing in business, so SMEs are required to have the ability to achieve

economic profits above the profits achieved by competitors in the market. The task of SME businesspeople is not to eliminate competition but to manage, face, and win this competition.

Porter (2001) states, "Competition is at the core of the success or failure of firms." Competition is at the heart of a company's success or failure. Competition will result in two things that cannot be avoided, namely victory and defeat. From a success perspective, competition is considered a motivating opportunity because it can encourage companies to be more dynamic and competitive in producing goods and providing good service to potential consumers or customers. Meanwhile, in terms of failure, competition becomes a threat to companies if they are not ready to face it and cannot produce quality products.

From this explanation, it is a must for SMEs to have the ability to compete in the face of intense competition in the market. With sufficient competitiveness, a business will be able to strengthen its bargaining position in the market and improve performance continuously through maintained sales. In fact, it does not rule out the possibility that the product will not only be able to compete in the domestic market but will even be able to serve the global market, which is currently one of the big and tough tasks for Indonesian SMEs.

## **8.2 Sources of Competitiveness**

Various studies and references have discussed competitiveness in a business context and have different points of view regarding the factors that drive competitiveness. Baark et al. (2011) use innovation carried out by an entrepreneur as a source of competitiveness. In contrast, Leonard-Barton (1995) places the dynamic capability aspect as a trigger for the emergence of a business's-

competitiveness. This dynamic capability is associated with a business's ability to respond to various environmental changes so that it can continue to adapt to market needs.

Apart from the factors above, other things that can encourage a business to have power in an industry are when the business has a vision, is dynamic in responding to various changes, and implements the right strategy (Cho & Moon, 2003). This aspect is generally one of the weaknesses of SMEs in Indonesia, which do not yet have a clear vision, mission, goals, and objectives as a guide in running the business.

In a real context, the competitiveness of a business is determined by several factors, including product quality, price, promotion, and location (Kotler & Keller, 2016; Swasta & Irawan, 2008). The four factors are very implementable when applied to various types of businesses, both small and medium scale, especially when the business offers products in the form of goods. However, to ensure that an SME can win the competition, these four factors need to be developed more widely due to dynamic changes in consumer lifestyles.

The competitiveness of SMEs can also be influenced by business environmental factors and their actors. As stated by Man et al. (2002), three key aspects can influence the competitiveness of an SME, which can have an impact on company performance. These factors include the influence of entrepreneurs, strong internal factors, and the external environment.

The owner or entrepreneur is the party who has full control of running a business. The owner is the person who has the most interest in the growth and development of the business. Entrepreneurs are not only responsible for making personal profits but also relate to various other goals, such as the interests of

employees, customers, shareholders, and the environment. So, they will make every effort to make the business they develop have high competitiveness. Internal factors play a significant role in shaping the competitiveness of SMEs. A well-managed internal environment will be the main factor in building competitive advantage. Several internal factors that need to be considered to contribute to the formation of competitiveness include human capital, which includes experience, capabilities, knowledge, skills, and judgment from all company employees, company resources (organizational resources) such as company processes and systems, strategy, structure, culture, production/operations, finance, research and development, marketing, information systems, and control systems and others.

The external environment can also be a trigger for building the competitiveness of SMEs or businesses. These external factors have unique characteristics, namely that they are uncontrollable or cannot be controlled, such as economic, political, technological, social, and environmental. SMEs are required to respond and take the best steps for every change that occurs. Of the several factors that exist in the external environment, the technology (information) factor, if it can be utilized and managed appropriately, will have a direct impact on increasing the competitiveness of SMEs.

### **8.3 Benefits of Business Digitalization**

Business digitalization is very important for small and medium businesses because it can help SMEs to expand market reach through digital platforms and utilize digital technology to replace or speed up business tasks such as manually recording sales data in notebooks, but by using a computerized system, SMEs can automate-

recording. Sale. With business process automation, routine and repetitive work can be done more quickly, accurately, and efficiently without the need for direct human involvement. This helps reduce human error in completing the task (Angeline et al., 2022). Through business process automation supported by digital technology, operational efficiency can be increased, resulting in more competitive production costs and faster response times to foreign market demand. Angeline et al. (2022) emphasize that business digitalization plays a role in helping SMEs to adapt business models to digital form. One way is by utilizing e-commerce, which allows SMEs to sell products online to the global market. By utilizing e-commerce this means that SME products can be reached by consumers all over the world with just a few clicks. This will certainly open up new opportunities for growth and development of internationalization for SMEs.

Ilyas and Hartono (2023) state that, in general, digital businesses can be divided into four categories. The first is pure digital businesses that offer products and services that consist entirely of "bits and bytes" components, such as extensive software creation. Examples include educational software and software specific to business needs. Second, there are digital versions of non-digital businesses that offer products or services in digital form, which were previously usually sold in physical form. Examples include sales of e-books, e-journals, and e-comics. Furthermore, there are digital facilitators of non-digital businesses, namely types of businesses that facilitate goods and service transactions using digital technology. This includes online shops and e-commerce. Lastly, there is the hybrid category, which is a combination of various types of digital businesses with the aim of maximizing revenue. In this case, combining online marketing strategies with traditional models to achieve optimal results, for example,



restaurants or food stalls that have a physical presence and utilize online platforms such as GoFood or GrabFood so that customers can order food online or come directly to the place.

In the era of globalization and very rapid technological advances, Small and Medium Enterprises need to pay attention to the importance of implementing business digitalization to support internationalization efforts. Business digitalization brings various advantages and benefits that are very valuable for SMEs in exploring global markets, including:

#### 1. Expanding Market Reach

By utilizing digital platforms such as e-commerce, SMEs can sell products online and reach consumers all over the world without being limited by geographic boundaries. Additionally, with global visibility through social media, e-commerce websites, or marketplaces, SMEs can increase brand awareness at an international level. Through the right digital marketing strategies, such as the use of paid advertising or search engine optimization (SEO), as well as the use of data analysis tools such as Google Analytics or e-commerce platforms that provide sales reports, SMEs can reach a wider audience and save on promotional costs. Direct interaction with consumers via social media can also be a means for SMEs to get direct feedback from consumers about the products they sell.

#### 2. Reduce operational and logistics costs

Digitalization provides benefits in reducing operational and logistics costs for SMEs exploring global markets. The use of a digital supply chain management system allows SMEs to monitor inventory in real time, optimize international shipping processes, and avoid losses caused by inventory errors.

### 3. Increase the efficiency of the export process

In the digital world, the export process has become more efficient because most documents can be sent electronically via email or online collaboration platforms. This helps companies save time and resources that are usually used to print, send, and store these documents physically.

### 4. Providing Intelligence Market Data

Through digital platforms such as e-commerce websites or online marketplaces, SMEs can gain valuable market intelligence data about consumer preferences in the global market. For example, SMEs can see sales trends for similar products from certain countries or find customer feedback on SME products at the international level. This information is truly useful in designing marketing strategies and product development to suit market demand.

### 5. Expanding International Business Networks

Digitalization also opens the door for SMEs to expand international business networks. Through online platforms, SMEs can connect with potential business partners abroad, such as distributors, marketing agents, or other manufacturers. This opens opportunities for wider cooperation and collaboration in developing products and expanding market share.

## **8.4 Digital Technology as a Key to SME Competitiveness**

Digital technology has changed the business world and helped the operational effectiveness of SMEs. Indonesia, a country with rapid economic growth and many SMEs, is increasingly realizing the importance of incorporating digital technology into its business operations. SMEs that are able to adopt and utilize digital technology well will have significant advantages in various aspects-

of business in an era driven by digital transformation. This includes increasing operational efficiency, market expansion through e-commerce, effective digital marketing, intelligent data analysis, and the ability to adapt to rapid market changes (Wijaya & Basuki, 2020; Westerman et al., 2019).

The role of digital technology in increasing the competitiveness of SMEs has become the subject of heated discussion around the world. The digital revolution has presented SMEs, which are often considered the backbone of a country's economy, with both opportunities and challenges. Digital technology has given them the opportunity to run their businesses more efficiently, gaining access to customers in ways that were previously impossible.

Various studies have shown that SMEs that effectively use digital technology have a greater chance of being successful in facing competition. For example, OECD (Organization for Economic Co-operation and Development) research found that the adoption of digital technology can help the productivity of SMEs in many countries (OECD, 2020). In addition, a study published by the Harvard Business Review (Westerman et al., 2019) found that SMEs that use digital innovation can experience increased revenue and profits.

One of the main activities in business is communicating and delivering products to users. This activity is generally called marketing. The development of information technology that can be utilized by SMEs in introducing products to their target markets has grown rapidly. Digital technology is currently widely used by SMEs to communicate their products and has proven benefits in increasing sales.

In the last decade, information technology has developed very rapidly. This development can touch almost all sectors of life, such as education, business, and

agriculture. Based on the "We Are Social" report, internet users in Indonesia as of January 2022 were 204.7 million, with a total population of 277.7 million (Annur, 2022), or around 73% of this country's population accessing the internet. In the same period, the world population used the internet in their lives as many as 4.93 billion (Mahdi, 2022), or more than half of the world's population.

The large number of internet users in Indonesia and the world has a direct impact on business marketing activities. Marketing, which was previously mostly done conventionally, now must adapt to developments in the mindset of consumers who interact with the internet every day. Digital marketing is believed to be more effective, easier, and cheaper because it allows potential buyers to obtain information about products and interact directly via the Internet.

SMEs that want sales growth should be willing to adopt the latest information technology developments. This technology will be a catalyst for achieving sales targets and building competitiveness because one of the indicators that determines business competitiveness is increasing sales volume (Afanasieva et al., 2018). This confirms that the willingness of SMEs to optimize the benefits of digital technology or the internet to achieve business goals is no longer an option but a necessity.

However, SMEs' progress in digital technology does not always meet expectations. Uncertainty about cybersecurity, lack of technology resources, and implementation costs can be significant barriers. Therefore, it is critical to have a deep understanding of the factors influencing SMEs' adoption of digital technologies as well as effective approaches to overcome these barriers.

One of the SMEs in Indonesia that can achieve success by utilizing digital technology is Sayurbox. This business was initiated by Amanda Susanti and Rama Notowidigdo

in 2017. This idea emerged based on the large opportunities in the Indonesian agricultural industry, which is still fragmented. Apart from that, farmers still do not have access to a wider market that can guarantee price stability.

One of the problems faced by farmers is the difficulty of reaching a larger and more varied market, not only the market that will resell their products but also the final consumer. Uncertainty about demand and prices for agricultural products, lack of market understanding of prices, unclear supply chains, and food waste because of products that cannot be sold are also problems that vegetable farmers often face.

Due to the problems faced by farmers, Sayurbox was founded to bridge the interests between farmers and consumers. With a business model that focuses on digital technology, Sayurbox offers solutions for farmers and consumers. Therefore, in developing its business, Sayurbox focuses on several things, namely:

- a. Online ordering platform: Customers can order fresh farm products through the online platform Sayurbox. Customers can choose various types of farm vegetables and fruits.
- b. Connectivity with farmers: Sayurbox helps local farmers increase the production and quality of their products and set fair and stable prices.
- c. Direct delivery to customers: Customers receives farmer products through the Sayurbox distribution center. This ensures consumers get fresh products and reduces food waste.
- d. Transparency and education: Sayurbox offers stable prices and information about the origin of the product and how it is grown. This reduces uncertainty and helps consumers learn about agricultural products.

This business breakthrough that utilizes digital technology brings great benefits to the farmers involved. First, increase income. Farmers working with Sayurbox have experienced increased income due to greater market access and stable prices. Second, increasing consumer access to fresh products. Consumers living in Indonesia's big cities can now get fresh agricultural products from local farmers more easily. Third, reducing food waste. Sayurbox has helped reduce food waste that has occurred through better supply chain management.

### **8.5 Digital Technology and Internationalization of SMEs**

The challenges faced by SMEs today are not only dealing with local competitors but also imported products. Market openness is currently more of a detrimental threat to local SMEs than an advantage. The invasion of foreign products that offer quality and affordable prices is easily accepted by local consumers. On the other hand, local SMEs are not yet able to produce on a high economic scale, so they cannot compete with imported products.

Currently, local SMEs are not only required to be able to serve the domestic market and compete with local players. More than that, they must be ready to face global competitors wherever they are. To be able to compete with foreign products, many Indonesian SMEs already have this capability. However, it must be supported by the will, openness, and courage to start.

As one of the main stakeholders, the Government needs to take a role in internationalizing SME products because the positive impact on the macroeconomy is very significant. The reason why internationalization needs to continue to increase in developing countries like Indonesia is because it provides several benefits, such as growth opportunities, new knowledge, access to new-



resources, and profitability (Hazarbassanova, 2016; Ramón-Llorens et al., 2017). Internationalization of SME products will also increase business transactions and income and meet foreign market demand (Adomako et al., 2017), access to technological advantages, and reduce risks (Saunila, 2019).

The number of export-oriented Indonesian SMEs is still quite small. In East Java, the number of SMEs that have exported their products is only 1% (Satudatadiskopukmjatim, 2023), and less than 5% of all SMEs in Indonesia, which contributes to national exports is only around 17%, lower than the Philippines (25%) and Thailand (30%) of their total exports (OECD, 2009). The small export figures for Indonesian SMEs reflect the minimal contribution of SMEs to economic growth, as seen from the international trade balance.

Seeing this fact, local SMEs must have a different point of view, a new way of thinking, which not only thinks about dominating the domestic market but also abroad. Modern methods and approaches must be applied to be able to market products beyond national geographic boundaries. The information technology currently available is sufficient, even more than sufficient, to be able to penetrate and serve the global market.

Foreign products that are currently flooding the Indonesian market are easily introduced through various electronic marketing communication channels. They utilize various digital platforms such as YouTube, TikTok, Instagram, Facebook, and even various website channels to reach the Indonesian market. SMEs who use digital technology for marketing activities will have their products known internationally in a short time (Stallkamp & Schotter, 2018).

Learning from this phenomenon, local SMEs can also do the same thing. In fact, some local SMEs have been able to serve the needs of foreign markets and



compete with products from various countries. The success of marketing products to foreign markets cannot be separated from planning and making the right decisions in utilizing digital technology (Romanello & Chiarvesio, 2019). As a result, efforts to reach international markets digitally will increase the competitiveness of SMEs (Novia et al., 2020).

"Kamengski," an SME that operates in the field of leather bag crafts, has succeeded in entering foreign markets by utilizing digital technology. They are successful in exporting their products to international markets and making huge profits. This business, which has been established since 2009, is part of the creative industry activities which, apart from leather bags, also sells several forms of fashion products.

Uniqueness is the main value sold in Kamengski products. Apart from changing word elements, Kamengski also creates unique logos by using unique words, unique logos, or a combination of both. Kamengski logos include ones we never thought would be on clothing. The image seen on the catfish pieces banner on Kamengski's jacket is an example. Or the Supreme logo is a play on Supermie, an instant noodle brand.

Kamengski's method of entering foreign markets through digital technology is as follows:

- a. E-commerce and online platforms. Leveraging digital technology, Kamengski established its online store, which includes an official website and an online store listed on global e-commerce platforms such as Etsy.
- b. Export and international shipping. Kamengski can accept orders from international customers and arrange product delivery through its e-commerce platform.

- c. Digital marketing. They promote their products to a global audience through social media platforms like Facebook and Instagram. They also carry out digital advertising campaigns targeted at potential customers abroad.
- d. Product quality and unique design. Kamengski highlights the quality of its products through the use of genuine leather and extraordinary designs that appeal to international consumers.

## **8.6 Role of Government**

The government has a significant role in helping Small and Medium Enterprises (SMEs) internationalize through digital technology, and their support can help the growth and competitiveness of SMEs in the global market. The government can offer various types of support and incentives to SMEs to help them expand into international markets through digital technology. The things that the government can do to help SMEs go international by utilizing digital technology include (Baumann-Pauly et al., 2020; UNCTAD, 2020):

- a. Training and education. Central and regional governments can provide training and education on the use of digital technology to SMEs, which can help them reach foreign markets. This support includes training in the use of e-commerce platforms, digital marketing, online supply chain management, and other aspects related to digital business.
- b. Access to technology infrastructure. The government can help SMEs by ensuring easier and more affordable access to technological infrastructure such as high-quality internet. This step will enable SMEs to operate efficiently in a digital ecosystem that demands a stable internet network.

- c. Digital export promotion. Promotion is one of the main activities in a profit-oriented business. In this context, the government can promote a digital export program that provides incentives to SMEs who want to enter international markets via digital platforms. This program can be offered in the form of financial support or assistance in international digital marketing.
- d. Regulatory management. SMEs that want to enter foreign markets, such as through exports, must complete several stages and documents. The government can reduce regulatory barriers that can slow down the international expansion of local SMEs. This support covers several types of issues, such as cross-border taxes, trade regulations, and data security, that apply in international markets.
- e. Access to funding sources. The availability of sufficient capital is the main aspect of international expansion. It is not uncommon for SMEs to have quality products that have the potential to enter foreign markets but fail due to a lack of available funds. To bridge this problem, the government can work with financial institutions or financing institutions to provide access to the funding sources needed by SMEs to develop their international operations.
- f. Promotion of start-up ecosystem. At a national level, supporting start-up and technology ecosystems, which include accelerators, innovation centers, and co-working spaces, can provide opportunities for SMEs to work together and develop more quickly in the world of digital technology. Success in building this ecosystem will not only be beneficial for SMEs to develop on a local scale but also internationally.
- g. Digital economic diplomacy. To promote and protect the interests of SMEs in international trade, the government can carry out digital economic diplomacy-

with partner countries. This digital diplomacy aims to ensure that SME business activities by utilizing digital technology can run well without various types of political and other obstacles.

- h. Support innovation. The European Commission (2020) suggests that governments can provide sufficient incentives and support SMEs in adopting new technologies, such as blockchain and artificial intelligence, to increase their competitiveness in the global market. This support will provide additional energy for SMEs to continue to carry out various innovations that will enable their products to be accepted by foreign markets.

From the description above, the role that can be played by both central and regional governments in supporting the internationalization of SMEs using information technology is quite significant. These roles can take the form of support directly aimed at SMEs, such as training and business digitalization education. Apart from that, the government can also take various steps to ensure the flow of international trade carried out by SMEs by means of negotiations with financial institutions, digital diplomacy, and so on.

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## CHAPTER 9

# Social Entrepreneurship As Agent Of Change

Nanang Suryadi  
Haqu Imaning Elmiani

### Abstract

The rapid growth of social entrepreneurship in Indonesia as a response to the country's social and environmental challenges. Social entrepreneurs, driven by a strong sense of being agents of change, aim to find innovative solutions to pressing issues such as poverty, education, health services, and renewable energy. They empower marginalized communities, create sustainable businesses, inspire others, influence systemic changes, and leverage technology and innovation. Notable examples of successful social enterprises in Indonesia, such as Kitabisa.com, Du Anyam, and Pandawara Group, demonstrate the positive impact of social entrepreneurship in various sectors. The increasing support and awareness surrounding social entrepreneurship hold the potential to inspire more entrepreneurs to drive positive change in Indonesian society.

**Keywords:** Social entrepreneurship, Indonesia, Social issues, Environmental challenges, Agents of change

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## 9.1 Introduction

The country of Indonesia is a very large country, has the 15th largest landmass in the world and expanses of sea that are rich in resources. The extent of the area is followed by complex problems in management. Indonesia has the 4th most densely populated population in the world [1]; it is only natural that many social and environmental issues have arisen, and no solutions have been found for these problems. The emergence of various problems in Indonesia, both in social and environmental terms, has encouraged many young people in Indonesia to establish social-based businesses (Social Entrepreneurship). Social Entrepreneurship is an effective, innovative, and solutive process for sustainable meetings between entrepreneurship activities and social and environmental challenges [2]. With the development of the times and the digital era towards 5.0, Social Entrepreneurship in Indonesia is growing very rapidly. Social Entrepreneurship is a solution to various social issues and environmental issues that are packaged using a touch of innovation and creativity that can change social and economic structures. To achieve this success, it is very important for an entrepreneur in the social field (social entrepreneur) to have a sense of being an "agent of change." The main characteristic that must be possessed by an agent of change is having a high interest in finding out the causes of problems that occur around them and also being interested in finding out what actions can be taken as a solution.

The many visible and felt impacts further strengthen the role of social entrepreneurs as agents of change. Basically, the characteristics possessed by social entrepreneurs are the same as those of entrepreneurs in general, but the social entrepreneurial climate and motivation that is formed are several additional

characteristics that social entrepreneurs do not have in general [3]. The influence of encouragement and desire to make them choose to run a business to solve social or environmental problems is what distinguishes them from the entrepreneurial character in general. Social entrepreneurs must have more ability to be able to feel and understand what problems are around them, which in turn becomes a motivation for them to find solutions. The activities carried out by social entrepreneurs incorporate social principles that are committed to being able to have an impact on society. Social Entrepreneurs identify pressing problems, develop creative solutions, and implement sustainable initiatives to bring about social change. Almost the same as building a company in general, in building social-based businesses (Social Ventures), social entrepreneurs need to have character, skills, and competence in the social field as well as mature intentions to support success in these social enterprises. Having a high social spirit is the main capital for a social entrepreneur to start running a business in the social sector.

## **9.2 Social Entrepreneurs as Agents of Change**

The government, as an executive agency that regulates government in Indonesia, still has many limitations in being able to embrace and protect all of its people. This is where the role of real social entrepreneurs is seen as an agent of change in society. Social entrepreneurs strive to create innovative solutions to the social and environmental problems that surround them. With the basic entrepreneurial character and collaboration of a high social spirit, a business will be created that can have a positive impact on society and the environment. The character of the social soul is what distinguishes entrepreneurship and social-

entrepreneurship. The main orientation is not to get the maximum profit possible but to determine what and how wide the impact is generated from a social-based business [4].

With the magnitude of the positive impact generated by social entrepreneurship on social and environmental problems, the role of a social entrepreneur as an agent of change includes:

1. Finding solutions to social problems and environmental issues: Entrepreneurs will focus on identifying what problems are occurring and then determining the right steps to find solutions. Some of these issues include poverty, education, health services, and renewable energy.
2. Empowerment of marginalized communities: A social entrepreneur often works and involves marginalized groups of people such as women, youth, and the unemployed. They will be given training, develop skills, and help them to be able to access various sources of livelihood. Empowering marginalized communities is an action that can improve their quality of life. By doing this, social-based entrepreneurs have contributed to reducing poverty and unemployment and supporting economic growth.
3. Creating a sustainable business: social entrepreneurs will develop objectively integrated business models that are socially and environmentally oriented in addition to financial sustainability. They can prove that with this orientation, it is possible for a company to continue running with good managerial processes. By demonstrating such a business model, social entrepreneurs can break the stigma that social entrepreneurs will benefit from supporting operations within their companies.

4. Inspire and move others: a social entrepreneur is a role model who can inspire people around him to be involved in creating positive change. Through passion, vision, and action, they can mobilize individuals, organizations, and communities to contribute to social problems. Movements carried out collaboratively will form networks and connections that can produce platforms as facilitators of collective action to solve complex social problems.

5. Influence changes in systems and regulations: With activities carried out by social entrepreneurs together with the individuals, organizations, and communities involved, this can encourage changes to existing systems and regulations to find a solution. With the advocacy process, working with makers and collaborating with stakeholders can reform a policy as an active step to encourage system change. By influencing the wider environment, the impact produced by a social entrepreneur will last a long time and will have a wider influence.

6. Capacity building for technology and innovation: the activities carried out by social entrepreneurs are very closely related to technology and innovation. By involving technology and innovation, it will affect the resulting impact. They can produce digital platforms, applications, and other forms of technology. The innovations used can help social entrepreneurs drive disruptive change and break through traditional boundaries.

### **9.3 Social Entrepreneurship in Indonesia**

Social entrepreneurship in Indonesia has grown rapidly in recent years. This is evidenced by the many emerging social-based businesses. Several social-based businesses mostly utilize digital applications and platforms. Kitabisa.com is a

social-based business unit founded by Muhammad Al-Fatih Timur in 2013. Since its establishment, Kitabisa.com has helped facilitate health services and social fundraising every day. Departing from his anxiety about fundraising by carrying boxes and then going around meeting volunteers who he felt were less effective, Fatih and his team initiated an application that can help connect people who need help with donors. The issue of transparency of funds is also presented in business through this application and website so that “good people,” a.k.a orang baik (the name for KitaBisa.com volunteer), can see evidence of reporting the use of donated funds. As of September 2022, Kitabisa.com has managed to distribute more than 500 billion in funds to those in need.

Duanyam is the second example of a social-based business in Indonesia. Du Anyam is a business founded by Azalea Ayuningtyas, Hanna Keraf, and Melia Winata. They focus on empowering women in rural communities through traditional weaving crafts. This organization works with local women craftsmen to create and market handwoven products such as baskets, bags, and home decorations. Du Anyam is moved by the mission of alleviating poverty by opening jobs in the village specifically for women. In addition, Du Anyam’s mission is to preserve traditional weaving techniques. By providing supporting facilities such as training, access to capital, and a sales platform, Du Anyam has succeeded in empowering women of productive age who are not working. The business approach taken is not only economically empowering but also environmentally and culturally. Du Anyam uses local natural ingredients to manufacture its products in order to protect the local economic ecosystem and reduce environmental impact. In addition, Du Anyam is also committed to preserving cultural heritage and traditional crafts. By creating a market for these products, they also contribute to

the sustainability and continuity of weaving traditions that have been passed down from generation to generation.

Apart from social and economic problems, environmental issues are also of concern to young people in Indonesia today. Pandawara Group is a form of social entrepreneurship in the environmental sector. These five youths campaigned a lot for environmental cleanliness, especially for river cleanliness. The phenomenon of rivers filled with garbage in Indonesia is a serious problem. This is the reason that prompted these five youths to go straight into the rivers around them to clean them up. Through their TikTok account, which has been followed by more than 6 million followers, they share videos of the river cleaning process they clean. With this movement, many youths are inspired to clean up the dirty rivers around them. Apart from that, they are collaborating with the government through their cleaning service to clean up the river.

Examples of social entrepreneurship in Indonesia, such as Kitabisa.com, Duanyam, and Pandawara Group, illustrate the transformative potential of combining business acumen with a social mission. These innovative ventures have addressed pressing societal and environmental challenges while making a positive impact. However, the landscape of social entrepreneurship in Indonesia is ever evolving, reflecting the changing needs and aspirations of its society.

#### **9.4 Trends in Social Preneurship**

Recent trends in Indonesian social entrepreneurship focus on addressing pressing social issues within local communities [5]. Indonesian social entrepreneurs are tackling challenges such as poverty, education, healthcare, environmental degradation, and gender inequality, among others. They are



creating innovative business models that integrate profit-making with serving a social or environmental purpose. For example, several enterprises have emerged to empower and provide economic opportunities for marginalized groups, such as women and people with disabilities. This trend reflects the increasing recognition that lasting social impact can be achieved through entrepreneurial efforts combined with community engagement.

Another key trend in Indonesian social entrepreneurship is the growing emphasis on technology-driven solutions [6]. Leveraging the increasing penetration of smartphones and internet connectivity, social entrepreneurs are leveraging digital platforms to scale their impact and connect with a wider audience. Online marketplaces and platforms have emerged that promote social enterprises and enable consumers to support products and services with a positive social or environmental impact. Additionally, tech-based applications are being developed to address social issues, ranging from financial inclusion to waste management. This trend demonstrates the power of technology in enhancing accessibility, efficiency, and reach in social entrepreneurship in Indonesia.

Collaboration and ecosystem development form a crucial trend in Indonesian social entrepreneurship. Recognizing the need for a supportive and nurturing environment, government agencies, non-profit organizations, and universities are actively involved in creating networks, incubators, and accelerators for social enterprises. These platforms provide mentoring, funding, and networking opportunities for aspiring entrepreneurs. Moreover, partnerships are being forged between social entrepreneurs, corporations, and impact investors to create sustainable business solutions. The collaborative approach not only

fosters innovation but also ensures the long-term viability of social enterprises and their potential to effect positive change.

In conclusion, Indonesia is witnessing dynamic trends in social entrepreneurship, driven by a focus on addressing local social challenges, integrating technology for scalability, and fostering collaboration within the ecosystem. As this sector expands, it has the potential to transform Indonesia's socio-economic landscape by driving inclusive growth and sustainable development. However, challenges such as access to funding, regulatory support, and capacity building must be addressed to further accelerate the growth of social entrepreneurship in Indonesia. With a concerted effort from all stakeholders, social entrepreneurs can continue to pioneer innovative solutions, positively impacting the lives of many Indonesian communities.

### **9.5 Challenges In Social Entrepreneurship**

Furthermore, it is important to understand that social entrepreneurship in Indonesia also faces a number of challenges that cannot be overlooked. One of the main challenges is limited sources of financing [7]. Although many social entrepreneurs have a strong desire to address social and environmental issues, they often struggle to secure investments or sufficient funding to start or expand their ventures. However, some of them have found creative ways to overcome this issue by utilizing crowdfunding, collaborating with nonprofit organizations, or creating business models that can generate their own revenue.

Additionally, social entrepreneurship also often encounters difficulties in establishing partnerships with the government and the private sector [8]. The licensing process and bureaucracy can be complex and time-consuming, and not

all parties may be interested or ready to collaborate with social entrepreneurs. Nevertheless, some social entrepreneurs have successfully navigated these challenges by building strong networks and engaging in effective advocacy to gain support.

Other challenges faced by social entrepreneurship in Indonesia include operational scale and impact distribution [9]. Some may be limited in reaching broader communities or measuring the positive impact they generate. To address this, some social entrepreneurs have employed technology and innovation to enhance their operational efficiency and expand their impact.

By understanding and addressing these challenges, social entrepreneurship in Indonesia can continue to grow and make a greater contribution to addressing social and environmental issues in the country. These dynamics reflect the significant potential and positive driving force in the development of social entrepreneurship in Indonesia.

## **9.6 The Role Of Government In Social Entrepreneurship**

The government supports social entrepreneurship in Indonesia to further harness the significant potential and positive driving force in addressing social and environmental issues. By understanding and addressing these challenges, social entrepreneurship in Indonesia can continue to grow and make a greater contribution to the country's development.

The Indonesian government has recognized the importance of social entrepreneurship in addressing pressing social and environmental issues within the country [10]. To support this burgeoning sector, the government has implemented various initiatives and policies aimed at fostering social

entrepreneurship in Indonesia. These efforts have been driven by a recognition of the potential of social enterprises to create positive social impact while also generating economic growth.

One of the keyways in which the government supports social entrepreneurship in Indonesia is through the provision of financial assistance and grants. The government has established funding programs specifically targeted at supporting social enterprises, providing them with the necessary capital to start and scale their ventures. These funding programs help to mitigate the risks associated with social entrepreneurship and provide the financial stability needed to drive sustainable change. By offering financial support, the government demonstrates its commitment to nurturing and promoting social entrepreneurship as a viable and impactful solution to societal challenges.

Moreover, the government has also taken steps to reduce bureaucratic barriers for social entrepreneurs. Recognizing that administrative hurdles can hinder the growth and sustainability of social enterprises, the Indonesian government has streamlined the registration process and simplified the regulatory environment. This has allowed social entrepreneurs to focus more on their mission and operations rather than getting bogged down in bureaucratic red tape. By creating a favorable and supportive business environment, the government enables social entrepreneurs to flourish and maximize their impact.

In addition to providing financial and administrative support, the Indonesian government has also invested in capacity-building programs and initiatives for social entrepreneurs. These programs aim to enhance the knowledge, skills, and networks of social entrepreneurs, equipping them with the tools necessary to succeed in their ventures. By facilitating access to training, mentorship, and

networking opportunities, the government ensures that social entrepreneurs have the resources and support needed to navigate the complex landscape of social entrepreneurship and drive meaningful change.

In conclusion, through various initiatives, the Indonesian government has demonstrated its commitment to supporting social entrepreneurship in the country. From providing financial assistance and grants to streamlining administrative processes and investing in capacity-building programs, the government has created an enabling environment for social entrepreneurs to thrive. By recognizing the potential of social entrepreneurship to address societal challenges, the government has embarked on a path towards sustainable development and inclusive growth, fostering a culture of social innovation in Indonesia.

Social entrepreneurship has gained considerable attention in recent years due to its potential to address social and environmental challenges in a sustainable way. In Indonesia, a country that faces numerous social issues, the future growth of social entrepreneurship holds great significance. The evolving economic landscape, increasing government support, and a growing interest among the youth in social impact provide a strong foundation for the expansion of social entrepreneurship in Indonesia.

### **9.7. The Future Of Social Entrepreneurship**

First and foremost, the changing economic landscape of Indonesia bodes well for the future growth of social entrepreneurship. The country has experienced steady economic growth over the past decade, resulting in an expanding middle class and rising disposable incomes [11]. This newfound prosperity has created a

larger consumer base with an increasing demand for socially responsible products and services. As a result, the opportunities for social entrepreneurs to develop innovative solutions to societal problems and cater to this growing market are immense. The potential for financial sustainability and growth through market-driven approaches is a key driver for the future success of social entrepreneurship in Indonesia.

Moreover, the Indonesian government has recognized the importance of social entrepreneurship and has taken steps to promote its growth. Initiatives such as tax incentives, funding schemes, and capacity-building programs have been introduced to encourage and support social entrepreneurs. The government's commitment to fostering an enabling environment for social entrepreneurship provides a strong foundation for its future growth. By collaborating with the private sector and civil society, the government is not only stimulating innovation but also empowering local communities and creating sustainable solutions for Indonesia's social challenges.

Additionally, the increasing interest among the youth in social impact serves as a catalyst for the future growth of social entrepreneurship in Indonesia [12]. Young Indonesians are becoming more conscious of the social and environmental issues that their country faces and are actively seeking opportunities to make a positive difference. Many graduates from top universities are now motivated to combine their business acumen with their desire for social change, driving the emergence of new social enterprises. Their passion, innovative thinking, and access to technology create a fertile ground for the development and scaling of impactful social ventures. Empowering and nurturing this young generation of

social entrepreneurs will undoubtedly contribute to the future growth of social entrepreneurship in Indonesia.

The future growth of social entrepreneurship in Indonesia looks promising due to various factors. The evolving economic landscape, increasing government support, and a growing interest among the youth all contribute to the strong potential for social entrepreneurship to address and alleviate social challenges in the country. As the sector continues to expand, it is essential for stakeholders to collaborate and invest in resources, such as mentorship and financing, to further nurture and sustain the growth of social entrepreneurship in Indonesia. By doing so, Indonesia can build a more inclusive, equitable, and sustainable future for its citizens.

### **9.8 Becoming a Social Entrepreneur and Agents of Change**

Aspiring individuals who aim to become social entrepreneurs and agents of change in Indonesia can draw inspiration from the remarkable journeys of successful figures like Muhammad Al-Fatih Timur and Gamal Albinsaid. These visionary leaders exemplify how a deep sense of purpose, coupled with entrepreneurial spirit, can drive transformative initiatives. To embark on a similar path, aspiring social entrepreneurs should begin by identifying pressing social or environmental issues that resonate with them. Understanding the root causes and complexities of these issues is crucial for crafting effective solutions.

Next, aspiring social entrepreneurs can learn from the experiences of pioneers like M. Al-Fatih Timur, who founded Kitabisa.com. They should focus on building a strong foundation of knowledge and skills, including business acumen, project management, and networking. This preparation will equip them to



navigate the challenges and uncertainties that often accompany social entrepreneurship.

Moreover, fostering a genuine passion for creating positive change is at the heart of social entrepreneurship. Gamal Albinsaid, with his commitment to healthcare access through the Indonesia Medika Foundation, is a testament to the power of unwavering dedication. Aspiring social entrepreneurs should cultivate this inner drive and stay connected to the communities they aim to serve.

In addition to figures like Muhammad Al-Fatih Timur and Gamal Albinsaid, there are notable Indonesian leaders in the field of social entrepreneurship. One such figure is Dian Siswarini, the CEO of XL Axiata, who has played a pivotal role in promoting digital inclusion and empowering communities through technology. Her leadership demonstrates how corporations can align their business objectives with social impact.

Another influential figure is Tri Mumpuni, a tireless advocate for renewable energy and the founder of IBEKA (Indonesia Bekerja untuk Keadilan Energi dan Lingkungan). Her dedication to sustainable energy solutions highlights the importance of environmental responsibility in social entrepreneurship.

To follow in the footsteps of these Indonesian role models, aspiring social entrepreneurs should begin by identifying pressing social or environmental issues that resonate with them. Understanding the root causes and complexities of these issues is crucial for crafting effective solutions. Next, they can build a strong foundation of knowledge and skills, including business acumen, project management, and networking. This preparation will equip them to navigate the challenges and uncertainties that often accompany social entrepreneurship. Moreover, fostering a genuine passion for creating positive change is at the heart of social-

entrepreneurship. Aspiring social entrepreneurs should cultivate this inner drive and stay connected to the communities they aim to serve.

Furthermore, they can actively seek mentorship and guidance from established figures in the field. Learning from the experiences and insights of those who have walked the path before can provide valuable perspectives and help navigate obstacles more effectively.

Lastly, leveraging technology and digital platforms, as demonstrated by Muhammad Al-Fatih Timur and Dian Siswarini, can be a potent tool for scaling social impact. Embracing innovation and staying adaptable to emerging trends will be key to expanding the reach and effectiveness of their initiatives.

In essence, becoming a social entrepreneur and an agent of change in Indonesia requires a blend of passion, knowledge, skills, and a relentless commitment to making a difference. By looking up to exemplary Indonesian figures like M. Al-Fatih Timur, Gamal Albinsaid, Dian Siswarini, and Tri Mumpuni, aspiring social entrepreneurs can embark on a journey of impact, contributing to a brighter future for their communities and the nation as a whole.

## **9.9 Conclusion**

In the context of social entrepreneurship in Indonesia, there is significant potential to act as agents of change in addressing complex social and environmental challenges. Through various examples such as Kitabisa.com, Duanyam, Pandawara Group, Indonesia Medika Foundation, and IBEKA, we have witnessed how the combination of entrepreneurship and social mission can yield innovative solutions with positive impacts. Despite challenges like limited access to funding and bureaucratic complexities, social entrepreneurs have demonstrated their resilience-

and creativity in overcoming these obstacles. The Indonesian government has also played a crucial role in supporting the growth of social entrepreneurship through financial incentives, administrative support, and capacity-building programs. Furthermore, recent trends, including a focus on local social issues, leveraging technology, and fostering collaborations, indicate a promising future for social entrepreneurship in Indonesia.

Social entrepreneurs play a crucial role in finding solutions to complex issues such as poverty, education, healthcare, and environmental degradation. They empower marginalized communities, create sustainable businesses, inspire others, influence systemic changes, and leverage technology and innovation to drive meaningful impact. These individuals are not solely driven by profit but are motivated by a deep sense of purpose to make a positive difference in society. Notable Indonesian figures like Muhammad Al-Fatih Timur, Gamal Albinsaid, Dian Siswarini, and Tri Mumpuni serve as inspirational role models for aspiring social entrepreneurs. Their journeys highlight the importance of understanding social and environmental challenges, building knowledge and skills, fostering passion, seeking mentorship, and utilizing technology to scale impact.

### **9.10 Recommendations**

For readers aspiring to become social entrepreneurs in Indonesia, here are some suggestions that can help in your journey:

**Identify Issues You Care About:** Begin by identifying the social or environmental issues that matter most to you. Understand the root causes of these problems and the impact they have.

**Build Knowledge and Skills:** Learn about business and project management, as well as skills relevant to the social and environmental field. This will prepare you to face potential challenges. **Cultivate Passion:** Social entrepreneurship requires a deep passion for creating positive change. Ensure you have a genuine and heartfelt commitment to your goals.

**Seek Mentorship:** Find a mentor or an experienced figure in the field of social entrepreneurship. They can provide valuable insights and guidance on your journey.

**Harness Technology & Innovation:** Leverage technology and innovation to enhance your impact. Embrace new trends and stay adaptable to emerging technologies.

In essence, becoming a social entrepreneur and an agent of change in Indonesia requires a blend of passion, knowledge, skills, and a relentless commitment to making a difference. By looking up to exemplary Indonesian figures like M. Al-Fatih Timur, Gamal Albinsaid, Dian Siswarini, and Tri Mumpuni, aspiring social entrepreneurs can embark on a journey of impact, contributing to a brighter future for their communities and the nation as a whole.

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## CHAPTER 10

# Does Social Enterprises are Financially Different? A Study from Belgium

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### Abstract

This literature review explores the financing structure of social enterprises compared to traditional enterprises. It highlights the growing interest in social entrepreneurship and the unique challenges social enterprises face in accessing external financing. The review examines different definitions of social entrepreneurship and its impact on society. It also discusses the motivations and management approaches of traditional entrepreneurship. Additionally, the review delves into the concept of capital structure and the role it plays in financing operations. Finally, it addresses profitability as a determinant of a firm's financial health. Overall, the review provides insights into the differences and similarities between social and traditional enterprises in terms of their financing structure.

**Keywords:** Social enterprises, financing structure, social entrepreneurship, external financing, management approaches, capital structure

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## 10.1 Introduction

The concept of social entrepreneurship and its implementations, social enterprises (SE), has been growing for more than three decades (Hota, 2023; Klarin & Suseno, 2023; Short et al., 2009; Weerakoon, 2021). SE has evolved from a not-for-profit organization (Dees, 1998) to a for-profit venture (Dees, 2012; Dees & Anderson, 2003), which has recently become a prominent career choice for future entrepreneurs (Hota, 2023). This shifting journey of the concept, as well as the organizations, contributes to our understanding of the various determinants of SE, such as the actors, institutions, ethics, and financial-related issues. Inevitably, the last determinant has been the classical issue and consistently occurs when it comes to SE's source of funding and management. Especially when discussing financial performance.

It is obvious that the main goal of commercial entrepreneurship and its application, commercial enterprises (CE), differs from SE. CE is aimed at optimizing profit (Sapienza et al., 2003), while SE is aimed at solving social and environmental problems (Shaw & Carter, 2007; Zahra et al., 2008). However, as it evolved into a financially sustainable organization and to ensure the continuity of its mission, SE is also expected to perform well in its financial aspect. Moreover, when securing funding support, financial performance becomes one of the critical points that should be considered (Frumkin & Keating, 2011). For instance, a bank expects a financially healthy organization to ensure the prudence of the loan; a transparent financial report is also prerequisite to access grants from the government, and long-term projection is essential for the donor to ensure the sustainability of the organization (Battilana, 2018; Fitzgerald & Shepherd, 2018).

In fact, Sunley and Pinch (2012) postulate that SE resides in environments with poor resources. They obtain financing by relapsing into habits and best practices they



perceived in their surrounding environments. According to the Bank of England, this is the biggest reason that the growth of SE is still lagging. Social Enterprise UK (2011) states that SE frequently relies on grants. However, with the limited number of grants and high competitiveness in securing grants, there is a necessity for SE to diversify their sources by taking out loans or resorting to equity finance. Unfortunately, securing funding for social value propositions (SVP) is not quite as straightforward as for financial profit. The interest interest interest interest rate from the banks and the perception of the lower financial performance of SE hinder them access from accessing financial institutions (Calic & Mosakowski, 2016; Sunley & Pinch, 2012).

Sadly, literature focusing on the significant differences between the financial structure of an SE and CE hardly exists, and the empirical research that does exist focuses mainly on for-profit organizations (Siqueira et al., 2018). It is because of limitations in data, and not all SE's financial performance are publicly available. Some of them are Siqueira et al. (2018), who did research in the difference between the financing structure of for-profit social enterprises compared to for-profit commercial enterprises. They found that social entities exhibit 13% to 40% less leverage than commercial entities but display four times more leverage stability. Further, Guo and Peng (2020) researched if non-profit and for-profit social enterprises differ in financing. They did empirical research in the United States of America but did not find any significant differences in startup funding. Nonetheless, they find that non-profit social enterprises rely more on funds as this is their primary source of income, while for-profit social enterprises rely more on income through sales. In addition, Bromberger (2007) finds finds that non-profit enterprises with a social purpose find it difficult to access capital and only have a limited ability to pay out profits to investors.

However, there is little to know about the difference between SE and CE, which are also distinct between for-profit and non-profit oriented. Knowing these differences will allow us to have better insight into how the stakeholders should treat SE and CE from the perspective of financial institutions. Hence, understanding the basic concepts of SE and CE is essential.

## **10.2 Entrepreneurship: Commercial and Social**

It is important to know that the concept of entrepreneurship is as ancient as one can remember, but the empirical literature over the years made a shift in research from who was considered an entrepreneur to how entrepreneurship is, in fact, developed (Austin et al., 2006; Venkataraman, 1997). Khilstrom & Laffont (1979) argue the person-centric perspective, which states that people who do not mind uncertainties in their near future are more likely to become entrepreneurs. At the same time, people who prefer to lead a more stress-free life with a well-defined level of security about their future will opt to become salaried employees. This argument has been refuted several times by the counterargument that human actions vary throughout time. Therefore, entrepreneurial activity can hardly be accounted for by instincts in one episode of a human life (Gartner, 1990).

Rather than focusing on who an entrepreneur is, the emphasis is becoming more focused on how entrepreneurial activity is undertaken. Stevenson (1983) advocates the fact that entrepreneurship has its foundation in seeking opportunities in the present economy. Entrepreneurship must be executed in a punctual and accurate manner to lead to maximized outcomes. To get a better understanding of the different types of entrepreneurships, Austin, Stevenson, and Wei-Skillern (2006)

distinguished two types of entrepreneurships: commercial entrepreneurship (CE) and social entrepreneurship (SE).

CE is oriented towards profit maximization and presents itself as an active market player for the purpose of exploiting opportunities. The first insight on CE emphasizes results as the main component. Sapienza et al. (2003) and Chaganti et al. (1996) believe that CE is based on the traditional view of corporate finance theory that focuses on compounding a fortune as quickly as possible. Therefore, their main goal consists of profit maximization and achieving market share. In sum, CE has a single-minded perspective toward growth and holds a tailored strategy to ensure that its predetermined objectives are accomplished.

SE, on the other hand, aims at creating social value for society. Austin et al. (2006) describing SE as the use of business expertise and skills to create broader social value for society. Thus, this implies that innovation plays an essential role in the effort to create value. Schumpeter (1942) confirms the insight that social entrepreneurs must take on the role of change agents by engaging in a process of continuous innovation and adaptation.

According to Bromberger (2007), SE is growing as consumers are driven to match their personal interests and beliefs with their spending habits. Empirical literature describes a wide range of definitions of SE, of which most definitions define social entrepreneurship as addressing societal problems (Zahra et al., 2009), while this leads to much contradiction. A social entrepreneur possesses the ability to determine whether supply or demand exists for a value-creating product (Kirzner, 1973). The creative mindset of a social entrepreneur leads to fulfillment and tailor-made solutions for problems within the community. This notion is consistent with a widespread belief in the social literature (e.g., Shaw & Carter, 2007).

These socially conscious individuals have played a vital role in improving social conditions by paying attention to social needs in undervalued and underdeveloped economies facing few resources and little attention from outward sources. Therefore, Zahra et al. (2009) defined three types of social entrepreneurs, namely the 'Social Bricoleur', 'Social Constructionists' and 'Social Engineer', which are based on previous literature of the researchers Hayak (1945), Kirzner (1973) and Schumpeter (1942). The first type mainly focuses on solving local social issues. The second type tries to solve market failures by creating innovations or reconstructions in the social system for people who are underserved. Lastly, the Social Engineers identify big social problems in existing structures by creating far-reaching changes. We are not in-depth research that distinguishes these types of social entrepreneurs. Instead, we emphasize the financial structure of SE and CE and how stakeholders should treat them from a financial perspective.

From the organizational point of view, SE was initially found to be the invention for the not-for-profit sector and expanded itself to the for-profit and corporate sectors (Hota, 2023; Roper & Cheney, 2005; Swanson & Di Zhang, 2010). However, certain social entrepreneurs had a more promising approach in mind. Marketizing the social service sector led to major benefits as social enterprises could utilize the efficiency of competitive markets to increase their social performance (Zahra et al., 2000). Funding for activities performed by social enterprises is frequently declined by financial institutions, or, if offered, high interest rates are charged (Wolverton, 2003; Calic & Mosakowski, 2016). This obliges social enterprises to apply their proper business models and provide adequate financial results in pursuit of achieving their social objectives. It shows-

that this research on the financials and financing processes of social enterprises can contribute significantly to the existing literature.

Apart from their dynamics, both CE and SE as entities and organizations are bound financial management, which requires transparent and excellent performance. Unfortunately, to date, there is no specific financial report standard for SE. Thus, in common, both enterprises are required to report to international standards. This issue causes many biases when it comes to financial assessment between them. Thus, there is a need to understand the different elements of financial structure that are important to CE and SE. To examine those differences, it is important to dive deeper into the financial structure of CE and SE and analyze their financial performance.

### **10.3 Financial structure CE and SE**

Companies finance their operations by raising capital from a variety of sources. The financing occurs throughout the life cycle of the firm and is adjusted when required. The multiple sources of this financing combined constitute the firm's capital structure (Parsons & Titman, 2008). Generally, companies have a wide range of financing strategies to consider. The main decision firms face is the decision of whether to use internal or external funding, although not all types of firms have the luxury of such a diverse mix of funding options (Rao et al., 2021).

Access to funding is related to a company's business model and its strategy. Investors and financial institutions tend to have a set of criteria that they apply to prospective investments. They seek an investment in a business that accomplishes and enhances their own objectives (Ferrati & Muffato, 2021). Since a large proportion of investors seek a high rate of return, the financing market for social enterprises is shrinking because the main objective of social enterprises is to

create added social-added value for society, which often involves more expenses than revenues (Dees et al., 2002; Zahra et al., 2009; Sapienza et al., 2003; Weaver, 2023).

The fact that social enterprises contribute significant benefits to society convinces the government to provide support and financial support to certain types of social enterprises. Numerous social enterprises depend on the support of central governments to continue their operations (Social Enterprise UK, 2011). Due to such reasons, social enterprises could easily go through as non-profit organizations (Guo & Peng, 2020). However, the current financial situation in nations does not permit the issuance of grants to such organizations, which means that many social enterprises are forced to obtain self-sufficient financial resources (Guo & Peng, 2020; Emerson et al., 2008; Dees, 2003). Sunley & Pinch (2012) state that social enterprises attempt to increase their financial performance by applying best practices captured from their immediate environment and by improving and aligning their habitual practices.

Internal funding of operational activities through the adoption of best practices may be insufficient. Therefore, social enterprises seek additional external funding in order to remain viable (Bryson & Buttle, 2005). Sunley Pinch (2012) recognizes this as the major difference between social and traditional enterprises. External funding from private investors or financial institutions is frequently less likely to be granted to social enterprises or is, after all, granted at extremely high interest rates to minimize the risks of the financial institution (Calic & Mosakowski, 2016). Naturally, this is because social enterprises pursue social benefits with no objective of being profitable (Dees et al., 2002).

Consequently, the most important factor is concentrating on strategies related to gaining earned income in pursuit of creating social impact (Calic &

Mosakowski, 2016). Dees (2003) argues that one should encourage social enterprises to adopt innovative financial strategies and increase the effectiveness of the social enterprise by adopting business models from traditional entrepreneurship. Naturally, this in no way implies that profit generation should come first, as Dees (2003) clearly emphasizes. To overcome the paradigm of "double bottom line," the achievement of social value should still be superior to the generation of profits. The only ultimate bottom line for a social entrepreneur should be generating success in improving the social society. However, SE still must maintain the sustainability of its finances to ensure the continuation of the organization.

To have a better understanding of the financial performance of CE and SE, this article provides case studies from a for-profit (social and commercial) and a non-profit (social and commercial) financial performance database of Belgian (Bel-first) small-to-medium enterprises (SMEs) between 2016 and 2020 which is composed by Bureau Van Dijk (BvD) Belgium and data from Belgium Government on social entrepreneurship.

For-profit traditional organizations are SMEs without a social purpose. This segment contains 370,719 enterprises. Out of 1,500 samples taken from the population, a dataset of 971 for-profit CE was obtained. Then, a sample of 390 enterprises was obtained, and a dataset of 62 for-profit social enterprises was obtained after thorough consideration. Therefore, the dataset of the for-profit organizations in this research consists of 1,033 enterprises. The longitudinal data from 2016 up to 2020 was involved for all these firms. In sum 5.165 observations are used in the analysis.

Non-profit organizations consist of organizations whose goal is not to gain profit. The dataset for this section initially consisted of 5.460 enterprises. After



the filtering process, a total of 628 non-profit CE were achieved. On the other side, entrepreneurs in non-profit social organizations (NPSOs) solely want to solve societal issues without the goal of gaining any profit. The dataset of the non-profit organizations in this research consists of 704 enterprises, of which 628 are traditional and 76 are social enterprises. Then, longitudinal data from 2016 up to 2020 was involved, and this led to a final dataset of 3.520 observations.

#### **10.4 Profitability CE and SE**

The evaluation of a firm's profitability is primarily a measurement of the firm's revenues relative to its expenses. The various ratios represent a measurement of the financial health of the company (Lesakova, 2007). The literature distinguishes numerous formulae and methods for the measurement of a company's profitability. Enterprises with a high level of profitability are encouraged by Hang, Geyer-Klingenberg, Rathgeber, and Stöckl (2018) to finance their necessities internally. As such, this has a beneficial effect on the enterprise's leverage ratio as well, which is further elaborated. According to Degryse, de Goeij, and Kappert (2012), profitability can have a different impact on short-term and long-term debt. Their pecking order theory predicts that more profitable organizations use less debt financing, which validates the perspective of Hang et al. (2018) of a lower leverage ratio. Michaelas, Chittenden, Poutziouris (1999) argue that long-term debt will be more affected by changes in profitability compared to short-term debt. Therefore, SMEs would prefer short-term financing.

Lesakova (2007) argues that the return on total assets (ROA) is the best metric for a company's profitability. ROA indicates the degree of effectiveness to which management used its resources in achieving revenue. Husna & Satria (2019) conclude that ROA displays a significant correlation with the firm's value

since high profits indicate good operational performance of the firm. Hence, investors' demand for stock of this firm increases, leading to an appreciation of the firm's value. Previous research on the effect of ROA on a firm's value discovered similar results (Terpstra & Verbeeten, 2014).

According to Peredo & McLean (2006), profitability in SE is important but secondary to the achievement of social goals. Therefore, they anticipate no meaningful differences in the profitability of CE and SE. From the analysis (Table 1), we find the average profitability is higher in for-profit CE than in for-profit SE. It also shows that the average profitability is lower for non-profit CE than non-profit SE. In fact, the average profitability for for-profit SE and for non-profit CE is negative.

The difference in profitability is analyzed based on the random effects model with the profitability of CE as the dependent variable (Table 2). The results show no significant relationship in profitability between the for-profit CE and for-profit SE,  $p = 0.0819$ , and show that non-profit SE has a significantly higher profitability than non-profit CE,  $\chi^2 = 12.022$ ,  $p = 0.0013$ . This result is the opposite of what was expected from the theoretical framework where CE is supposed to have higher profitability compared to SE, even though for a non-profit entity.

**Table 10.1. Descriptives Result for Return on Asset (ROA) SE and CE**

ROA	N	Mean SE (SD)	Mean CE (SD)
For-profit	5165	-0.012 (0.137)	0.041 (0.162)
Non-Profit	3520	0.191 (0.114)	-0.002 (0.154)

**Table 10.2. Analysis profitability \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$** 

Variable	Regression coefficient (Std. Error)	
	For-Profit	Non-Profit
<b>Intercept</b>	-0,015 (0,097)	-0.168 *** (0.059)
<b>Dummy (SE)</b>	-0,043 (0,025)	0.030 *** (0.009)

### 10.5 Liquidity CE and SE

The liquidity of a company quantifies the ability of the company to fulfill its short-term obligations, in other words, its margin of safety. The literature outlines three ratios commonly used as an indicator of liquidity, these being the current ratio, the quick ratio (= the acid test ratio), and the cash ratio.

The current ratio measures a firm's ability to repay its short-term loans within the year (Husna & Satria, 2019). The ratio is obtained by dividing the current assets by a firm's current liabilities. Wardana (2015) argues that a firm with a small current ratio has few current assets to meet its short-term liabilities. The experts specify that this does not imply that having a high current ratio is positive, as it might be due to poor operational management of cash and inventory management.

The quick ratio measures a firm's ability to meet its short-term obligations using its most liquid assets (Madushanka & Jaturika, 2018). Akinleye & Ogunleye (2019) find that financial liquidity computed by the quick ratio exerts a negative and insignificant impact on profits after tax. The cash ratio demonstrates a positive and significant impact on a company's profits after tax (Akinleye & Ogunleye,

2019), thereby confirming the positive relationship between the cash ratio and profitability as well (Egbide, Uwuigbe, & Uwalomwa, 2013).

Lipson & Mortal (2009) report that firms possessing more liquid equity show a greater preference towards equity financing when raising capital. As a result, firms possessing more liquid equity also display a lower level of leverage. Furthermore, Šarlija & Harc (2012) specify that the significant correlations between leverage and liquidity are stronger for short-term leverage than for long-term leverage. Thus, long-term leveraged firms would appear to be more liquid. Šarlija & Harc (2012) further argue that increasing cash in current assets results in an increase in liquidity and, thus, a decrease in leverage.

Table 3 shows good average current ratios for for-profit SE, for-profit CE, and non-profit SE. On the contrary, the average current ratio for non-profit CE is well above the healthy ratio. The average quick ratio at all four types of enterprises exceeds the predetermined 1 percent. By contrast, the average cash ratio is only at the preferred level for the for-profit CE.

**Table 10.3. Descriptives Result for Liquidity**

<b>For Profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CE (SD)</b>
Current ratio	5165	1.498	2.385 (2.661)	2.0870 (2.040)
Quick ratio	5165	0.845	1.692 (2.217)	1.1290 (1.205)
Cash ratio	5165	0.156	1.183 (2.191)	0.4457 (0.906)
<b>Non-Profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CE (SD)</b>
Current ratio	3520	2.184	2.410 (1.991)	6.029 (55.075)
Quick ratio	3520	1.613	1.866 (1.950)	5.143 (52.510)
Cash ratio	3520	1.231	1.457 (1.925)	4.746 (52.497)

The analysis also shows that there is a significant difference in the current ratio between for-profit SE and for-profit CE. Table 3 illustrates that for-profit SE has a higher current ratio than for-profit CE,  $c^2 = 23.811$ ,  $p < 0.05$ . However, the analysis with current ratio of CE as dependent variable shows that there is no significant difference in the current ratio between non-profit SE and non-profit CE,  $p = 0.2193$ .

**Table 10.4. Analysis current ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$** 

Variable	Regression coefficient (Std. Error)	
	For-Profit	Non-Profit
<b>Intercept</b>	0.106 (0.764)	-2.209 (4.508)
<b>Dummy (social)</b>	0.775 * (0.312)	-0.605 (0.492)

The random effects model, with a quick ratio of CE as dependent variable, demonstrates a significant relationship between the quick ratio of for-profit SE and for-profit CE. Table 10.5 shows that for-profit SE has a higher quick ratio than for-profit CE,  $c^2 = 18.819$ ,  $p < 0.01$ . However, the mixed effect analysis concerning the quick ratio does not show any significant differences in the quick ratio between non-profit SE and non-profit CE,  $p = 0.3992$ .

**Table 10.5. Analysis quick ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$** 

Variable	Regression coefficient (Std. Error)	
	For-Profit	Non-Profit
<b>Intercept</b>	0.803 (0.411)	-1.781 (4.295)
<b>Dummy (social)</b>	0.662 ** (0.234)	-0.396 (0.471)

Table 10.6 is the result of a random effects analysis with the cash ratio of CE as dependent variable. This analysis results in a significant difference in the cash ratio between for-profit SE and for-profit CE. It shows that for-profit SE has a higher cash ratio than for-profit CE,  $c^2 = 21.024$ ,  $p < 0.001$ . Identical to the

current and cash ratio, Table 6 also also finds no significant differences in the cash ratio between non-profit SEI and non-profit CE,  $p = 0.3456$ .

**Table 10.6. Analysis cash ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$**

Variable	Regression coefficient (Std. Error)	
	For-Profit	Non-Profit
Intercept	-0.333 (0.343)	-1.906 (4.293)
Dummy (social)	0.920 *** (0.229)	-0.433 (0.459)

## 10.6 Leverage CE and SE

Among the most used evaluations of capital structure is the leverage ratio. It refers to the proportion of an enterprise's debt capital to the value of its equity. The debt ratios are used to compute the leverage, which reflects the accumulated needs for external financing. Borrowed capital covers capital raised through the issuance of bonds, debentures, and loans from banks. To provide a more detailed perspective on the various forms of external capital, debt ratios are typically subdivided further. Therefore, instead of an aggregate measure of total debt, the debt is divided into short-term (ST), long-term (LT), and convertible debt (Titman & Wessels, 1988). The following ratios consist of the debt as specified above divided by the total debt.

Convertible debt consists of debt converted to equity in the alternative of repayments over time. Emery, Iskandar-Datta, and Rhim (1994) discovered major changes in enterprises with large convertible debt ratios. They observe a high growth rate in enterprises using convertible debt. As a result, these enterprises obtain more equity without entering new equity. The convertible debt ratio is



composed according to the same manner as the short-term and long-term debt ratios.

Siqueira et al. (2018) conclude that for-profit SE displays significantly lower leverage than CE. This implies that the entrepreneur's interest is more inclined towards his social goals rather than focusing on financial performance. Besides the low leverage of SE, Bacq Lumpkin (2014) argues that the long-term debt ratio of a SE will be higher than the one of a CE. Studies attribute this to the fact that social goals are often achievable only over a larger period, which requires more long-term investments. Similarly, a possible reason for the low leverage ratios of SE could be the fact that financial institutions charge higher interest rates to SE than to CE, due to uncertainty of sufficient profitability of SE (Calic & Mosakowski, 2016).

Table 10.7 shows that average debt-to-assets ratios are higher for for-profit CE than for-profit SE. Among non-profit organizations, there is only a minimal difference in the average debt-to-assets ratio between SE and CE. Further, Table 10.7 indicates that the average short-term debt ratio for for-profit enterprises is lower for SE than for CE. The average long-term debt ratio, on the contrary, is higher for SE than CE.

The overall difference in leverage between non-profit social and non-profit traditional enterprises is analyzed based on the debt-to-asset ratio. The random effects model in Table 10.8 finds a highly significant relationship in the debt-to-assets ratio between non-profit SE and non-profit CE. It can be concluded that the debt-to-assets ratio of non-profit SE is lower than the debt-to-assets ratio of the non-profit CE,  $c^2 = 65.921$ ,  $p = 0.0067$ . The random effects analysis is utilized to analyze the difference in the debt-to-assets ratio between for-profit SE and for-

profit CE. The analysis shows no significant main difference in debt-to-assets ratio between these two segments,  $p = 0.9598$ .

**Table 10.7. Descriptives of Result of Leverage**

<b>For-profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CE (SD)</b>
Debt-to-assets ratio	5165	0.624	0.672 (0.511)	0.626 (0.330)
Short-term debt ratio	5165	0.890	0.643 (0.230)	0.817 (0.207)
Long-term debt ratio	5165	0.109	0.345(0.258)	0.183 (0.207)
<b>Non-profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CEE (SD)</b>
Debt-to-assets ratio	3520	0.457	0.531 (0.263)	0.536 (0.494)
Short-term debt ratio	3520	0.568	0.606 (0.240)	0.551 (0.280)
Long-term debt ratio	3520	0.432	0.394 (0.240)	0.449 (0.280)

**Table 10.8. Analysis debt-to-assets ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$**

Variable	Regression coefficient (Std. Error)	
	For-Profit	Non-Profit
<b>Intercept</b>	0.790 *** (0.163)	1.544 *** (0.189)
<b>Dummy (social)</b>	-0.003 (0.063)	-0.093 *** (0.034)

**Table 10.9. Analysis short-term debt ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$**

Variable	Regression coefficient (Std. Error)	
	For-profit	Non-profit
<b>Intercept</b>	1.269 *** (0.082)	1.194 *** (0.092)
<b>Dummy (social)</b>	-0.268 *** (0.033)	0.019 (0.026)

Table 10.9 shows a highly significant difference between the short-term debt ratio of for-profit SE and for-profit CE. More specifically,

**Table 9** illustrates that for-profit SE has a lower short-term debt ratio than for-profit CE,  $c^2 = 71.167$ ,  $p < 0.001$ . Table 9 also shows that there is no significant difference in the short-term debt ratio between non-profit SE and non-profit CE,  $p = 0.4537$ .

Table 10.9 illustrates that for-profit SE has a higher long-term debt ratio than for-profit CE,  $c^2 = 62.544$ ,  $p < 0.001$ . The random effects analysis with the long-term debt ratio of CE as a dependent variable has again shown no significant differences between the two non-profit segments,  $p = 0.5200$ .

**Table 10.10 Analysis long-term debt ratio \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$**

Variable	Regression coefficient (Std. Error)	
	For-profit	Non-profit
Intercept	-0.255 ** (0.082)	-0.194 *** (0.092)
Dummy (social)	0.253 *** (0.034)	-0.019 (0.026)

### 10.7 Tangibility CE and SE

Corporate assets consist of tangible and intangible assets. Tangible assets are physical and include assets such as cash, inventory, equipment, buildings, vehicles, and investments. Commonly referred to as Property, Plant, and Equipment (PPE). Intangible assets, by contrast, are immaterial; they contain assets such as receivables, patents, goodwill, and prepayments. As a measurement of asset tangibility, the following ratio established through the division of tangible assets (PPE) by total assets is commonly used.

Hang et al. (2018) argued a significant observation that tangible assets are easily valuable by outlying parties, leading to competitive advantages for external financing and substantially reducing the expenses of financial distress. This ratio measures how much of the assets can be used as collateral for financing. The pecking order and static trade-off theory states that firms with more collateralizable assets obtain more opportunities to enter debt financing (Degryse et al., 2012).

The market-to-book ratio, also known as the price-to-book ratio, is a financial metric for valuing the market value of a stock relative to its current book value. The market value of a company represents the current stock price of all outstanding-

shares. Enterprises with a significant number of profitable investment opportunities should, according to Hang et al. (2018), explore equity financing through the stock market to exploit all potential opportunities.

Table 11 demonstrates that for-profit CE shows, on average, less tangibility than for-profit SE. In contrast, non-profit CE shows more tangibility on average than non-profit SE. The model in Table 12 shows a significant difference in tangibility between for-profit SE and for-profit CE. Table 12 illustrates that for-profit SE has a higher tangibility than for-profit CE,  $c^2 = 20.526$ ,  $p < 0.001$ . The random effects model shows again no significant difference in tangibility between non-profit SE and non-profit CE,  $p = 0.9709$ .

**Table 10.11. Descriptives of Result of Tangibility**

<b>For-profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CE (SD)</b>
Tangibility	5165	0.151	0.354 (0.267)	0.209 (0.196)
<b>Non -profit</b>				
	<b>N</b>	<b>Median</b>	<b>Mean SE (SD)</b>	<b>Mean CE (SD)</b>
Tangibility	3520	0.465	0.435 (0.235)	0.443 (0.288)

**Table 10.12. Analysis Tangibility \*:  $p < 0.05$ ; \*\*:  $p < 0.01$ ; \*\*\*:  $p < 0.001$** 

Variable	Regression coefficient (Std. Error)	
	For-profit	Non-profit
<b>Intercept</b>	0.193 ** (0.074)	-0.102 (0.087)
<b>Dummy (social)</b>	0.149 *** (0.037)	0.001 (0.026)

## 10.8 Conclusion

From this research, the conclusion can be drawn that significant differences are discovered between the capital structures of for-profit social enterprises and for-profit traditional enterprises. The significant differences in capital structure are discovered in the leverage, liquidity, and tangibility of SMEs in Belgium. For-profit SE exhibits significantly lower short-term debt than CE. Long-term debt, on the other hand, is clearly lower among for-profit CE compared to SE. This is in line with the concept that predicted liquidity and tangibility in for-profit SE are higher than in CE.

The study also examines the differences in capital structure between non-profit SE and non-profit CE. The results indicate less significant differences between non-profit SE and CE than between the for-profit SE and CE. Significant differences in capital structure were observed in the leverage and profitability of SMEs in Belgium. The overall leverage in non-profit SE is significantly larger than in non-profit CE, according to the debt-to-assets. Contrarily, the results conclude significantly higher profitability in non-profit SE than in non-profit CE.

The conclusion from the results is, first, SE and CE indeed have their own priority, which affects their financial performance. In terms of profitability,

surprisingly, non-profit SE displays a higher level compared to non-profit CE. Even though profitability is the secondary goal for them, this result indicates that for non-profit organizations, their business process is indeed more efficient and results in more profit. However, it does not mean that they are allowed to trim essential expenses to increase their efficiency. Instead, it is better for them to present more impactful social programs in the future. Meanwhile, as expected, for the for-profit organization, CE records at a high level as they are meant to be.

Next, in terms of liquidity, it is proven that non-profit SE and non-profit CE have no significant differences. It is not surprising because both are not aiming for profit. However, for for-profit SE and for-profit CE, it is proven that the SE has a higher ratio. It is likely because non-profit SE and non-profit CE have an urgency to hold liquid assets, either in cash or in the equivalent of cash. The liquid assets are meant to be spent to run the daily activities. Meanwhile, for the for-profit SE and for-profit CE, the availability of liquid assets is essential since they also aim to optimize assets for revenue and profit generation.

Furthermore, in terms of leverage, non-profit SE and non-profit CE have no differences in their long-term short-term debt, as well as the debt-to-asset ratio compared to CE. However, for for-profit, it shows that SE has a smaller ratio of debt-to-asset and short-term debt. While for long-term debt, SE has a larger one. It is imperative that for-profit SE needs to have a longer time for the debt to deliver its social value and its impact. For-profit SEs run their major activities through grant, funding, or their business process, which is mostly higher than their asset. To this extent, for-profit SE practitioner needs to be more careful when managing finances as their liquidity is proven higher than their counterparts. Misplacing the funding will cost their asset.



Finally, like the other performance, non-profit SE and non-profit CE show no significant difference in their tangibility. Instead, a higher tangibility ratio is found in for-profit SE than in for-profit CE. It indicates that SEs are more appreciated by the market, which we argue mostly because of their social value and good deeds. However, the market must be cautious because it does not fully reflect their "for-profit" goals. Thus, investors for the for-profit SE need to explore this segment to secure their investment.

Second, all in all, the significant difference we can draw from the results is the difference between SE and CE lies in the purpose of the organization: non-profit vs for-profit. In other word, the main goal of the organization is likely to drive the business process and financial performance of the company, either SE or CE. For the non-profit organization, the financial performance indeed is not the main parameter. Thus, the delivery of social value is essential. Meanwhile, for for-profit organizations, SE performs better compared to CE. This is an important finding that must be wisely understood by the stakeholders so that they have a better understanding of invest, running, or supporting SE. For the policymaker, this finding must be taken into consideration for policymaking so that the fairness of the policy is well-maintained. For the future social entrepreneur, the finding opens a wider avenue for the future SE and sustainable career.

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## CHAPTER 11

# Integrating Experiential-value and Seeking-escaping Travel Motivation Model: Exploring the Role of Motivation and Experience toward Tourist Behavioral Loyalty

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### Abstract

This study explores the relationship between tourism development, quality of life, and the success of marketing and management strategies in tourism destinations. It emphasizes the role of cultural identity and gastronomy in attracting tourists. Additionally, it focuses on the proliferation of themed cafes in Indonesia, examining how perceived authenticity, service quality, and experience quality influence visitors' satisfaction and revisit intention. The study also highlights the importance of subjective well-being and offers insights into the wellbeing-loyalty model in the context of thematic cafes.

**Keywords:** Tourism development, quality of life, marketing strategies, cultural identity, gastronomy

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<https://doi.org/10.11594/futscipress220>



## **11. 1 Introduction**

The tourism industry makes a significant contribution to the Indonesian economy. Tourism generates contributions from both inside and outside the country. This sector contributes more to the economy the greater the number of visitors who visit. Tourism employs a substantial number of individuals as a sector that contributes to the national economy. Due to the extensive reach of the tourism industry, particularly in the service sector, numerous employment opportunities are available. Consequently, the Indonesian tourism industry contributes significantly to employment. Beginning in 2020, the Global Covid19 pandemic had a negative impact on the Indonesian tourism industry. The presence of restrictions on human mobility reduces the number of travelers who participate in tourism-related activities. This has a negative effect on the tourism industry in Indonesia. Numerous tourism-related enterprises have declared bankruptcy. For companies that are not bankrupt and are able to endure, maximizing efficiency and reducing labor are two of the measures taken to ensure their continued existence. The sloping transmission rate of the COVID-19 virus globally, including in Indonesia in early 2023, until the pandemic status is changed to endemic in several countries, enables the tourism sector to contribute to the economy of the country once again. The ability of tourism industry managers to create tourist loyalty will have a positive effect on them, according to a review of tourism marketing science. This is because loyal visitors will return voluntarily and disseminate positive word of mouth about the tourist attraction. As an essential aspect of the tourism industry, it is evident that generating customer loyalty is a crucial task that must be accomplished by administrators of tourist attractions.

Seeking-Escaping Travel Motivation is a theory frequently used to explain a tourist's motivation for traveling. Wu and Cheng (2019) explain that a person takes a vacation because they need a temporary break from their daily routine and pressures. Although this theory has been extensively used as a basis for analyzing the behavior of tourists when traveling, it has limitations. According to Alves, Campón-Cerro, and Hernández-Mogollón (2019), there are still a few identified flaws in the seeking-escape travel motivation. Wu, Cheng, and Hussein (2019) explain that experience is crucial when planning a tour. This is because when travelers travel, they gain experience. However, the concept of seeking or escaping travel motivation does not include experience as one of the reasons why people travel. In addition, the concept of seeking to escape through travel motivation does not account for the value gained through travel. Individuals will have the intention to conduct business in the context of travel if they perceive the positive value of the trip. The greater the perceived value, the greater the travel intent. Based on these descriptions, we devised a comprehensive model that combines the seeking-escape travel motivation and the experiential-value model to provide a complete picture. The name for this model is the experiential escape motivation model.

## **11.2 The Seeking-escaping Travel Motivation**

Why do people travel? To answer this question, motivation is a primary aspect of interest for academics investigating tourist behavior. Motivation is a fundamental reason for behavior (Pearce & Caltabiano, 1983). One of the motivation theories used to understand and analyze tourists' motivation to visit a tourist destination is seeking-escaping travel motivation, introduced by Iso-Ahola

(1982). This theory explains that individuals' motivation to engage in tourism is driven by both seeking and escaping elements, which are inseparable. It suggests that individuals engage in tourism activities either to seek certain benefits or to escape from their everyday lives. The seeking and escaping dimensions each have personal (psychological) and interpersonal (social) components, including personal seeking, personal escape, interpersonal seeking, and interpersonal escape (Iso-Ahola, 1982). Escaping is a dimension that explains why someone engages in tourism to avoid their everyday environment, routine activities, problems they face, mundane atmospheres, or negative emotions. It can be assumed to be a negative driver in the context of tourism (We and Mokhtarian, 2023). On the other hand, seeking explains that individuals engaging in tourism are searching for rewards, such as new experiences, the pleasure of visiting unique places, well-being, connecting with others who share similar interests, strengthening family relationships, and more (Snepenger, 2006).

Based on the previously explained Seeking-Escaping Travel Motivation theory, well-being (affective aspect) and destination attachment (cognitive aspect) can be reasons why someone engages in tourism activities. Seeking well-being has become a growing trend among consumers as a desired outcome of travel, thus requiring further investigation (Vada, 2023). Well-being refers to the overall quality of life and satisfaction experienced by a person. Subjective well-being focuses on individuals' subjective evaluations of their own lives and includes components such as life satisfaction, positive emotions, and the absence of negative emotions. Through travel, individuals may experience comfort by breaking free from monotonous routines, joy in enjoying new environments, or a sense of peace by escaping pressures, thus enhancing their well-being.

Destination attachment also serves as a motivation for travel, defined as an emotional connection between a person and a place, reflected through dimensions of dependence, identity, emotions, and social connection (Ramkinson & Mavondo, 2015). Visitors can develop an attachment to a place or destination due to the symbolic meaning it holds (Deb & Lomo-David, 2021). A memorable personal travel experience can foster an emotional attachment between the tourist and the visited place. Such memorable experiences can arise from unique and satisfying tourism experiences, making tourism experiential quality crucial in shaping people's motivation to travel. Experiential quality refers to the perceived value of customer experiences (Wu et al., 2018). Previous studies have discussed the influence of experiential quality on well-being and destination attachment. One study explains that destination attachment can be formed during the first visit, depending on the level of memorable tourist experiences (Vada, 2019). Memorable tourist experiences can also influence the hedonic and eudaimonic well-being of tourists. Hedonic well-being encompasses positive emotions, happiness, and pleasure, while eudaimonic well-being focuses on living a life of purpose, meaning, and self-actualization (Vada, 2019).

To achieve outstanding tourism, it is necessary to not only have a large number of tourists in the short term but also sustainable tourism visits. To create return visits or loyalty, a tourist destination must be able to provide a good quality tourism experience. The evaluated experience quality, including the quality of the physical environment and interactions between service providers and visitors, can influence visitor loyalty to a boutique hotel, mediated by perceived value (Hussein et al., 2018). Another study on experiential quality by Hussein and Radhitha (2020) has also proven that heritage experiential quality has an impact on

customers' behavioral intentions. Pleasant tourism experiences fulfill visitors' motivations to obtain well-being and enhance destination attachment. Meeting these motivations becomes a trigger for tourists to revisit or, in other words, be loyal to a tourist destination. Several previous studies have empirically shown that well-being, as an affective outcome of travel experiences, can lead to repeated visits to a tourist destination. A study conducted by Vada (2023) found that repeat visits to Fiji are driven by the restorative benefits that influence tourists' well-being. These restorative benefits include escaping from the pressures of daily life, experiencing warmth from the kindness of others, and feeling comfortable while visiting Fiji. Another study by Bunner-Sperdin (2017) explains that well-being is a crucial driver for tourist behaviors, such as the intention to return and positive word-of-mouth. This study illustrates that sense-making (accessibility, amenities) and exploratory attributes (attractions and activities, entertainment, and the local community) of a tourist destination influence tourists' intentions to revisit and spread positive word-of-mouth, but only if tourists achieve a certain level of well-being (feeling happy, satisfied, and comfortable) during their visit.

Previous research has also shown that destination attachment, as a cognitive outcome of travel experiences, can influence tourists' intentions to be loyal to a tourist destination. Based on a study by Zhou et al. (2023) on film tourism destinations, emotional attachment indirectly affects visitor loyalty but requires a process of attachment between tourists and the destination to enhance visitor loyalty. In other words, a tourist destination should make visitors feel that the tourism experiences provided are unique, make the destination a special and important place, provide tourism activities that create sentimental attachment, or offer experiences aligned with visitors' self-concepts. In nostalgic tourist

attractions, nostalgia attachment can also influence revisit intentions. Visitors who feel a part of a place and have connections with others who have visited or been in that place tend to have a high interest in revisiting (Jian et al., 2021). Studies conducted by Patwardhan et al. (2020) and Pradhan et al. (2023) have also empirically demonstrated that destination attachment could influence revisit intentions. Based on the explanation of the relationship between well-being and destination attachment with experiential quality, integration of the experiential quality model and the seeking-escaping travel motivation theory can be conducted to analyze further the aspects that influence tourists' loyalty in visiting a tourist destination.

### **11.3 The Experiential-value Model**

Loyal customers are the main asset of every business. They will have positive attitudes and behavior toward the brand, such as repurchase intention, positive word of mouth, and customer retention. It will lead to long-term profitability. Marketing scholars have conducted much research to explore the determinants of customer loyalty. One of the crucial determinants of customer loyalty is experiential value. Mathwick, Malhotra, and Rigdon (2002) define experiential value as "a perceived relativistic preference for product attributes or service performance arising from interaction within consumption setting that facilitates or block achievement of customer goals or purpose".

Besides customer loyalty, experiential value has been confirmed as a determinant of other marketing outcomes, such as customer satisfaction and brand equity. Verhagen, Feldberg, van den Hoof, Meents, and Merikivi (2011) proposed the positive and significant influence of experiential value dimensions on



customer satisfaction in the virtual world. Echchakoui (2016) also confirmed the positive and significant influence of experiential value on customer loyalty, particularly in the banking industry. Finally, Li, Liu, and Su (2021) found the positive and significant influence of experiential value on brand equity in the tourism industry.

The measurement scale of experiential value tends to be varied according to the service's characteristics. In the virtual world, Verhagen et al. (2011) proposed an experiential value model using four dimensions, namely escapism, entertainment value, economic value, and ease of use. Escapism refers to the customers' feeling of retreat during product consumption. Entertainment value is defined as the customers' feeling of fun and pleasant when using the product. Economic value refers to the customers' benefit of using the product. And ease of use represents free of effort to use the product. Echchakoui (2016) also proposed an experiential value model. He argued that experiential value is a multidimensional model. The model consists of four dimensions: economic value, service efficiency, service excellence, and enjoyable interaction. Economic value refers to the perceived value from the acquisition and transaction process. Service efficiency reflects the utilitarian aspect of the customer-employee interaction and the benefit of their investment in terms of effort, time, energy, and money. Meanwhile, service excellence refers to the degree of customer appreciation toward a product's promise and performance. Enjoyable interaction reflects the perception of playfulness.

In the fashion industry, Varshneya and Das (2017) used cognitive value, hedonic value, social value, and ethical value to measure experiential value. Cognitive value is a value that customers get from quality of service, time, effort,



and convenience. Hedonic value is a value derived from enjoyment and entertainment experience (Sweeney & Soutar, 2001). Social value refers to the value of favorable interaction with other customers. Finally, the ethical value represents a value from trusted experience. In the tourism industry, experiential value mostly adopted Pine and Gilmore's (1999) model. The model also used four dimensions: educational (desire to learn), entertainment (desire to be joyful), escapism (desire to get away from normal routine), and aesthetics (desire to be in a particular place). The subsequent research also proposed a different model. Wu and Liang (2009), in their study on luxury restaurants, implemented consumer return on investment, aesthetics, service staff excellence, and escapism as the dimensions of experiential value. Hung et al. (2019), in their research on cultural tourism, proposed four dimensions of experiential value: playfulness, aesthetics, consumer return on investment, and service excellence. Playfulness is defined as the attractiveness of a tourist destination to encourage the active participation of tourists and visitors (Wu & Liang, 2011). Aesthetics refers to the tourists' perception of a destination's beauty and artistic value (Breiby, 2014). Customer return on investment is defined as tourists' perception of their expenses during the visit (Wiedmann, Hennigs & Siebels, 2009). Service excellence refers to the tourists' perception of employees' ability (Chen et al., 2015).

In conclusion, the experiential value model is depending on the characteristic service contexts. Researchers need to explore the characteristics of the object's study prior to determining the experiential value model. Every experiential value model in different service contexts can contribute positively to the marketing literature.

#### **11.4 The Development of Experiential Escaping Motivation Model**

Following the discussions in the previous segments, we identify an opportunity to develop a new conceptual framework that could be used to describe the process of building tourist loyalty, utilizing the role of motivation and experience. Motivation has always been an important factor to examine within the field of tourism management study (Mahika, 2011). The sustainability of a destination site could be determined by how well the site management identifies changes in tourist motivation to visit the site. In addition, tourist motivation could also affect the demand for tourism products and services.

The escaping motivation model is a conceptual framework that could explain how the fulfillment of individual motivation toward visiting a destination site could determine their future behavior. According to recent studies on tourist behavior, several motivational drivers have been identified as the stimulus that determines the desire to travel. Following the consumer decision-making process (Kotler & Keller, 2016), the first stage of the decision-making process is the recognition of a need. At this stage, the need or desire of an individual could be triggered by internal stimuli, experience (the individual previously has been interacting with the product or services), and external stimuli.

The desire to travel in order to seek out positive emotions has been explored in previous studies. By traveling, tourists are looking to seek out positive emotions to cope with their adversity (Mitas et al., 2012). The PERMA (Positive emotions, Engagement, Relationship, Meaning, and Achievement) introduced by (2011) explored five major dimensions of individual well-being in four out of five dimensions, in which positive emotions, relationship, meaning, and achievement are found-

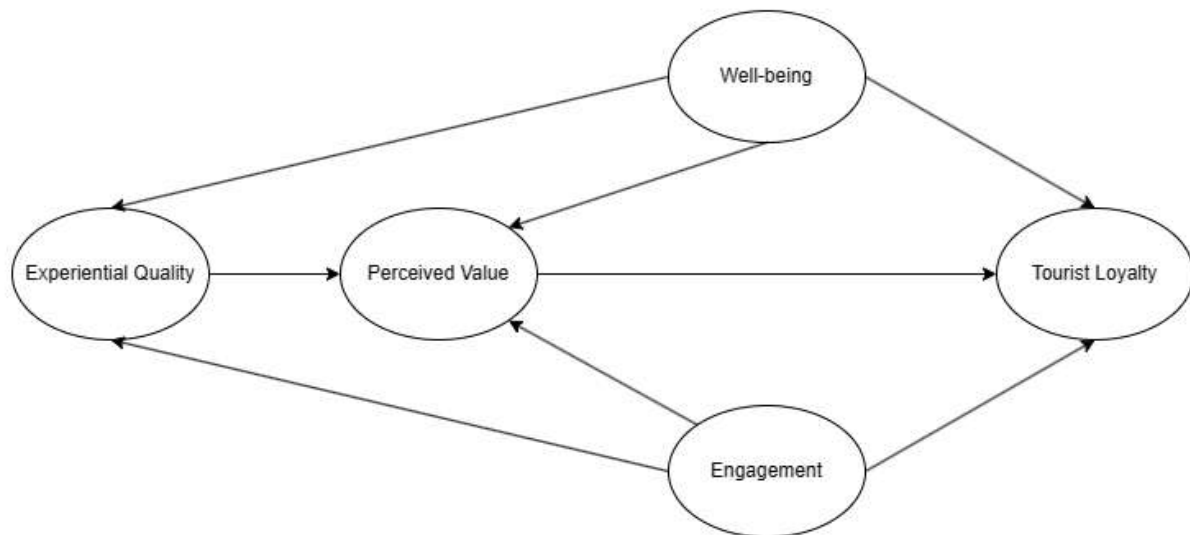
to be the determinant of well-being among female travelers in Italy (Laing & Frost, 2017). In addition, research by (Kalaiya and Kumar, 2018) confirmed that the PERMA model could also explain the tourist' decision to spend more time at a destination site.

Interestingly, the finding (Laing & Frost, 2017) left out engagement of the PERMA model as the determinant of individual well-being. We could argue that the PERMA model is limited to observing the desire to travel toward a destination site is driven by an individual's motivation to seek out well-being by interacting with the destination site as an object. The engagement from the PERMA is defined as the opportunity to engage with the destination site by the tourist so that they can achieve positive emotions. This is common on spiritual or natural destination sites, where tourists can interact directly with the nature or spiritual objects within the site.

Families, friends, and other social networks are examples of external stimuli that could trigger the need or desire to travel (Robinson et al., 2011). These motivational drivers could be categorized as social drivers, in which tourists would like to go traveling to get involved or engaged with their families, friends, fellow travelers, or the locals on the destination site. (H. Chen & Rahman, 2018) suggested that the largest factor that contributes to tourist engagement is the level of interactivity and collaboration that could be available within the destination site. There are also some suggestions addressing that not all tourists visiting a destination site have the same level of engagement (Brodie et al., 2011; Mollen & Wilson, 2010). Following these suggestions, we argue that the tourists' desire to travel could be motivated by their intention to seek out engaging social activities on the destination site.

In the development of the experience economy, the concept of experience has been explored as an important determinant of customer satisfaction and loyalty. Previous studies have investigated the role of experience in the tourism and hospitality industry (Z. Chen, 2019; Hussein & Rifandani, 2023; Hussein & Rohman, 2021). These studies found that positive experience quality could develop tourist behavioral loyalty toward a destination site. However, experiential quality alone could not always have a direct significant effect on tourist loyalty. (Rohman et al., 2023) Found that in the spiritual tourism context, the experiential quality did not have a direct effect on tourist loyalty. Thus, further exploration to investigate the relationship between the two constructs is needed.

We argue that the integration between the experiential-value model and the seeking-motivation model could offer an empirical contribution to explain the tourist decision-making process and a practical contribution to help destination site managers develop better strategies to achieve tourist loyalty. The seeking-motivation model could explain the role of well-being and engagement as the motivation of tourists to visit a destination site. Fulfillment of these motivations is predicted to significantly influence the future behavior of the tourist toward the destination site. In addition, we also argue that after visiting a destination site, the experience of their visit might also contribute to their perceived value of the destination site. As previously discussed, the desire to visit a destination site could be developed from the experience of previous interaction with the destination site. To conclude, our proposed framework of the "Experiential Motivation Escaping Model" is shown in Figure 1.



**Figure 11.1. Experiential Motivation Escaping Model**

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## CHAPTER 12

# Improving Customer Wellbeing and Loyalty in Culinary Tourism: Integrating Authenticity in Well-being – Loyalty Model

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### Abstract

This study explores the relationship between tourism development, quality of life, and the success of marketing and management strategies in tourism destinations. It emphasizes the role of cultural identity and gastronomy in attracting tourists. Additionally, it focuses on the proliferation of themed cafes in Indonesia, examining how perceived authenticity, service quality, and experience quality influence visitors' satisfaction and revisit intention. The study also highlights the importance of subjective well-being and offers insights into the well-being-loyalty model in the context of thematic cafes.

**Keywords:** Tourism development, quality of life, marketing strategies, cultural identity, gastronomy

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## **12. 1 Introduction**

Tourism is one of the world's largest sectors, with an essentially constant and rapid annual increase in revenue and employment (Prnar & Günlü, 2012). With such rapid expansion, competition has become severe, and only tourism locations that employ innovative and effective management and marketing techniques will thrive. As a result, tourism destination site marketers have a vested interest in extremely successful marketing and management tactics. Much research has been conducted on the influence of tourism development as an essential field of study with important marketing implications. The impact of tourist development on the quality of life of community members is a focus point in this study stream.

In the past few decades, research on Quality of Life has been more popular in the social, behavioral, environmental, and policy sciences. It is thought of as a portion of the social indices. In sociology and economics, the movement had its start. The social indicators movement is driven by the conviction that more significant development indicators, such as need satisfaction, life satisfaction, perceived quality of life, happiness, or life fulfillment, cannot be equated with traditional economic measures of societal development. Therefore, it is imperative that the influence of tourism on quality of life be discussed.

Local culture is becoming a more valuable source of novel goods and activities to draw in and amuse tourists as competition among travel destinations heats up. Food is an integral part of the tourist experience, so gastronomy is particularly important in this regard. In addition, gastronomy has grown to be a major source of identity formation in postmodern culture. Travelers' dietary habits also change as they grow more mobile. The growing mobility of food, the

emergence of new culinary trends, and the growing de-differentiation of meals all challenge the easy association of particular cuisines with particular geographic regions.

The culinary tourism business in Indonesia has proliferated in recent years. This is marked by the growth of restaurants and cafes that are increasing massively in Indonesia. The development of the culinary business cannot be separated from the factor that this business concerns basic human needs; it can be said to be an eternal business. Due to the impact of different cultures and geographical areas, Indonesia has a rich and varied culinary legacy. Indonesia is a famous destination for culinary tourists because of the diversity of dishes and flavors found in its cuisine.

In Indonesia, the restaurant and cafe business has grown significantly. This tendency was fueled by the nation's burgeoning middle class and a rising desire to eat out. There are many different places to eat in big cities like Jakarta, Bali, Surabaya, and Bandung, from upscale international restaurants to street food vendors. Particularly with younger people, Indonesian cafes have gained popularity, and they usually provide a combination of Western-style and traditional foods and drinks.

In Indonesian Culinary Tourism Industry, fusion cuisine has also been gaining popularity in recent years, fusing traditional Indonesian flavors with flavors from around the world. As a result, there are now unusual and creative dishes that can be a source of attractiveness to the Indonesian culinary tourism industry.

Consumer needs that continue to increase become significant opportunities in the culinary industry. As one of the businesses that has increased quite rapidly-

and reflects modern lifestyles, competition in the cafe business is becoming increasingly fierce; it will be a challenge and a threat to companies in the field. To win the competition, the culinary tourism industry is expected to implement an appropriate marketing strategy to survive and win the competition in the culinary tourism business.

The physical environment of the cafés or restaurants, quality of service, authenticity, quality of experience, and subjective well-being are noted as the antecedents of customer intention to revisit the café and/or restaurants.

Yuan and Wu (2008) state that even though their needs and aspirations are diverse, there is evidence to suggest that perceived experiences, both positive and bad, are an inevitable outcome of using goods and services. Customers' overall experiences, which are a result of a mix of the surroundings the goods and services they have purchased, are referred to as more specific experience or experiential consumption (Alan et al., 2016). Their findings show that satisfaction is strongly correlated with experience quality and that visitor behavioral intentions are clearly influenced by satisfaction, which in turn influences the intention to return.

Brady and Cronin (2001) assert that the standard of the physical environment affects the quality of services. As a result, patrons of cafés and restaurants can also gauge the caliber of their services based on their impression of the physical space while they are there. According to Schiffman and Kanuk (2007), customers frequently use a variety of information signals that they identify with a product to determine its quality. These signals pertain to a product or service and can be intrinsic (such as color, taste, or aroma) or extrinsic (such as pricing, packaging, or advertising).



A café/restaurant that is unique and authentic is expected to create an impression that can affect the experience of visitors in enjoying the services provided by the cafe. In this case, Perceived authenticity can also play a role in influencing perceived experience quality because authenticity refers to the extrinsic quality of an object or experience, while the original refers to intrinsic features (Krösbacher & Mazanec, 2010).

Diener et al. (2015) state that subjective well-being, or what can be called the quality of life, is a theory of evaluation of events that have occurred or experienced in life. This one involves active affective and cognitive processes because it determines how the information will be organized. Furthermore, Zeithaml et al. (2016) noted that environmental psychologists explain that people react to places with two basic behaviors, namely approach and avoidance. Behavior approach (including revisit intention) is influenced by customer perceptions of the environment itself. Revisit intention is a form of behavior (behavioral intention) or the desire of customers to come back, give a positive word of mouth, stay longer than expected, and shop more than expected. Visitors' perception of good service quality can lead to approach behavior (including revisit intention). Thematic cafe owners need to revisit their intention to increase customer visits and increase market share.

## **12.2 Perceived Service Quality**

According to Kim and Moon (2009), any assessment of perceived service quality is predicated only on how well a thing or product is regarded to possess certain qualities. A different way to think about perceived service quality is to evaluate individual service providers by contrasting their activities against customers' expectations of what a typical consumer expects from businesses in

the same industry (Kim & Moon, 2009). Perceived service quality, according to Kim and Moon (2009), also reflects cognitive assessments of the intangible elements of service delivery, like responsiveness, certainty, empathy, and dependability.

According to Schiffman and Kanuk (2007), customers frequently use a variety of information signals that they identify with a product to determine its quality. These signals pertain to a product or service and can be intrinsic (such as color, taste, or aroma) or extrinsic (such as pricing, packaging, or advertising). Because services are produced and used continuously and because their qualities are inherent, varied, and long-lasting, evaluating their quality is more difficult than evaluating that of items.

Since it directly impacts the profitability and viability of restaurants, research on the effect of perceived service quality on loyalty in the restaurant business is essential. Customer loyalty in the restaurant industry is significantly impacted by perceived service quality. Customers who are happy with the restaurant are more likely to use loyalty programs, refer people to it, and make repeat visits. They can also help a restaurant succeed in the long run and have a favorable impact on its internet reputation. In order to encourage client loyalty, restaurants should place a high priority on maintaining and enhancing service quality.

### **12.3 Perceived Experience Quality**

Provision of services Experience is the term used to describe the subjective personal feelings and reactions that customers have when they use or consume services. One may argue that the evaluation of consumption and satisfaction with rendered services is significantly influenced by the quality of the services received-

(An & Han, 2020). Many literary works have addressed the distinctions between experience quality and service quality. Measurement-wise, experience quality is centered on the subjective viewpoint, whereas service quality is centered around the objective viewpoint. Experience quality is typically evaluated holistically through integration based on appreciation, with an emphasis on internal self-assessment rather than outward service environment evaluation. Additionally, mental representation is more effective than cognition or attitude, the scope of experience is more general than specific, and the nature of advantages is experience-based, hedonistic, and symbolic rather than utilitarian or practical. Wu et al. (2019) use four factors—immersion, surprise, participation, and fun—to conceptualize experience quality. Consumer involvement during consumption, which immerses them and highlights the consumption process, is referred to as immersion.

One important issue that can have a big impact on a restaurant's performance and capacity to keep customers is the effect that experience quality has on loyalty in the food business. The term "experience quality" describes the total dining experience a customer gets at a restaurant, encompassing more than simply the cuisine and features like décor, service, and general atmosphere.

Restaurants that place a high priority on providing patrons with unique, pleasurable, and consistent dining experiences stand to gain from strong customer connections, repeat business, and excellent word-of-mouth recommendations. In the end, making an investment in experiential quality can help you succeed in the cutthroat restaurant business over the long run.

## **12.4 Quality of Life (Subjective Well-Being)**

Quality of life or well-being refers to pleasure, life satisfaction, positive emotions, meaningful life, or contentment. Some researchers use the term well-being as a term of happiness itself. Diener et al. (2015) state that subjective well-being can be associated with the theory of evaluation of events that have occurred or experienced in life. Quality of life or well-being involves affective and cognitive processes, as it determines how the information will be organized. Cognitive evaluation is done when someone gives a conscious assessment and assesses their satisfaction with life as a whole or an evaluative assessment of specific aspects of life, such as job satisfaction, interests, and relationships. Affective reactions in subjective well-being (SWB) in question are individual reactions to life events that include pleasant emotions and unpleasant emotions.

## **12.5 Revisit Intention as a form of Customer Loyalty**

Revisit intention, as defined by Zeithaml et al. (2016), is a type of behavior (behavioral intention) or the desire of customers to make additional purchases, remain longer, or recommend a business. According to environmental psychologists, people respond to locations in two ways: they either approach them or avoid them. All favorable reactions that can be directed towards a specific website, such as the desire to live, explore, work, and be an affiliate, are included in approach behavior. Avoidance behavior reflects other things, such as a wish to leave, not to explore, not to work, or to become unaffiliated. Customer impressions of the physical environment have an impact on behavior approach, including intention to revisit. Approach behavior, including the intention to return, might be influenced by visitors' impressions of exceptional service quality (Zeithaml et al., 2016).

The culinary tourism sector is fiercely competitive, offering customers a wide range of dining options. Creating and preserving a devoted clientele can lower marketing expenses, improve a restaurant's reputation, and provide a consistent flow of income. It's crucial to remember that establishing and preserving client loyalty requires work and patience. Providing outstanding experiences on a regular basis and adjusting to shifting consumer tastes are essential to building a devoted clientele. In the restaurant and culinary industries, a good customer loyalty strategy also involves actively listening to consumer feedback and making improvements based on it.

### **12.6 Wellbeing – Loyalty Model**

Businesses utilize the well-being-loyalty model as a conceptual framework to comprehend and take advantage of the connection between customer loyalty and well-being. This approach acknowledges that a customer's degree of contentment, pleasure, and general quality of life are all components of their customer well-being and that these factors can have a substantial impact on a customer's loyalty to a brand or company.

When a customer interacts with a brand or business, they should feel satisfied, pleased, and happy overall. This is known as customer well-being. It addresses emotional and psychological aspects in addition to practical needs. Customer well-being may involve and enhance customer satisfaction and emotional connection or customer's emotional bond with a brand. Furthermore, once customers find that their well-being is improved after consuming goods and/or services, customers will tend to have a higher level of dedication to a company or brand. It indicates the possibility that a consumer will stick with and support the brand in the future.

Regarding the Well-Being-Loyalty model, there is a direct and positive relationship between customer loyalty and well-being. To put it another way, consumers are more inclined to stick with a brand if they have positive experiences interacting with it. Positive feedback from customers can be produced by very content individuals. Customers who are emotionally invested in the brand and feel satisfied are more inclined to stick with it, which increases brand loyalty. Furthermore, when consumers feel emotionally invested in a brand and are satisfied, they are less likely to switch to competitors, which can lead to a reduction in attrition rates. The satisfied customers also tend to tell others about the company, which can bring in new, devoted customers.

Business organizations can take advantage of this model by putting measures into place that improve consumer well-being, which in turn fosters loyalty. Personalization Adapting goods and services to each client's unique requirements and preferences can improve well-being.

### **12.7 The Role of Authenticity on Loyalty**

The word "authenticity" is derived from the Greek word "authentēs," which denotes the source or author. As a result, the term "authentic" refers to something that is true or authentic and indicates something original as opposed to a copy or counterfeit. Accordingly, the original refers to inherent qualities, whereas authenticity relates to an object's or experience's extrinsic qualities (Krösbacher & Mazanec, 2010; Nicolotti & Magrin, 2020).

Authenticity is described as an externally recognized status, leaving behind a feeling of uniqueness. Thus, authenticity can take forms such as cultural identity, status identity, experience, technological mediation, self-construction, and-

appearance. Thus, the concept of authenticity can be used to understand the process of visitor satisfaction in the setting of the tourism and hospitality industry.

One important factor in determining a restaurant's success is how devoted customers are affected by authenticity. In the restaurant industry, authenticity pertains to the sincere and accurate portrayal of a restaurant's identity, menu, and overall patron experience. A restaurant's ability to successfully communicate authenticity can greatly increase patron loyalty. Culinary and tourism practitioners agree that there is no one-size-fits-all definition of authenticity. It can take several forms, such as using regional products, following customs in the kitchen, decorating with cultural accents, or presenting original stories. Depending on the target market, cuisine, and location of the restaurant, the precise effect of authenticity on loyalty may change.

Academicians and practitioners agree that there is a big effect that restaurant authenticity has on customer loyalty. Authenticity fosters emotional ties, increases positive word-of-mouth, fosters trust, and promotes repeat business. Prioritizing and communicating authenticity well will help restaurants build a devoted clientele that will support their long-term success.

## **12.8 Conclusion**

In the culinary tourism industry, there are important factors that need to be considered in enhancing customer loyalty, namely authenticity, service quality, experience quality, and well-being. The well-being-loyalty model emphasizes how critical it is to prioritize consumer well-being when cultivating loyalty. It emphasizes the notion that emotionally invested, content, and happy customers are more inclined to stick by a brand or company. This model can help businesses prioritize customer-



well-being as a critical factor in long-term success and shape their plans accordingly.

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## CHAPTER 13

# Bias Financial Behavior on Investment Decisions

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### Abstract

This literature review explores the theory of behavioral finance and its application in understanding investor behavior and decision-making processes. Behavioral finance integrates psychological factors into finance to explain irrational financial decisions and anomalies observed in the market. The review examines key theories within behavioral finance, including prospect theory, heuristic models, and the dual-process theory. It also discusses various investment instruments in the capital market, such as stocks and bonds, and their associated risks. Additionally, the review highlights common investment behavioral biases and provides recommendations to mitigate their influence on decision-making. Understanding and addressing these biases can lead to more objective and informed investment strategies.

**Keywords:** Behavioral finance, investor behavior, decision-making, capital, investment strategies.

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### **13.1 Behavioral Finance**

In the 1990s, studies were conducted to examine the efficacy of standard finance or traditional finance theories in explaining the movements of stock prices and other securities. These theories can be traced back to Eugene Fama's seminal work in 1965, which is commonly connected with current portfolio theory and the efficient market hypothesis. According to these theories, the price of a security in an efficient market represents all accessible and relevant information about that security. In other words, the current price is assumed to be its fair value. Consequently, under this theoretical framework, active market participants are theoretically unable to consistently achieve abnormal returns (commonly known as "beating the market") due to the prompt dissemination of their actions to other investors. Recognizing the inadequacy of traditional finance in explaining anomalies observed in the realms of money and capital markets, financial researchers have begun to explore the integration of behavioral aspects, leading to the emergence of behavioral finance as a viable approach.

To comprehend behavioral finance, two sub-topics must be distinguished. The first is behavioral finance micro, which examines how individual investors differ from rational actors envisioned in classical economic theory. Second, behavioral finance macro is the detection and description of behavioral models that can explain the occurrence of anomalies in the Efficient Market Hypothesis (Pompian, 2006).

Behavioral finance seeks to clarify and improve our understanding of investor behavior patterns, including emotional aspects and their influence on decision-making processes (Nofsinger, 2022). More specifically, behavioral finance seeks to provide answers to the "what, why, and how" of finance and investment from a particular perspective. (Shefrin, 2010) defines behavioral finance as the study that explores how psychological phenomena impact financial behavior. It focuses on the behavior of market participants and emphasizes the behavioral tendencies of practitioners. Behavioral finance is the study of how individuals actually behave in financial decision-making, particularly examining the influence of psychology on financial decisions, firms, and markets. The concepts outlined clearly indicate that behavioral finance is an approach that explains how human beings engage in investments or financial dealings influenced by psychological factors. Behavioral finance represents a new approach to the financial market, emerging in response to the challenges faced by traditional paradigms. In a broader sense, it argues that certain financial phenomena can be better understood through the application of models.

### **13.1.1 Theory of Behavioral Finance**

Behavioral Finance, in a comprehensive sense, can be defined as the application of psychological principles within the field of finance. This theory began to develop in the 1950s when (Bauman, 1967; Burrell 1951) started incorporating psychological elements into their research. Additionally,

(Slovic, 1969, 1972) published articles examining the investment decision-making process from a behavioral perspective.

From the standpoint of modern finance, investors' decisions are not solely determined by estimations of investment prospects but are also influenced by their psychological factors. In fact, it is argued that these psychological factors play the most significant role in shaping investment decisions. In his work, "The Behavioral Finance Theory" (1981), Shiller argues that individuals' financial behavior is influenced by psychology. This theory combines insights from behavioral psychology, cognitive and conventional economics, and finance to explain why individuals make irrational financial decisions (Bihari *et al.*, 2023). The theory of behavioral finance seeks to explain investor irrationality and decision-making processes based on psychology. When making investment decisions, investors not only consider the prospects, returns, and risks of an investment but also heavily rely on psychological factors. In the context of biased financial decision-making, individuals engage with psychological aspects that can deviate from rational behavior. (Kahneman Tversky, 1979) discovered that individuals exhibit different behaviors when making decisions, and classical financial theories fail to predict all financial decisions that are made. There are eight factors that confluence behavioral finance:

- Psychology: Psychology is a scientific study of behavioral and cognitive processes that deal with the quality of impact of the

physical and mental states and external environments on these processes.

- **Economy:** This is a science that focuses on the production, allocation, and consumption of wealth, labor issues, financing, and capital and tax.
- **Behavioral Economics:** This is a field that combines psychology and economics to justify how and why some people make irrational decisions.
- **Social:** It is a systematic study of human and group social behavior and focuses on the effect that social communication has on the behavior and attitude of individuals.
- **Investment:** This deals with the allocation of money or capital for trade, real estate, stocks, bonds, etc., with the aim of gaining income or earnings.
- **Social Psychology:** It is the study of individuals' behavior within social groups. This field studies the quality of influencing others.
- **Financial:** It is a field that deals with valuation and decision-making, financial management, capital allocation between investments, firm purchase, and resource management.
- **Financial Accounting:** This field studies the behavior of accountants and non-accountants in relation to the quality of processing of data by them.



### **13.1.2 Theory of Prospect**

Prospect theory focuses on subjective decision-making influenced by an investor's value system. This theory was invented by Kahneman Tversky in 1974. This theory is a mix of two different subjects, which are psychology and economics. That's why it's a theory of psychology. Prospect theory is the basic theory of any investment decision research because this theory tends to influence how successful investors make investment decisions (Sahmuddin, 2003). Takziah (2021) believes that uncertainty leads to investment loss, which is why investors need to consider their decisions for future success.

The attitude of investors in response to trading risks is very diverse. Rational investors will respond to risk based on the thought that if investment decisions are predicted to cause loss, then the decision will not be taken. However, many investors behave irrationally in response to the risk that will happen. This is explained by the prospect-focused theory on the subjectivity of decision-making influenced by the investor value system (Kahneman et al., 1976).

Kahneman and Tversky (1979) established prospect theory, which focuses on subjective decision-making that influences the value system investor (Filbeck et al., 2005). Prospect theory addresses numerous states of mind that influence people's decision-making processes, such as regret aversion, loss aversion, and mental accounting (Waweru et al., 2008).

Individuals tend to undervalue possible possibilities in comparison to specific outcomes, and people's reactions to comparable situations vary based on the context of benefits or losses offered. This theory asserts the presence of inherent and persistent behaviors that are driven by psychological reasons and impact people's choices in uncertain situations. Prospect theory emphasizes investors' subjective decisions, whereas expected utility focuses on investors' rational expectations in making investment decisions. Prospect theory investigates individual behavior in contexts of uncertainty and risk. This theory is very important for any management research, especially about investment decisions topic (Arkes & Blumer, 2006).

### **13.1.3 Theory of Heuristic**

Tversky and Kahneman (1974) define heuristics as rules of thumb that make it easier for individuals to make decisions, especially in complex environments and uncertain conditions (Ritter, 2003). Heuristics are quite useful in predicting against probability or judgment in the face of time pressure (Waweru et al., 2008).

Heuristics are strategies for guiding information search and modifying problem representation in order to arrive at solutions. Heuristics provide valuable and necessary methods for identifying answers to situations that cannot be addressed just by logic and probability theory. Behavioral biases are general principles and deviations from rational calculations caused by heuristics. As a result, heuristics coexist alongside the unavoidable

irrationality and cognitive illusions associated with Dual Process Theory. Gigerenzer Gaissmaier (2011) proposed a definition of heuristics as "strategies that disregard some information with the aim of making decisions faster, more frugal, and/or more accurate than more complex methods." Heuristics are effort-reduction techniques that use one or more of the following: assessing only a few cues, lowering effort in collecting signal values, integrating less information, or studying only a few choices.

#### **13.1.4 The Dual-Process Theory**

The Dual-Process Theory, pertains to financial literacy and Financial Access, positing that financial decisions can be driven by both intuitive and cognitive processes, implying that financial understanding does not always translate into optimal financial decisions. The Dual-Process Theory in financial literacy suggests that individuals with high levels of financial literacy may rely on two thinking styles: intuitive and cognitive.

### **13.2 Investment**

Investment is the commitment of a certain amount of funds or other resources made in the present, with the aim of obtaining a certain level of profit in the future". These profits can be manifested as financial returns or gains (Tandelin, 2001). But that beneficial part is very uncertain because there is no such thing as certainty in any kind of investment (Downes & Goodman, 2001).

One of the reasons investments is essential is the fact that the value of money decreases over time due to inflation (Tandelin, 2001). The other reason why people invest is because human needs tend to increase (Noor, 2007).

Investment encompasses the addition of capital stock or goods in a country, such as buildings, production equipment, and inventory items, within one year.

Jogiyanto (2010) states that there are two kinds of investment: direct investment and indirect investment. Direct investment can be manifested by buying financial paper directly in the market for future gains; meanwhile, indirect investment can be manifested by investing our money in financial manager that manages the money in investment portfolio. Before investors decide to invest their money, they need to consider a few things: What they invest in, What investment broker they use, how much they invest, and how long they invest. Those are very important factors that investors need to consider before investing their money (Husnan, 2015).

Investing entails foregoing future spending. In the context of investment management, risk is defined as the amount of the difference between the expected and actual return. The larger the deviation, the greater the risk. Tandelin (2001) believes that there are two risks in investing:

- Systematic risk: Systematic risk is the risk associated with changes that occurs in the market as a whole. Such market changes will affect the variability of return on an investment.
- Unsystematic risk: Unsystematic risk is risk that is not associated with change overall market.

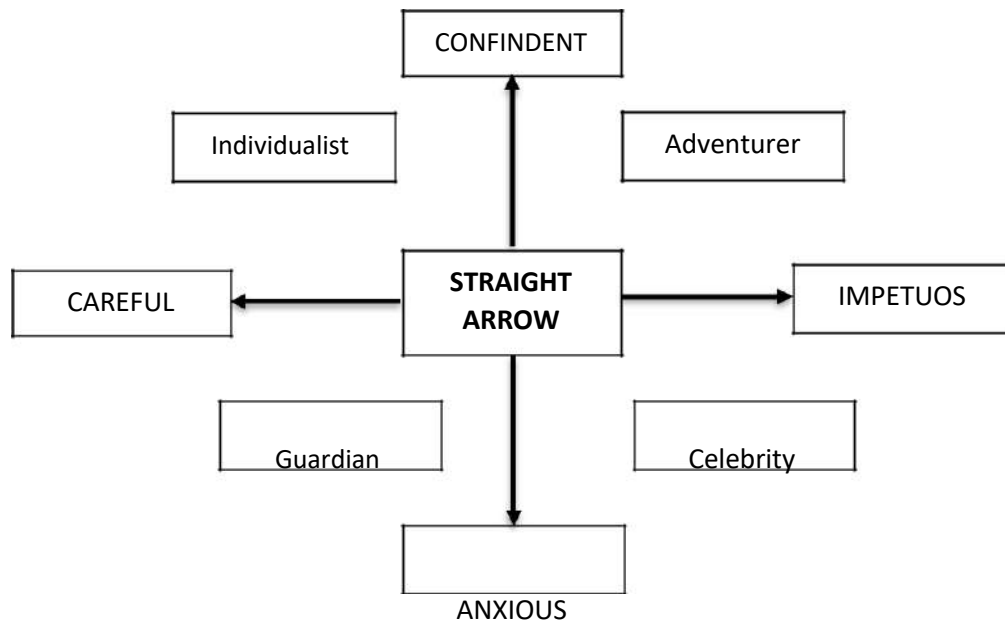
### **13.2.1 Investment Valuation**

Investment is an activity to place funds in the hope of providing positive returns (Sutha, 2000). The most basic thing in investing is knowing the prospect of gains that influence the investment decisions of investors (Levy & Sarnat, 1990). According to Kasmir and Jakfar, 2007 investment valuation methods are as follows:

- Accounting Rate of Return: The rate of return accounting technique calculates the average return on investment by comparing the average profit before tax (EAT) with the average investment.
- Net Present Value: Net Present Value is the ratio of net cash PV (PV of Proceed) to investment PV (capital outlays) over the life of the investment. The difference between the values of the two PVs is what we know as Net Present Value (NPV). To calculate NPV, we must first know what the net cash PV is. Net cash PV can be found by creating and calculating the company's cash flow over the life of a particular investment.
- Internal Rate of Return (IRR) is a metric used to calculate the rate of return on internal outcomes.

- Profitability Index: The profitability index (PI) method or benefitand cost ratio (B/C Ratio) is the activity ratio of the total present value of net receipts to the present value of investment expenditures over the life of the investment.

### 13.2.2 Understanding Investor Behavior



**Figure 13.1. BB&K Five-way Model and Investment Behavior**

- The adventurers group.  
consists of individuals who generally do not care about risks and may even enjoy them (risk-takers).
- The celebrities group.  
comprises individuals who always want to stand out, be prominent, and be the center of attention. If both types of investors, adventurers and celebrities, dominate the market, it will deviate significantly from rationality.

- The individualists group.

consists of individuals who work alone and do not care about other people's investment decisions. They tend to go against the tide but avoid high risks and are willing to face moderate risks.

- The guardians' group and the straight arrow group are composed of more mature, experienced, and relatively knowledgeable investors.

Categorizes investors into several types, namely:

- Scalpers: The literal meaning of scalpers is "jumping fleas." Traders in this category only hold positions for a few seconds or minutes.
- Day Traders: This trading style takes advantage of daily price fluctuations. Day traders open multiple positions in a day, similar to scalpers but with a longer time horizon. Typically, they buy in the morning and sell in the afternoon.
- Swing Traders: This trading style aims to profit from price swings or fluctuations over a longer period. The time horizon ranges from a few days to several weeks.
- Position Traders: This trading style utilizes a longer time horizon. They can hold positions for weeks to months.
- Investors: This group adopts a passive trading style with a low number of trades and a time horizon of months to years. It is believed that individuals or a group of individuals can consistently engage in this type of trading behavior.



### **13.3 Investor Behavior**

Financial behavior is a concept that stresses the possible consequences of psychological elements that impact investor behavior. Its inception is motivated by the belief that mainstream finance theory pays inadequate attention to how investors really make investment decisions. Various financial theories and models presume that investors always act rationally when making investment decisions. It is presumed that investors are ready and able to receive and assess all available information based on their logical thinking. Investors frequently exhibit illogical conduct (judgmental inclinations), breaking from the premise of rationality and exhibiting prejudiced tendencies. Financial behavior studies investors' emotional traits to understand subjective elements and illogical anomalies in the capital market (Jurevičienė & Ivanova, 2013).

Investor behavior is greatly influenced by the information they receive. This is because information is subjective, meaning individuals may react differently to the same source of information. This suggests that individuals learn knowledge and update their views sequentially in a continual process of acceptance. Warren Buffett stated that there is no opportunity for investors to outperform the market because investors are not always rational and do not process information correctly. Often, individuals become irrational when it comes to money and make decisions based on emotions, even if they have proficient skills in mathematics,

finance, and accounting. Those who do not control their emotions will not benefit from the investment process.

### **13.3.1 Investment Decision**

Investment decision is defined as a way to allocate asset in accordance with investment objectives in order to obtain returns and maximize returns (Mahfuzur, 2020). According to Kishori and Kumar (2016), the purpose of making an investment decision is to obtain better returns in the future at the expense of today's value. Investment decision is the last part in the investment process that determines the success of investing (Sharpee, 2005). According to Tandelin (2010) there are two main factors that influence investment decisions:

- **Return:** The primary reason individuals invest is to earn. The rate of return on investment is referred to as return on investment management. It is normal for investors to expect a certain degree of return on their investments. The projected return on investment by investors compensates for opportunity costs and the risk of declining buying power owing to the effect of inflation.
- **Risk:** If investors demand the maximum possible return on their investment. However, there is one critical factor that must always be considered: how much risk must be carried by the investor. In general, the larger the risk, the higher the projected rate of return. Research on stock and bond returns in America conducted by Jeremy J. Siegel in 1992, found that in the period 1802-1990, stock returns far exceeded

bond returns. The excess stock return on the bond return is also called the equity premium. One of the factors that causes the phenomenon of equity premium is the fact that stock risk is higher than bond risk.

### **13.3.2 Instruments in the Capital Market**

Most individuals can participate in the capital market. It serves as a platform or means for bringing together parties with surplus funds and those in need of funds through the trading of securities, typically with a maturity of more than one year, such as stocks and bonds. Indonesia regulates investment and capital market activities through *UU Pasar Modal No.8/1995 pasal 1*, defines activities related to public offerings and trading of securities, public companies related to the securities they issue, as well as institutions and professions related to securities. The instruments in the capital market include:

#### **13.3.2.1 Stocks**

Stocks are one of the most popular financial instruments in the market. Issuing stocks is one of the options chosen by companies when deciding on corporate financing. On the other hand, stocks are investment instruments widely chosen by investors due to their ability to provide attractive returns.

Stocks can be defined as ownership shares of an individual or entity (business entity) in a company or limited liability corporation. By owning these shares, the holder has a claim to the company's income, assets, and the right to attend the Annual General Meeting of Shareholders

(AGMS). Essentially, there are two benefits that investors gain from buying or owning stocks:

- **Dividends:** Dividends are the distribution of profits made by a company and originate from the earnings generated by the company. Dividends are given after obtaining approval from shareholders in the AGMS. If an investor wants to receive dividends, they must hold the shares for a relatively long period until their ownership of the shares is recognized as eligible for receiving dividends.
- **Capital Gain:** Capital gain is the difference between the purchase price and the selling price. Capital gain is formed through stock trading activities in the secondary market. For example, an investor buys ABC shares at a price of Rp 3,000 per share and then sells them at Rp 3,500 per share, resulting in a capital gain of Rp 500 for each share sold.

As an investment instrument, stocks have risks, such as, Capital loss and liquidity risk. Capital loss which occurs when an investor sells the shares at a lower price than the purchase price. Liquidity risk, where the company whose shares are held is declared bankrupt by the Court, or the company is dissolved. In this case, the claim rights of shareholders are given the lowest priority after all the company's obligations have been settled (from the proceeds of the company's asset sales). If there is still a surplus from the proceeds of the company's asset sales, it is distributed proportionally to all shareholders. However, if there is no remaining wealth of the-

company, shareholders will not receive any proceeds from the liquidation. This condition represents the most significant risk for shareholders. Therefore, shareholders are required to continuously monitor the company's developments.

### **13.3.2.2 Bonds**

Bonds are contractual agreements that require the borrower to repay the principal loan amount along with the loan interest within a predetermined period as agreed upon by the parties involved. Bonds are one of the financing methods for the government or company to raise money. In simple terms, the one who issues bonds is the issuer, while the investor who buys the bonds are the bondholders (Manurung et al., 2007). Bonds belong as a long-term investment with expiry dates, and the investors are rewarded by *coupon* (Gitman, 2003). Many beliefs that bonds are fixed-income securities because investor get fix cash flow that already pree-agreed before (Bodie, Kane, Marcus, 2005).

There are few procedurs if companies want to issue a bond. First, they need to get approval from the board and then the company need to make a registration statement that being checked by officials' financial institutions. After the registration statement is ready, the bonds can be traded 20 days after the approval (Ross, 2008). According to Gitman (2003), there are few types of bonds:

- Fixed rate/straight bonds: This type of bond has a fixed amount of interest coupon paid periodically to investors throughout the validity period of the bond.
- Floating Rate Notes: Floating rate note (FRN) has a coupon that calculates the amount of interest refers to a money market index such as LIBOR or Euribor. These rate notes are popularly used in times of inflation and interest rates in the future. These bonds are usually sold close to par price due to automatic adjustment according to conditions market.
- Zero Coupon Bonds: Zero Coupon Bonds are bonds that provide no coupon. These bonds are traded at discounted prices (discount) from par value. Bondholders receive the full principal debt at maturity of the bond.
- Convertible Bonds: This is the type of bonds that can be exchanged for common stock from the issuing companies are called convertible bonds.

### **13.3.2.3 Mutual Funds**

According to the 2002 Financial Accounting Standards, mutual funds are a container used to gather funds from the financial community, which are then put in portfolio securities by investment managers. Understanding securities means understanding securities, which include letters of credit, commercial documents, stocks, bonds, evidence of debt, and collective investment contract participation units. (PSAK No. 49). According to

Darmadji (2001) there are several types of mutual funds:

- Money market funds: This Mutual Fund investing in debt securities with maturities less than a year. The goal is to maintain liquidity and capital maintenance.
- Fixed income funds: This is the type of mutual funds that invests at least 80% of its assets in the form of debt securities. This mutual fund has risks which is relatively larger than money market mutual funds. The goal of this mutual funds is to generate a stable rate of return.
- Equity funds: equities funds are mutual funds that invest at least 80% of their assets in equities. Because the investment is made in equities, the risk is larger than in the previous two types of funds, but this form of mutual fund produces a high rate of return.
- Discretionary Funds: This is the type of mutual fund that invest in equity securities and securities debt. In 2005 there was a massive redemption so that one year later protected mutual funds appeared, the next development of mutual funds is Exchange Traded Fund (ETF). The development of mutual funds is increasingly innovative. It is marked by the presence of exchange-traded funds (ETF).
- Exchange Traded Funds: Exchange Traded Funds (ETF) are an innovation in the world of the mutual fund industry that is like a public company where the unit can be traded on exchanges.



#### **13.3.2.4 Option**

Option is an agreement/contract between option sellers (seller or writer) with option buyers (buyer), where the option seller guarantees the right (not an obligation) of the option buyer to buy or sell a particular asset at a predetermined time and price (Hartono, 2017). There are two kinds of options:

- Call option: Call option is an option that entitles the holder to purchase a certain number of shares at a predetermined time and price.
- Put option: Put option is an option that entitles the owner to sell certain shares at a predetermined amount, time, and price.

#### **13.3.2.5 Warrant**

Warrant issued for the first time in Swiss in 1980, then later became the new kind of instrument in Asia. Miller (1960) believes that a warrant is a revolutionary financial instrument that later created options and futures. Warrants can be traded at exchange with price from market direct supply and demand (Byoun & Moore, 2003). Schultz (1994) states that the issue of warrants could reduce the agency problem that happens due to the internal conflict between the stock owner and the company sides. Warrant is an instrument for a short-term speculator because institutional investors tend to buy stocks instead (Heflin & Shaw, 2000).

### **13.3.2.6 Cryptocurrency**

In this era, conducting business transactions can occur online without involving intermediaries such as banks, so conducting a transaction across countries and continents becomes very easy and cheap (Ausop & Aulia, 2018). Cryptocurrency has become a real implementation of blockchain technology that can not only be used as a means of payment but can be used as another tool that facilitates economic life, knowledge, art, and culture from all circles of society (Shovkhalov & Idrisov, 2021). Cryptocurrency is a technology used as a digital currency to carry out an internet-based virtual transaction (Rico, 2020).

### **13.4 Investment Behavioral Biases**

Investment behavioral biases encompass the study of psychological factors that influence investment decisions. In the efficient market hypothesis and modern portfolio theory, it is stated that market efficiency occurs due to investor factors, rapid information dissemination, and rationality in assessing prices. The psychology of investment or behavioral biases in investors includes:

- **Overconfidence Bias**

Overconfidence bias is exhibited by novice investors who have a desire to achieve high returns and excessively trust their own opinions. Investors with this bias tend to be overly confident in their knowledge and abilities. Overconfidence bias is characterized by an overly confident attitude and

intuition about how well individuals understand their own capabilities and limits of knowledge (Shefrin, 2010).

- Overtrading:

A trader has too many open positions or uses a disproportionate amount of money in a single trade.

- Cognitive Dissonance Bias

A state of imbalance occurs when cognition itself does not align, resulting in a conflict arising from new information that contradicts previously accepted understanding.

- Representativeness Bias

Decision-making based on stereotypical thinking or analogies leads investors to make erroneous financial decisions that do not improve their return on investment.

- Availability Bias

A common cognitive strategy in individual decision-making that provides an example of how the decision-making process influences the evaluation of relevant events.

- Self-Attribution Bias

The tendency for individuals to make financial decisions is based on perceiving their abilities as higher than others. This bias can lead to poor decision-making due to a negative influence and a failure to listen to professionals.

- Loss Aversion Bias

A behavioral bias in which the pain of losses experienced by investors during investment exceeds the equivalent gains obtained from similar investments.

Avoiding biased behavior in investment decision-making is a crucial step toward achieving more objective outcomes and reducing the risk of errors. The following are several recommended steps that can be suggested to reduce the influence of bias in investment decision-making:

- Plan thoroughly

Creating a clear and structured investment plan is an essential step. This plan should include investment goals, diversification strategies, risk tolerance, and time constraints. By having a well-defined plan, impulsive decision-making influenced by bias can be avoided.

- Learn from history

Understanding market history and investment trends can help avoid biases associated with focusing on the uncertain present or future. Observing historical performance and studying market patterns can provide broader insights and reduce the influence of emotional bias.

- Awareness of biases

It is important to be aware that biases are a natural part of human thinking.

- Learn and educate oneself

Make an effort to learn about various types of biases commonly encountered in investment decision-making. Books, articles, online courses, and other resources can help understand and recognize these biases.

- Conduct objective analysis

Strive to conduct investment analysis objectively by considering relevant data, historical performance, and fundamental factors. Avoid making decisions based solely on feelings or guesswork.

- Portfolio diversification

Diversifying the portfolio can help reduce risks and limit the impact of wrong decisions.

- Engage diverse perspectives

Discussing with individuals who have different viewpoints, including financial professionals, investment experts, or peers, can help avoid confirmation bias (seeking information that supports our own views) and provide fresh insights.

- Implement long-term investment plans

Creating and following long-term investment plans can help avoid decision-making driven by emotions or short-term market situations.

- Stick to investment strategies and avoid being tempted to make changes based on impulsive decisions.

- Use systematic approaches and checklists

Creating systematic approaches and checklists can help ensure consideration of relevant factors and avoid overlooking crucial aspects. This can help reduce selective bias (ignoring information that contradicts our views) and ensure more objective decisions.

- Avoid decisions based on breaking news

News and market sentiments can influence our investment decisions. Avoid making investment decisions based on current news or short-term market volatility. Instead, focus on long-term analysis and fundamental factors.

- Manage emotions effectively

Managing emotions such as greed and fear is crucial in rational investment decision-making. Practice controlling emotions and refrain from making decisions based on quick emotional reactions.

- Retrospective decision review

After making investment decisions, it is important to review those decisions and analyze whether biases might have influenced them.

- Periodic evaluation

Conduct periodic portfolio evaluations to ensure that your investment decisions remain aligned with your long-term goals. This evaluation also helps identify any biases that may have influenced the decisions.

By undertaking these measures, awareness of biases can be heightened, and the ability to avoid or diminish their influence in investment decisions can be enhanced.

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## CHAPTER 14

# Adapting to AI as a Tool of Operations Management in Society 5.0

Muhammad Hafiz Riandi

### Abstract

This paper explores the integration of Artificial Intelligence (AI) in operations management, highlighting its transformative impact on industries. It discusses the benefits and challenges of adopting AI in areas such as production planning, inventory control, supply chain management, and quality assurance through case studies. The paper proposes an 8-step model to guide organizations in implementing AI, emphasizing ethical considerations and collaboration. The future implications include IoT integration and predictive analytics. With careful planning, AI has the potential to revolutionize operations management and contribute to societal advancement.

**Keywords:** Operations Management, Artificial Intelligence, Transformative Impact, Production Planning and Inventory Control.

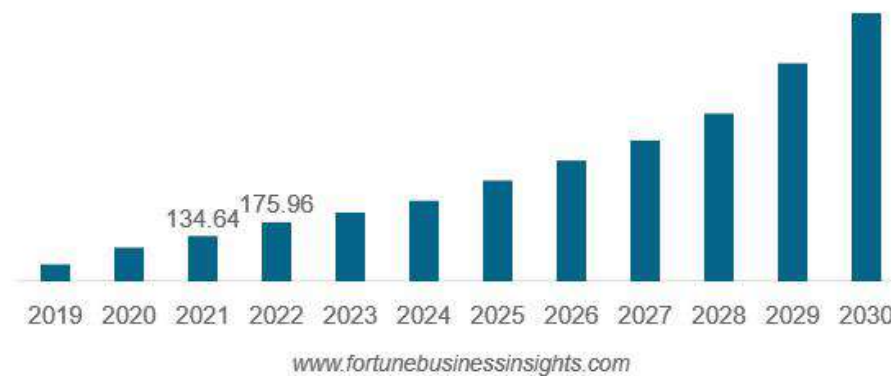
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<https://doi.org/10.11594/futscipress52>

## 14.1 Introduction to AI and Operations Management

Artificial Intelligence (AI)—a technology that simulates human intelligence processes by machines, especially computer systems—has been around since the 1950s, but its recent advancements have made it a game-changer in many industries, including Operations management. AI is a broad field that encompasses a wide range of technologies, including machine learning, natural language processing, and computer vision. These technologies have the potential to transform the way businesses operate by enabling them to automate processes, optimize operations, and make better decisions. The usefulness of AI, the advancement of technology, as well as the Covid-19 pandemic crisis, which hit the world in 2020, forced the hands of decision-makers around the world to increase the rate of AI adoption. The global trend in increasing AI adoption throughout the years can be inferred from the increasing market size of AI in North America, which can be seen in the chart below.

North America Artificial Intelligence Market Size, 2019-2030 (USD Billion)



**Figure 14.1. North American AI Market Size 2019-2030<sup>3</sup>**

The chart showed an increase of USD 41.32 billion in AI market size from 2021 to 2022 in the US alone. The COVID-19 pandemic crisis exacerbates the need for a faster data-processing method, which AI can provide, especially in healthcare where machine learning models assist public-health decision-making-

processes<sup>3</sup>. Furthermore, other industries followed the trend that healthcare industries started and started to increase the pace of AI adoption to the point that around 66% of organizations in North America decided to increase or maintain their investments in AI<sup>4</sup>. This trend is mirrored by the actions of Multinational companies such as Walmart, which, together with Salesforce software company, managed to offer AI-powered, personalized pickup and delivery service for retailers on January 2023<sup>5</sup>, as well as Google, which launched Bard, its latest AI chatbot service, to compete with the popular Chat GPT, on February 2023<sup>6</sup>.

Through the increasing rate of AI adoption, we as citizens of the world are going closer and closer to becoming Society 5.0. Society 5.0 is a concept that envisions a future society that is highly connected and technologically advanced, where AI plays a central role in many aspects of daily life<sup>7</sup>. It is a human-centered society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space. Society 5.0 seeks to revolutionize not only the industry through IT integration but also the living spaces and habits of the public. In this context, AI and Operations Management have the potential to transform society by enabling businesses to become more efficient, more effective, and more competitive<sup>8</sup>. However, adapting to AI can be challenging for organizations.

Adapting to AI presents challenges that organizations need to address, such as data quality and availability, ethical considerations, workforce transformation, and integration with existing systems<sup>2</sup>. First, AI requires high-quality data to make accurate predictions and decisions, and ensuring that data is accurate, complete, and up-to-date can be a significant challenge for organizations. Second, as AI becomes more powerful, there are ethical concerns about its impact on society, including issues related to privacy, bias, and job displacement. Third, AI requires specialized talent-

in the workforce, including data scientists, machine learning engineers, and AI researchers, which are difficult to find and retain as demand for these skills is high. Finally, AI might require additional functionalities to be integrated into the existing system that organizations already have<sup>8</sup>. Despite these challenges, or even due to the result of overcoming these challenges, adapting to AI as a tool of operations management is of paramount importance for organizations in Society 5.0.

The importance of harnessing the power of AI to improve Operations Management in Society 5.0 can be shown by the new opportunities for growth, competitiveness, and sustainability<sup>8,9</sup>. First, AI opens opportunities for growth by reducing costs through automating repetitive tasks while at the same time also helping enhance decision-making processes to better optimize organizations in the long run. Second, a competitive position can be maintained through the help of AI by easing the process of analyzing customer data and market trends to better understand how to improve an organization's products or services to stay ahead of the curve, and as more organizations are adapting to AI, those that fail to do so risk falling behind the competitor. Finally, AI can help organizations stay sustainable by improving energy efficiency in the operations processes of organizations as well as by designing energy-efficient products or processes through a thorough study of patterns found in big data.

Overall, the usage of AI within Operations Management has the potential to transform society by enabling businesses to become more efficient, more effective, and more competitive, which will be analyzed further below.

## **14.2 Applications of AI in Operations Management**

AI technologies encompass a wide range of tools and techniques that can revolutionize operations management<sup>10</sup>. Machine learning algorithms, for instance, can analyze vast amounts of data to identify patterns and make predictions, enabling organizations to optimize supply chain management, production planning, inventory control, and quality assurance processes. Natural language processing enables the automation of customer interactions, improving customer service and satisfaction. Robotics and automation systems can streamline manufacturing processes, leading to increased productivity and cost reduction. These technologies are implemented in Operations Management in a lot of businesses, some of which will be further discussed below using case studies in the fields of Production Planning, Inventory Control, Supply Chain Management, and Quality Assurance.

First, improvement in Production Planning can be achieved by using AI. This can be seen from the application and continuous refinement of AI-Assisted Production Planning in BMW since 2019<sup>11-13</sup>. BMW, a leading automotive manufacturer, has incorporated AI technology in its production planning processes. The company utilizes AI algorithms and machine learning models to optimize production scheduling, capacity planning, and resource allocation. By analyzing various data sources such as historical production data, real-time demand signals, and supply chain information, BMW's AI system can generate accurate production plans that consider factors like order volumes, lead times, and resource availability. This allows BMW to optimize production efficiency, reduce costs, and minimize bottlenecks in their manufacturing operations. BMW's implementation of AI in production planning exemplifies how AI can optimize production processes, enhance resource utilization, and improve overall-



manufacturing efficiency. It demonstrates the potential of AI to transform production planning in the automotive industry and other manufacturing sectors.

Second, Inventory Control can be further improved by using AI. The case study that best explains this is Coca-Cola's utilization of AI for its Inventory Management since 2017, when it was first implemented and unceasingly enhanced further afterwards<sup>14,15</sup>. Coca-Cola, one of the world's largest beverage companies, utilizes AI technology to optimize its inventory management processes. The company employs AI algorithms and predictive analytics to analyze sales data, market trends, and other relevant factors. By leveraging AI, Coca-Cola can forecast demand accurately, streamline production planning, and optimize inventory levels across its distribution network. This enables the company to reduce stockouts, minimize excess inventory, and improve overall supply chain efficiency. Coca-Cola's implementation of AI in inventory control exemplifies how advanced analytics and AI-driven forecasting can enhance supply chain performance and inventory management efficiency in the beverage industry. The use of AI technology enables the company to maintain optimal inventory levels, minimize costs, and ensure product availability, contributing to its overall operational excellence.

Third, the involvement of AI in Supply Chain Management has been proven to improve its performance. The case study that proved that point is Walmart's AI-Powered Supply Chain Management. Walmart, one of the world's largest retail companies, has implemented AI technology in its supply chain management processes. Walmart utilizes AI algorithms and machine learning models to optimize inventory management, demand forecasting, and replenishment strategies. By analyzing historical sales data, customer behaviors, and external factors like weather patterns and holidays, Walmart's AI system can predict demand patterns-

accurately. This enables the company to optimize inventory levels, reduce stockouts, and improve overall supply chain efficiency. Additionally, AI-powered algorithms help Walmart identify cost-saving opportunities, optimize transportation routes, and streamline warehouse operations. Walmart's successful implementation of AI in supply chain management showcases how AI can drive improvements in demand forecasting, inventory management, and overall supply chain performance. It serves as an example of how AI can revolutionize supply chain operations in the retail industry and beyond.

Finally, Quality Assurance improvement through AI utilization is quite significant. This is proven by the case study of Siemens's AI-Assisted Productive Maintenance<sup>19,20</sup>. Siemens, a multinational conglomerate operating in various sectors, including manufacturing, utilizes AI technology to enhance its quality assurance processes. The company leverages AI algorithms, machine learning, and computer vision to automate and improve defect detection in its manufacturing operations. By scrutinizing massive amounts of production data while comparing it against quality standards, Siemens' AI-powered system can quickly identify defects, anomalies, or deviations in the manufacturing process. This enables the company to take immediate corrective actions, reduce product defects, and ensure consistent product quality. Overall, Siemens' use of AI in quality assurance has helped the company improve its operations. This use of AI enables predictive maintenance, reduces downtimes, and assures a high level of quality through early anomaly/error detection during the ongoing production process.

After analyzing the four case studies above, it is proven that the benefits of employing AI in Operations Management are numerous. These benefits can further be distilled into three advantages of AI, which are improved efficiency, enhanced-

decision-making, and cost reduction. Efficiency can be improved as AI can automate tasks and optimize operations, reducing the need for manual labor. In addition, enhanced decision-making is achieved. AI can analyze large amounts of data and identify patterns and insights that humans may miss. Furthermore, cost reduction is realized as AI can help companies reduce costs by identifying inefficiencies and optimizing operations. The advantages mentioned might attract organizational leaders; however—as mentioned in the previous section— there are also risks and limitations along with the advantages that need to be overcome.

The risks and limitations of AI mentioned and explained in the previous section are data quality and availability, ethical considerations, workforce transformation, as well as integration with existing systems<sup>2</sup>.

To begin with, addressing the limitation of AI's need for high-quality data, organizations can implement robust data collection and pre-processing techniques, including data cleaning, filtering, integration, and standardization, along with data verification, validation, and continuous monitoring, while fostering collaboration and feedback from domain experts to ensure accuracy, completeness, and timeliness of the data used by AI models<sup>21,22</sup>.

Next, to address the ethical concerns surrounding AI's impact on society, organizations should prioritize the development and implementation of comprehensive ethical frameworks, establish transparent and accountable AI systems, conduct rigorous evaluations to identify and rectify biases in algorithms and data, enforce robust privacy protection measures, foster diversity and inclusivity in AI development teams, invest in retraining and upskilling programs for affected workers, collaborate with policymakers and regulatory bodies to establish guidelines and regulations and promote public awareness and engagement to ensure responsible and inclusive deployment of AI technologies<sup>23</sup>.

Additionally, to address the limitation of AI requiring specialized talent in the workforce, organizations can establish partnerships with academic institutions to foster the development of AI-related skills, invest in internal training programs to upskill existing employees, collaborate with external AI experts and consultants, leverage online learning platforms and resources to enhance knowledge and expertise, offer competitive compensation packages and career growth opportunities to attract and retain top AI talent, build a diverse and inclusive work environment that promotes innovation and creativity, and actively participate in AI communities and events to network and recruit skilled professionals<sup>24</sup>.

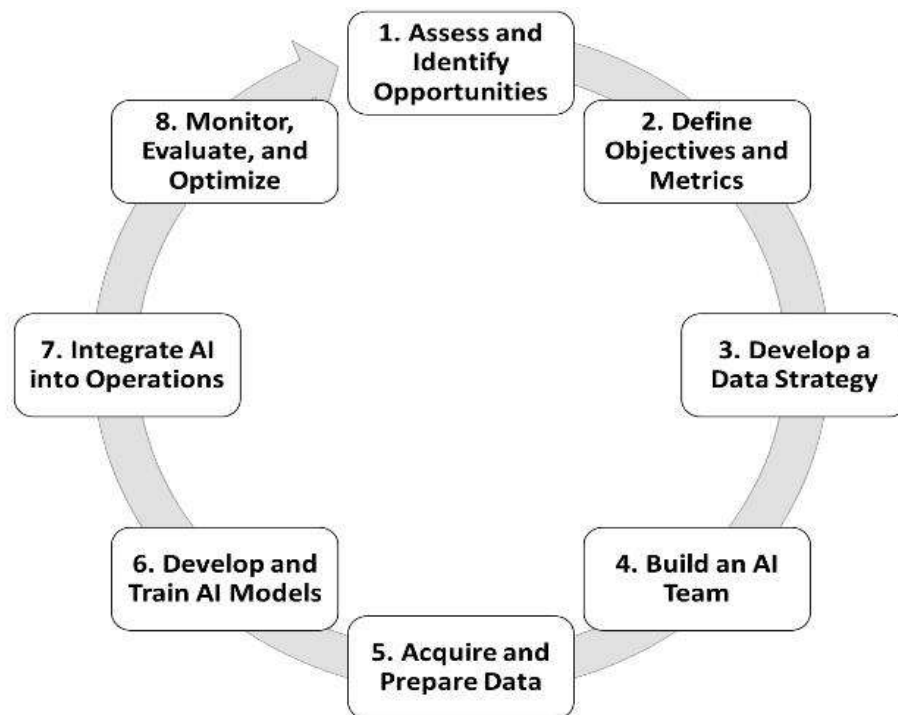
Finally, to overcome the limitation of AI requiring additional functionalities to be integrated into existing systems, organizations can conduct a thorough assessment of their current systems and identify gaps or areas that can benefit from AI integration, collaborate with AI solution providers to customize and adapt AI technologies to their specific needs, ensure compatibility and seamless integration by leveraging APIs and standardized protocols, prioritize scalability and flexibility in system architecture to accommodate future AI enhancements, establish a cross-functional team of experts to oversee the integration process and ensure smooth implementation, and continuously evaluate and update the AI-enabled system to align with evolving business requirements and technological advancements<sup>25</sup>.

Therefore, through a deeper understanding of the advantages and limitations of AI, as well as ways to overcome those limitations, organizations will have an easier time of adapting to AI.

### 14.3 Adapting to AI in Operations Management

As mentioned in previous sections, adapting to AI-driven operations management requires a significant investment in technology and resources, as well as a willingness to embrace change. Therefore, this chapter proposes a cyclical 8-step model that acts as a framework for organizations to better adapt by using AI to support the accomplishment of Society 5.0. These eight steps are:

(1) Assess and Identify Opportunities, (2) Define Objectives and Metrics, (3) Develop a Data Strategy, (4) Build an AI Team, (5) Acquire and Prepare Data, (6) Develop and Train AI Models, (7) Integrate AI into Operations, (8) Monitor, Evaluate, and Optimize. This 8-step cyclical model is illustrated below.



**Figure 14.2. AI Adaption Step-by-step Process Cycle**

**Assessing and identifying Opportunities**, as the first step of the model, is done by conducting a comprehensive assessment of the organization's current operations and identifying areas where AI can add value<sup>26</sup>. This is similar to taking a close-up snapshot of an organization's inner workings, which involves analyzing-

existing processes, identifying pain points, and determining the potential benefits of AI integration. Analyzing existing processes starts with a meticulous and detailed analysis of the organization's processes to gain an intimate understanding of how tasks are presently done to reveal any inefficiencies or bottlenecks that might exist. After the analysis, identifying pain points—which are the areas where the organization faces challenges such as resource constraints, operational inefficiencies, or recurring errors—would be done next so that the result can be the guiding compass for AI implementation efforts. Through knowing the pain points, we can then evaluate and determine where to best integrate AI to maximize benefits by setting realistic expectations as well as establishing clear objectives for the AI integration itself. Essentially, this first step is setting up the foundation, which can be built upon by implementing the next steps in the cycle to ensure a successful AI adoption initiative.

Next, **defining objectives and metrics** is done by clearly defining the objectives that AI implementation aims to achieve in operations management<sup>10</sup>. This basically means setting up well-defined objectives or destinations by pinpointing precisely what the organization wants by integrating AI technology into its operations. To make sure these objectives are quantifiable and meaningful, the organization should establish Key Performance Indicators (KPIs), which are critical in gauging success and effectiveness. These measurable parameters— which provide tangible evidence of progress and achievement of the impact AI has on operations—must be closely aligned or even seamlessly integrated with the organization's overarching visions and missions. This step is necessary for the organization to convert abstract intentions into concrete objectives, thus ensuring AI implementation projects are purpose-driven and results-oriented. This clarity



of purpose is important to guide further steps in this cycle toward successful AI-powered operations management.

Afterward, **developing a data strategy** is done as data is a crucial component for AI success<sup>26</sup>. To develop a decent data strategy, an organization must outline data requirements, data collection methods, data storage, as well as data governance practices. Data requirements must be clear and must show whether the data needed for operational success are structured, unstructured, or semi-structured so that the data collected and utilized in the future are relevant to its operational objectives. After the type(s) of data needed are clarified, data collection methods can then be decided, which can be through internal sources, external sources, or a combination of both, as long as the method(s) used will ensure necessary data are collected efficiently and effectively. Not to be taken lightly, data storage is also a critical factor as security, scalability, and accessibility of data become critical variables in ensuring that data is readily available for AI algorithms when needed. Last but not least, in this step are governance practices of data, as a good organization will want a framework that dictates how data will be managed, maintained, and protected so that clarity concerning defining data ownership, access controls, data privacy measures, and relevant regulations are met. Data governance can be seen as a bedrock for AI success because maintaining data quality and integrity is crucial for well-suited AI algorithms and informed decision-making processes.

Following the vital step of developing a data strategy, **building an AI team** is the next step. The challenge of talent scarcity will lead an organization to the junction of having an in-house AI team, hiring an outsourced AI team, or a combination/collaboration of both while at the same time making sure security is maintained must be kept in mind in trying to keep the cost to be still within the



organization's budget<sup>28</sup>. Regardless of this choice, to build a proper AI team, an organization—ideally—must fulfill the requirement of seven skillsets or personas, which are datasets interpreter persona, pipeline builder persona, AI full-stack persona, AI algorithms persona, data + AI operations persona, hypothesis planner persona, and impact owner persona<sup>29</sup>. Datasets interpreters persona are experts who excel at understanding and manipulating complex datasets to extract valuable insights. A pipeline builder persona is a professional skilled in constructing data pipelines to efficiently process and prepare data for AI modeling. AI full-stack persona are team members capable of handling end-to-end AI development, from data preprocessing to model deployment. AI algorithms persona are individuals with a deep understanding of AI algorithms and their applications in solving operational challenges. Data + AI operations persona are experts who specialize in managing the operational aspects of data and AI, ensuring the smooth functioning of AI solutions. Hypothesis planner persona are team members proficient in formulating hypotheses and designing experiments to test AI models and strategies. Impact owners persona are professionals responsible for measuring and demonstrating the real-world impact of AI initiatives on operations and strategic objectives. By carefully assembling a team with these skilled personas, organizations create a powerhouse of expertise that can collaboratively tackle the multifaceted challenges of AI integration in operations management. This diverse skill set ensures that AI solutions are not only developed effectively but also applied in a manner that drives tangible and meaningful impact within the organization.

The next step is **acquiring and preparing data** through the meticulous process of sourcing, refining, and transforming data from a multitude of internal and external sources. The initial aspect of this step is data collection, which might-

originate from within the organization's own databases and systems, as well as from external sources such as public datasets, sensors, or partners. This comprehensive acquisition of data sets the stage for subsequent AI operations. Once data is collected, it must be carefully prepared through cleaning, preprocessing, and transforming the data to ensure high quality. This process involved identifying and rectifying errors, handling missing values, and ensuring data consistency and compatibility with AI algorithms. Further refinement includes assigning relevant labels or annotations to data points, enabling the AI model to learn and forecast effectively, as these labels serve as the ground truth against which the model can be trained to generalize patterns as well as make informed decisions when deployed. This whole process of data refinement is done to ensure that the data used for AI applications is not only comprehensive but also refined to a quality that allows AI algorithms to operate effectively and deliver meaningful insights and solutions in the context of operations management.

After data is processed, **developing and training AI Models** is the crucial next step. This entails utilizing machine learning and other AI techniques to craft models tailored to confront specific operational complexities. These models are then meticulously trained using the carefully prepared data, with iterative adjustments to continually enhance their performance. Relevancy and accuracy should be maintained over time through vigilant monitoring and regular updates that allow the AI models to adapt and evolve effectively in the dynamic operational landscape where new data always streams into the system.

The penultimate step is the critical task of **integrating AI into Operations**<sup>31,32</sup>. This step centers on deploying meticulously trained AI models into the heart of operational workflows and systems. The goal is to seamlessly infuse AI capabilities into existing processes, thereby elevating decision-making

precision, automating tasks, and boosting overall operational efficiency. Real-time monitoring of AI performance is imperative, enabling organizations to swiftly detect any deviations and measure the tangible impacts of AI. This dynamic monitoring approach empowers teams to promptly make necessary adjustments, ensuring that AI remains a value-added asset within the operational framework.

In the final step of the model, which also bridges the first step of the next cycle, the focus shifts to **monitoring, evaluating, and optimizing**<sup>31,32</sup>. Here, organizations establish a continuous feedback loop by vigilantly overseeing AI-driven operations. They systematically gather feedback and assess performance against predefined metrics. By pinpointing areas that require enhancement, organizations can fine-tune AI models and processes to maximize their effectiveness. This cyclical model approach ensures a commitment to ongoing improvement and adaptation, guaranteeing that AI remains a dynamic and responsive asset within the realm of operations management, perpetually aligned with evolving organizational needs.

It must be further emphasized that this model only acts as a framework, and considerations must still be made to cater towards ethical considerations and responsible use of AI in operations management<sup>23</sup>, which has already been talked about in the previous section. Furthermore, collaboration with AI technology providers and experts to ensure smooth adaptation can still be made to ensure a smooth transition towards AI-assisted Operations Management. Addressing resistance and challenges from employees during the transition to AI-driven operations must also be done to ensure that all levels of organizations are actively engaged in this process as well.

To solve resistance and challenges from employees during the transition to AI-driven operations, organizations should focus on effective communication,

providing education and training, fostering open dialogue, highlighting benefits and opportunities, addressing job redesign and career development, providing support and resources, fostering a culture of learning and adaptation, and continuously monitoring and evaluating the impact of AI<sup>27,31</sup>. By following these steps, organizations can create a supportive environment that encourages employee engagement and ensures a successful integration and adaptation of AI into operations management.

#### **14.4 Future Implications and Outlook**

The rapid advancements in AI technology continue to shape the future of operations management. As AI continues to evolve, new possibilities and applications are emerging. Some of the key trends include the integration of AI with Internet of Things (IoT) devices, the use of predictive analytics for demand forecasting, and the development of autonomous systems for supply chain optimization<sup>33</sup>. These trends have the potential to revolutionize how organizations operate, leading to increased efficiency, agility, and responsiveness.

The widespread adoption of AI in operations management is likely to have an impact on job roles and the workforce. While AI can automate routine and repetitive tasks, it also creates opportunities for employees to focus on more strategic and value-added activities. Job roles may shift from manual execution to overseeing and optimizing AI systems. However, it is essential for organizations to support employees through reskilling and upskilling initiatives to ensure a smooth transition and minimize any potential job displacement.

Policymakers and regulators play a vital role in facilitating responsible AI adoption in operations management. They need to establish frameworks that address ethical concerns, privacy, and data protection while also promoting-

innovation and competitiveness<sup>23</sup>. Policymakers should collaborate with industry experts and AI stakeholders to develop regulations that strike a balance between encouraging AI adoption and ensuring its responsible use. By fostering a supportive regulatory environment, policymakers can help organizations leverage the benefits of AI while mitigating potential risks.

In conclusion, this chapter highlights the importance of adapting to AI as a tool of operations management in Society 5.0. The integration of AI technologies brings numerous opportunities for organizations to enhance efficiency, decision-making, and cost reduction<sup>8</sup>. However, this adaptation requires careful consideration of workforce development, ethical considerations, collaboration, and addressing resistance. By effectively managing these aspects, organizations can successfully leverage AI to drive innovation and maintain a competitive edge in the ever-evolving business landscape.

As we navigate the future, it is essential for organizations to stay informed about emerging AI trends, proactively prepare their workforce, and engage in responsible AI practices. The dynamic nature of AI technology calls for continuous learning and adaptation. By embracing AI as a tool of operations management, organizations can position themselves for success in Society 5.0 and unlock the full potential of AI to transform their operations and deliver value to stakeholders.

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ISBN 978-621-96852-0-7