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SME's Distribution Strategy Implementing Among Indonesia and Philipines (A Comparative Analysis)

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Abstract

Purpose: This study examines the strategic approaches adopted by entrepreneurs in developing Micro, Small, and Medium Enterprises (MSMEs) in Indonesia and the Philippines, focusing on innovation strategies. **Research design, data, and methodology:** Conducted as a collaborative research effort, this study analyzes and compares data collected from MSMEs in Kendari City, Indonesia, and Manila City, Philippines, using a quantitative approach with descriptive and comparative statistical analysis. **Results:** Findings reveal that MSMEs in both countries implement similar distribution strategies, with a strong emphasis on innovation. Nearly 90% of MSMEs in Indonesia and the Philippines use innovation strategies to enhance income levels. However, a lack of awareness and knowledge regarding strategic innovation hinders their ability to maximize its potential. **Conclusion:** The study concludes that innovation distribution strategies play a crucial role in MSME development in both nations. However, increased education and training in strategic innovation are necessary to strengthen MSME competitiveness. Policymakers, industry associations, and educational institutions should collaborate to enhance awareness and provide resources supporting innovation-driven MSME growth. Strengthening innovation literacy will enable MSMEs to adapt effectively to market challenges, enhance resilience, and ensure long-term economic sustainability.

Keywords : Distribution Strategy, Innovation, Small Medium Entreprise's

JEL Classification Code: L10, L26, D41

1. Introduction

The COVID-19 pandemic has significantly impacted developing countries, particularly Indonesia and the Philippines. The economic repercussions of the outbreak have been profound, affecting both large corporations and micro, small, and medium enterprises (MSMEs), many of which struggled to survive under the adverse conditions.

According to statistical data from Indonesia, 62.6% of the population experienced a decline in income, while 63.9% of MSMEs reported decreased revenue. Only 3.8% of MSMEs recorded an increase in turnover, and a significant number were forced to close due to their inability to withstand the economic shock of the pandemic. Similarly, in the Philippines, the pandemic led to one of the worst economic recessions in the country's history in 2020, with

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the Gross Domestic Product (GDP) contracting by -9.5%. The profitability and distribution sales of MSMEs in the Philippines also declined sharply, mirroring the conditions faced by Indonesia's business sector.

MSMEs play a crucial and strategic role in both economies due to several factors. Firstly, they constitute a significant portion of the industrial sector across various economic domains. Secondly, MSMEs provide substantial employment opportunities. Thirdly, they contribute significantly to GDP formation, accounting for more than 50% of the total GDP. MSMEs are heterogeneous in size and nature, and if effectively supported by relevant authorities, they can significantly contribute to national economic growth (Lo et al., 2021).

A key challenge for both Indonesia and the Philippines is the revitalization of MSMEs, particularly in Kendari City (Indonesia) and Manila City (Philippines). These cities serve as reflections of the broader MSME landscape in their respective countries. Kendari, a major city in eastern Indonesia, has approximately 42,000 MSMEs, as recorded by the Ministry of Cooperatives and Small and Medium Enterprises of Indonesia. Meanwhile, Manila City, the capital of the Philippines, has nearly three times the number of MSMEs compared to Kendari.

According to Markovic et al. (2021), innovation is a critical survival strategy for MSMEs during and after the COVID-19 crisis. Innovation strategies play a vital role in enhancing operational reliability across industries, regardless of their size. Innovation involves introducing new ideas to improve products, processes, or services. Everett M. Rogers, a renowned expert on innovation, explains that innovation is not a one-time phenomenon but a continuous process involving multiple decision-making stages, from idea discovery to market implementation (Kivimaa et al., 2021).

Further research classifies innovation into two primary categories: radical and incremental innovation. Radical innovation introduces significant changes and acts as a transformative solution within an industry. In contrast, incremental innovation involves minor adjustments and refinements to existing practices (Harjadi et al., 2020). Additionally, Kivimaa et al. (2021) highlight that technological advancements, disruptive innovations, regulatory changes, and shifts in industry structures pose significant challenges for businesses. These factors may lead to business discontinuity or, in some cases, the collapse of enterprises. Research suggests that while innovation strategies can drive business growth, they can also present risks that must be carefully managed (Fuenfschilling & Stål, 2020).

In conclusion, the economic impact of the COVID-19 pandemic on Indonesia and the Philippines has been severe, particularly for MSMEs. As key drivers of economic growth, MSMEs require strong support and strategic innovation to recover and thrive in the post-pandemic era. Policymakers, business leaders, and stakeholders must focus on fostering innovation to ensure business sustainability and long-term economic resilience.

1.1. Distribution Strategy Management

Every business must implement effective distribution strategy management to enhance resilience and competitiveness, particularly in uncertain conditions. Strategic management enables business owners to ensure that their decisions align with their vision and mission. According to Carland et al. (1984), strategic management encompasses a broader scope than any other management discipline. It addresses complex, ambiguous, and non-routine organizational challenges rather than specific operational concerns. This complexity presents a significant challenge for business owners who typically manage daily resources. Usmara (2003) further elaborates that strategic management involves aligning all business activities to create synergy within an organization. The success of a strategy depends on excelling in multiple aspects, integrating them effectively, and applying them consistently. As stated by Pearce and Robinson (2014), strategic management serves various essential purposes, making it a crucial element in business success.

1.2. Innovation Strategy

Understanding innovation is fundamental to implementing effective strategies. Innovation refers to the systematic application of new ideas or improvements in products, services, or processes to create added value. According to Ekasari et al. (2023) and Fuenfschilling & Stål (2020), innovation is an iterative process encompassing development, production, and marketing in response to new opportunities and business aspirations. Lendel & Varmus (2011) argue that a high level of innovation drives national business development, enhances the capacity to navigate global uncertainties, and fosters the creation of new markets. Innovation strategy serves as a framework for developing new services, business models, or products that redefine markets and provide unique value to users. It is often regarded as the backbone of corporate competitiveness and overall economic growth (Raaij et al., 1988).

According to Fuenfschilling & Stål (2020), businesses can adopt various innovation strategies. Product innovation refers to improvements in the organization's outputs, such as goods or services, while process innovation focuses on enhancing production efficiency, reducing product defects, or increasing output volume within a given timeframe. While product innovation is more visible, process innovation plays a critical role in maintaining

competitiveness (Nurhilalia et al., 2019). Radical innovation introduces completely new concepts, significantly different from existing products or processes. For example, the launch of wireless telecommunications exemplifies radical innovation. Incremental innovation involves minor modifications to existing products or services. For instance, transitioning from an open-keyboard mobile phone to a flip-phone represents incremental innovation (Panjaitan et al., 2021). Competency-enhancing innovation builds on an organization's existing knowledge base and enhances its capabilities. Competency-destroying innovation replaces existing competencies with new technologies, potentially making prior knowledge obsolete (Pranata et al., 2022). Component innovation involves changes to individual system components without altering the overall system configuration, while architectural innovation modifies the entire system design and the way components interact.

1.3. Hypothesis

A hypothesis is a provisional answer to a research question, based on theoretical frameworks rather than empirical data. This study proposes the following hypotheses: The distribution of innovation strategies used by MSMEs during the COVID-19 pandemic contributes to their development. The implementation of distribution innovation strategies enhances the growth of MSMEs in Indonesia and the Philippines. There are significant differences in the distribution innovation strategies employed by MSMEs in Indonesia and the Philippines.

2. Methodology

2.1. Research Location and Duration

This study was conducted on MSMEs in Kendari City (Indonesia) and Manila City (Philippines) over a period of three months.

2.2. Research Type

This research employs a quantitative approach, utilizing descriptive and comparative statistical analysis through structured interviews and questionnaires (both manual and online via Google Forms).

2.3. Data Types and Sources

The quantitative data consists of numerical data derived from MSME survey responses, while qualitative data provides a descriptive analysis of MSMEs in Kendari (Indonesia) and Manila (Philippines). Primary data includes information collected directly from MSMEs through questionnaires, whereas secondary data consists of reports and statistics obtained from official sources such as the Central Bureau of Statistics.

2.4. Data Collection Techniques

Data was collected using questionnaires based on a Likert scale, which measures respondent perceptions. The scale ranges from Strongly Agree (5) to Strongly Disagree (1).

A. Strongly Agree (SS): score 5
B. Agree (S): score 4
C. Doubtful (RR): score 3
D. Disagree (TS): score 2
E. Strongly Disagree (STS): score 1

2.5. Population and Sampling

The study targeted MSMEs in Kendari City (Indonesia) and Manila City (Philippines). A sample size of 100 MSMEs per city was selected following Roscoe's (Sekaran, 2000) recommendation that an appropriate sample size should range between 30 and 500. Respondents were selected using purposive sampling, targeting MSMEs established for at least five years.

2.6. Research Instrument

The primary research tool was an open-ended questionnaire designed to assess innovation strategies. Respondents were asked about the distribution of innovation strategies used by MSMEs to address COVID-19 challenges, the implementation of these strategies in Indonesia and the Philippines, and the differences in innovation strategy distribution between MSMEs in both countries.

3. Results & Discussion

3.1. Test Validity& Reliability

The validity test ensures each questionnaire item accurately measures the intended variable, while the reliability test assesses consistency in responses over time using Cronbach's alpha, where a value greater than 0.60 indicates reliability.

Table 1: Annual Gross Income Level SME's Indonesia

Annual Gross Income Level	Indonesia	
	Frequency (n=50)	Percentage (%)
Micro – Less and Equal to Rp. 5 million	4	8
Small – Rp. 5,000,001 to Rp. 10,000,000	36	72
Medium – Rp. 10,000,001 to Rp. 50,000,000	10	20
Total	**50**	**100**

Table 1 indicates that majority of the Annual Gross Income of SME's participated on the study in Indonesia is on the range 5.000.001 to 10.000.000 million Indonesia Rupiahs and to be categorize as Small Level Type with the total percentage of 72%.

Table 2: Annual Gross Income Level of SME's in Philipines

Annual Gross Income Level	Philipines	
	Frequency (n=50)	Percentage (%)
Micro – Less and Equal to Php. 3 million	35	70
Small – Php. 3,000,001 to Php. 15,000,000	14	28
Medium – Php. 15,000,001 to Php. 100,000,000	1	2
Total	**50**	**100**

Table 2 indicates that majority of the Annual Gross Income of SME's participated on the study in Philippines is on the range of Less and Equal to Php. 3 million Philippine Pesos and to be categorize as Micro Income Level Type with the total percentage of 70%.

Table 3: Validity Test

Variable	Pearson Correlation	R-Table	Explanation
Product Innovation Strategy	0.837	0.254	Valid
Radical Innovation Strategy	0.957	0.254	Valid
Competency Innovation Strategy	0.849	0.254	Valid
Architectural Innovation Strategy	0.842	0.254	Valid

Table 4: Reliability Test

Variable	Cronbach Alpha	Standard	Explanation
Product Innovation Strategy	0.857	0.6	Reliable
Radical Innovation Strategy	0.982	0.6	Reliable
Competency Innovation Strategy	0.859	0.6	Reliable
Architectural Innovation Strategy	0.857	0.6	Reliable

Table 3 and Table 4 shows the outcome of the reliability analysis and tests of convergent validity. The factor loading of all indicators onto their intended constructs was found to be greater than 0.6. The Cronbach's coefficient alpha is used to test the internal uniformity of the constructs. All latent variables in this study show value of Cronbach's alpha coefficient greater than 0.75, which indicates a high internal consistency in the indicators. Table 4 shows the results of Cronbach's Alpha, Standard and Explanation. To find pieces of evidence for convergent validity, the study has computed average variance extracted (AVE) for all the latent variables. AVE > 0.05 confirms the convergent validity as suggested by Gujarati (2023), supporting evidence for convergent validity.

3.2. The Distribution of Innovation Strategy Results

Table 5: Innovation Strategy Results of SME's in Indonesia

Strategy Variables	Indonesia	
	Weighted Mean	Descriptive Rating
Product Innovation	3.81	A
Radical Innovation	4.02	A
Architectural Innovation	4.02	A
Competency Innovation	3.99	A

Table 6: Innovation Strategy Results of SME's in Philippines

Strategy Variables	Indonesia	
	Weighted Mean	Descriptive Rating
Product Innovation	4.21	A
Radical Innovation	4.15	A
Architectural Innovation	4.18	A
Competency Innovation	4.18	A

Tables indicate that Indonesian MSMEs primarily belong to the small business category, while most Filipino MSMEs fall under the micro business category. Key findings suggest that MSMEs in both countries predominantly use product, radical, architectural, and competency innovation strategies. Indonesian MSMEs have a higher engagement in process innovation, while Filipino MSMEs emphasize product innovation.

3.3. The Distribution of Innovation Strategy Different

Table 7: Difference Innovation Strategy Results of SME's in Indonesia & Philippines

Strategy Variables	Variance		Two Tail Level
	Indonesia	Philipppines	
Product Innovation	0.0377	0.0379	0.000
Radical Innovation	0.0057	0.4390	0.209
Architectural Innovation	0.1698	0.1118	0.595
Competency Innovation	0.2171	0.1369	0.874

A paired-sample t-test was conducted to compare innovation strategy effectiveness between Indonesia and the Philippines. Results indicate that product innovation is the only strategy with significant differences between the two countries, while other strategies such as radical, architectural, and competency innovation show no significant variation.

4. Conclusion

The application of innovation strategies has improved MSME income in both countries. A significant proportion of MSMEs in Indonesia and the Philippines employ innovation strategies to enhance their business operations. Product innovation is the only strategy with notable differences in implementation between the two countries.

5. Implication

The lack of innovation among MSMEs can result in competitive disadvantages, making it harder for businesses to adapt to changing market conditions. Without innovation, MSMEs may struggle to withstand external shocks, such as those caused by the COVID-19 pandemic, and risk falling behind competitors who embrace change. Innovation strategies contribute to higher income levels for MSMEs, meaning those that fail to innovate miss out on growth opportunities (Pearce & Robinson, 2014). This highlights the need for increased literacy and training in innovation strategies, which government bodies, industry associations, and educational institutions should support (Fuenfschilling & Stål, 2020). Policymakers should consider implementing initiatives to foster a culture of innovation among MSMEs, including financial incentives and policy frameworks that encourage innovative practices. Collaboration between MSMEs, larger enterprises, and innovation-focused organizations can also help bridge knowledge gaps, providing small businesses with access to resources, expertise, and mentorship opportunities. By addressing these areas, MSMEs in Indonesia and the Philippines can enhance their resilience, competitiveness, and long-term sustainability (Markovic et al., 2021).

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