

# CHAPTER I

## INTRODUCTION

### 1.1 Background of The Problem

In this era of globalization, the business competition environment is increasingly dynamic and complex, many businesses are transforming their operational models. In the changing world order, the understanding of competition has grown rapidly in recent years (Zehir & Karaca, 2019). From the traditional (classical) pattern based on labor with an emphasis on the quantity of output (product) where the competitive situation is not as tight as it is today (the existence of alternative products is low so that consumers are less likely to switch products) to a business with a modern pattern with an emphasis on quality and sustainability (the existence of alternative products is high so that consumers are more likely to switch products). This condition demands a responsive response from business actors. This is a global issue that is difficult to predict which results in uncertainty. One of the most important factors that hinders business performance is a volatile business environment such an environment is characterized by high levels of change and uncertainty (Altaweel & Al-hawary, 2021).

Developing countries have recognized that Micro and Small Enterprises (MSEs) contribute significantly to economic growth in employment and GDP (Siahaan & Tan, 2020). Quoted from databoks, according to a WEF (World

Economic Forum) survey, the majority of MSEs on a global scale feel that their biggest challenge today is maintaining their business and expanding their business with a percentage of 67%. The second challenge is improving the quality of human resources which gets 48%, followed by the challenge of strengthening business culture 34%, and the use of technology and innovation by 25%. Meanwhile, funding challenges are in fourth place with 24%, and the last position is challenges in the form of government policies such as tax rates, interest rates, and so on 22% (Ahdiat, 2022). From these data, it can be concluded that the order of challenges faced by MSEs shows the dominant priorities that must be considered so that in this study, researchers focus on four main challenges for MSEs by testing factors that represent these challenges such as innovation capability, use of social media video platform, knowledge sharing, sensing capability, and seizing capability.

MSEs (Micro and Small Enterprises) are a strong basis for the national economy. Quoted from Ministry of Finance of the Republic of Indonesia, MSEs are independent Indonesian economy with great potential to improve people's welfare as seen from the three roles, including: a means of equalizing the level of economic the common people, a means of eradicating poverty, and a means for the country as foreign exchange income. MSEs as a means of equalizing the economic level of the common people because MSEs are found in various regions. MSEs as a means of eradicating poverty because they absorb a high workforce. MSEs as a means of foreign exchange income for the country because they not only reach the domestic market but also abroad (Sulastri, 2022).

MSEs have more flexibility and adaptability if we compare with to large companies in rapidly changing (Pratama, 2019). The MSEs sector has a very strategic role for economic growth in Indonesia (Pratama, 2019). MSEs in Indonesia, consisting of various business sectors, also contribute greatly to GDP revenue. Quoted from databoks, MSEs level occupy 99% of businesses in Indonesia with a total of 66 million contributing 61.9% to the RP 9,580 trillion total Gross Domestic Product (GDP) and absorbs 117 million workers or 97% of the local workforce. From the distribution of its contribution to GDP, micro businesses contributed quite significantly, namely 37.4% in 2019. This value almost rivals the contribution of large-scale businesses which reached 39.5%, small businesses contributed 9.5%, and medium businesses contributed 13.6% (Santika, 2023).

Not only large businesses, MSEs also feel the dynamism and complexity of the competitive environment. The scope of MSEs tends to be more competitive because there are more competitors (similar businesses). Not only from fellow local MSEs, competition between MSEs is also increasing in this era of an open economy (globalization) in the form of access for foreign MSEs goods and services to Indonesia. Indonesia have rapid MSEs growth as a developing countries (West Sumatra Central Statistics Agency, 2020) in Surya & Triherzaki (2023).

Government Regulation No. 7 of 2021 concerning Cooperatives and Micro, Small, and Medium Enterprises in Facilitation, Empowerment, and Protection (PP UMKM), business capital criteria based on Article 35 Paragraph 3, as follows:

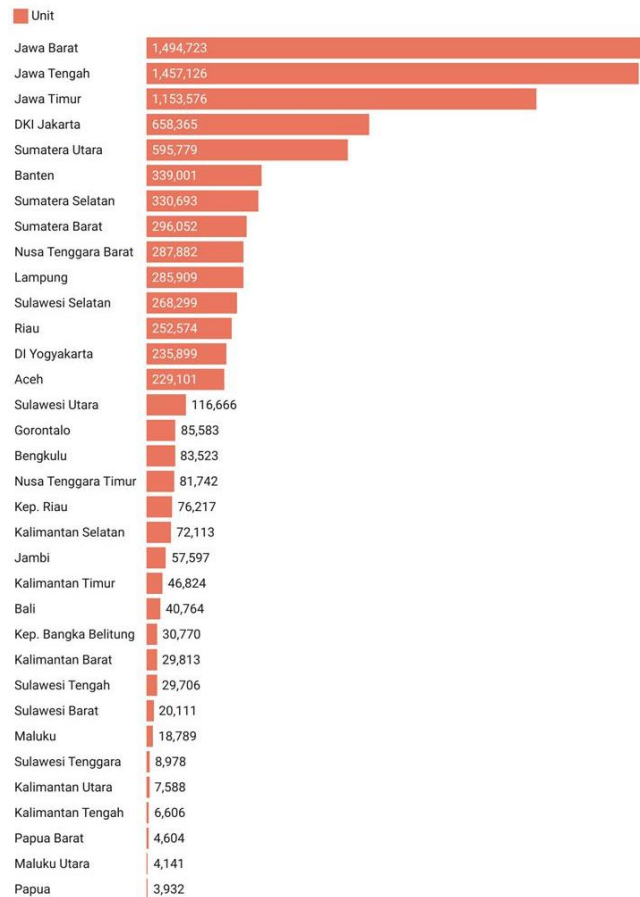
- a. Micro Businesses, excluding land and buildings has a business capital of up to Rp 1,000,000,000.00 (one billion rupiah)
- b. Small Business, excluding land and buildings has a business capital of more than Rp1,000,000,000.00 (one billion rupiah) up to Rp5,000,000,000.00 (five billion rupiah)
- c. Medium Business, excluding land and buildings has a business capital of more than Rp5,000,000,000.00 (five billion rupiah) up to Rp10,000,000,000.00 (ten billion rupiah).

While the criteria for annual sales results based on Article 35 Paragraph 5, are as follows:

- a. Micro Business, has annual sales results of up to Rp2,000,000,000.00 (two billion rupiah);
- b. Small Business, has annual sales results of more than Rp 2,000,000,000.00 (two billion rupiah) up to Rp 15,000,000,000.00 (fifteen billion rupiah); and
- c. Medium Business, has annual sales results of more than Rp 15,000,000,000.00 (fifteen billion rupiah) up to Rp 50,000,000,000.00 (fifty billion rupiah).



On the Indonesian Chamber of Commerce and Industry(2024) page, ranking data on the number of MSEs in Indonesia per province in 2022 is displayed.



Source: kadin.id (2024)

**Figure 1.1 Data on the Number of MSEs in Indonesia by Province in 2022**

Based on the data, West Sumatera ranks among the top eight provinces with the highest number of micro and small enterprises (MSEs), totaling 296,052, the third-highest in Sumatra after North Sumatra and South Sumatra. The presence of

MSEs in West Sumatra has dominated local economic activities, as business owners are spread across rural areas (nagari/villages), particularly in domestic markets such as culinary and handicraft sectors (Surya & Triherzaki, 2022).

MSEs in West Sumatra are in a paradoxical position: they are large in number and spread to the country, but their impetus to GDP is relatively small because most actors are only oriented towards meeting daily needs, not on business expansion and innovation. This pattern is in line with national findings that Indonesian MSEs are the backbone of the economy macro-wise, but only some are truly ready to digitally transform and enter the digital ecosystem fully (Anatan & Nur, 2023; Bahtiar et al., 2025). In terms of challenges, the condition of Major economic areas of West Sumatra is very similar to that of various other regions: the main problem is no longer just capital, but marketing and the digital literacy gap. Studies in various cities show that although the ownership of social media and WhatsApp accounts by MSE actors tends to be high, their utilization is still dominant for basic communication, while strategic use for digital business management, product innovation, and market expansion is still low (Surti, 2025; Purnamasari et al., 2023; Dwihandoko, 2025). This explains why, as illustrated in your interview, only a small percentage of MSEs are truly active and independent in utilizing social media in Major economic areas of West Sumatra.

On the other hand, the experience of other regions provides an overview of the route that can be taken by Major economic areas of West Sumatra. Targeted digital literacy training, both through community programs, digital village assistance,

and marketing clinics, has been proven to be able to increase the confidence of MSE actors using social media, ecommerce, and digital content tools, which in turn expands market reach and improves business performance (Nugroho et al., 2025; Oktavianti & Soetjipto, 2025; Tetty et al., 2025; Puspita & Rahayu, 2023; Helmi et al., 2025). The latest literature review also confirms that digital literacy and digital capabilities are now important determinants of MSEs performance, as they allow them to take advantage of digital platform opportunities (social media, marketplaces, video platform) for business innovation and sustainability (Oktavianti & Soetjipto, 2025; Surti, 2025; Noerchoidah et al., 2025; Bahtiar et al., 2025; Aghni & Anzie, 2025). With the strong character of Major economic areas of West Sumatra MSEs on a local basis (culinary, crafts, Minangkabau culture), the potential for strengthening performance through social media video platform is enormous: short videos and content based on local wisdom have proven to be effective in increasing visibility, differentiation, and emotional closeness with consumers in the context of MSEs in other regions (Dwihandoko, 2025; Rain, 2024; Aghni & Anzie, 2025). The main challenge in Major economic areas of West Sumatra, as shown by the national pattern, is to bridge the gap between the quantity of actors and the quality of digital capabilities through training programs, knowledge sharing, and strengthening structured sensing-seizing capabilities, so that the dominance of the number of MSEs can be truly converted into a significant increase in performance and contribution to the regional economy.





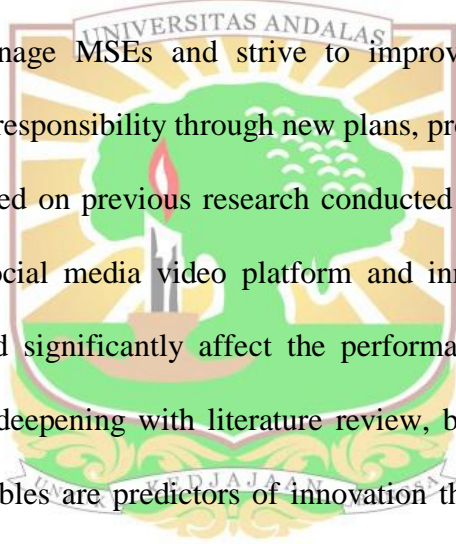
"The composition of micro enterprises is indeed the largest compared to small and medium enterprises in West Sumatera; however, they do not contribute significantly to the province's Gross Regional Domestic Product (GRDP) because most micro and small entrepreneurs focus merely on running their businesses to meet daily needs. Nonetheless, their presence became increasingly important during the COVID-19 pandemic, as many people turned to micro and small-enterprises after losing their jobs," said Ade, Head of the Micro and Small Business Empowerment Division, Department of Cooperatives and MSEs of Padang City, during an interview with the researcher on October 21, 2024.

The interview also revealed the following information:

1. The biggest problem faced by micro and small enterprises in West Sumatera is marketing. Therefore, the training provided by the Department of Cooperatives and MSEs focuses on digital marketing.
2. Only 15% to 25% of the existing micro and small enterprises in Padang City can be facilitated with training by the Department. Other services offered include brand registration, business identification number (NIB) issuance, home industry food permits (PIRT), halal certification, and designated advertising spaces for products. Each sub-district (kelurahan) also has one facilitator on standby for consultations.
3. Out of the total number of micro and small enterprises in West Sumatera, only about 100 are actively and independently using social media for their business activities.



Every MSEs strives to produce good performance to win a position in the market. This competitive climate has a massive impact on the economic health of West Sumatera. The performance of MSEs is currently receiving a lot of attention because it can help eliminate obstacles and open up new opportunities for MSEs to successfully compete and grow in regional and global markets(Subagja et al., 2022). The performance of MSEs is very important for developing countries(Borah et al., 2022). As a result to manage MSEs and strive to improve MSEs performance, business actors bear great responsibility through new plans, procedures, and strategies (Subagja et al., 2022).Based on previous research conducted by the researcher, it is known that the use of social media video platform and innovation capability are factors that positively and significantly affect the performance of MSEs in West Sumatera.However, after deepening with literature review, before innovation, there are processes whose variables are predictors of innovation that are felt from use of social media video platform . Despite the significance of use of social media video platform, there is a notable dearth of attention given to the critical capabilities, including sensing, knowledge sharing, particularly in the context of uncertain environment(Basit et al., 2024).Social media tools are positioned here as influencers of the focal firm's dynamic capabilities for sensing, seizing and reconfiguring knowledge in the process of innovation(Mention et al., 2019). The organising framework makes sense of the strategic use of social media video platform in innovation initiatives, by showing how they relate to strategic capabilities (sensing,



seizing and reconfiguring) at various levels of stakeholder engagement (micro, meso, and macro)(Mention et al., 2019). Yet, while capability building, for instance by choosing the right combination of platform or adapting the organisation, is important in order to leverage SM for innovation, this is only a first step that corresponds mainly to sensing and seizing activities(Mention et al., 2019).

Social media is one of the media that has experienced development in the last ten years, developing along with advances in information technology that influence every business and industry (Subagja et al., 2022). Based on information on the <https://datareportal.com/> page (Simon Kemp, 2023), as many as 213 million Indonesians already have internet access, each person has at least one mobile device with a fairly high percentage of social media users, which is 60% of Indonesia's population of 276.4 million people.

Marketing is often associated with social media. This is due to the fact that social applications initially focused on marketing difficulties and advertising but over time, social media has evolved into an extension that complements all marketing activities(Subagja et al., 2022). Adapting to technological advances, such as social media, is an important aspect in running a business (Subagja et al., 2022). Since the Covid-19 pandemic, business actors have also been required to be able to promote their products through social media applications (online) so that the production process and fulfillment of consumer needs continue to run(Saputra et al., 2020). Focusing on what customer needs are important for business sustainability, along

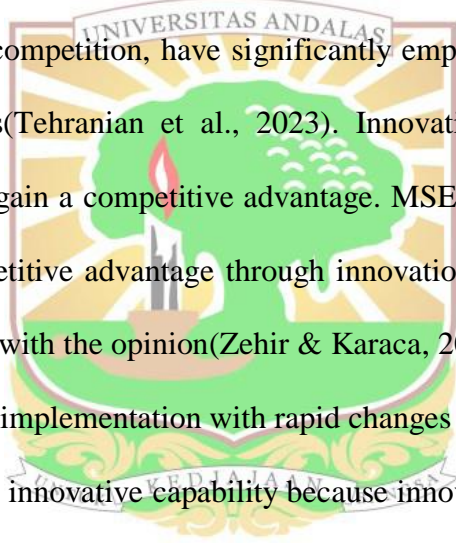
with the rapid development of the times, the level of global competition, and shifting market needs (Yuza et al., 2023).

In the context of social relationships, social media allows users to interact without geographical restrictions, accelerate the exchange of information, and create virtual communities based on common interests. For MSEs, social media can strengthen networks, which is one of the important components in sensing capability. Ultimately, expanding access to social and economic resources. So that it can support the transformation of ideas into innovations.

Through social media such as TikTok, Instagram, Facebook, and YouTube, MSEs actors can access the latest information. Knowledge sharing on social media can take place in the form of sharing successful experiences (best practices), providing tutorials or business guides, to discussions in online communities that discuss challenges and opportunities in industry. In addition, the existence of interactive features such as comments, live streaming, channels, and discussion groups allows MSEs to get feedback that contributes to improving innovation capability.

In this global competitive environment with rapidly changing, business need to effectively use information and innovation capability to survive (Zehir & Karaca, 2019). Research conducted by Baldwin (1995) in Canada concluded that innovation activities were more intense in small and medium businesses (Sulistyo & Siyamtinah, 2016). Small-scale business have competitive advantages related to lean organizational structures, proximity to suppliers and proximity to customer, simple

administrative structures, fast decision making, and flexibility in operations(Sulistyo & Siyamtinah, 2016). MSEs in a country are considered better at dealing with crises when compared to large businesses, these businesses are known to be able to adapt more quickly and flexibly than large companies to environmental factors or external changes(Purwati & Hamzah, 2021). Its small size allows MSEs to grow by learning, changing, and adapting to market changes(Surya & Triherzaki, 2023). Rapid advances in technology across industries, coupled with shorter product and service life cycles and increased competition, have significantly emphasized the importance of innovation in business(Tehrani et al., 2023). Innovation and marketing are necessary for an entity to gain a competitive advantage. MSEs can survive and grow by developing their competitive advantage through innovation capability(Siahaan & Tan, 2020). This is in line with the opinion(Zehir & Karaca, 2019)which states that in the era of high technology implementation with rapid changes like today, business are seen as needing to develop innovative capability because innovation capability enable business to compete and survive in a global environment. Innovation capability facilitate companies to introduce new products quickly and adopt new systems. This means that innovation capability are very important in developing innovation(Siahaan & Tan, 2020)which will support business competitiveness. Innovation capability to obtain isolation mechanisms that protect the advantages and benefits they have of a business (Ferreira et al., 2019). Successful innovation can make external imitation difficult.



Researchers have conducted a preliminary study by interviewing the owners and leaders of 11 MSEs in Major economic areas of West Sumatra from various sectors, four of the eleven businesses are small businesses, namely Parewa Coffee, Apotek Keluarga, Vegi Pelaminan, and Tahu Bulat Makmur, and the remaining 7 are micro businesses, namely CV Adrian Anugrah, Ayang Florist, Adi Hardware, Sanggar Seni Sayak Nan Landai, Hello Birgitt, Cambia Food, and Bilboy Motor. Therefore, the selected number of participants was considered sufficient to represent both micro and smallscale enterprises. The questions explored issues faced by MSEs in Major economic areas of Major economic areas of West Sumatra and how they manage their business operations (unstructured interview). On average, each interview lasted approximately one hour.

From the interviews it is known that six of the eleven businesses only focus on social media messaging, WhatsApp Business, namely Tahu Bulat Makmur, CV Adrian Anugrah, Ayang Florist, Adi Hardware, Bilboy Motor, and Cambia Foods, although four of them have social media video platform accounts for content sharing businesses. With more limited and personal features, these businesses miss out on other development opportunities that can be obtained from social media video platform and community-based such as TikTok, Instagram, Facebook, and YouTube. These eleven businesses use social media to communicate with customers, but only two businesses really pursue it or maximize it for marketing campaigns strategy. One of the eleven businesses, Bilboy Motor tends to use Facebook, "We often use social media just to ask the technicians who work directly at the dealer if there are cases of

motorbike damage that we have just found while working," said Mrs. Yance as the owner of Bilboy Motor. Despite this, one of the respondents, Susanto, CEO of Cambia Foods said that the main reason for not optimizing the use of social media video platform was because they were not ready to be more exposed and because of the possibility of too many requests being created (overload demand) which ultimately lost customers. Four out of eleven business owners and leaders admitted that there was not much innovation in the form of introducing new products to the market, most of which were retail businesses that basically could not change their core products. So, the biggest innovation obstacle was experienced by retail businesses because of the nature of their products. However, all business owners and leaders answered that innovation was important for the sustainability and growth of their businesses. Therefore, innovation in services is important, such as online ordering, delivery, and online payments. From the interviews, four businesses were found to have experienced an increase in sales and profits over the past three years, three businesses experienced a decline in sales and profits over the past three years, and four businesses had stagnant sales and profits over the past three years.

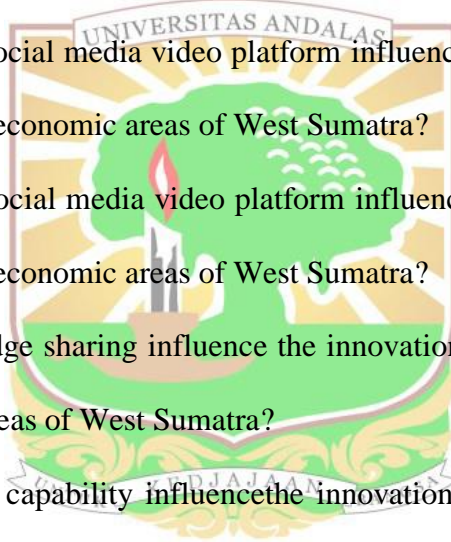
Several previous studies still found that use of social media video platform has no significant positive effect on knowledge sharing, research by Zhao et al. (2020). Knowledge sharing does not have a significant effect on innovation capability (Nurcahyo et al., 2012; Prayogo & Nirawati, 2019). Also, sensing and seizing capability has no positive effect on innovation (Zabel & Brien, 2024). So, it is important to retest the hypothesis.



## 1.2 Research Questions

The following is the formulation of the research problem:

1. How does use of social media video platform influence the innovation capability of MSEs in Major economic areas of Major economic areas of West Sumatra?
2. How does use of social media video platform influence the knowledge sharing of MSEs in Major economic areas of Major economic areas of West Sumatra?
3. How does use of social media video platform influence the sensing capability of MSEs in Major economic areas of West Sumatra?
4. How does use of social media video platform influence the seizing capability of MSEs in Major economic areas of West Sumatra?
5. How does knowledge sharing influence the innovation capability of MSEs in Major economic areas of West Sumatra?
6. How does sensing capability influence the innovation capability of MSEs in Major economic areas of West Sumatra?
7. How does seizing capability influence the innovation capability of MSEs in Major economic areas of West Sumatra?



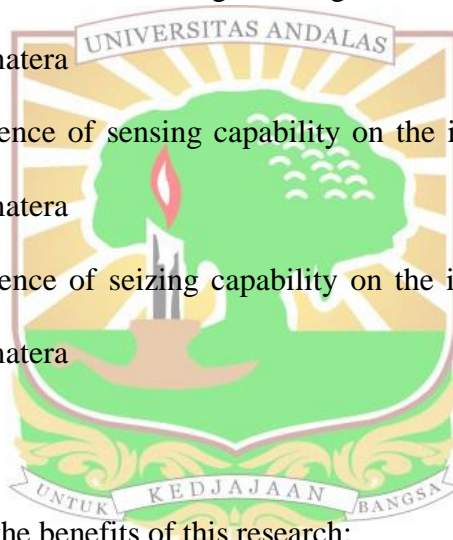
## 1.3 Research Purposes

The following are the objectives of this research:

1. Knowing the influence of use of social media video platform on the innovation capability of MSEs in Major economic areas of West Sumatra



2. Knowing the influence of use of social media video platform on the knowledge sharing of MSEs in Major economic areas of West Sumatra
3. Knowing the influence of use of social media video platform on the sensing capability of MSEs in Major economic areas of West Sumatra
4. Knowing the influence of use of social media video platform on the seizing capability of MSEs in Major economic areas of West Sumatra
5. Knowing the influence of knowledge sharing on the innovation capability of MSEs in West Sumatra
6. Knowing the influence of sensing capability on the innovation capability of MSEs in West Sumatra
7. Knowing the influence of seizing capability on the innovation capability of MSEs in West Sumatra



#### **1.4 Benefits of Research**

The following are the benefits of this research:

##### **1. Theoretically**

- a. This research is expected to contribute to the development of economics and business science. This research is expected to be a reference for further researchers in the strategic management field, especially those researching the MSEs sector with several different variables or different objects
- b. This research is expected to increase readers' knowledge about testing (to see the use of video platform in social media, knowledge sharing, sensing,

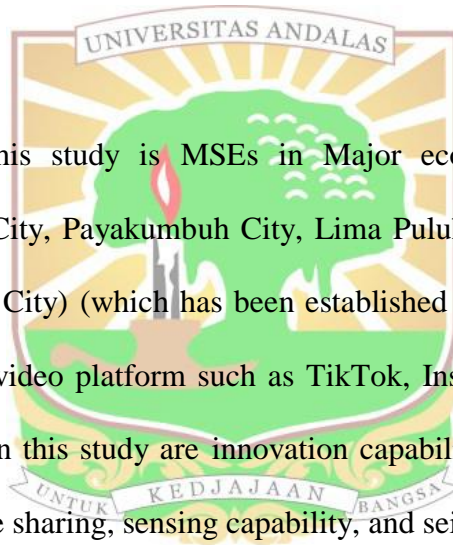
seizing, and innovation capability on MSEs in Major economic areas of West Sumatra).

## **2. Practically**

The results of this study are expected to help improve the innovation capability of MSEs in Major economic areas of West Sumatra by optimizing the factors used in this study.

### **1.5 Scope of Discussion**

The object of this study is MSEs in Major economic areas of West Sumatra (such as Padang City, Payakumbuh City, Lima Puluh Kota Regency, Agam Regency, and Bukittinggi City) (which has been established for at least three years, MSEs uses social media video platform such as TikTok, Instagram, Facebook, and YouTube. The variables in this study are innovation capability, use of social media video platform, knowledge sharing, sensing capability, and seizing capability.



### **1.6 Writing Format**

The following is the systematic writing of this research report:

#### **Chapter I Introduction**

This chapter contains the background of the problem, research questions, research objectives, benefits of research, scope of discussion, and writing format.

## Chapter II Literature Review

This chapter contains the theory of resource based view and dynamic capability, the concept of innovation capability, the concept of use of social media video platform, the concept of knowledge sharing, the concept of sensing capability, the concept of seizing capability, previous research review, hypothesis development, and research models.

## Chapter III Research Method

This chapter contains the research design, population and sample, sampling technique, type (source) of data and data collection method, operational variables and variables measurement, data analysis technics, and research hypothesis testing.

## Chapter IV Results and Discussion

This chapter contains a description of the characteristics of respondents and MSEs, the results of data analysis, hypothesis testing, and discussions.

## Chapter V Closing

This chapter contains conclusions, research implications, research limitations, and suggestions for future research.