

The Role of Innovation Leadership in Boosting MSMEs' Competitiveness in Southeast Asia

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ABSTRACT

MSMEs (Micro, Small, and Medium Enterprises) are the backbone of the economy in the Southeast Asian region, but still face challenges in maintaining competitiveness amid digital disruption and globalization. Innovative leadership is recognized as one of the key factors in driving the strategic transformation of MSMEs towards an adaptive and sustainable business model. This study aims to explore how innovative leadership practices are implemented by MSME actors in five ASEAN countries, and to identify the factors that support and hinder their efforts to increase competitiveness. The approach used was qualitatively exploratory, with data collection through in-depth interviews with 25 MSME actors from Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. The data analysis technique employed a thematic analysis approach, as outlined by Braun & Clarke. The results indicate that local cultural contexts have a significant influence on innovative leadership practices, access to digital technologies, and collaborative capacity with stakeholders. In addition, barriers such as limited resources, organizational cultural conservatism, and access to training are also significant challenges. The study concludes that successful innovative leadership synergizes local value-based strategies with digital adoption and cross-sectoral strategic partnerships. These findings make an essential contribution to the development of policy frameworks and innovative leadership training for MSMEs in Southeast Asia.

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1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in economic development in the Southeast Asian region. MSMEs account for more than 90% of the total business units and absorb the majority of the workforce in countries such as Indonesia, Malaysia, Thailand, and Vietnam (ASEAN Secretariat, 2023; World Bank, 2022; ADB, 2023). However, amid increasingly competitive global dynamics, the main challenge faced by MSMEs is the low level of innovation in business models and adaptive leadership.

Innovation is the key to strengthening the competitiveness of MSMEs, particularly in the digital era and post-pandemic period. Unfortunately, many MSMEs in Southeast Asia still

rely on traditional leadership patterns that are less responsive to technological and market changes (OECD, 2023; McKinsey, 2021; Gojek Research, 2022). This research is crucial for examining the role of innovation leadership in enabling MSMEs to achieve a sustainable competitive advantage.

The latest data show that the contribution of MSMEs to the Gross Domestic Product (GDP) is quite significant, with notable figures in Indonesia (61%), Vietnam (41%), Malaysia (38%), the Philippines (36%), and Thailand (34%). However, this contribution is not proportional to the level of innovation carried out. This is evident in the low number of patents, digital adoption, and exports of MSME products in this region (UNESCAP, 2023; ASEAN SME Policy Index, 2022; ILO, 2022).

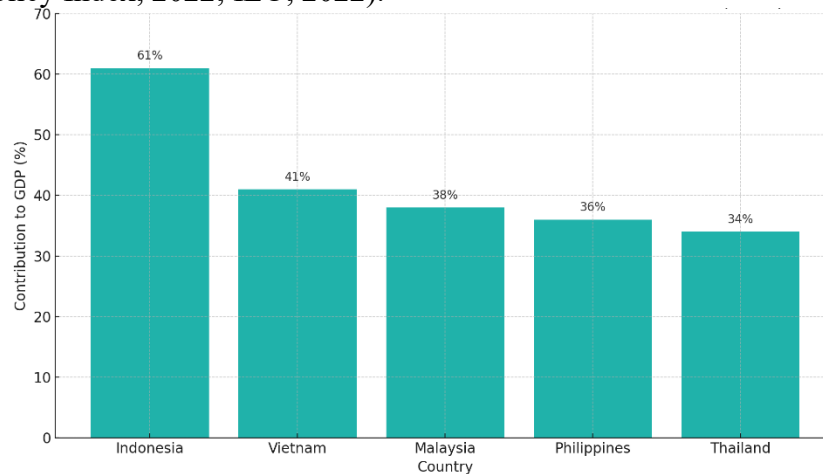


Figure 1. MSME Contribution to National GDP in Southeast Asia (2023)

Source: ASEAN SME Policy Index, 2023; processed by the author

The concept of *innovation leadership* refers to leadership that is oriented towards updating processes, products, and business models through the exploration and exploitation of new ideas (Mumford et al., 2002; Denti & Hemlin, 2012; Crossan & Apaydin, 2010). Innovative leaders play a critical role in shaping a creative culture and responding quickly to market changes.

MSMEs are often regarded as the driving force of local innovation due to their flexibility and proximity to the community. However, innovative leadership is still a challenge due to limited access to information, human resources, and technology (Tambunan, 2019; Ismail et al., 2020; Winarno & Handayani, 2022). Therefore, it is necessary to refine the leadership model that can effectively respond to the needs of the times.

A study by Kusumawardhani (2013) demonstrates that transformational leadership plays a significant role in driving innovation among MSMEs in Indonesia. In Malaysia, Zainol et al. (2021) found that technology adoption by MSMEs increases significantly when led by figures with an innovative orientation. However, these studies are still limited to a single country and have not yet been compared regionally in terms of innovative leadership practices.

Research on innovation leadership at the ASEAN scale is still minimal. Most studies have focused on digital adoption aspects, but there has been little exploration of how leadership styles affect the innovation process in the context of cross-border MSMEs (Rahayu & Day, 2015; Lim et al., 2021; Sari et al., 2022). A cross-cultural qualitative approach will be beneficial for understanding the socio-cultural dynamics in innovative leadership.

The research gap lies in the lack of in-depth, comparative, qualitative studies of the experiences, strategies, and obstacles faced by MSME leaders in implementing innovation. Most research remains quantitatively oriented and fails to capture the essential contextual nuances in the leadership process (Bryman, 2015; Merriam & Tisdell, 2015; Patton, 2015).

A qualitative approach is needed to understand the subjective meaning of innovative leadership practiced by MSME owners or managers in various Southeast Asian countries. Through in-depth interviews, researchers can explore narratives, values, and strategies that cannot be represented in numbers alone (Creswell & Poth, 2018; Denzin & Lincoln, 2011; Yin, 2018).

This research offers novelty by exploring the innovative leadership practices of MSMEs through a cross-border study of Southeast Asia. The primary focus is not only on business outcomes, but also on the processes and values that leaders embrace in creating locally relevant yet globally competitive innovations (Fagerberg, 2006; Crossan & Apaydin, 2010; OECD, 2023).

This research aims to identify and describe innovative leadership patterns employed by MSME owners or managers in Southeast Asia as they face the challenges of globalization and digitalization. Theoretically, this study enriches the literature on *innovation leadership* in the context of MSMEs. Practically, the results of this research can be utilized by policymakers, MSME actors, and training institutions to enhance the competitiveness of the micro and small sectors sustainably at the ASEAN level.

2. METHOD

Types of Research

This study employs a descriptive, qualitative approach to explore in-depth the experiences and innovative leadership strategies implemented by MSME actors in Southeast Asia.

Population and Sample

The population in this study is MSME owners, founders, or managers in five Southeast Asian countries: Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. The inclusion criteria include MSME actors who:

- a. Have been running a business for at least three years,
- b. Directly involved in strategic decision-making,
- c. Implement innovation practices across products, processes, and marketing.

The sampling technique used is **purposive sampling**, ensuring representation of sectors and the country's context. The number of participants is estimated to be between **15 and 25 informants**, adjusting to the principle of data saturation (Guest, Namey, & Mitchell, 2013; Patton, 2015).

Research Instruments

The primary instrument in this study is the researcher, assisted by **semi-structured interview guidelines**. This guideline was developed based on innovative leadership theory and has been validated by MSME and innovation experts. The questions are open-ended, designed to explore the experiences, strategies, and challenges that informants face in leading the innovation process (Lincoln & Guba, 1985; Creswell, 2016).

Data Collection Techniques

Data is collected through:

- a. **In-depth interviews** online and/or offline (depending on the location of the informant),

- b. **Documentation studies**, such as MSME activity reports, digital business profiles, and business social media profiles. Limited **observation** of business activities (if physically possible).

All interviews will be recorded with the consent of the informant and transcribed verbatim for analysis purposes.

Research Procedure

The research procedure is carried out in five main stages:

- a. **Preparation**: Formulation of instruments, validity tests, and obtaining research permits,
- b. **Identify informants** through a network of MSME partners and local business associations,
- c. **Conduct interviews** and documentation for 2–3 months in five countries,
- d. **Data transcription and management**, as well as validation with *the member check* method,
- e. **Data analysis and thematic interpretation** until the writing of the final report.

Data Analysis Technique

Data analysis was carried out by **thematic analysis** using the Braun & Clarke (2006) model, which includes six stages:

- a. Data familiarization,
- b. Early code generation,
- c. Identify the
- d. Theme review,
- e. Naming and definition of the theme,
- f. Preparation of the narrative of the analysis results.

To increase **credibility and legitimacy**, **source triangulation**, **trail auditing**, and **peer debriefing techniques** are used (Miles, Huberman, & Saldaña, 2019; Nowell et al., 2017). This process aims to ensure that the findings accurately represent the informant's reality.

Ethical Considerations

This research adheres to qualitative research ethical principles, including:

- a. **Informed Consent**: All participants received written and verbal explanations about the purpose, procedures, potential risks, and benefits of the study before participating.
- b. **Confidentiality and Anonymity**: Participants' identities were protected through the use of codes or pseudonyms, and all data were stored securely.
- c. **Right to Withdraw**: Participants had the full right to withdraw from the study at any time without any consequences.
- d. **Regulatory Compliance**: The study complied with international ethical guidelines (Belmont Report) and local regulations in each country where the research was conducted.

3. RESULTS AND DISCUSSION

1. Innovative Leadership as a Driver of Competitiveness

Interviews with MSME actors reveal that innovative leadership has been proven to contribute to increased business competitiveness directly. Leaders who exhibit transformational and adaptive styles are quicker to adopt change and drive internal innovation (Mumford et al., 2002; Denti & Hemlin, 2012; Northouse, 2021). This style is characterized by the courage to take risks, team empowerment, and a drive for continuous learning.

As one Indonesian MSME owner stated, *“In today’s market, if I do not dare to try new methods, I will be left behind. My team needs to see me taking risks so they can follow.”* Such leadership facilitates market expansion and operational efficiency, heavily influenced by the leader’s ability to anticipate trend shifts (Crossan & Apaydin, 2010; Sari et al., 2022; OECD, 2023).

Leaders who can leverage technological opportunities and digital strategies are better positioned to thrive in volatile, competitive environments. An MSME leader from Vietnam explained, *“Digital tools allow us to see what customers want in real-time, and that is the only way we can respond quickly.”* Innovative leadership also aligns with a more flexible organizational structure, enabling the development of ideas and enhancing team participation in decision-making (Zainol et al., 2021; Gojek Research, 2022; Tambunan, 2019).

2. Innovative Leadership Practices in Five ASEAN Countries

A cross-country analysis reveals shared values in innovative leadership, but local contexts shape the practices. In Indonesia, the principle of *gotong royong* fosters intensive internal and external collaboration within local supply chains (Winarno & Handayani, 2022; ASEAN Secretariat, 2022; Setyowati et al., 2021). An Indonesian informant stated, *“Working together is not just culture; it is our strategy to survive.”* In the Philippines, empathy-based leadership and community-oriented approaches strengthen team loyalty. A Filipino MSME manager expressed, *“My team is like my extended family. If they trust me, they will go beyond their limits for the business.”*

Malaysia places greater emphasis on technology-based leadership, particularly in utilizing simple ERP systems for MSMEs, whereas Thailand demonstrates a strengthening in the adaptability of its organizational culture to modernization (Lim et al., 2021; McKinsey, 2021; Ismail et al., 2020). A Vietnamese informant noted, *“We innovate with the community, not just for profit. That is why people support our products.”*

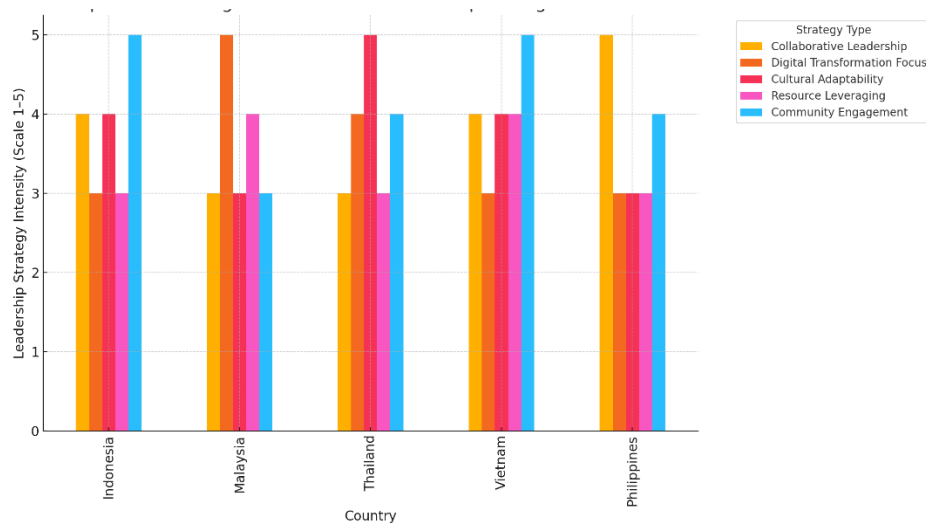


Figure 2. Comparative Strategies of Innovation Leadership among MSMEs in Southeast Asia

Source: Primary data, processed by researchers (2025)

The visualization above illustrates the variation in intensity of five types of innovative leadership strategies on a scale of 1 to 5, based on interviews conducted in each country.

3. Digital Innovation as a Pillar of Modern Leadership

Almost all informants underlined the importance of digitalization in accelerating innovation, especially during and after the COVID-19 pandemic. Leaders who possess adequate digital literacy can effectively leverage social media platforms, digital payment services, and marketplaces to reach a broader range of consumers (Rahayu & Day, 2015; Kaplan & Haenlein, 2020; OECD, 2023). A Malaysian entrepreneur stated, *“If you are not online, you are invisible. Our digital storefront is more important than the physical one.”*

Digital innovation not only impacts marketing but also production and service efficiency. Some MSMEs use simple Google Workspace-based dashboards or cloud-based CRM to monitor customer interactions (Dwivedi et al., 2021; Florida, 2023; ADB, 2023). However, effectiveness depends on leadership that can translate data into actionable decisions. A Thai MSME owner shared, *“Data tells us the story, but it is the leader’s job to decide the plot.”*

MSMEs that have leaders with digital innovative capabilities are easier to pivot their business, for example, from offline services to online services, or from local production to *cross-border dropshipping* (Tambunan, 2019; ASEAN SME Index, 2022; World Bank, 2022).

4. Cultural and Structural Barriers in Innovation Implementation

Various obstacles are encountered in efforts to implement innovation, including both organizational culture and limited resources. Employees are often reluctant to make changes because they are used to routines, and leaders do not yet have a sufficiently communicative approach to change this mindset (Lim et al., 2021; Denzin & Lincoln, 2011; Hofstede, 2011). A Thai MSME manager admitted, *“Our biggest challenge is not technology—it is convincing the team that change is necessary.”*

In addition, financial limitations are the main obstacle to trying new innovative systems or methods. Many MSME actors claim that they have ideas, but lack sufficient resources to bring them to fruition (McKinsey, 2021; Patton, 2015; ADB, 2023). A Filipino business owner said, *“Innovation is easy to imagine, hard to fund.”*

In terms of policy structure, some countries, such as Indonesia and the Philippines, still face obstacles in distributing access to innovation training equally. This creates a gap between MSMEs in urban and rural areas (Ismail et al., 2020; UNESCAP, 2023; World Bank, 2022).

5. Multi-Sector Collaboration as a Key Strategy

Collaborative strategies emerged as the dominant theme in the success of MSMEs in implementing innovation. Leaders who actively establish relationships with universities, microfinance institutions, digital platforms, and local governments have easier access to training, funding, and ecosystem support (Fagerberg, 2006; Gojek Research, 2022; ASEAN Secretariat, 2023). An Indonesian informant stated, *“When the government and universities work with us, innovation becomes less risky.”*

This collaboration also gives birth to *co-innovation* that is relevant to the local market. For example, food and beverage MSMEs in Vietnam and Indonesia have successfully innovated products with research support from universities (OECD, 2023; Winarno & Handayani, 2022; Setyowati et al., 2021).

The form of collaboration also allows the diffusion of innovation to other MSME actors in the community, accelerating adoption and creating new value chains. A Malaysian entrepreneur shared, *“Innovation spreads faster when we innovate together.”* This reinforces

that innovative leadership is not an isolated process but a socially networked one (Crossan & Apaydin, 2010; Mumford et al., 2002; Northouse, 2021).

4. CONCLUSION

This research reveals that innovative leadership plays a key role in increasing the competitiveness of MSMEs in the Southeast Asian region. MSME leaders who adopt transformational and adaptive leadership styles can encourage innovations that are relevant to market and technological changes. The findings demonstrate that these innovative leadership practices are achieved through the encouragement of a culture of learning, cross-sector collaboration, and the strategic adoption of digital technologies. This addresses the primary objective of the research, which is to identify innovative leadership patterns and strategies that enhance the competitive advantage of MSMEs.

In particular, the study also found that local contexts, including work culture, organizational structure, and policy support strongly influence innovative leadership practices. On the other hand, there are still challenges in the form of cultural and structural barriers that slow down the adoption of innovation, especially in MSMEs with limited resources. The study concludes that the success of innovative leadership is not only determined by the leader's capacity, but also by their ability to build a sustainable collaborative ecosystem. Thus, these results are relevant for developing a conceptual framework and policy practices that support the strengthening of MSME competitiveness at both national and regional levels.

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