

Analysis of Product Innovation on Job Creation and Community Empowerment in East Java

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Abstract

This article analyzes the role of product innovation in job creation, with community empowerment as a connecting factor in East Java Province. Product innovation is a crucial element in increasing competitiveness, expanding markets, and strengthening the sustainability of micro, small, and medium enterprises (MSMEs). However, not all business actors are able to innovate optimally due to limited capital, digital literacy, and access to technology. This condition results in the potential for job creation through innovation being underutilized. This study uses a qualitative descriptive approach with secondary data from various literature to understand the relationship between product innovation, community empowerment, and expanding job opportunities in the MSME sector in East Java. The results show that product innovation in the MSME sector has been proven to encourage job creation through increased production capacity, product diversification, and the use of digital technology. Innovation also has a multiplier effect in other sectors such as logistics, marketing, and raw material supply. However, the impact is not always immediate. Community empowerment plays a crucial role as a mediating mechanism to ensure innovation generates inclusive economic benefits through training, community collaboration, and local workforce participation. Therefore, this article emphasizes that the success of product innovation in driving job creation depends heavily on the integration of community empowerment strategies and government policy support focused on strengthening the capacity of MSMEs and regional innovation ecosystems.

Keywords: Product Innovation and Creativity, Job Creation, Community Empowerment.

Introduction

Changes in the global economic landscape emphasize the importance of innovation in determining business sustainability and competitiveness. Innovation in the economic sphere is not limited to the activity of introducing a new product, but encompasses the skills of business actors in increasing added value, differentiation, and the agility of business actors in responding to changing market dynamics and increasingly rapid technological developments. Innovation plays a vital role in strengthening the competitiveness of MSMEs, especially amidst increasingly intense competition in both domestic and global markets. According to Peter Drucker (1985), innovation is a "specific act of entrepreneurship" that serves as the primary means of creating new resources or adding new value to existing resources.

Schumpeter (1934) emphasized that innovation is a process of new combinations that result in new products, production methods, markets, or

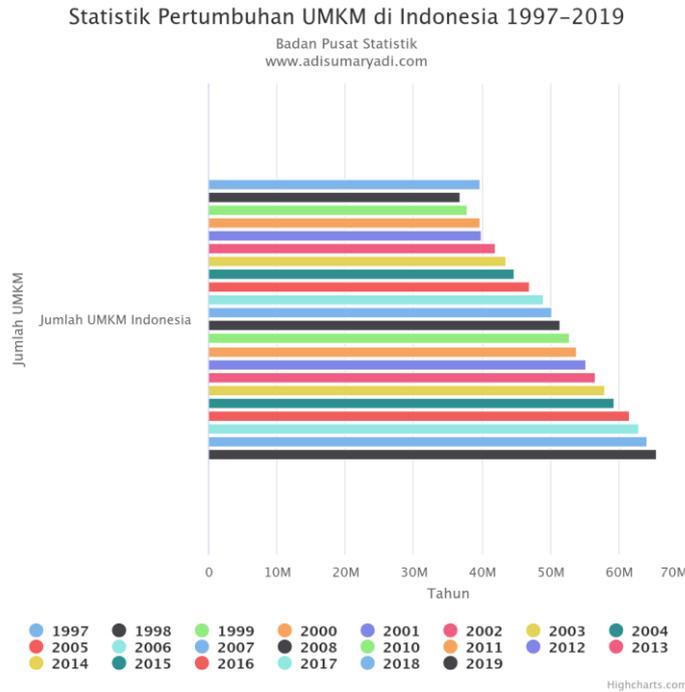
organizational forms that can change the dynamics of competition. In the context of MSMEs, product innovation and creativity are crucial strategies for building differentiation, expanding markets, and enhancing sustainable competitiveness amidst changing consumer preferences and rapid technological developments. Through innovation, MSMEs are able to deliver unique and value-added products and services, thus differentiating themselves from their competitors. Innovation is not limited to product development but also encompasses updates to business processes, marketing strategies, and management systems. For example, the use of digital technology in MSME operational activities can drive increased efficiency, expand market access, and enrich the customer experience. Furthermore, innovations in design, packaging, and branding also open up opportunities for MSMEs to reach a wider consumer base, especially in markets sensitive to evolving trends and consumer preferences.

By focusing on continuous innovation, MSMEs are able to adapt to market changes, meet dynamic consumer needs, and ultimately strengthen their position in intense competition. Therefore, innovation can be viewed as a key factor in ensuring the sustainability and growth of MSMEs in the era of globalization (Kurniawan, 2024). As a developing country, product innovation not only drives Micro, Small, and Medium Enterprises (MSMEs) but also becomes a crucial focus as an opportunity to expand market reach and contribute to improving the welfare of society at large.

Micro, Small, and Medium Enterprises (MSMEs) are one of the backbones of the national economy in Indonesia. Indonesia, as a developing country with a population of over 270 million, faces serious challenges in achieving equitable economic development. In this context, Micro, Small, and Medium Enterprises (MSMEs) exist as a strategic solution to reduce economic inequality while expanding public access to productive economic activities. The role of MSMEs in the Indonesian economy is very dominant, due in part to the large number of business units, their presence in various economic sectors, and their potential to absorb labor (Sudati Nur Sarfiah et al., 2019). According to (Ministry of Finance, 2024), "Based on data from the Ministry of Cooperatives and SMEs, the number of MSMEs currently reaches 64.2 million, contributing 61.07% of GDP, or 8,573.89 trillion rupiah. MSMEs' contribution to the Indonesian economy includes their ability to absorb approximately 117 million workers, or 97% of the total workforce, and they can collect up to 60.4% of total investment." This data demonstrates that Micro, Small, and Medium Enterprises (MSMEs) are a key driver of economic growth and also contribute to job creation. However, unfortunately, MSMEs' contribution still faces limitations in addressing product innovation.

Some MSMEs choose to operate with conventional business models, homogenous products, and lack competitiveness. This situation demonstrates the need for creativity and product innovation to increase competitiveness, thereby placing increasing pressure on MSMEs and increasing their ability to create creative products that can compete in the modern market. The growth of MSMEs in Indonesia from 1997 to 2019 is shown below in Table 1.1.

Table 1.1 Data on MSME Growth in Indonesia 1997-2019



Source: Central Statistics Agency (www.adisumaryadi.com)

According to Table 1.1, the number of MSMEs in Indonesia reaches approximately 99.99% of all business units in the country, while large-scale businesses only contribute around 0.01%. Furthermore, MSMEs are able to accommodate approximately 119.6 million workers, equivalent to 96.92% of the total workforce in Indonesia. This number represents a 2.21% increase compared to the previous year, which recorded 116.9 million people (Adi Sumaryadi, 2022). This fact is further reinforced by data showing that the number of MSMEs experienced a significant increase in the 2010–2015 period, which is in line with the increasing contribution of MSMEs to the national Gross Domestic Product (GDP) (Laras Wati et al., 2024).

Improved business performance is a key driver of product innovation. The wide variety of new products offered by companies in various forms can attract consumers' attention, leading them to choose these products, which ultimately impacts business performance (Muhammad, Rida, & ETTY, 2020). From this explanation, it can be understood that innovation is the application of new ideas to goods and services marketed to the public to meet needs, provide consumer satisfaction, and drive economic growth. This study uses three indicators of product innovation: product research and development, the number of new products produced, and company leadership in creating new products (Muhammad, Rida, & ETTY, 2020).

Through innovation, products will provide added value, uniqueness, and greater variety. This will certainly open up opportunities for businesses to expand market access. The level of competency among entrepreneurs is also increasingly driven, as they emphasize product differentiation that is difficult for competitors to imitate. The higher the product creativity, the broader the market reach, resulting in increased market demand.

This encourages businesses to increase production capacity, which automatically creates new jobs. Product diversification also expands the production line into several areas, such as production, distribution, and marketing processes. Therefore, product innovation not only expands market reach for entrepreneurs but also contributes to job creation, which is one effort to alleviate unemployment in Indonesia, which remains a challenge. (Lindah & Ladi Wajuba, 2021) "Unemployment is a difficult problem to solve. The size of the unemployment rate in a country will impact the prosperity of the community, income distribution, and economic growth in that country. Unemployment occurs due to the disproportion between the number of available job vacancies and the number of workers seeking work. The unemployment rate can be used to determine whether a country's economy is experiencing full employment."

Product innovation and job creation are not always directly related. Innovations that focus on efficiency sometimes actually reduce the number of workers needed. Therefore, a connecting variable is needed to ensure that innovation truly has a positive impact on employment. One such variable is community empowerment. Product innovation developed with the involvement of local communities will yield dual benefits: creating new products while simultaneously improving skills, strengthening economic capacity, and opening opportunities for community participation. According to (Salsabilla et al., 2024), entrepreneurship plays a central role in sparking innovation, which in turn creates and expands employment opportunities. Entrepreneurial activities not only create new businesses but also boost the economic productivity of families and communities. Innovation serves as a medium for entrepreneurs to identify opportunities, translate creativity, and implement new ideas in business activities. Thus, innovation facilitated by entrepreneurship can impact more inclusive economic growth. Through innovation, entrepreneurship contributes to accelerating job creation, improving community welfare, and strengthening the role of MSMEs in the national economy (Insani et al., 2024).

Community empowerment is a process that enables individuals and groups to gain access, participation, and control over resources relevant to their lives. Empowerment can be briefly defined as an effort to provide opportunities and capabilities to community groups to participate, negotiate, influence, and responsibly control community institutions for the improvement of their lives. Community empowerment is a village government program designed to utilize all available resources for development and contribute to village progress (Rini Tresnawati et al., 2021). In the field of entrepreneurship, empowerment can be realized through the involvement of local communities in the production, distribution, and marketing stages of products.

This form of involvement has a dual effect: on the one hand, businesses gain labor support and social networks, while on the other hand, communities gain

opportunities for increased income, skills acquisition, and economic independence. Thus, community empowerment serves as a strategic mechanism that bridges product innovation with job creation.

Most research on product innovation has focused on improving business performance, competitiveness, and profitability of MSMEs, but few have examined its contribution to job creation. These studies emphasize the importance of innovation in strengthening businesses and market competitiveness. However, job creation in Indonesia still faces serious challenges, as evidenced by the relatively high unemployment rate, despite MSMEs being the largest labor absorbers. This situation indicates a lack of studies directly linking product innovation to its role in job creation. This is particularly true in integrating community empowerment as a mediating variable in the relationship between product innovation and job creation. Previous studies have rarely considered community empowerment as a bridge that strengthens the impact of product innovation on job creation, especially in the context of MSMEs in Indonesia. Many studies have only examined the direct relationship between the two variables without considering the role of community empowerment as a mediating variable that strengthens the influence of innovation on job creation. The emerging problem is that, although the number of MSMEs continues to increase, most still operate conventional business models with limited product innovation, thus suboptimal job creation potential. Therefore, this study, entitled ***"Analysis of Product Innovation on Job Creation and Community Empowerment in East Java"*** was conducted to determine how product innovation can encourage job creation by involving community empowerment as a strategic connecting factor. This study aims to analyze the role of community empowerment, which can provide theoretical and practical contributions.

Method

This research uses a descriptive qualitative approach with secondary data sources. This approach was chosen because it can describe and explain socio-economic phenomena in depth, particularly regarding how product innovation can play a role in empowering communities and contributing to job creation in East Java. The descriptive qualitative method focuses on the process of interpreting data and contextual interpretation, rather than on numerical measurements or statistical hypothesis testing. The goal of this approach is to understand the relationship between the concepts of innovation, empowerment, and employment through an in-depth analysis of available information and data, resulting in a comprehensive picture of the actual conditions of the MSME sector on the ground.

The descriptive qualitative approach is used to systematically and in-depthly explain how the dynamics of product innovation among micro, small, and medium enterprises (MSMEs) influence the increase in the economic capacity of local communities. According to Safarudin et al. (2023), this study attempts to describe the conceptual relationships between variables based on empirical evidence from secondary data published by official institutions, without testing hypotheses numerically, but rather by interpreting the meaning of the data and facts found (Darul and Dina, 2020). This research was conducted through three main stages: (1) Initial Study Stage. In this stage, the researcher conducted an in-depth literature

review to understand theories related to product innovation, community empowerment, and job creation. The researcher also examined concepts from previous literature, such as Schumpeter's innovation theory, empowerment theories according to Paulo Freire and Robert Chambers, and local economic development theory that emphasizes the role of MSMEs as drivers of the regional economy. This initial study aimed to determine relevant indicators for each variable. (2) Secondary Data Collection Stage (Khabib, 2015). At this stage, researchers collected secondary data from various credible sources, such as publications from the Central Statistics Agency (BPS), the Ministry of Cooperatives and SMEs, the Directorate General of Intellectual Property (DJKI), and official reports from the East Java regional government.

The data collected included information on the number of workers in the MSME sector, the development of micro and small industries, training or community empowerment activities, and innovation data such as the number of trademark registrations and the growth of new business units. These sources were used to qualitatively explore patterns of relationships and trends between variables. (3) Data Analysis and Interpretation Stage (Khabib, 2015). This stage is the core of the research, where researchers conduct qualitative analysis of the collected data. The analysis was conducted using a descriptive-interpretive approach, namely by examining the relationships between variables and interpreting their meaning within the context of the regional economy. Researchers conducted data reduction to select relevant information, present it narratively and in summary tables, and draw conclusions based on the trends and relationships found (Darul and Dina, 2020).

All data was then analyzed narratively to obtain a comprehensive picture of the product innovation phenomenon and its impact on society. According to Safarudin et al. (2023), the analysis was conducted using the Miles and Huberman interactive analysis model, which includes three main stages: (1) Data Reduction, which is the process of selecting, simplifying, and grouping data to focus on the aspects most relevant to the research objectives. (2) Data Presentation, which is carried out through narrative descriptions, thematic tables, or conceptual diagrams that explain the relationship between innovation, empowerment, and employment. (3) Drawing Conclusions and Verification, namely the process of interpreting the meaning of data and compiling conceptual findings regarding how product innovation can encourage empowerment and expand employment opportunities in East Java.

Results and Discussions

This research is based on secondary data obtained from various official publications, including those from the Central Statistics Agency (BPS), the East Java Provincial Cooperatives and SMEs Office, the Ministry of Cooperatives and SMEs, and various scientific literature reviews related to product innovation, job creation, and community empowerment. The data was analyzed qualitatively by examining trends, relationships between variables, and the impact of product innovation on the economic dynamics of communities in East Java.

Development of MSME Product Innovation in East Java

The results of the study indicate that product innovation is a key strategy for micro, small, and medium enterprises (MSMEs) in East Java in facing increasingly fierce market competition. Innovation is not only defined as the creation of new products, but also includes improving the quality of goods and services, optimizing the efficiency of production processes, and implementing marketing strategies adapted to changing consumer behavior. In this context, the ability of MSMEs to innovate is a key factor in their competitiveness and business sustainability in an ever-evolving economic landscape.

Based on a review of secondary data from the East Java Cooperatives and SMEs Office, the Ministry of Cooperatives and SMEs, and publications from the Central Statistics Agency (BPS), it appears that the innovation trend in the MSME sector is showing a fairly steady increase. This increase includes a growing number of companies innovating products, implementing digital technology in production and marketing activities, and improving product design and packaging to make them more attractive, both for domestic and export markets. This growing innovation trend indicates that MSMEs are beginning to understand the importance of product differentiation to face competition and meet increasingly diverse consumer preferences. This phenomenon also aligns with the growing awareness among entrepreneurs of the importance of creativity and innovation as key factors for business sustainability. MSMEs are no longer solely focused on production quantity, but are increasingly focusing on creating added value through new ideas, collaborating with creative communities, and utilizing digital media for promotion. However, persistent challenges, such as limited capital, human resources, and technological knowledge, can hamper the innovation process in East Java.

The characteristics of product innovation in East Java are highly diverse and reflect the region's abundant economic potential. This diversity reflects the dynamism of the business sector, which is developing organically, in line with the ability of local communities to identify market opportunities and optimize available resources. In the culinary sector, innovation often focuses on developing distinctive regional flavors tailored to modern consumer tastes. MSMEs are not only preserving unique local flavors but also modifying the appearance of their products to make them more attractive and offer higher sales value. Furthermore, the use of eco-friendly packaging has become a new trend, responding to growing consumer awareness of sustainability and environmental issues. This demonstrates that innovation is not solely oriented toward economic profit but also considers social and ecological values. In the handicrafts and fashion sectors, MSMEs in East Java demonstrate high adaptability to changing global trends. They combine traditional cultural elements such as batik, bamboo weaving, and local textiles with modern design touches relevant to both domestic and international markets. This type of innovation not only strengthens regional cultural identity but also opens up opportunities for further market expansion. Thanks to this approach, local products can compete with large commercial brands by offering a unique and distinctive aesthetic. Meanwhile, the agriculture and agricultural processing sectors are also undergoing significant innovative transformation. Companies are beginning to focus on increasing added value through product diversification, halal certification, and strengthening local brands and modern packaging. This innovation process not

only increases product competitiveness but also incentivizes rural communities to become more productive and market-oriented.

The use of e-commerce platforms and social media has become a key factor in accelerating the development of product innovation among micro, small, and medium enterprises (MSMEs) in East Java. Digital transformation allows companies to expand their market reach without relying on physical stores. Through marketplaces like Tokopedia, Shopee, and Bukalapak, local products can reach consumers in various regions, even penetrating the domestic market.

Furthermore, social media platforms like Instagram, TikTok, and Facebook have become effective and affordable promotional tools for introducing innovative products to a wider audience. The shift in consumer behavior toward digitalization has also forced MSMEs to adapt their sales strategies with a more interactive and visual approach. Access to information and technology has become more open, enabling companies to better respond to market trends and consumer preferences. For example, MSMEs can easily monitor people's lifestyles and needs through social media interactions, then adjust the design, packaging, and types of products offered. This flexibility and adaptability are the hallmarks of East Java's MSMEs, enabling them to survive in the ever-changing market dynamics. Furthermore, digitalization also facilitates efficiency in supply chains and transaction systems, making business processes faster, more transparent, and more customer-oriented.

This digital development also presents new challenges for MSMEs.

Not all entrepreneurs have adequate digital literacy. Most small businesses in rural areas still struggle to operate online platforms, manage digital promotions, or conduct data-driven market analysis. Furthermore, limited internet infrastructure in several areas of East Java also hampers the widespread digitalization process. Another challenge is increasing online competition, where MSMEs must compete with similar products from other regions and with larger producers with greater marketing resources. This phenomenon demonstrates that digital transformation requires comprehensive ecosystem support, including training, mentoring, and equitable access to technology. Despite these obstacles, the use of digital technology continues to have a significant economic impact.

Digitalization has been proven to expand business opportunities in various sectors, such as graphic design services, digital marketing, product photography, and shipping logistics. In other words, product innovation driven by digital technology not only increases the competitiveness of individual MSMEs but also creates a multiplier effect for the regional economy. Many companies that previously operated on a micro scale have now been able to grow into small and medium enterprises thanks to increased online sales and production cost efficiencies. Product innovation in East Java is now seen not only as an effort to maintain competitiveness but also as a driver of regional economic growth based on creativity, technology, and community independence.

Strengthening an inclusive digital ecosystem, through digital literacy training, internet infrastructure provision, and access to technological capital, will accelerate the transformation of MSMEs into a sustainable creative economy.

With collaboration between the government, financial institutions, academics, and business stakeholders, East Java has the potential to become one of

Indonesia's centers of MSME innovation, prioritizing local creativity in the digital economy.

Product Innovation and Job Creation

Greater product innovation has been shown to contribute significantly to job creation, especially in the micro, small, and medium enterprises (MSMEs) sector, a pillar of the regional economy. Innovation is a key catalyst for the expansion of economic activity, and any form of product innovation, increased production capacity, or change in marketing strategy is likely to drive increased labor demand. When companies successfully develop new products that are well-received in the market or experience a sudden surge in demand, they will increase their workforce to meet their production capacity. This phenomenon demonstrates a positive relationship between innovation and economic expansion, with entrepreneurial creativity driving new job creation, which directly impacts community welfare. MSMEs that actively innovate have higher employment growth rates than business sectors that stagnate or do not implement product innovation. For example, in the culinary sector, companies that continuously innovate by creating new flavors, improving product appearance and packaging, and increasing production capacity due to sudden surges in orders can create new jobs in various sectors, from production, packaging, distribution, to digital marketing.

A similar trend is also seen in the fashion and crafts sectors, where design innovation and product diversification require additional labor in production, product photography, customer service, and social media management. In addition to direct job creation, product innovation also has a multiplier effect on various supporting sectors. The increased productive activity of innovative MSMEs also creates job opportunities in the service sector, such as raw material suppliers, graphic designers, packaging printers, shipping logistics, and digital marketing consultants. This means that innovation not only impacts the companies themselves but also creates a broader and more dynamic economic chain. This phenomenon shows that the higher the level of innovation in a region, the greater its contribution to increasing employment opportunities and regional economic growth. However, despite these positive impacts, there are structural challenges and barriers that need to be addressed. Not all MSMEs can implement innovation sustainably due to limited capital, a lack of skilled human resources, and limited access to modern technology. In some regions, businesses still face difficulties accessing market information, managing production efficiently, or utilizing digital technology to expand their sales reach. As a result, the potential for innovation, which should optimally absorb the workforce, has not been fully realized. On the other hand, innovations based on modern technology can actually replace manual labor, especially when MSMEs switch to automated production systems.

Although efficiency increases, the social impact can reduce employment opportunities for low-educated workers. Therefore, a balance is needed between the application of technological innovation and the empowerment of the local workforce to ensure that the modernization process continues to create inclusive employment opportunities. Overall, the analysis shows that product innovation is a key factor in strengthening the workforce structure in East Java. Innovation not only expands economic capacity but also improves the quality and diversification of employment.

With the support of local government policies, access to financing, and ongoing entrepreneurship training, the potential for innovation in the MSME sector can be an effective strategy to address unemployment and encourage economic growth based on community self-reliance.

In addition to direct job creation, product innovation also has a significant multiplier effect on other economic sectors. The increasing activity of innovation-oriented MSMEs is driving demand for various supporting services, such as logistics, digital marketing, packaging printing, graphic design, and the provision of local raw materials. This phenomenon is forming a new, interconnected economic chain, where every increase in activity in the MSME sector creates growth opportunities in other sectors. Therefore, product innovation plays a role not only as an internal factor in business development, but also as a dynamic driver of the regional economy, especially at the local level, which relies on informal employment. The innovations implemented by MSMEs in East Java are generally tailored to the characteristics and potential of the region. For example, in urban areas like Surabaya and Malang, innovation focuses primarily on marketing digitalization, design modernization, and improving service quality. Meanwhile, in rural areas like Banyuwangi, Blitar, and Tulungagung, innovation focuses on processing agricultural products, utilizing local raw materials, and increasing the added value of traditional products. This pattern demonstrates that product innovation is a crucial vehicle for strengthening connectivity between traditional and modern sectors while simultaneously reducing economic disparities between regions in East Java.

Various structural challenges and constraints continue to limit the optimization of innovation potential. Many MSMEs possess promising creative ideas, but are hampered by limited business capital, whether for product research, purchasing modern equipment, or developing marketing strategies. This lack of capital often hinders innovation at the concept stage, thus hindering its commercial realization. Furthermore, access to production technology and market information remains limited, especially among micro and small businesses operating in rural areas. Another major obstacle is the low digital literacy of MSMEs. Many entrepreneurs do not fully understand how to utilize online platforms such as marketplaces, social media, or digital advertising to expand their market reach. However, in the current era of economic digitalization, adapting to technology is a key factor in maintaining business sustainability. Data from the East Java Cooperatives and SMEs Office shows that the majority of MSMEs that have successfully survived and grown rapidly are those that actively utilize digital technology for promotions and transactions. This means that digital literacy is a crucial determinant of the effectiveness of product innovation. In addition to internal factors, obstacles also arise from structural aspects and local government policies. Although the government has implemented various entrepreneurship training, business mentoring, and business incubation programs, their distribution remains uneven. Regions with high economic concentrations, such as Surabaya, Sidoarjo, and Malang, have greater access to mentoring programs than more geographically remote areas. This gap results in many entrepreneurs in underdeveloped areas being marginalized from innovation capacity development programs.

The development of product innovation in the MSME sector does not always have an equal impact on job creation. In some cases, innovation results in increased labor efficiency through the use of more modern and automated technology. For example, when companies adopt automated packaging machines, digital production tools, or application-based management systems, labor requirements can be reduced. While this increases productivity and product quality, its socioeconomic impacts need to be carefully considered to ensure that the innovation does not create a gap in employment opportunities, especially for low-educated workers, who are generally absorbed by the MSME sector.

Public events, entrepreneurship training, and business forums in East Java also demonstrate the gap between innovation potential and job creation. Not all forms of innovation are capable of absorbing a large workforce. High-tech innovations tend to generate efficiency, while innovations based on creativity and local products create more jobs. Therefore, a balance is needed between technology orientation and workforce empowerment strategies so that the innovation process not only emphasizes efficiency but also becomes a tool for economic equality and improving community welfare. In East Java, innovation based on local creativity and labor-intensive methods has been shown to significantly drive job growth. For example, in the culinary sector, developing products with distinctive regional flavors, using local raw materials, and improving packaging quality often create new jobs, both in production and distribution.

Meanwhile, in the handicraft and fashion sectors, design innovation and product diversification are driving labor demand in production, digital marketing, and customer service. This demonstrates that product innovation is not only linked to economic value creation, but also to empowering local workers and preserving regional culture. To ensure the impact of innovation on employment is sustainable and inclusive, the government plays a crucial role in creating a conducive business environment. Policy support, through easy and affordable access to capital, innovation and entrepreneurship training, and digital marketing facilitation, is a crucial factor in strengthening the competitiveness of MSMEs. With adequate capital and training, companies can combine technological innovation with human resource empowerment strategies without causing labor exclusion. Synergy between local governments, educational institutions, and the private sector is also necessary to build a fair and productive innovation ecosystem. Universities and research institutions can contribute to technology transfer, while the private sector can help expand market access and financing. This collaborative approach will ensure that every innovation not only aims for economic efficiency but also strengthens social capacity by creating decent and productive jobs.

The Impact of Product Innovation on Community Empowerment

In addition to contributing to job creation, product innovation also plays a crucial role in the community empowerment process. This empowerment is not limited to increased income but also includes capacity building, economic independence, and expanding community participation in productive economic activities. Through innovative activities, local communities play an active role throughout the economic value chain, from production and packaging to marketing and business management, becoming not only a workforce but also key players in

economic value creation. Various programs from local governments and non-governmental organizations have focused on developing community innovation capacity. Training programs, business mentoring, and product certification facilitation have encouraged communities in various regions to develop value-added products. For example, community groups in rural areas process agricultural produce to create innovative processed products, such as cassava chips, herbal drinks, and organic food ingredients. These innovations not only increase income but also reduce dependence on commodity price fluctuations, which have historically been a source of economic vulnerability for rural communities.

Product innovation also serves to strengthen local identity and potential. Many MSMEs in East Java develop products based on local wisdom, such as regional batik, handicrafts made from bamboo or rattan waste, and traditional culinary delights with modern packaging. This approach demonstrates that innovation does not always involve adopting high technology, but also how community creativity can transform simple potential into superior and competitive products, both in domestic and international markets.

Thus, community empowerment through product innovation creates a sustainable economic ecosystem based on local values. The use of digital technology and e-commerce platforms has expanded community participation in economic activities. Digitalization enables communities in remote areas to access wider markets, promote their products independently, and gain insight into market trends. This marks a significant transformation in the community economic empowerment model, from one based on traditional production to one based on innovation and digital networks. By increasing digital literacy and technological adaptability, communities can expand their entrepreneurial capacity and strengthen their bargaining position in the economic supply chain. The empowerment process through product innovation still faces several structural challenges. Some communities still experience limited access to capital, management skills, and limitations in digital design and marketing. Furthermore, the uneven distribution of training and mentoring facilities across regions also hinders the acceleration of inclusive innovation. Therefore, collaboration between various stakeholders in the government, universities, the private sector, and civil society is crucial to strengthening community innovation capacity. With sustained political support, product innovation can become a strategic tool for community empowerment in East Java. Innovation is not only an economic instrument, but also a social mechanism for creating a more independent, creative, and competitive society. When communities are able to innovate, they not only create new economic value but also strengthen the regional social and cultural fabric as part of inclusive and equitable economic development.

The increased community participation in innovation-based economic activities reflects a significant transfer of knowledge and skills at the local level. Through training, mentoring, and collaboration between businesses and the community, communities are no longer simply producers but are also beginning to understand aspects of management, marketing, and innovation in product design.

This phenomenon marks the emergence of new grassroots entrepreneurs capable of adapting to market and technological changes. This is the essence of innovation-based empowerment: communities are no longer dependent on external

actors but can become key players in the management and development of economic resources independently and sustainably. Process empowerment through product innovation also demonstrates a shift in the community's economic pattern from consumerism to productivity. When communities are directly involved in the innovation process, they have the opportunity to express their creativity, utilize local potential, and increase the added value of products. This leads to the emergence of new economic dynamics that are more grounded in local strengths, while strengthening the community's socio-economic structure. Product innovation, in this context, serves not only as an economic tool to increase income, but also as a social instrument that fosters independence, self-reliance, and solidarity among business actors in the community.

This analysis aligns with regional economic development theory, which emphasizes that innovation is a primary source of endogenous economic growth. From Joseph Schumpeter's perspective, innovation acts as a driver of "creative waves" (creative destruction) that generate new products, processes, and supplies in the economy. In the context of East Java, this dynamic is clearly visible in the activities of MSMEs developing products based on local resources, including agricultural products, handicrafts, and regional culinary specialties. This process not only increases the economic value of products but also strengthens regional identity and competitiveness. Therefore, innovative products in East Java serve a dual purpose: as drivers of the local economy and as a tool for community social empowerment. When communities manage innovation sustainably, they not only create added value for the economy, but also expand employment opportunities, improve welfare, and strengthen regional economic independence. This demonstrates that innovation-based development focuses not only on growth but also on equity and social welfare.

This also demonstrates that community empowerment is not merely the result of government assistance or intervention, but rather a logical consequence of the growth of participatory innovation at the local level. When communities actively participate in the innovation process, they are no longer passive beneficiaries but rather empowered development actors capable of managing their region's economic potential. Product innovation provides a means for communities to transform creativity into true economic power, while collaboration between government, academics, and businesses acts as a catalyst to accelerate this empowerment process. However, to ensure the sustainability of innovation that directly impacts empowerment and job creation, more targeted and adaptive policy support is needed. Some policy implications include:

1. Increasing access to innovation and technology training for MSMEs. Local governments need to expand the scope of training programs based on local needs so that communities can adapt to technological advances and market trends. Applied training, such as in product design, digital marketing, and supply chain management, will strengthen the innovation capacity of MSMEs while creating a multiplier effect in improving the quality of human resources. Therefore, innovation is not limited to the creation of new products, but becomes part of a comprehensive transformation of societal knowledge.

2. Facilitate access to capital for innovative businesses. Many MSMEs have creative ideas but face capital constraints when experimenting with products or expanding their commercial scale. Therefore, it is necessary to expand financing schemes that support product diversification and mitigate innovation risks, whether through microfinance institutions, cooperatives, or public-private partnerships. Local governments can act as facilitators, connecting business stakeholders with financial institutions while providing incentives for MSMEs focused on sustainable innovation.

3. Strengthen collaborative networks between MSMEs, academic institutions, and research institutions. Cross-sector collaboration will accelerate the flow of knowledge and technology transfer at the regional level. Universities and research institutions can contribute through business model development, innovation mentoring, and market research relevant to local needs. Meanwhile, the private sector can provide market access and digital infrastructure that expands the reach of MSME products. This synergy will create a dynamic, inclusive, and community-empowering regional innovation ecosystem.

4. Develop regional innovation centers. These centers can serve as platforms for MSMEs to share ideas, test product prototypes, receive technical advice, and access business facilities. In addition to functioning as business incubators, these innovation centers can also bring together various economic actors government, academics, investors, and communities in a productive and collaborative space.

Therefore, implementing policies that support participatory innovation will strengthen community economic development in East Java. When innovation is facilitated equitably and sustainably, communities not only experience increased income but also gain long-term economic empowerment and independence. Product innovation can be interpreted not only as an economic strategy, but also as an instrument of social transformation towards a creative, independent, and highly competitive society in the modern economic era.

Conclusion

This research confirms that product innovation plays a fundamental role in strengthening regional economic structures, increasing the competitiveness of MSMEs, creating jobs, and encouraging community empowerment in East Java. Product innovation is not only a strategy for adapting to competitive market dynamics, but also serves as the foundation for inclusive and sustainable economic growth. Innovations developed in East Java demonstrate a strong local character, leveraging the potential of natural resources, culture, and the creativity of local communities to generate added economic value. Through this innovation, MSMEs can transform from conventional producers into creative economy players capable of competing in domestic and international markets. The increasing use of digital technology, e-commerce, and social media has accelerated the innovation process and expanded market access for MSMEs. Digital transformation has enabled companies to introduce products more efficiently, reach a wider audience, and adapt their marketing strategies to changing consumer behavior. However, challenges remain, such as limited capital, low digital literacy, and unequal access to training

and technological infrastructure in some regions. Therefore, the success of innovation at the regional level depends not only on the creativity of individual entrepreneurs, but also on the support of inclusive and decentralized innovation policies and ecosystems. Product innovation has also proven to be a means of community empowerment.

Active community participation in creative economy activities has demonstrated increased capacity, knowledge transfer, and the emergence of new entrepreneurs at the local level. This innovation-based empowerment has resulted in a shift in the community's economic pattern from consumerism to productivity. Communities are no longer merely a workforce but also key actors capable of independently managing the region's economic potential. This strengthens a socio-economic order based on solidarity, creativity, and independence. Therefore, product innovation in East Java not only has economic value but also a social function that strengthens community welfare.

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