

The Implications of Intellectual Property Utilization on Product Innovation in MSMEs

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Keywords	Abstract
Intellectual Property Rights, MSMEs, product innovation, competitiveness, legal protection, implications, economy	The growth of product innovation in the <i>Micro, Small, and Medium Enterprises (MSME)</i> sector is greatly influenced by the utilization of <i>intellectual property rights (IPR)</i> as an instrument of protection and competitive advantage. <i>IPR</i> provides legal protection for creative and innovative outputs, allowing <i>MSME</i> actors to enhance added value, expand markets, and reduce the risk of intellectual property infringement. However, the utilization of <i>IPR</i> by <i>MSMEs</i> in Indonesia still faces various obstacles, including limited outreach, high registration costs, and weak legal enforcement. This article analyzes the implications of <i>IPR</i> utilization on <i>MSME</i> product innovation in Indonesia based on case studies, national literature, and comparisons with international practices. The research method used is a qualitative approach, utilizing interviews, observations, documentation, and literature studies to gather data. Research findings show that increasing <i>IPR</i> literacy and improving access to legal protection can encourage product innovation while enhancing competitiveness and the contribution of <i>MSMEs</i> to the national economy. In conclusion, this study highlights the crucial role of <i>IPR</i> in fostering innovation and competitiveness in the <i>MSME</i> sector, while also emphasizing the need for improved education, simplified registration processes, and stronger government support to overcome existing barriers.

INTRODUCTION

MSMEs are one of the main pillars of the Indonesian economy, playing a crucial role in labor absorption and in providing innovative products across various sectors. IPR provides legal protection for the creative and innovative outputs of MSMEs; by leveraging IPR, business actors can increase added value, expand market reach, and reduce the risk of infringement. However, the utilization of IPR by MSMEs in Indonesia still faces various obstacles, including limited awareness (*sosialisasi*), high registration fees, and weak law enforcement. MSMEs also face major challenges in managing innovation, such as the risks of piracy, product counterfeiting, and inadequate legal protection for their work. Intellectual Property Rights (IPR) serve as a legal mechanism to protect small business actors in maintaining the integrity and authenticity of their products (Fitrianto et al., 2020; Siregar et al., 2022; Hasri et al., 2025). Unfortunately, the level of IPR utilization among MSMEs in Indonesia remains low due to a lack of knowledge, high registration costs, and regulatory complexity. IPR literacy, *sosialisasi*, and MSME-friendly policies are key factors in encouraging the use of IPR for product innovation (Agustiniingsih, 2023; Asri, 2020; Budiman, 2024).

The challenges faced by MSMEs in utilizing IPR are compounded by rapid technological advancements and increasing competition in both local and global markets. As a result, understanding how IPR influences product innovation becomes crucial for crafting policies and

strategies that support MSMEs in overcoming these barriers. Previous studies have highlighted the importance of IPR for MSMEs. For instance, research by Sulasno (2020) and Sembiring et al. (2023) found that MSMEs that actively register IPR, such as trademarks or patents, demonstrate higher levels of innovation and competitiveness. Similarly, research by Budiman (2024) emphasized that IPR serves as a critical tool for protecting MSME products from counterfeiting and piracy, which are prevalent issues in developing countries.

However, despite these findings, there is still a significant gap in understanding the full implications of IPR utilization on MSME product innovation in Indonesia. Much of the existing research has focused on individual types of intellectual property—such as trademarks or patents—without comprehensively addressing how these tools collectively contribute to innovation. Furthermore, while international practices and success stories from countries such as South Korea and Japan demonstrate the positive impact of IPR on MSMEs, there is limited empirical research on how Indonesian MSMEs can optimize IPR for product innovation, especially in the context of digitalization and global market access (Putri, 2024; Putri et al., 2024; Ramadhani & Novianti, 2025).

The existing literature largely focuses on the theoretical aspects of IPR or the impact of individual intellectual property tools on business growth. However, there is limited research examining the holistic impact of IPR on product innovation across various MSME sectors in Indonesia. Most studies have also not sufficiently addressed the role of government policies, local regulations, or barriers that inhibit IPR adoption. Furthermore, comparative analyses of international best practices have not been fully integrated with the specific challenges faced by Indonesian MSMEs, particularly those in rural areas with limited access to legal support (Feldman, 2017; Richards, 2019; Siagian et al., 2024).

This study offers a novel contribution by analyzing the implications of IPR utilization on product innovation within the context of Indonesian MSMEs, bridging the gap between theoretical understanding and practical application. Unlike previous studies that focus on specific types of IPR or individual case studies, this research takes a comprehensive approach by analyzing how different types of IPR collectively influence product innovation. The study also introduces a comparative analysis with international practices, offering a unique perspective on how Indonesian MSMEs can overcome existing barriers and leverage IPR to enhance competitiveness in the global market (Harahap, 2024; Hasri et al., 2025; Nurhadi Panindias, 2023). Moreover, it emphasizes the role of government policies and institutional support, which remains underexplored in the current literature.

A number of studies confirm that MSMEs that actively register IPR—such as trademarks or patents—exhibit stronger innovation performance and competitiveness in the digital market. In addition, support from the government and educational institutions, in the form of training, sosialisasi, and the simplification of IPR registration procedures, has been shown to accelerate IPR adoption among MSMEs. Therefore, it is necessary to conduct a more in-depth analysis of the implications of IPR utilization on MSME innovation growth in order to provide valuable policy recommendations for the development of this sector.

The urgency of this research lies in the fact that, while MSMEs contribute significantly to Indonesia's economy, their innovation potential remains underutilized due to inadequate access to IPR protection. This article seeks to address this knowledge gap by examining the relationship between IPR and product innovation in Indonesia's MSME sector and by providing

policy recommendations to foster a more conducive environment for IPR utilization. The benefits of this research are twofold. From a theoretical perspective, it provides a clearer understanding of the relationship between IPR and product innovation in MSMEs, specifically within the Indonesian context. From a practical standpoint, the findings offer valuable insights for policymakers and stakeholders in MSME development, enabling the creation of IPR-friendly policies that foster innovation, enhance competitiveness, and ensure the long-term sustainability of MSMEs.

METHOD

The research method used in this study was qualitative. This approach examined phenomena in natural settings, with the researcher acting as the primary instrument and data analyzed inductively, emphasizing meaning rather than generalization. As noted by Moleong, qualitative research seeks to understand phenomena experienced by research subjects holistically and descriptively within a specific natural context. Creswell similarly emphasized that “qualitative research is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem.”

Data collection techniques in this study included interviews, observations, documentation, and a literature review. Interviews were conducted as a process of communication between the researcher and informants to gather information through question-and-answer interactions. Observations involved the use of the researcher’s senses to obtain relevant information needed to address the research problem. Documentation consisted of collecting recorded materials relevant to the study, such as written records and archival data. The literature review was conducted by examining books, journals, and other relevant sources related to the research topic.

RESULT AND DISCUSSION

Micro, Small, and Medium Enterprises (MSMEs) are a type of people's economic business that has a certain net worth or annual sales result which is regulated based on Law Number 20 of 2008 concerning Micro, Small, and Medium Enterprises. MSMEs have their own criteria based on their business capital, namely:

- a. Micro Enterprises have assets (net worth) of a maximum of 50 million excluding land and business buildings and have a maximum annual turnover of 300 million.
- b. Small Businesses have assets from 50 million to IDR 500 million and have a turnover of more than 300 million to 2.5 billion per year. and
- c. Medium Enterprises have assets from IDR 500 million to IDR 10 billion and a turnover of more than 2.5 billion to a maximum of 50 billion per year.

The characteristics of MSMEs are generally flexible with a variety of products that reflect the diversity of the local economy. MSMEs have flexible characteristics in products and business locations and play an important role in creating jobs and sources of income for the community, especially in rural areas.

The World Bank & OECD defines a microenterprise as a business that employs fewer than 10 people, with a small turnover and total assets, and is self-sufficient both formally and informally. According to the OECD, "micro enterprises" are companies with fewer than 10 employees. The United States (U.S. Small Business Administration) said Microenterprises are

businesses with 1-9 employees and turnover and assets of less than \$250,000/year, mostly run by individuals or families and do not have access to large capital or conventional banking services.

Intellectual Property Rights (IPR) plays a strategic role in protecting the innovation and intellectual works of MSMEs from plagiarism and unfair competition. IPR protection can also increase added value and expand the market for MSME products both nationally and internationally. In addition, IPR is a business asset that can be used for licenses or business capital (Cusmano, 2011; European Patent Office & EUIPO, 2024; Kim & Lee, 2018).

The strategy for optimal use of IPR facilitates access to IPR registration through simplification of procedures and cost reduction, as well as the digitization of product marketing supported by brand and copyright protection. This convenience is supported by regulations such as Law No. 28 of 2014 and Government Regulation No. 7 of 2021 which facilitate MSMEs to access IPR. Even so, challenges such as low IPR awareness and complicated administrative processes still need to be overcome with mentoring programs and policies that are friendly to MSMEs.

A. Potential and Influence of Intellectual Property Rights in Consumptive MSMEs and Creative MSMEs.

Consumptive MSMEs are businesses that focus on fulfilling the basic or routine needs of the community directly, goods and services that are consumed every day, for example food, beverages, laundry, basic necessities, local transportation services. Consumptive MSMEs rely on existing products, rarely innovate new designs or ideas, and compete more on price and distribution. Consumptive MSMEs are basically run to meet consumer needs which are short-term and persistent.

Consumptive MSMEs are more limited in IPR registration. The products/services produced are usually general, so they do not qualify to be protected as an object of IPR. Most consumptive MSMEs sell products/services that are easy to duplicate, are very common in the market, and there are no innovative differentiators or special creativity. The most likely protection for this type of business is only on trademarks (if the stall/product carries a special name brand to be raised), but most do branding conventionally and informally without extraordinary innovation. No design element or idea can be equated with copyright, industrial design, or patent.

Creative MSMEs are businesses that are based on creativity, innovation, new ideas, and the use of intellectual property to produce unique and high-value-added goods/services. The products produced are not only routine needs, but can create new trends, build cultural identity, and penetrate the export market (for example: handicrafts, batik artisans, digital animation, games, digital content, graphic design, mobile applications). The creative economy is a concept that highlights creativity, innovation, and intellectual ability as an important part of the production process, the main resources are ideas and knowledge (Digilaw, 2025; OECD, 2025).

Creative MSMEs are very possible and recommended to be registered with IPR. Creative MSME products/services usually have elements of originality, innovation, and uniqueness that are recognized as objects of IPR protection. The added value of creative MSMEs often lies in the aspects of product ideas, designs, and differentiation, which are the objects of IPR according to Law No. 28 of 2014 concerning Copyright and No. 15 of 2001 concerning Trademarks. IPR

provides protection against illegal plagiarism, piracy, or the use of ideas. IPR can increase competitiveness, expand market share, facilitate MSMEs to go international, and become collateral assets in financial institutions. Creative MSMEs are generally more aware of branding and selling value, so they feel more the urgency and benefits of IPR registration.

MSMEs "Tempe Chips Tiga Saudara 354" have obtained an IPR certificate for their brand after participating in the IPR registration process. These innovative products are successfully protected by law so that the exclusive rights of their brands and products are guaranteed. After being protected by IPR, the product value and brand image of "Three Brothers Tempeh Chips" increased, which helped to attract new consumers and expand the distribution network especially in regional and national markets. This IPR protection provides a competitive advantage in both local and international markets. Likewise, MSMEs "CV Centerindo Kurnia Tritama" that produce herbal wedang have also applied for brand registration and obtained IPR certificates, which makes their products easier to recognize and protected from plagiarism. The government and related institutions continue to support creative MSMEs to register IPR, including through direct training and facilitation.

Financially, the existence of IPR strengthens the bargaining position of MSMEs in business negotiations and facilitates business development to a larger scale stage. With IPR registration, MSMEs are not only protected from unfair competition, but also encouraged to continue to innovate and develop products, which in turn increases the competitiveness and sustainability of the business.

B. The Level of Utilization of Intellectual Property Rights (IPR) by MSMEs in Indonesia.

In Indonesia, the use of Intellectual Property Rights (IPR) by MSMEs is still relatively low and has not become a top priority in the business strategy of the majority of small and medium business actors. One of the surveys of the Ministry of Cooperatives and SMEs shows that less than 10% of economically active MSMEs have registered trademarks, while copyright or patent registrations are below that figure.

MSMEs in Indonesia tend to make more use of trademark protection than other types of IPR (e.g., patents, copyrights, industrial designs). Trademarks are considered to be directly related to marketing, identity, and consumer trust. However, copyright protection on creative products (e.g., batik, handicrafts) is still often ignored by local MSME actors. Some MSMEs have also understood the importance of simple/local patents for simple production technology innovations, but the number of applications is still very limited when compared to other Asian countries such as South Korea or Japan.

There are a number of obstacles that cause the utilization rate of IPR by Indonesian MSMEs to be low:

- a) Limited IPR literacy: Many MSMEs have not understood the details, functions, benefits, and registration procedures of each type of IPR. The government's socialization has only reached some fostered groups or business actors in big cities.
- b) Cost and Bureaucracy: It is considered expensive and the procedure is complex. The minimum trademark registration is around IDR 1.8 million, not including consultant fees, while copyright and patents are even more complicated technically.

- c) **Business Perceptions and Priorities:** Many MSME actors focus more on marketing or production efforts than legal protection, assuming IPR infringements are rare on a small business scale.
- d) **Lack of Advocacy and Mentoring:** Consulting services and incentives from the government are not evenly distributed; especially in the regions, MSME actors often lack access to information and professional assistance when registering for IPR.

The low utilization of IPR makes MSMEs vulnerable to violations. This has a direct impact on the competitiveness, innovation, and ability of MSMEs to enter the export market or obtain intellectual property-based financing. Meanwhile, MSMEs that have utilized IPR generally show better innovation and branding performance, and are able to obtain added value through licensing, franchising, or the use of IPR assets as collateral for bank loans.

In South Korea and Japan, more than 60% of MSMEs already have IPR protection (trademarks, patents, design rights) in place thanks to regulatory support, cost incentives, and free consulting services by governments and universities. The cluster-based mentoring model and one-stop service are the main differentiating factors compared to Indonesia.

C. Strategies and Steps to Optimize the Utilization of IP by MSMEs in Encouraging Product Innovation.

There are several strategies and steps to optimize the use of IPR by MSMEs in Encouraging Product Innovation, namely:

- a) **Improving Education and Literacy of IPR.** The first step is to increase education about the types, benefits, and procedures of IPR through thematic training, webinars, and free online classes for MSMEs in various regions. Digital-based socialization has been proven to reach more business actors while presenting case studies of the successes and challenges of IPR protection.
- b) **Simplification of Administrative Procedures and Incentives.** The government and related institutions need to simplify the registration bureaucracy and provide special subsidies, especially for MSMEs with high innovation potential but limited funds. Examples of good practices can be found in South Korea and Japan which routinely incentivize free registration fees and mentoring.
- c) **Strengthening Structured Assistance and Cluster Formation.** The establishment of product- or region-based MSME clusters, supported by assistance by academics, IP consultants, and government agencies, has been proven to increase the number of IPR registrations and accelerate the absorption of legal process knowledge. The Stockayu.id model shows that intensive partnership-based mentoring is able to improve the skills and success of the trademark registration process.
- d) **Integration of IP into Business Models and Business Collaboration.** The commercialization of IPR through licensing, franchising, business matching between MSMEs owning IPR and business partners/investors, as well as the use of IPR as financial assets or collateral, has become a strategy in Europe and OECD countries. The results of EPO and EUIPO research found that MSMEs that have intellectual property rights are 21% faster to grow and 10% more likely to become high growth firms.
- e) **Legal Protection, Enforcement, and Monitoring.** Law enforcement and supervision of IPR violations in traditional and online markets must be accompanied by strict sanctions so that

the deterrent effect is achieved and MSME actors become more concerned about protecting innovation. Data-driven surveillance and publication of best practices can be an inspiration and a pilot model.

- f) Multi-Sector Collaboration and IPR-Based Financial Access. Cooperation between the government, universities, the private sector, and financial institutions is needed to encourage IPR-based financing. In Europe and the OECD, IP asset-based collateral and financing schemes are growing, with major banks offering lending offers based on IP rights.

CONCLUSION

The findings indicate that the utilization of Intellectual Property Rights (IPR) plays a crucial role in fostering product innovation and enhancing the competitiveness of MSMEs in Indonesia by providing legal protection, increasing product value, strengthening brand identity, and expanding market access at both national and international levels. However, IPR adoption among MSMEs remains limited due to low legal literacy, high registration costs, complex administrative procedures, and insufficient institutional support. Addressing these barriers through improved education, simplified procedures, cost subsidies, and multi-stakeholder collaboration can strengthen IPR implementation and position it as a strategic tool for innovation and economic growth. Policymakers are encouraged to introduce incentives such as registration subsidies or tax benefits, alongside partnerships with universities and industry associations to provide continuous training and support. Future research should explore sector-specific strategies and the impact of digitalization on IPR utilization to better understand how MSMEs can optimize intellectual property in an evolving global market.

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