

International Conference on Small and Medium Enterprises Development with a Theme
“Innovation and Sustainability in SME Development” (ICSMED 2012)

Open Innovation Implementation to Sustain Indonesian SMEs

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Abstract

Small and Medium Enterprise (SME) in Indonesia plays an important role in social and economic growth, due to great number of industry, GDP contribution, and total employment. SMEs' characteristic more agile and adaptable that capable to survive and raise their performance during economical crisis than larger firm. But the increasing of business competition, in particular against large and modern competitor, put SMEs in a vulnerable position. The development of sustainable SMEs becomes important step to strengthen and sustain Indonesian economy. According to previous studies, factors affecting success among Indonesian SMEs are marketing, technology, capital access and human resources quality. Unfortunately, all of these factors still becoming problem in Indonesian SMEs. Open innovation is a proposed methodology to overcome Indonesian SMEs' problem, because several Indonesian SMEs' characteristics match with open innovation implementation. The innovation value chain framework is used to explain how open innovation could help to succeed and sustain Indonesian SMEs.

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Selection and peer-review under responsibility of Parahyangan Catholic University.

Keywords: open innovation; SME; sustanability

1. Introduction

It has been already known that Small and Medium scale Enterprises (SMEs) in Indonesia play an important role on social and economic growth. According to the statistics (BPS & KUKM, 2004), 43.22 millions small and medium enterprises accounted 99.985% of the total number of enterprises in Indonesia in 2006. Their output contributed 53.28% of GDP in 2006, and, with over 85.42 million workers, SMEs account for 96.18%

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of the total employment in Indonesia at that year (Padmadinata, 2007). Small and medium enterprises (SMEs) including micro-enterprises form the backbone of the economy in ASEAN Member countries (SEOM, 2004). The role of SMEs become more important, because according to research by AKATIGA, the Center for Micro and Small Enterprise Dynamic (CEMSED), and the Center for Economic and Social Studies (CESS) 2000, SMEs have unique ability to survive and raise performance during economical crisis, because of their flexibility in adapting production process, ability of develop with their own capital, ability to pay high interest loan and only a little get involve with bureaucracy. With this vital position in the economy, the development of SMEs would contribute to economic and social development through economic diversification and accelerated structural changes that promote stable and sustainable long-term economic growth (Padmadinata, 2007).

SMEs have unique characteristics if compare with large company. These unique characteristics build several SMEs condition that must be considered carefully when developing them. Characteristic of small medium enterprises (Chesbrough, 2010):

- Size. Their smaller size makes smaller markets attractive to SMEs while these markets would not be attractive for larger firms.
- Focus. Their focus lets them execute very effectively against larger, diversified firms with more diffuse objectives.
- Business specialization. SMEs can specialize their business more deeply in narrow fields.
- Entrepreneurial persons. SMEs attract more entrepreneurial R&D employees.
- Speed. Smaller firms take decisions faster and implement them more rapidly.

Increasing business competition, in particular against large and modern competitors, put SMEs in a vulnerable position. In Indonesia, most SMEs operate along traditional lines in production and marketing (Indarti & Langenber, 2004). They also have several challenges such as lack of knowledge, lack of qualified human resource as well as quantity, non conducive atmosphere, lack of facility, limitation of market and information access, and bureaucracy. Considering the limitation of SMEs, especially in knowledge and resources, open innovation model will be the suitable methodology for SMEs to grow. Open innovation assumes that firms can and should use external ideas as well as internal ideas, and also internal and external paths to market (Chesbrough, 2003). This paper try to propose a strategy that can help SMEs implementing open innovation, to raise their competitiveness and sustainability, and in turn can raise national economy.

2. Indonesian's SME

2.1. Condition of Indonesian's SME

Based on Indonesian Presidential Decree no. 99/1998, Small Enterprise is “Small scale people economical activities with major business category in small business activities and need to protect from unhealthy business competition”. The government of Indonesia defines small enterprises as firms with total asset up to Rp. 200 million excluding land and building, the total annual sales are not more than Rp. 1 billion owned by Indonesian citizens, not subsidiary or branch of medium or large enterprise, personal firm. While medium enterprises are firms with total asset more than Rp. 200 million but not exceed Rp. 10 billion excluding land and buildings. Biro Pusat Statistik (Statistic Center Body) defined SMEs based on number of employee. Small enterprise employ 5 to 19 people, medium enterprise employ 20-99 people.

Government and private sector in Indonesia pay less attention for SMEs in Indonesia (Adiningsih, 2004) before economical crisis 1997. But since Indonesian economical crisis, most SMEs can survive, even increasing in number This condition attract government and private to pay more attention. Furthermore, most SMEs depend on their own capital, employ most workers, and contribute to economic growth (GDP) of Indonesia, make SMEs should have more attention.

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