

KPA International Symposium in Indonesia 2014

# Startup, Technology & Productivity in Korea and Indonesia

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Startup, Technology & Productivity  
in Korea and Indonesia

Korea Productivity Association



Korea Productivity Association  
(440-746)  
Sunkyunkwan Univ. Natural Science Campus,  
Cheoncheon-dong, Jangan-gu, Suwon-si, Gyeonggi-do, Korea  
<http://www.kpa1985.or.kr/>

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Indonesia Cooperative Management Institute (IKOPIN)  
SKKU graduate school of global entrepreneurship

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Korea Productivity Association

Magister Management  
Post Graduate Program  
Indonesia Institute of Cooperative Management (IKOPIN)

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PT. SBCD International Consultant



**INDONESIA INSTITUTE OF COOPERATIVE MANAGEMENT**

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Dilarang keras, menerjemahkan, memperbanyak sebagian  
atau sejumlah isi buku ini tanpa izin tertulis dari penerbit

## President's Greeting

Prof. Kim, Kyong Hwan  
(President of KPA/Sungkyunkwan Uni)



Welcome all of you to the international conference with a theme "Startup, technology & productivity in Korea and Indonesia" held in Jakarta, Indonesia by the Korea Productivity Association during August 20<sup>th</sup> through 24<sup>th</sup>, 2014.

This conference will be held at the international conference room of the ministry of small and medium size enterprises of Indonesia under the support of Indonesia government.

As all of you may know, Indonesia rises as one of the biggest consumer market in Asia right behind China and India. Moreover, many Korean companies are rushing into the Indonesia market riding a wave so-called "Hanryu", Korean cultural boom, so I think that this is the right time for the conference to deal with the issues of common interest for both countries.

This conference will present 15 papers on Startup, Productivity and Innovation submitted by worldwide scholars participating from America, Japan, Australia, etc. besides Korea and Indonesia. From Indonesia, Mr. Meliadi, vice minister of the ministry of small and medium size enterprises as well as President and graduate students of Ikopin University which is co hosting this conference will join this conference. From Korea, about 30 professors, entrepreneurs, members of related associations and institutions will take part in the conference.

I strongly believe that this conference will serve as a valuable place for the exchange of ideas and information to promote understanding and cooperation among the academic circles, industries, and government for both countries. Thank you.



## Congratulatory Speech

Mr. Meliadi Sembiring  
(Deputy Minister, Ministry of Cooperative and SMEs)



An-nyeong-ha-se-yo. Yeo-reo-bun. Jo-eun A-chim-ip-ni-da.  
Greeting everyone and welcome to today's KPA-IKOPIN 2014 International Symposium, I'm Meliadi Sembiring. A Deputy Minister of Ministry of Small and Medium Enterprises, Republic of Indonesia.

To have the opportunity to say a few words at the opening of what promises to be a really interesting seminar, where prominent scholars from both countries can present their own vies about productivity to enhance SMEs' performance which are the backbone of economy, in their own voice. Therefore, I am looking forward to hearing what they have to say.

And I am particularly pleased to be able to welcome today's seminar co-host, Prof. Kim, Kyung-hwan who is the chairman of Korea Productivity Association, and Professor Sugiyanto who is the director of advanced studies in Ikopin along with many other guests an participants here.

As all of us may know, productivity in business in one of the most significant factors regarding the survival and success of every single enterprise. However, it is found to be not an easy task to achieve. Only a few very successful companies proved themselves to have enough productivity to survive the fierce competition in market. And if it comes for SMEs, it is more challenging task to improve the productivity not because they are not smart enough, but because their resources and environment are vey limited comparing to bigger enterprises.

In my work as the Deputy Minister of SME, I've been seen many SMEs are suffering from the difficulties as previously mentioned to produce their service and product with efficiency although they are trying very hard. Therefore, I wish today's seminar can derive a new direction to help SMEs improve their productivity.  
Thank you.



## Welcoming Remarks

Dr. Sugiyanto  
(Director of Post Graduate Program of Cooperative Institut of Indonesia)



Assalamu'alaikum Wr Wb,  
Distinguished panel members, participants, ladies and gentlemen, good morning.

His Excellency, Deputy of Research Of Ministry of Cooperative and SME, The President of Korea Productivity Association (KPA), Sungkyunkwan University, Korea, Prof. Kim, Kyong Hwan, All of the Professor from several Korea University, our visiting experts; the participants of this seminar from Indonesia, Korea and Timor Leste. I welcome all the participants, especially our foreign guests from Korea and Timor Leste, to our country.

My dear participants, this one-day seminar: about Productivity Innovation in Small Medium Enterprises (SME's) on behalf of the Ministry of Cooperative and SME, and cooperation between KPA and Ikopin,

The goal of this seminar, is to discuss about the Productivity Innovation in Small Medium Enterprises (SME's)", this topic will be interesting because the presenter is Professors, who come from several university in South Korea, they have a lot of experience about productivity and innovation in SME's in their country. We can learn from their experience to improve the performance of SME in our country.

We know about the current condition of Indonesia SME, Productivity through innovation in SME Business, is important issue in Indonesia, strengthening SME's in Indonesia is not as easy as turning the palm of the hand, but need power, fighting spirit, creativity and innovation, in order to create added value and comparative advantage for the SME products.

Other purpose, in 2015 we have to deal with Asean Economic Community (EAC) agreement, ASEAN as a single market and international production based, Indonesian products should at least be able to compete with products that produced by other manufacturers in ASEAN countries. According to Ministry of Industry, now only about 31.26% or 1,250 tariff lines from 3,998 product tariff lines that have competitiveness in ASEAN market.

"The most important keywords are improving productivity and innovation" I hope this seminar can answer this issues In concluding, I would like to extend a warm welcome to our distinguished panel members and participants. With their good guidance, I am very confidence that this session will produce productive and insightful discussions and be an important building block towards developing and implementing an integrated Productivity through innovation in SME Business, especially in Indonesia.

I would like to say thank you very much for Ministry of Cooperative and SME, our sponsors, KPA, AMOTI Korea, all presenters, Discussants, participant and event organizer.

Thank you.  
Wabillahi taufiq wal hidayah, Wasallamuallikum Wr Wb





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## Identification of Partnership Pattern Between Small and Medium Enterprises with Large Enterprises

Sugiyanto  
giyant2000@yahoo.com  
Indonesia Institute of Cooperative Management

### Abstract

The Role of Small and Medium Enterprises (SME's) in Indonesia has been recognized both in terms of number of enterprises (establishment) and in terms of job creation. SME's is a business sector that has the largest number with the absorption of a significant workforce. Externally SME's faced the reality of global competition, with the entry into force of the agreement ASEAN Economic Community (AEC) in 2015. ASEAN free market will prevail and that SME's is not properly prepared, it fears that a very large market potential will be utilized by industries of other ASEAN countries. Partnerships between SME's and Large Enterprises (LE's) is an alternative that must be developed.

The purpose of this research is to identify potentially LE's and SME's as well as the desired partnership, objects that can be partnered, and the desired requirements, and alternative determinants of partnership.

The results of this study include the identification of LE's and SME's respectively selected as many as 64 unit of LE's and 339 SME's. Based on the partnership offered by LE's and SME's, and the requirements of the desired partnership, the partnership are deemed necessary to be developed as an alternative to a partnership: (1) Marketing/distribution of finished goods, (2) Suppliers of raw materials and (3) Contract production.

Key word: partnership, SME's and LE's

### I. Introduction

#### 1.1. Background

Small and Medium Enterprises(SME's) have been recognized as an important role in the Indonesian economy, both in terms of number of enterprises (establishment) and in terms of job creation. SME's is a business sector that has the largest number with the absorption of a significant workforce. However, the income gap widening still occur between large enterprises (LE's) and SME's. Internally SME's are still faced by various problem, many experts mentioned ranging from the ability to access capital, market and technology as well as the availability of human resources that capable remains a major obstacle for SME's.

Externally SME's must deal with global competition with the entry into force of the agreement ASEAN Economic Community (AEC) in 2015. Asean free market will prevail and that SME's is not properly prepared, it fears that a very large market potential in Indonesia will be used by the others industry of Asean Countries are more prepared. On the basis of these reasons SME's is required to carry out the restructuring and reorganizing with the aim to meet the growing consumer demand for specific, trying change quickly, the product must be high quality, and competitive prices. Countries in the region have agreed that ASEAN will be *"A region that is stable, prosperous and highly competitive as a single market and production base are the free flow of goods, services, investment and labor, and free of capital flows in line with the equitable economic development and poverty reduction and socio-economic disparities"*.

This condition will be an opportunity to encourage industry in Indonesia, especially produced by SME's, but on the other hand also it can be a tough challenge when it can not take advantage of these opportunities or even Indonesia only serve the growing market for the industry in other countries in the ASEAN region. Indonesia has some potential that can meet the needs of the ASEAN market, products needed by the ASEAN community can be presented in the following table.

**Table1.1: Potential products of Indonesian exports to ASEAN countries**

No	Products	Target Country
1.	Leather and leather products equipment and medical instruments spices for medicinal	Vietnam, Malaysia, Thailand, and the Philippines
2.	Processed foods	Singapore, Malaysia, Thailand, and the Philippines
3.	Essential oil	Malaysia, Singapore, Vietnam, and Thailand
4.	Fish and fish products	Philippines, Singapore, Cambodia, Thailand, Vietnam and Singapore
5.	Handicraft and bamboo Products	Thailand, Vietnam, Singapore, and Malaysia Singapore and Malaysia
6.	Jewelry	Vietnam, Singapore, Malaysia, and Thailand
7.	Paperstationery and others	Malaysia, Thailand ,Philippines, and Singapore

Source: Ministry of Industry of RI

Development of SME's competitiveness cannot work itself, government policies are needed in particular through a partnership, especially with LE's. The expected form of partnership is a business partnership in a sense related to the procurement of raw materials, marketing of products and services produced, this partnership is expected to be a leverage for business growth.

Government seeks to policies through Act No.27 of 2007, which mandates that "the Government shall establish a business field reserved for SME's and business sectors open to LE's, subject to collaborate with SME's. The same policy also mandated by Act No.20of 2008 on Micro, Small and Medium Enterprises. The policy has been put in the form of Presidential Regulation No. 36Year 2010 concerning List of Closed Business and Business Fields Open with Requirements in the Field of Investment.

However, until now a lot of doubt of LE's to cooperate with SME's is inseparable from the story of unsuccessful execution of a partnership that has been running and partnership practices that tends to increase the burden for LE's without the contribution and the perceived benefits. On the other hand the benefits were not yet fully perceived by SME's as it is based on elements of compassion (charity).

Base on these ideas, preparation of SME's as a major business partner becomes important and strategic to be a solution to reduce the problems that are considered "load" by LE's that will do partnerships with SME's, hence information and education are needed to promote the ability of SMD's as LE's partner. Setting up SME's in order to be a great business partner, is necessary to identify the potency and possibility of SME's development through partnerships with LE's. Identification of potential SME's needs to be done in order to seek conformity with the partnership business that can be a big effort so that the principle of mutual need, trust, strengthen and benefit can be run as an alternative to the development of SME's in Indonesia.

One of the efforts of SME's is through cooperation (partnership) with LE's. Awareness of this cooperation has given rise to the concept of supply chain management (SCM) in the 1990s. Simchi Levi (2000) defines supply chain management as a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, at the right time, in order to minimize system wide costs while satisfying service level requirements. From these definitions it can be concluded that supply chain management is a supply chain of goods to customers in order to ensure the availability of materials and minimize costs. Supply chain is basically a network of companies that jointly work to create and deliver a product to the end user's. The importance of friendship, loyalty, and trust between industry with one another is to create a market space in the form of partnerships.

## 1.2. Purpose and Objective

The purpose of this research is to identify potency of LE's and SME's in partnership pattern, as well as objects that can be cooperated, requirements of partnership desired, determination of appropriate alternative partnership for both parties. The purposes of the research to identify of SME's and LE's partnerships:

1. Identify LE's which require SME's as business partners, objects that can be partnered, and the requirements of LE's partnership desired,

2. Identify Potential SME as business candidates partners who qualified to perform the partnership desired by LE's,
3. Develop alternative to LE's partnership with potential SME's prospective partners.

## II. Research Approach

Cooperation between firms, LE's and SME's, often done as a form mutually beneficial business strategy, cooperation between companies, in this case, known as partnerships (Government Regulation No. 44 of 1997 Concerning Partnership). Partnership is a business strategy that is performed by two or more parties in a certain period of time to achieve together with the principle of mutual benefit and mutual rising. Partnership is a series of processes that begin with the familiar prospective partners, knowing the position of the advantages and disadvantages of business, by building a strategy, implement, monitor, and evaluate until the target is reached. Stephen M. Dent (2006), introduced the theory of Partnership Relationship Management, where it is said that in the 21st century, to be able to grow and evolve and fulfill the demands of consumers about fast service, needs an organization formed partnerships and strategic alliances internally and externally.

Partnership is an important strategy in business; its implementation requires equality and independence, core competencies, the existence of something that is exchanged and the risks and benefits that can be enjoyed together. Franciscus Welirang (2002) said that, partnership is an attitude of business-oriented running on solid cooperation, long-term, mutual trust, and on equal terms. So it can be said, that the basis of the partnership, is the nature of business, interdependence, mutual trust, voluntary, discipline, mutual benefit, accountable and mutually reinforcing. Partnership organization is necessary as organizational development strategy in the face of environmental uncertainty. In addition, an organization that continues to grow and evolve, needs partnership with other organizations so as to maximize the quality and quantity of products (Augustin Rina Herawati, 2011).

Substation of partnerships between SME's and LE's are: 1) the majority of the suppliers of raw materials, 2) the recipient of capital/goods and 3) marketing assistance recipients. Objects such partnerships are still relatively few services SME's receive consultation and guidance.

The partnership must be accompanied by LE's guidance to SME's on the principle of need, reinforcing and beneficial. A partnership between SME's and LE's in Indonesia, which has been standardized, according to Law No. 9 of 1995 on SME's and PP 44 of 1997 on the partnership, consisting of 5 (five) patterns are: (1) Inti Plasma, (2) Subcontract, (3) General trading, (4) agency, and (5) Franchising partnerships.

*First*, the pattern of Inti Plasma. LE's as the core of fostering and developing SME's into the plasma in the supply of production equipment, the provision of technical assistance in business management and production, acquisition, mastery and improvement of the necessary technology for increasing efficiency and productivity of the business. In this case, LE's has corporate social responsibility to foster and develop SME's as a business partner for the long term. *Second*, the pattern of subcontract, in which SME's producing components that required by LE's as part of its production, which LE's as a holding company (parent firm) asked to SME's as subcontract to do the whole or part of the components with full responsibility on the parent company. Moreover, in this pattern, LE's provide assistance in the form of raw material acquisition opportunities, guidance and technical capabilities of production, mastering technology, and financing. *Third*, the general trade pattern, LE's in which market the production of SME's or SME supply required by LE's as partners. In this pattern LE's market products or receive supplies from SME's to meet the needs required by LE's. *Fourth*, the Agency is a pattern of partnerships between SME's and LE's, in which SME's are given the exclusive right to sell their goods and services as its LE's. Pattern of agency partnerships, where the principal produces or has something, while the other party (the agent) acts as a party to run the business and product concerned directly with the third party. *Fifth*, Pattern of franchise partnership, in which the franchisor gives the right to use licenses, trademarks, and its distribution channels to the franchisee to help with management guidance. In this pattern, LE's acts as a franchisor provides guarantees submitted by SME's as a franchisee to a third party.

Partnership between LE's and SME's become very important in the development of SME's. Key to success of SME's in competition both in the domestic market and the global market is to build partnership with large companies that have more ability in all aspects of the business, both in terms of capacity which has achieved economies scale, the ability to access technology, market and capital, supported by competent human resources. SME development is

considered to be difficult to do without involvement the participation of LE's. For example, SME's can export via the major companies that have become exporters, the partnership is one solution to overcome the gap between SME's and LE's. It can be concluded that the growth of SME's in Indonesia cannot be separated from its function as a partner of LE's bound in a business partnership.

This concept is essentially in line with the partnership as stipulated by Law No. 20 of 2008 on SME's, in which the partnership is a relationship, exchanging a "requirement" that is tied to the agreement on the basis of mutual trust, mutually reinforcing and mutually benefited, partnership in an attempt to improve competitiveness, the acquisition of raw materials, the speed of distribution so as to reach consumers quickly as needed. Partnership as one of the business strategy can be understood with the approach supply chain management (SCM).

Companies that will improve competitiveness through product customization, high quality, cost reduction, and the velocity distribution need to pay attention to the supply chain, Indrajit and Djokopranoto (2006) said that, supply chain is a system where an organization distribute the production of goods and services to the customers. Naja Sariyun Anwar stated that Supply chain management is the integration of procurement activities of materials and services, into work in process and finished product, as well as delivery to the customer. These activities include the purchasing and outsourcing activities, plus another important function for between suppliers and distributors. supply chain management is a set of activities (in the form of entities/facilities) that are involved in the process of transformation and distribution of goods from the earliest raw materials to finished product at the end customer, then a supply chain consisting of companies that transport raw materials, the company transform raw materials into finished goods or components, suppliers of product support materials, assembly companies, distributors, and retailers who sell the goods to the final consumer. Naja Sariyun Anwar said that some major players or companies that have the same interests, namely: Supplies, Manufacturers, Distributors, Retail Outlets and Customers.

The main objective of SCM is delivering of products in a timely manner in order to satisfy consumers, reducing costs, improving all the results of the entire supply chain, reducing the time, focus and distribution planning activities. The implementation of supply chain management in the future has advantages which are able to manage the flow of goods or products in a supply chain. The purpose of supply chain management based on the above definition, Anna Probawati (2011, 67) said that: (1) Supply chain management involves consideration of the location of each facility that has an impact on the activities and costs in order to produce the desired product customers from suppliers and factories stored in the warehouse and distribution centers to sales. And (2) achieve greater efficiency and cost of the entire system activity, the total cost of transportation to the distribution system supplies of raw materials, work in process, and finished goods. Supply chain logistics network into which indicate the presence of long chain starts from suppliers to customers.

The benefits that can be obtained for SME's and LE's doing partnerships include (1). increased productivity, (2). efficiency, (3). guarantee the quality, quantity, and continuity, (4). Lower risk (5). Provide social benefits are quite high, and (6). Increase national economic security. Benefit of partnership can be viewed from three points of view. First, from an economic standpoint, the partnership business demands efficiency, productivity, improving product quality, reduce production costs, prevent supply fluctuations, reduce the cost of research and development, and improve competitiveness. Second, from a moral, business partnerships demonstrate equivalence of togetherness checkers effort. Third, from the perspective of socio-political, business partnerships can prevent social inequality, jealousy, and socio-political. These benefits can be achieved throughout the partnership based on the principle of mutually reinforcing, require, and profitable.

The success of a business partnership is determined by their adherence among the partners in running the business ethics. Actors directly involved in the partnership should understand the basics of business ethics and adhered together as a starting point in the run of partnership. Ethics is a critical and rational reflection on moral values and norms that define and manifest in attitudes and behavior patterns of human life, both as individuals and as a group.

Business partnership requires the readiness to be partnered, especially in the SME's that generally the level of business management and mastery of science and technology are low, in order to be able to act as a reliable partner. Management reforming, improving the quality of human resources, and strengthening business organization

absolutely must be harmonized and aligned, so that the business can be run partnership to fulfill the standards as it should be.

LE's that implement the partnership has the right to determine the performance of SME's. While SME's as a partner has the right to obtain the coaching and development from LE's or in one or more aspects such as marketing, human resources, capital, management and technology.

LE's that implement partnerships with SME's are obliged to provide guidance to the established partners in one or more aspects:

1. Marketing, to help market access; market information; develop business networks; identifying the market and consumer behavior; and improving the quality of products and value-added of packaging.
2. Coaching and human resource development, education and training; apprenticeship; comparative study; and consultations.
3. Capital, the provision of information sources of credit, the procedure for filing underwriting from various sources guarantee agency, the mediator of the sources of financing, information and procedures for investment and facilitate access to capital.
4. Management, to help the preparation of feasibility studies, systems and procedures of the organization and management, providing consultants and advisors,
5. Technology, improvement-innovation and technology transfer, procurement of production facilities and infrastructure as a pilot unit, improvement of production and quality control system, development design and product engineering; and improve the efficiency of procurement of raw materials.

### **III. Research Method**

#### **Methods of Implementation**

This activity started by literature study, such as statistical data of SME's and LE's, legislation, regulations and other policies related to the development of SME partnerships. Followed by field surveys to LE's and SME's who wish to undertake a partnership as one of its business development strategy. The survey results will be used as reference to set the pattern of partnership between SME's and LE's, as well as an ingredient of preparing alternative partnership.

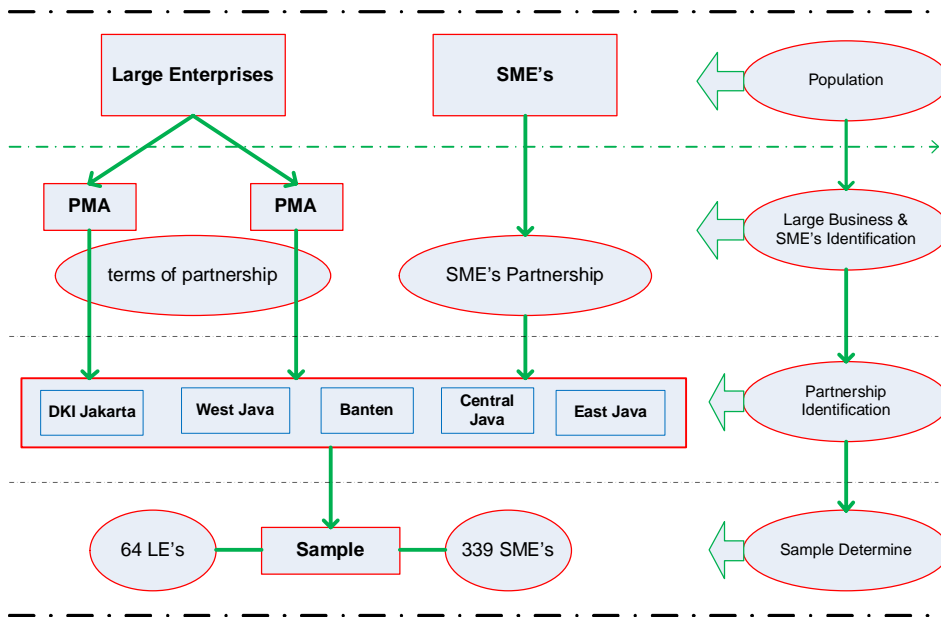
Survey methods made directly to LE's and SME's samples, to obtain a profile of LE's and SME's in various areas of potential business conduct partnerships, as well as the patterns and practices of partnership that has been done, in accordance with Presidential Decree No. 36 of 2010 on List of Business Fields closed and Opened Business With Requirements in the Field of Investment.

Focus Group Discussion (FGD) is a type of panel interview conducted by a number of respondents who have been selected in a meeting. Interview panel is useful for collecting "public opinion" about an issue or event (Koentjaraningrat,1989;151). Respondents in this type of interview usually consist of individuals who represent the social layers that exist in the target communities. In this activity FGD is a step verification of the results of the analysis of the data collected.

The data required in the form of primary data, which is obtained by observation, surveys and interviews or provide a list of questions. Secondary data, obtained from various agencies associated with this research.

Purposive sampling is used to determine the sample, sampling consider certain criteria that have been made against the object in accordance with the purpose of research. In this case the activity is carried out on a LE's and SME's in the area of research and partnerships can be predicted.





**Figure 3.1. Stages Sampling LARGE BUSINESS and SME's**

Plan data analysis will be performed by using descriptive analysis, the data obtained both primary data and secondary data processed in a way, that will be analyzed descriptively to achieve the goals that have been described previously.

## IV. Results And Discussion

### 4.1. Results of Identification of LE's and SME's

Selection LE's is made to decide which companies that have the potential to make partnerships with SME's. LE's criteria used to select companies in the activities are: the LE's required to conduct its business partnerships with SME's, such as business fields (Presidential Decree No. 36 of 2010). SME's must meet the criteria identified as in accordance with Act No. 20 In 2008, About SME's. Selection of SME's carried out in stages by collecting data from various departments and related institutions that has Partnership Program with SME's, in a variety of business sectors, The number of LE's and SME's that can be identified and expected to be partnerships, in 5 provinces sample, can be presented in the following table:

**Table 4.1: Number of LE's and SME's Results of Selection**

No	Province		Banten	DKI Jakarta	West Java	Central Java	East Java	Total
1	LE's	Unit	1	6	44	8	5	64
		%	1.56	9.38	68.75	12.50	7.81	100.00
2	SME's	Unit	2	8	303	15	11	339
		%	0.59	2.36	89.38	4.42	3.24	100.00
TOTAL			3	14	347	23	16	403

Source: Results of identification

Based on the table can be explained that about 64 LE's that have been identified are spread at 5 Provinces, West Java with the largest amount that is more than 44 LE's (68.80%), the rest scattered in Central Java as much as 8 LE's (12.50%), Jakarta by 6 LE's (9.40%), East Java LE's by 5 (7.80%) and Banten 1 LE's (1.60%).

**Table 4.2: Number of LE's by Sector Based on Presidential Decree No. 36 Year 2010**

No	Type of Business *)	Province											
		Banten		DKI Jakarta		West Java		Central Java		East Java		Total	
		Unit	%	Unit	%	Unit	%	Unit	%	Unit	%	Unit	%
1	3.3					1	2,					1	1,6
2	3.9					1	2,3					1	1,6
3	4.2					1	2,3					1	1,6
4	5.16	1	100									1	1,6
5	5.17			1	16,7	6	13,6	1	12,5			8	12,5
6	5.18			1	16,7	4	9,1	1	12,5			6	9,4
7	5.19					3	6,8					3	4,7
8	5.20					3	6,8					3	4,7
9	5.21					3	6,8	1	12,5			4	6,3
10	5.22			3	50,0	13	29,5	2	25,0	2	40,0	20	31,3
11	5.24					3	6,8					3	4,7
12	5.25					1	2,3	1	12,5	2	40,0	4	6,3
13	5.26			1	16,7	1	2,3	1	12,5			3	4,7
14	5.28					1	2,3					1	1,6
15	5.29					2	4,5					2	3,1
16	5.30				0,0	1	2,3	1	12,5	1	20,0	3	4,7
TOTAL		1	1,6	6	9,4	44	68,8	8	12,5	5	8%	64	100

Source: Results of identification

\*) Business Type: See Table 4.4

Results of LE's identification showed only in certain sectors, and the sectors can be grouped into: Business Sector of Marine and Fisheries (3) 2 LE's (3.2%), Energy and Mineral Resources Sector 4 LE's (1.60%), and Industry Sector (5 ) 61 LE's (95.20%). A total of 20 LE's (31.30%) is engaged in the business field of Mangrove Wood Finished Goods Industry: Industry of Molding for Building Materials and Components, Industrial of Craft Carving-carved from wood except Manufacture of furniture and Kitchen Appliances (5:22), total 8 LE's (12.50%) is engaged in the business field processed food industry from grains and tubers, sago, betel nut and coconut (copra industry, ketchup Industry, food industry of soybean and beans other than soy sauce, tempe and tofu, industry of crackers, chips, peyek and the like) (5:17), total of 6 LE's (9.40%) is engaged in the business field of milk processing industry and sweetened condensed milk (5:18). LE's by 3 (4.70%) is engaged in the business field of Industry of Batik Cap (5:20), as many as 4 LE's (6.30%) is engaged in the business field of Rattan Manufacturing, Rattan Preservation Industry, Bamboo and the like (5:21), LE's by 4 (6.30%) is engaged in the business field of industrial of nail nuts and bolts, industrial of components and parts first drive motor, industrial of pumps and compressors, industrial of components and equipment of two-wheeled motor vehicles and three, industrial of gear bicycles and tricycles (5:25).

**Table 4.3: Number of SME's by Sector Based on Presidential Decree No. 36 Year 2010**

No	Type Of Business	Province										Total	%
		Banten	%	DKI Jakarta	%	West Java	%	Central Java	%	East Java	%		
1	3.3					2	0,7					2	0,6
2	3.9			1	12,5	4	1,3					5	1,5
3	4.2					5	1,7					5	1,5
4	5.16					8	2,6					8	2,4
5	5.17					107	35,3					107	31,6
6	5.18					6	2,0					6	1,8
7	5.19					15	5,0					15	4,4
8	5.20	2	100			79	26,1	1	6,7			80	23,6
9	5.21					20	6,6	3	20,0			23	6,8
10	5.22			7	87,5	27	8,9	3	20,0	4	36,4	43	12,7
11	5.24					3	1,0					3	0,9
12	5.25							3	20,0	5	45,5	8	2,4
13	5.26					5	1,7	4	26,7	2	18,2	11	3,2
14	5.28					3	1,0					3	0,9
15	5.29					11	3,6					11	3,2
16	5.30					8	2,6	1	6,7			9	2,7
<b>TOTAL</b>		<b>2</b>	<b>0,6</b>	<b>8</b>	<b>2,4</b>	<b>303</b>	<b>89,4</b>	<b>15</b>	<b>4,4</b>	<b>11</b>	<b>3,2</b>	<b>339</b>	<b>100,0</b>

Source: Results of identification  
Business Type: See Table 4.4.

The table illustrates the number of SME's are engaged in accordance with Presidential Decree No. 36 in 2010. The business sectors of SME's can be grouped into Business Lines of Marine and Fisheries (3) about 7 SME's (2.10%), Energy and Mineral Resources (4) by 5 SME's (1, 50%) and the Industry (5) 327 (96.40%). A total of 43 SME's (12.70%) is engaged in the business field Mangrove Wood Finished Goods Industry: Molding Industry Building Materials and Components, Industrial Craft Carving-carved from wood except Manufacture of furniture and Kitchen Appliances (5:22), A total of 107 SME's (31 , 60%) engaged in the business field processed food industry from grains and tubers, sago, betel nut and coconut (copra industry, ketchup Industry, Food Industry of soybean and beans other than soy sauce, tempe and tofu, industrial crackers, chips, peyek and the like) (5:17), A total of 80 SME's (23.60%) is engaged in the business field industry of batik cap (5:20), A total of 23 SME's (6.80%) is engaged in the business field rattan processing industry, industrial of preservation of rattan, bamboo and the like (5:21).

#### 4.2. Partnership Products

The result of identification of partnership products that can be offered by both LE's and SME's, results of identification is very diverse, in the event a product is analyzed based on the partnership business sectors listed in Presidential Decree No. 36 In 2010, an outline of the products produced by SME's and LE's.

**Table 4. Results of Identification of Business Sectors of LE's and SME's Based on Presidential Decree No. 36 Year 2010**

No	Business Sector
3	Marine and Fisheries Sector 3.3. Enlargement Marine Fish 3.4. Marine Fish Hatchery 3.5. Enlargement of Brackish Water Fish 3.6. Brackish Water Fish Hatchery 3.7. Enlargement of Fresh Water Fish 3.8. Enlargement of Fresh Water Fish 3.9. Fishery Products Processing Enterprises (UPI) - Industry Salting / Drying Fish and Other Aquatic Biota - Industrial Fumigation Fish and Other Aquatic Biota Freshwater Fish Hatchery 3.10. Fishery Products Processing Enterprises (UPI) fermentation, fermentation, reduction / extraction, processing and Jelly Fish Surimi 3.11. Marketing efforts, distribution of fishery products - Wholesale of Fishery Products Export Trade Fishery Products

4	Energy and Mineral Resources Sector	4.2. Electric Power Generation Small Scale (1-10 MW)
5	Industry sector	<p>5:16. Industry-salting sweetening fruits and vegetables</p> <p>5:17. Processed food industry from grains and tubers, sago, betel nut and copra:</p> <ul style="list-style-type: none"> <li>• Industry copra</li> <li>• Soy industry</li> <li>• Food industry of soy bean and beans other than soy sauce, tempe and tofu</li> <li>• Crackers industry, chips, peyek and the like</li> </ul> <p>5:18. Milk processing industry and sweetened condensed of milk</p> <p>5:19. Industrial drying and processing tobacco</p> <p>5:20. Industry batik cap</p> <p>5:21. Rattan processing industry, industrial preservation rattan, bamboo and the like</p> <p>5:22. Mangrove wood finished goods industry:</p> <ul style="list-style-type: none"> <li>• Molding industry and components</li> <li>• Building materials</li> <li>• Carving crafts industry-carved from wood except of furniture</li> <li>• Industrial kitchen appliances</li> </ul> <p>5:23. Essential Oil Industry</p> <p>5:24. Industrial goods from clay for building materials, industrial goods industry of lime and cement items:</p> <ul style="list-style-type: none"> <li>• Industry bricks and land</li> <li>• Clay/ceramic</li> <li>• Other goods industries of clay/ceramic</li> <li>• Lime industry</li> <li>• Industrial goods from cement</li> <li>• Industrial goods from cretaceous</li> <li>• Industrial goods of cement and lime other</li> </ul> <p>5:25. Industrial nails nuts and bolts, industrial components and parts first drive motor, industrial pumps and compressors, industrial of components and equipment of two-wheeled motor vehicles and three, industrial gear bicycles and tricycles</p> <p>5:26. Manufacture of agricultural machinery that uses intermediate technologies such as rice thresher, corn sheller and hand tractors.</p> <p>5:27. Timbership industry for marine tourism and for fishing including equipment and accessories</p> <p>5:28. Industrial Jewellery from Silver:</p> <ul style="list-style-type: none"> <li>• Industrial goods jewelry valuable for personal of precious metals</li> <li>• Industrial goods jewelry precious not for personal purposes of precious metals</li> </ul> <p>5:29. Other crafts industry:</p> <ul style="list-style-type: none"> <li>• Industrial goods jewelry not for personal purposes of nonprecious metals</li> <li>• Gem industries</li> <li>• Craft industries nonclassified in other places</li> <li>• Other manufacturing industry nonclassified in other places</li> </ul> <p>5:30. Recycled goods non metal</p>

Source: Results of identification based on Presidential Decree No. 36 of 2010,

Based on the table can be explained that not all areas of business sectors are required to do partnerships with SME's. The business of LE's and SME's only covers a portion of the business fields of marine affairs and fisheries, energy and mineral resources and the highest in the industry sectors.

#### 4.2.1. The Proportion of LE's And SME's Number Can Be Expected To Partnership

Comparison of the number between LE's and SME's that expected to do partnership can be described by the following table:

**Table 4.6: Proportion of LE's and SME's expected to partnership**

No	Type of Business	Total		Proportion of LE's/SME's	
		LE's	SME's		
1	3.3	1	2	1	: 2
2	3.9	1	5	1	: 5
3	4.2	1	5	1	: 5
4	5.16	1	8	1	: 8
5	5.17	8	107	1	: 13
6	5.18	6	6	1	: 1
7	5.19	3	15	1	: 5
8	5.20	3	80	1	: 27
9	5.21	4	23	1	: 6
10	5.22	20	43	1	: 2
11	5.24	3	3	1	: 1
12	5.25	4	8	1	: 2
13	5.26	3	11	1	: 4
14	5.28	1	3	1	: 3
15	5.29	2	11	1	: 6
16	5.30	3	9	1	: 3
TOTAL		64	339	1	: 5

Source: Results of identification

The average proportion of the number of LE's and SME's are expected to partner is 1: 5, means that every single LE's to partner with 5 SME's, however, in certain sectors such as business sectors 5:18 and 5:24 only to have proportion of 1: 1, it means a LE's only to be partnering with one of SME's, in the field of business 3.3, 5:22, and 5:25 with a proportion of 1: 2, means that a large business can only do partnership with 2 SME's. The greatest comparison is in the business sectors 5:20, that is equal to 1: 27, means that each one LE's is expected to do partnership with 27 SME's, followed by the next business sectors 5:17 with a ratio of 1: 13, means that each one LE's is expected to do partnership with 13 SME's.

#### 4.2.2. Forms of Partnership Offered

Forms of partnership that can be offered by LE's and SME's in detail as the results of identification are presented in the following tables:

**Table 4.7: Forms of Partnership Offered By LE's**

No	Partnership	Banten	%	DKI Jakarta	%	West Java	%	Central Java	%	East Java	%	Total	%
1	Marketing and Distribution of Finished goods	1	33,3	4	57,1	26	39,4	6	50,0	1	12,5	38	39,6
2	Supplier of Raw Material	1	33,3	2	28,6	21	31,8	1	8,3	3	37,5	28	29,2
3	Contract of Production and Joint Product	1	33,3	1	14,3	13	19,7	3	25,0	2	25,0	20	20,8
4	Sub Contract		0,0		0,0	1	1,5	1	8,3	1	12,5	3	3,1
5	Supporting Services		0,0		0,0	5	7,6	1	8,3	1	12,5	7	7,3
TOTAL		3	3,1	7	7,3	66	68,8	12	12,5	8	8,3	96	100

Source: Results of identification

Based on the table can be explained the LE's that want to make partnership with SME's, basically can be grouped into: 39.60% offered a partnership in the form of marketing/distribution of finished goods (products), 29.20% offered a partnership in the form of raw material suppliers, 20.80% offered a partnership in the form of contract production/joint product, 3.10% offered a partnership in the form of sub contract and 7.30% offered a

partnership in the form of other support services, a LE's may offer more than one form of partnership. Similarly, SME's also offer partnership to the LE's in the forms of:

**Table 4.8: Forms of partnership offered by SME's**

No	Partnership	Banten	%	DKI Jakarta	%	West Java	%	Central Java	%	East Java	%	Total	%
1	Marketing and distribution of finish goods	2	100,0	7	50,0	217	47,6	8	34,8	8	38,1	242	46,9
2	Supplier of raw material		0,0	5	35,7	92	20,2	6	26,1	3	14,3	106	20,5
3	Contract of production and joint product		0,0	1	7,1	99	21,7	5	21,7	2	9,5	107	20,7
4	Sub contract		0,0		0,0	40	8,8		0,0		0,0	40	7,8
5	Supporting services		0,0	1	7,1	8	1,8	4	17,4	8	38,1	21	4,1
	Total	2	0,4	14	2,7	456	88,4	23	4,5	21	4,1	516	100

Source: Results of identification

The 339 of SME's, as much as 46.90% want to make partnership with a LE's in the form of marketing/distribution of finished goods (products), 20.70% want to make partnership in the form of raw material suppliers, 20.50% in the form of contract production/product together, 7.80% in the form of sub contract and 4.10% in the form of other support services, each SME can offer more than one form of partnership.

#### 4.2.3. Terms of Partnership

From the identification result of the 64 LE's and 339 SME's, the requirements desired by each can be described in the following table:

##### 4.2.3.1. Terms of LE's Partnership

Terms of partnership proposed by LE's to the SME partners can be grouped in terms of a contract relating to the production, terms of payment, guarantee of quality and quantity, price guarantee, availability of infrastructure and marketing guarantee, the results of the identification of the 64 LE's can be explained through the following:

**Table 4.9: Terms of LE's Partnership**

No	Term of Partnership	Banten	%	DKI Jakarta	%	West Java	%	Central Java	%	East Java	%	Total	%
1	Contract of production	1	33,3	4	22,2	14	18,2	6	28,6	2	20,0	27	20,9
2	Term of payment		0,0	4	22,2	21	27,3	4	19,0	2	20,0	31	24,0
3	Guarantee of quality and quantity		0,0	3	16,7	25	32,5	5	23,8	3	30,0	36	27,9
4	Price guarantee	1	33,3	3	16,7	5	6,5	2	9,5	2	20,0	13	10,1
5	Facility		0,0	2	11,1	4	5,2	2	9,5	1	10,0	9	7,0
6	Market guarantee	1	33,3	2	11,1	8	10,4	2	9,5		0,0	13	10,1
	Total	3	2,3	18	14,0	77	59,7	21	16,3	10	7,8	129	100

Source: Results of identification

Terms of partnership that required by LE's related to the contract of production about 20.90%, term of payment 24.00%, guarantee of quality and quantity 27.90%, price guarantee 10.10%, availability of infrastructure 7.00% and marketing guarantee 10.10%. Most LE's need term of partnership on a guarantee of quality and quantity, terms of payment and contract of production.

#### 4.2.3.2. Terms of SME's Partnership

Requirements partnership proposed by SME's is basically the same as that required by LE's, as shown in the following table:

**Table 4.10: Terms of SME Partnership**

No	Term of Partnership	Banten	%	DKI Jakarta	%	West Java	%	Central Java	%	East Java	%	Total	%
1	Contract of production	2	33,3	5	26,3	18	3,5	0,0	1	5,9	26	4,5	
2	Term of payment		0,0		0,0	93	18,0		0,0	3	17,6	96	16,6
3	Guarantee of quality and quantity	2	33,3		0,0	107	20,7	11	55,0	6	35,3	126	21,7
4	Price guarantee		0,0	7	36,8	150	29,0	5	25,0	4	23,5	166	28,6
5	Facility		0,0		0,0		0,0		0,0		0,0	0	0,0
6	Market guarantee	2	33,3	7	36,8	150	29,0	4	20,0	3	17,6	166	28,6
	TOTAL	6	1,0	19	3,3	518	89,3	20	3,4	17	2,9	580	100

Source: Results of identification

SME's want the requirements related to the production contract as much as 4.50%, 16.60% Payment Terms, 21.70% Quality Assurance and quantity, 28.60% price guarantee, availability of infrastructure as much as 0.00% and 28.60% guarantees marketing. This shows that SME's in partnership with LE's want assurance requirements pricing, marketing collateral, guarantee the quality and quantity and payment terms.

**Table 4.11: Explanation of Terms Partnership Wanted by LE's and SME's**

NO	TERM OF PARTNERSHIP	LARGE BUSINESS	SME's
1	Production Contract	Production contracts primarily related to the delivery of production activities, most of the production, supply of spare parts or raw materials to SME's, (20.90%)	Certainty production partnerships with major business use of production contracts, in order to ensure certainty of cooperation (4.50%)
2	Payment	Large businesses usually require payment term, eg one month, or two months for production cooperation, and cash payments when doing the same work of marketing (24.00%)	Requires payment in cash, or at least no certainty or at any time and require immediate funds can be met by large business partners, for marketing partnerships wish to be paid later (16.60%)
3	Quality and Quantity Guarantee	SME guarantee the quality and quantity specified/required or should be marketed (27.90%)	SME's who will partner ask tolerance with regard to the quality of goods produced thus the amount (17.10%)
4	Price Guarantee	Great effort when SME's will require a partnership must agree to the prices set by LE's (10.10%)	SME's require if LE's will do the partnership must guarantee a certain price (28.60%)
5	Infrastructure Available	Great effort when SME's will require a partnership must have adequate infrastructure to ensure the continuity of the marketing or production so that the required targets will be achieved (7.0%)	SME's usually want the utilization of facilities owned services, or for products that require a certain technology usually ask to be provided by LE's (0%)
6	Marketing Guarantee	SME's that will do the partnership in the form of a big effort to market the production must ensure the continuity of demand/marketing in a certain amount (10.10%)	SME's require if LE's will perform in a partnership to market the production of SME's must ensure continuity marketing (28.60%)

Source: Results of identification

Based on the table can be explained that there is a difference between the desired requirements of LE's with SME's, this is possible because each party wants to retain its business and when it's done it should remain profitable partnership for itself. This should be considered in preparing alternative partnership for both parties. This condition implies that most LE's want a partnership requirements related to production processes, quality assurance and quantity and terms of payment, while SME's want partnership requirements relating to marketing collateral, guarantee the quality and quantity and payment terms.

Partnership model should be developed with the field conditions as described above, with regard to the form of partnerships and partnership requirements desired by both parties. The following is a comparison between partnerships and partnership requirements desired by LE's with SME's:

Table 4.12: Comparison of Partnership Between LE's with SME's

No	LE's Partnership	%	No	SME's Partnership	%
1	Marketing/distribution finish goods	39.6	1	Inventory marketing/distribution	46.9
2	Supplier of raw material	29.2	2	Supplier of raw market	20.5
3	Contract of production	20.8	3	Contract of production/joint product	20.7
4	Sub contract	3.1	4	Sub contract	7.8
5	Support service	7.3	5	Support service	4.1

Source: Results of identification

Table 4.13: Comparison of Partnership Term Desired by LE's and SME's

No	LE's Partnership	%	No	SME's Partnership	%
1	Contract of Production	20.9	1	Contract of Production	4.5
2	Term of Payment	24.0	2	Term of Payment	16.6
3	Guarantee Of Quality and Quantity	27.9	3	Guarantee Of Quality and Quantity	21.7
4	Price guarantee	10.1	4	Price guarantee	28.6
5	Facility	7.0	5	Facility	0.0
6	Market guarantee	10.1	6	Market guarantee	28.6

Source: Results of identification

Based on the above table can be explained that the tendency of LE's and SME's in offering partnerships is the same, it can be seen from the percentage of each product partnerships. But unlike the achievement of the desired percentage partnership condition. Most LE's and SME's want a partnership in the form of marketing/distribution of finished goods, raw materials suppliers and contract production. It can be concluded that the partnerships should be built are:

Table 4.14: Alternative Forms of Partnership desired by LE's and SME's

No	Partnership	Partnership Function				
		LE's		SME's		
1	Marketing/Distribution Finish Goods	Finished goods are marketed by the SME's business,		LE's	Finished goods marketed by the SME's business,	
2	Supplier of Raw Material	Finished goods produced by LE's sold to SME's as raw material		Finished goods produced by SME's sold to LE's as raw material		
3	Contract of Production	Great effort submit production activities either in part or whole to SME's		SME's working on production activities in cooperation with LE's		

Source: Results of identification

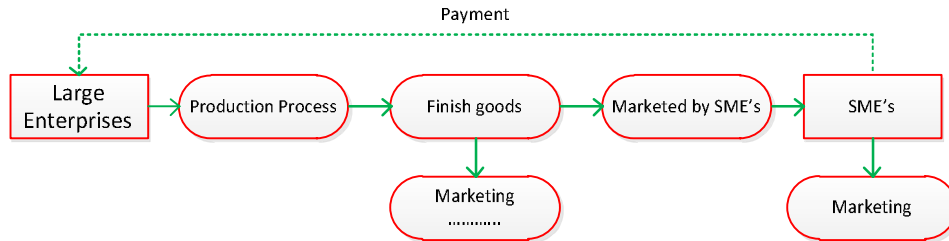
### 4.3. The Alternative Model of Partnership between LE's And SME Based on Identification Results

Potential and opportunities of partnership between LE's and SME's as previously presented as a form of mutually beneficial cooperation for LE's and SME's. The partnership should be accompanied by formation of a LE's to SME's with regard to the principle of mutual need, reinforcing and beneficial. Based on the result of identification, partnership between LE's and SME's can be grouped into a partnership patterns of: (1) marketing/distribution of finished goods (products), (2) a supplier of raw materials, and (3) the contract of production, which is a little different



with the partnership according to Law No. 9 of 1995 on SME's and Presidential Decree 44 of 1997 on the partnership, consisting of 5 patterns, namely: (1) Inti Plasma, (2) Sub Contract, (3) General trade, (4) Agent, and (5) Franchising. Form of partnerships offered by LE's and SME's based on the result of identification can basically be grouped in the form of partnership as follows:

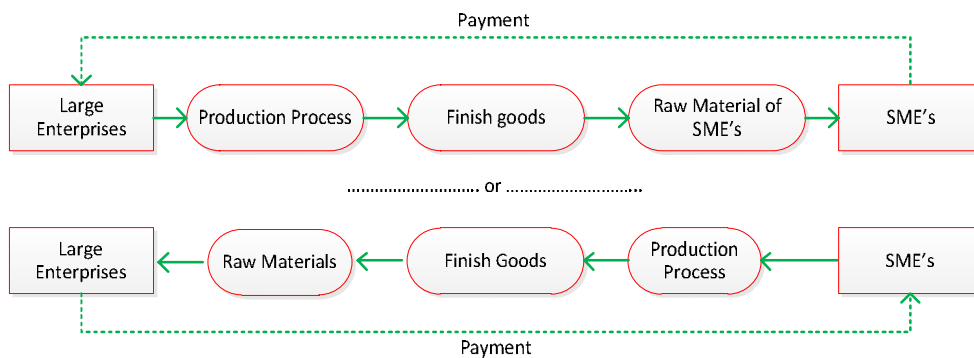
1. *Marketing/distribution of finished goods*, LE's provides an opportunity for SME's to become a partner in marketing/distributing products that produced by LE's. Marketing/distribution of finished goods as a pattern of partnership can be described as follows :



**Figure 4.1. Partnership Pattern of Marketing/Distribution of Finish Goods**

Finish goods that produced by LE's, in addition marketed by SME's partners and other marketed by themselves. Terms of payment, usually LE's requesting cash, while SME's partner asks LE's to give a grace period of payment. Another requirement that must be met by SME's are partners must provide working capital and marketing tools with greater capacity, so it takes an additional larger investments as well, which may be met alone or must obtain financing from the bank or from LE's that can provide bridging capital.

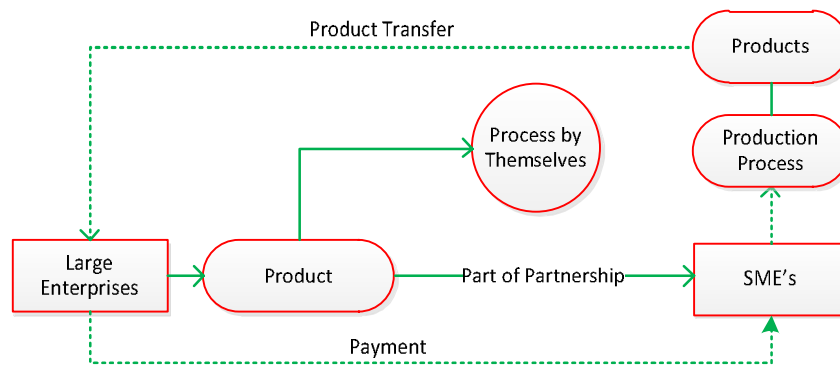
2. *Suppliers of raw materials*, LE's expects the partnership in the provision of the necessary raw materials, or SME's use of products that produced by LE's as raw material.



**Figure 4.2. Partnerships Pattern of Supplier of Raw Material**

The products that produced by LE's as raw material of the products of SME's partners, SME's utilize partnerships with LE's because of the raw materials required finished product SME is a great effort, otherwise if LE's utilize finished products that produced by SME's, then the form partnership is SME products as raw material products LE's. Terms partnership is usually desired by LE's is continuity of demand, and the certainty of the amount. Vice versa SME's also requires the continuity demands of LE's, the certainty of the number and price of LE's, so that SME's will require additional investment in working capital and other equipment, because production capacity is likely to rise. Contract of both parties become important.

3. *Contract of production*, LE's expect that SME's can do the same job with the production of LE's, or SME's are expected to carry out the process of the production of the product desired by LE's.



**Figure 4.3. Partnerships Pattern of Production Contract**

This partnership is done by LE's with SME partners in the form of contract of production, is LE's turn over the production process either in part or in whole to SME's. Thus the conditions to be met is the assurance of continuity of production to be carried out by SME's, the amount must be met, the quality meets established standards, timely delivery of products, so that SME's need to increase its production capacity, increase working capital related to possible delay of payment of LE's. On the basis of the description means that SME's require additional investment from equity, loans or bailouts of LE's.

## V. Conclusions And Recommendations

Based on Identification result of partnership activities of SME's and LE's can be described the following conclusions and recommendations:

### 5.1. Conclusion

1. The results of the identification of the expected LE's and qualification to do partnership with selected SME's as many as 64 companies, while the identification of the SME's are considered eligible to partner with LE's can be selected as many as 339 SME's.
2. Form of partnerships offered by LE's include marketing/distribution of finished goods (products), raw material suppliers, contract production/joint product, Subcontracts, and other support services. However the highest form of partnership offered is a marketing/distribution of finished goods (products), raw material suppliers, contract production / product together.
3. Form of partnerships offered by SME's include marketing/distribution of finished goods (products), raw material suppliers, contract production/product together, and Subcontract. However the partnership offered by most SME's is a partnership in the form of marketing/distribution of finished goods (products), raw material suppliers, contract production/joint product.
4. Terms partnership desired by LE's include requirements relating to the production contract, Terms of Payment, Quality Assurance and quantity, price guarantee, availability of infrastructure and marketing guarantee. Large businesses want the highest partnership requirements associated with the production contract, Payment Terms, Quality Assurance and quantity.
5. Terms of partnership desired by SME's include requirements relating to the production contract, Terms of Payment, Guarantee of Quality and quantity, price guarantee, availability of infrastructure and marketing guarantee. SME's want the highest partnership requirements associated with the production contract, Terms of Payment, Quality Assurance and quantity. While the majority of SME's want partnership requirements relating to marketing collateral, guarantee the quality and quantity, the price and terms of payment guarantee.
6. Form of partnership that offered by LE's and SME's and requirements tht needed to develop alternative of parnership model:

- a. Marketing/distribution of finished goods, finished goods are marketed by SME Business
- b. Suppliers of raw materials, finished goods produced by LE's sold to SME's and it is used as raw materials. Finished goods produced by SME's sold to LE's and it is used as raw materials
- c. The contract production, LE's submit Production activities either in part or whole to SME's, SME's working on production activities in cooperation with LE's

## 5.2. Recommendation

Recommendations that can be submitted to encourage the Partnership between LE's and SME's:

1. Keep the socialization of this partnership program in particular to the LE's required to do its business partnerships with SME's. Socialization partnership program also should be disseminated to SME's, that the partnership is a form of business strategy that must be taken to encourage the development of SME's to increase production capacity.
2. LE's and SME's need to be asked their commitment to the partnership, with the principle of mutual benefit and benefit the partnership. And as a means for LE's to carry out its corporate social responsibility (CSR), LE's to forge a partnership with SME's as an obligation, and SME's as a business strategy to expand its business.
3. The pattern of this partnership needs to be tested on several LE's and SME's who have the potency and opportunity for partnership, and continuities with the following activities should be realized that this partnership program in the form of MoU between LE's and SME's.

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