Absorptive Capacity of Business Incubator for SME’s Rural Community Located in Indonesia’s Village

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Abstract

According to the Chairman of the Association of Disadvantaged District, Jayabaya Mulyadi, said as many as 32 thousand villages in Indonesia in the category of left behind. One way to improve the life and economy of the village is to promote small and medium enterprises (SMEs) through business organization that could accelerate the growth. What we want to propose is business incubator that already successful work in develop country. But can it will work at developing country such as Indonesia? An incubator must nurture businesses, provide shared expertise, and link entrepreneurs with venture capitalists. To support SME become successful, we need to analyze the absorptive capacity of the SME. We use definition of absorptive capacity from Cohen and Levinthal and some other definition from another scholar such Zahra and George. This study combines quantitative and qualitative approaches (Gilbert, 1992), which involves a complex research design, usually with stages of research that may iterate (Danemark, Ekstrom, & Karlsson, 2002), such as this research. By combining the methods, the study experts to reach a more comprehensive, nuanced understanding of the implementation of absorptive capacity in village based business incubator, the experience and the ways the organization adopt and use and manage innovation to meet their strategic need.

Keywords: Absorptive Capacity;, Business Incubator; SME; Innovation.
1. Background

Until December 2012, Indonesia has 69,249 villages spread evenly across the archipelago. However, the growth of villages throughout Indonesia is not as evenly village existence. According to the Chairman of the Association of Disadvantaged District, Jayabaya Mulyadi, said as many as 32 thousand villages in Indonesia in the category of left behind. Indonesia Central Government continues to alleviate to catch up.† One way to improve the life and economy of the village is to promote small and medium enterprises (SMEs) in the village. In Indonesia, SMEs are the backbone of the Indonesian economy. The number of SMEs in Indonesia until 2011 to reach around 52 million.‡ It accounts for 60% of GDP and holds 97% of the labor force. Although the quantity is very large and labor-intensive, the share of national income is still about 57%. That figure is far less than its share of the conglomerates that are small but very dominating Indonesian economy.§

According to the number, both of the type of business or employment absorption, and the assumption that the sector as a hero of the Indonesian economy, the reality is the condition of the sector is still worrying, laden issues. In general, SMEs face two major problems, financial and nonfinancial (organizational management). Which includes financial issues in between, such as Urata’s finding (2000) and several other experts, were inconsistencies (mismatch) between the funds available and that can be accessed. In addition, there is no systematic approach to funding; transaction costs are high, given the complexity of the credit procedures take a lot of time but ultimately the value of small loans disbursed; less access to formal sources of funding; high cost transaction for investment and working capital is high, and many SMEs are not yet bankable.

That requires a container such as a cooperative, business incubators and other shapes that can accelerate the growth of SMEs in Indonesia, particularly in poor villages. Form cooperatives in Indonesia are regulated by law so as to make modifications in accordance with the cooperative form of business area and there will be quite difficult for SMEs. Will be more flexible when using this business incubators form. Business incubators are managed mostly in developed countries. The success of a business incubator in developed countries is not solely applicable in developing countries such as Indonesia. It's become my main research question, the business incubator models are suitable to be applied in the SME village. My research options available in the village due to the many natural resources that can be commercialized but because of limited human and financial resources, it is becoming a barrier for SMEs in the village to grow and evolve towards global business entity.

2. Overview Research

The study deliberately draws on and intersects with two prominent areas of research: Absorptive Capacity and business incubator for small and medium enterprise in village. The research questions are:

1. The role of business incubator to increase the ACAP SME-based in village
   a. What factor determine the effectiveness of business incubators to increase the ACAP of SME-based in village
   b. How these determinant factors interact each other in increasing the innovation capacity and competitiveness of business incubators

2.1. Business Incubator

A business incubator can be defined as “a facility that provides affordable space, shared office services, and business development assistance in an environment conducive to new venture creation, survival, and early stage growth” (Allen and McCluskey, 1990). It provides a controlled environment in order to help the conception, gestation, hatching, and early development of new enterprises. It offering affordable rents, convenient service, business assistance and financing in a flexible and supportive environment appear to be a logical and efficient

† http://www.republika.co.id/berita/nasional/umum/13/01/31/mhgb3i-ada-32-ribu-desa-di-indonesia-kategori-tertinggal
‡ http://id.wikipedia.org/wiki/Pembagian_administratif_Indonesia
approach to support new enterprises. ** The incubator concept is basically sound, but to be successful the incubator needs to be viewed as part of an overall local economic development strategy. It is not panacea. An incubator cannot make up for the lack of skilled, committed community leadership. It cannot alleviate the need for adequate community facilities and services. Without a retention/expansion program for existing businesses, an incubator program will likely result in an early migration of “hatched” businesses to a more favorable climate. Ruth Young, a rural sociologist at Cornell University, cautions “One might get all dressed up (having a small business incubator) with no place to go”.

Put another way, Warren McCord, the Extension Community Resource Development Leader in Alabama, warns that incubator are “more than condos for businesses”. An incubator must nurture businesses, provide shared expertise, and link entrepreneurs with venture capitalists. Otherwise, a so-called incubator may be nothing more than owner of real estate filling a vacant building with tenants. A true incubator will force a business out of the nest once it’s ready to fly on its own or after a designated period of time. Otherwise, there might be a tendency to let good tenants (stable business that could fly on their own) remain in the incubator.

2.2 Absorptive Capacity

The concept of absorptive capacity first emerged as significant in the 1980s, in the field of organization learning. Studies at that time highlighted the fundamental role that the acquisition and application of new knowledge played in business competitiveness. Kedia and Bhagat (1998) used the term in the context of technology transfer among nations, and related it to firms’ receptiveness to technological change. Cohen and Levinthal, however, were the first authors to offer a broad definition of the concept and to build a general theoretical framework around its characteristics in business applications. They define absorptive capacity as: “the ability of a firm to recognise the value of new external information, assimilate it and apply it to commercial ends” (Cohen and Levinthal, 1990: 128).

Their definition encompasses a number of important aspects. First, the multidimensional nature of the concept, which involves three basic capacities in relation to new knowledge: a) recognition of its value; b) its assimilation; and c) its application for commercial ends. Second, the relationship between a firm’s absorptive capacity and its prior related knowledge, which includes both basic skills and a common language. This means that absorptive capacity has a cumulative character in the sense that its development in the present will permit its more efficient accumulation in the future. These aspects of absorptive capacity imply that its development is path or history-dependent.

In addition, Cohen and Levinthal distinguished between absorptive capacity at individual level and absorptive capacity at organizational level, and highlighted the role of firm’s internal mechanism in fostering communication and relationship among its members as a distinctive organizational aspect of absorptive capacity. Since Cohen and Levinthal’s seminal work, many empirical and theoretical studies have explored the concept of absorptive capacity from the perspective of different analytical units and modelling strategies (Newey and Shulman, 2004). Of particular interest are those by Van den Bosch et al. (1999) and Zahra and George (2002), which take the firm as the basic unit of analysis.

The main contribution of Van den Bosch et al. (1999) was to suggest that the firm’s knowledge environment could influence the development of its absorptive capacity. Zahra and George (2002) conducted a review and reconceptualization of absorptive capacity. Their theories differed from the traditional views of Cohen and Levinthal in at least two respects. First, Zahra and George defined abosorptive capacity as a dynamic capacity embedded in a firm’s routine and processes, which promotes organizational change and evolution. And second, the established that absorptive capacity had four dimensions, which they grouped in two main categories: potential capacities (knowledge acquisition and assimilation) and realized capacities (transformation and exploitation of knowledge).

Using the above concept, Zahra and George (2002) developed an extended model of absorptive capacity, which highlighted new determinant and new result regarding the development of corporate competitiveness. They maintain that prior knowledge, which is equivalent to a firm’s experience, is important for developing absorptive capacity, but they stress that other factor, such as external knowledge sources and complementary external knowledge, are

equal important.

Mapping the Gap, Proposing a Conceptual Framework of Investigation

PhD Research: Implementing Model of Absorptive Capacity in Business Incubator based on Village

3. Research Contribution

This research aims to contribute to the theory and practices of innovation and social networking. Such contribution can elaborate into:

1. At practical level, it is expected that this study will provide evidence of business incubator role in managing innovation, social interaction in village based community in Indonesia. It also contributes as guidance to another form of business incubator such cooperative on how to adopt absorptive capacity in order to improve competitiveness in globalized business environment.

2. At theoretical level, this study aims to enrich the literature of business incubator as one of economic tool to develop and overcome social inequality between urban and village in Indonesia. How SME and business incubators learns to interact?

3. At the policy level, this research enables the mapping of important policy implications – within a company, industry or sector, government –to find a suitable model of intervention policy to increase the welfare of village.

4. Approach

Taking into account that the nature of this study is mainly exploratory, either a quantitative or qualitative method could be inadequate on its own. Quantitative study may suffice to map and analyze statistics, figure and trends as well as pointing out benefit, usefulness and problems and difficulties in the implementation of absorptive capacity in village based business incubator. However, it cannot directly explain why certain strategies of absorptive capacity use and implementation in certain business incubator work or fail. Qualitative research, on the other hand, may provide detailed views and perspective of the works business incubator and how business incubator manage innovation and social interaction, but it is very difficult to reach generalization and derive broader characteristics of
today’s business incubator.

Therefore this study combines quantitative and qualitative approaches (Gilbert, 1992), which involves a complex research design, usually with stages of research that may iterate (Danemark, Ekstrom, & Karlsson, 2002), such as this research. By combining the methods, the study experts to reach a more comprehensive, nuanced understanding of the implementation of absorptive capacity in village based business incubator, the experience and the ways the organization adopt and use and manage innovation to meet their strategic need. Through a combination of methods, this research is in a position to elucidate these processes as this approach prevent it from missing complementary picture provided by either method.

References

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