A CONCEPTUAL MODEL OF INCORPORATING SUSTAINABILITY INTO INNOVATION AND ITS EFFECT ON BUSINESS PERFORMANCE

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ABSTRACT

Small and Medium Enterprises (SMEs) have an important role in Indonesia’s economy. Currently, SMEs can be regarded as the backbone of Indonesia’s economy which contributed more than half of Gross Domestic Product and also absorbed many workers. In order to survive and deal with competitors, not only from within the country but also from abroad, SMEs need to innovate continuously. However, in their activities, SMEs can be giving an impact on environmental pollution. Therefore, it is necessary that SMEs incorporate sustainability principles in innovation they undertake. There were several studies related to sustainable innovation in SMEs. Some of them could identify the trigger factors of sustainable innovation that consist of internal and external factors, such as the pressure from stakeholders and employees, the organization identity, management perspective, and corporate social responsibility, whereas the external trigger factors include consumer demand, government regulation, social activities, and technological developments. Other studies have shown obstacles encountered in the implementation of sustainable innovation, like firm size, organizational structure, human resources, reluctance to innovate, and difficulty developing new products and expansion into new markets, minimal institutional support, high bureaucracy, and its dependence on technology. However, there have been no studies yet about sustainable innovation among SMEs in Indonesia. Therefore the research will be conducted to analyze the implementation of sustainable innovation in SMEs, particularly in Indonesia with the objectives as follows: (1) To get an understanding how SMEs in Indonesia incorporate sustainability principles when conducting innovation, (2) To provide a deeper understanding and conceptualization on the internal and external factors which have an impact on the sustainable innovation within SMEs in Indonesia, (3) To identify the constraints faced by SMEs in Indonesia in implementing sustainable innovation, and (4) To understand the linkage between sustainable innovation and SME’s business performance. Data will be collected through survey, both interviews and questionnaire that will be distributed to 100 SEMs in Surabaya for a preliminary study. The analysis will be using SPSS for descriptive analysis and SEM for creating a model and getting a deeper understanding about the relationship among the identified variables. It is expected that results of this study may provide input for SMEs in Indonesia to intensify their innovation and apply sustainability principles in their daily practices.

Keywords: sustainable innovation, trigger factors, constraints, SMEs

RESEARCH BACKGROUND

In the MDGs post-2015 agenda Indonesia includes the program of Sustainable Development and Sustainable Consumption and Production in the National Medium Term Development Plan 2015-2019 (Bappenas, 2014). There are three dimensions of sustainable development which may be used as a reference to the MDGs post-2015 agenda, namely the economic, social and environmental, as has been confirmed in the United Nations Conference on Sustainable Development. Future development needs to implement a development model that ensures inclusive growth and sustainability. Changes in patterns of production and consumption are crucial requirements to achieve that goal. Moreover, the adoption of sustainable production and consumption will be preventing pollution and environmental destruction, as well as encouraging