

ABSTRACT

The small and medium industry (SMI) sector plays an important role in the Indonesian economy by contributing to job creation, economic growth, and income distribution throughout society. One of the potential districts in the small and medium industry sector is Banyuwangi Regency because it has various natural and cultural resources that can be utilized by SMEs to produce superior products. However, there are obstacles that arise in the development of small and medium industries in Banyuwangi Regency including limited community work motivation, limited innovation, and limited knowledge related to the management of small and medium industries which causes suboptimal performance in the SMI sector. Therefore, this research aims to design strategies to improve the performance of SMIs in Banyuwangi Regency.

The method in this research uses a mix method that is a combination of quantitative and qualitative. The object of study in this research is SMIs located in Banyuwangi Regency. In developing the conceptual model, this research elaborates on the concepts of open innovation, knowledge management capability, and organizational performance. The sample in this research is 200 respondents who are SMEs engaged in the processing industry including handicrafts, clothing and food and beverages. The sampling method uses purposive sampling method. In this study, hypothesis testing was carried out through statistical testing using SEM-PLS. While the dynamic approach is used to analyze the best scenario in improving the performance of Banyuwangi Regency SMIs.

The result of this research is that open innovation variable has a significant negative effect on organizational performance. While the variable of open innovation to knowledge management capability and knowledge management capability to organizational performance has a statistically significant positive effect. In addition, the dynamic simulation model developed is used to provide recommendations to stakeholders in determining the right policy strategy scenario to improve the optimal performance of small and medium industries by considering operational and financial aspects. The variables used in modeling dynamic simulations are sourced from valid variables from SEM-PLS testing and are quantitative in nature. In this study, there are eight alternative strategy scenarios in improving performance by considering the number of customers and profitability factors of Banyuwangi Regency SMIs.

Keywords: Small Medium Industry, Open Innovation, Knowledge Management Capability, Organizational Performance.