Laporan Penelitian

SME's Clustering and Its Impacts on Innovation in Indonesia : Case study at Cibaduyut, West Java

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Abstract

Globalization is becoming an important issue for most businesses in the world. Since globalization changes business trends and shortens product life cycles, it requires companies to be more innovative in developing new ideas, products and processes. Clustering is one of ways to promote innovation by facilitating sharing information and ideas between firms, attracting buyers and suppliers, and providing opportunities for joint training. Many researches in developed countries found that the proximity between companies facilitated collaboration and provided a more conducive environment for R&D and knowledge sharing which can develop culture of entrepreneurship and innovation. Then, the success of clusters in developed countries has led many government and companies to establish new clusters.

Since products from China have been dominated Indonesia's market share with lower price, it is very difficult for Indonesian Small and Medium Enterprises to compete with lower price also. Therefore, to face the competition, innovation is perhaps as an alternative strategy for Indonesian SMEs. In facts, more than 50% of small and medium enterprises in Indonesia are located in clusters and most of them are located in Java, Bali and Nusa Tenggara. Even though they located in cluster but their innovations still very low and judging from technology perspective, most of them have low level of technologies and still remain in the underdeveloped stage. Therefore, in this research, the author tries to find (1). To what extend do cluster Indonesia promote innovation, (2). To find the reasons why clusters in Indonesia has not been working well in promoting innovation and (3). To investigate what aspects can be improved by Indonesian SMEs to boost their innovation.

Keywords: clustering, innovation, small and medium enterprises.

Overview of Indonesian Manufacturing

Indonesia is a country that has abundant natural resources such as agriculture, oil, gas, minerals, and wood, but in other side, technology and human resource capabilities in Indonesian industry are very limited. This is different from Korea and Taiwan, which in 1960s and 1970s had adopted a strategy to increase their manufacturing capability and now are enjoying the results of the export manufacturing strategy (Jacob, 2005).

From 1960s until 1990s Indonesia has sustained economic growth when they changed their economic activity from stagnant, agrarian economy into manufacturing after over 25 years Indonesia priority attention mostly on agriculture, forestry, fishery, oil, gas, mining, and petroleum.

Characteristics of Indonesian manufacturing are labor intensive and low technologies. Limited technology capabilities in manufacturing and unskilled workers make Indonesia less attractive destination for FDI investment than South and East Asian neighbor, especially compared with China. Until the year 1990, manufacturing activities in Indonesia consisted of furniture, textiles, leather products, garment which covered the value more than half of total manufacturing exports (Jacob, 2005). Since the 1990s until now, the manufactured products in Indonesia have broader varieties on electronic goods and office equipments. These manufacturing industries are assisted by investors from Asian countries and Japan (Jacob, 2005). Capital goods from Indonesia are 80% imported and these imports have contributed to the learning of technology.

It is very difficult for Indonesian SMEs manufacturing to compete with manufacturing from other Asian countries. Since 1997, the percentage of bank credit in manufacturing has been shrinking. In the last 13 years, manufacturing industry has not been growing. The credit demand from this sector was decrease. Moreover, giving credit to this sector is considered as a high risk. Indonesian Bank data shows that the share loans to total bank credit on manufacturing industry in early 2002 were 37.6 percent but in November 2009, the credit portion of manufacturing was drop become 17.2 percent (Printed Kompas, 2010). The average growth of manufacturing sector in Indonesia now is averaging 3.01 percent in 2008 and 1.45 percent in 2009, the data showed that there is declining growth in manufacturing sector (www.bps.go.id).

In 1988, World Bank provided data that Indonesia had been the eighth largest manufacturing sector among all the developing countries after China, Brazil, Korea, Mexico, India, Argentina, and Turkey (Thee, 1994). At that time, manufacturing companies in Indonesia had only relied on their natural resources and cheaper human labor as their sources of competitiveness. This strategy was successful for some periods. Indonesia has experienced very rapid growth in manufacturing sector in the past two decades. However in the midst of global competition, the above sources of competitiveness are not sufficient. Low cost prices can longer give SMEs a competitive edge in the global market. Global competition is characterized by more product markets wherein price continues important but the prospects of firms are increasingly dependent on (1) capacity to meet global product and process standards, (2) flexibility and innovation, (3) design and differentiation, (4) reliability of time lines, (5) net working and capacity to collaborate (Unescap, 2009). Nowadays, Vietnam is also able to offer cheaper labor than Indonesia. Therefore, it is not enough for Indonesia to only depend on its cheaper labor and natural resources without providing value addition to its products in terms of skill, technology and innovation.

Innovation as an opportunity for Indonesian SMEs

Indonesian SMEs still need to build their own competencies so they can compete well in facing globalization. There is a consensus among policy-makers and academics. The consensus suggests that innovation as the crucial factor in generating firms' growth, which lead to a country's economic growth. Innovation is believed as the adequate way to help SMEs to compete with the large scale firms on economic scale.

Several studies showed that there is a strong and positive relationship between innovation and the firm's growth (Auken et al., 2008, Roper 1997, Roper et al., 1996). Relationship between innovation and firm's growth of SMEs are found in several countries such as Australia (Bhaskaran, 2006), Taiwan (Hsueh and Tu, 2004), and England (Hughes, 2001). It is also found that innovating firms had higher productivity and sales growth than those otherwise (Cainelli et al 2004, Regev 1998). Cambridge Small Business Research Centre demonstrated that 80% of British SMEs, which have developed innovation, have increased in profits, market share, and new market penetration (as cited in Auken, 2008, p.39).

Cluster and Innovation

Many researchers have found that an effective way of learning how to improve innovation is through interaction within the network of a regional cluster. Included in such a network are companies which support each other, which could be a business and its suppliers as well as a business and its competitors. Additionally, there may be a government office and/or educational institution which could support companies within the cluster. A significant amount research has identified many examples of companies that have been successful in generating innovation and profit as a result of being part of such a regional network (Marjolein and Romijn, 2005; Oerlemans, Meeus and Boekema, 2001; Schoales, 2006; Simmie, 2004).

The term cluster is usually used to describe the location of companies in close proximity to each other. Porter (2000) defined a cluster as a geographically proximate group of interconnected firms and associated institutions in a particular field which complement each other and may have similarities. The proximity between companies facilitates collaboration and provides a more conducive environment for R&D and knowledge sharing to develop the culture of entrepreneurship and innovation. A cluster encourages more suppliers to either set up in the cluster or pursue sales in the area. This competition enables the cluster to offer a variety of products at competitive prices which, in turn, attracts many customers. One example of a successful cluster is the computer and technology industry in Silicon Valley, California. The success of this cluster has led many technology companies to set-up their business in that location.

Learning from successful clusters, many governments and companies have established new clusters. For example, the city of Bangalore in India is a cluster of IT firms while Las Vegas is a gambling district. Many kinds of industries have adopted a cluster system such as Jua Kali metal workers in Nairobi, Kenya; machine tool-makers in Peru; footwear manufactures in Mexico, rattan furniture makers in Indonesia; garment makers in Denmark and engineering companies in Baden–Wurttemberg, Germany (Albu, 1997). Clusters have been divided into various categories; for example, Amin (1994) classified three types of clusters:

a) Craft-based, artisanal or traditional clusters which manufacture goods such as footwear, garments, furniture and jewelry. These clusters usually gain success through salient cooperation, product specialization and an informal community relationship within the cluster. An example of this cluster is rattan furniture in Indonesia.

b) High-tech complexes which require large R&D budgets, huge reserves of venture capital and excellence in technology-intensive products such as Silicon Valley.

c) Groups of large firms, which demonstrate the importance of institutional support by providing high quality training, education, R&D and a communication infrastructure such as in Baden-Wurttemberg.

Clusters in controversy

Clusters not only have benefits for businesses, but they also have disadvantages since the many competitors within the cluster decreases the pricing power of individual firms. Some researchers have questioned the importance of clusters. For instance, Simmi (2002) found that SMEs in local clusters in the United Kingdom do not appear to deliver innovation. Others are of the opinion that most firms are likely to minimize inter-organizational relationships because of the belief that transferring knowledge and clustering will lead to imitation, which can reduce the benefits of innovation.

Therefore, linkages with local communities possibly encourage a low transfer of knowledge because firms tend to withhold the secret of their success. Furthermore, the ICT revolution apparently reduces the importance of proximity because ICT can reduce the barrier of distance in communication. Therefore, Oerlemans et al (2001) argue that clusters are not as influential now as in the past. Businesses need to weigh up the advantages and disadvantages of being in a cluster.

Based on that literature, the author wants to investigate further whether (1). cluster still give impact for the SMEs' innovation and (2) why cluster in Indonesia seems to be low in promoting innovation and what aspect can be improved by clustered firms for boosting innovation.

Studies on Clustering in Indonesia

The Indonesian government has been supporting clustering since 1970. This strategy has several aims including: to promote technological development in small firms, to establish new processing methods and to stimulate product innovation in suburban and rural areas. Unfortunately, the progress of Indonesian clusters is slow and they still remain in the underdeveloped stage (Sutrisno, 2002). According to the JICA Study Team (2002), there are at least 9,800 small industry clusters in Indonesia, more than 58% of which are located in Java, Bali and Nusa Tenggara. About 50% of

clustered SMEs are in manufacturing industries while 78% of all clusters have a low level of technology.

There has been limited empirical research on clustering in Indonesia, but some research has focused on the importance of networks. Sato (2000) found that the clustered firms he studied in Indonesia have limited inter-firm specialization in working processes and no joint action in marketing, production, distribution and technological development, so the benefits of being in a cluster were limited. In other research, Supratikno (2002) found that networking between companies within clusters was limited and individual company specialization in clusters was rare. Supratikno also found that product development, technological improvement and marketing in clusters depended on leading, driving or pioneering companies, which were usually the larger or faster growing firms able to cooperate at various levels both inside and outside the cluster. These pioneers usually employed cutting-edge technology in production. Some examples of clusters involved with large companies acting as the leader, driver or pioneer, are the clove cigarette cluster in Kudus and the tea processing cluster in Slawi. The cluster in Kudus is able to perform well due to the support of Philip Morris and British American Tobacco who provide training and finance supporting the cluster. Similarly, the tea cluster in Slawi is lead by Sosro, Indonesia's largest soft drinks manufacturer.

In other research investigating who the drivers of knowledge transfer were in Indonesian clusters, Sandee et al. (2000) found that traders, suppliers of raw material and marketing agents were the agents of new technological introduction within clusters which corresponded with Wijland's findings (1992) which revealed that middlemen or traders were important agents of knowledge transfer in Indonesia. Sandee et al. (2000) also found that in Java and Bali, foreigners played an important role in modernizing furniture from Jepara and production methods in Balinese garment industries as well as connecting them to global markets. These SMEs penetrated export markets via buyer-driven trade networks. In the case of Jakarta (furniture and garments), Bali (garments), and Jepara (carved wooden furniture), the brokers, agents and traders act as intermediaries between international buyers and small-scale producers. In a cluster, a firm can gain knowledge of new designs, products and processes from its network of suppliers, buyers, competitors and related supporting firms. Assistance in developing innovative products and processes is further supplied by foreign and domestic customers.

In an earlier study Sandee (1995) explained that Indonesian SMEs located in clusters were in a better position to adopt technology and innovation compared with dispersed SMEs. In his study of roof tile clusters in central Java, Sandee found that growth was buyer-driven. In Mayong Lor and Klepu, buyers were the drivers of technological upgrading particularly those from urban building material shops. The process of technological change or adaptation increased as they provided the cluster with finance, technical knowledge, marketing and new technology. In contrast, he found that networks of producers were the heart of the process of technology upgrading in Karanggeneng clusters because they provided the finance for new equipment, shared knowledge, and accessed new markets. Here, the producers played a key role in providing loans for the purchase of presses and rented out mixers to others within the cluster. Sandee also found that innovation originated from a primary pioneering company then spread to other producers particularly relatives with similar businesses. Sandee concluded that the more both buyer and producer-driven SMEs in clusters build strong networks with traders, suppliers and large enterprises, the more they are able to improve technology or be more innovative with products and processes than individual SMEs in dispersed locations.

Based on cluster studies conducted in Indonesia, we see that only by working together and building good relationships within the cluster can all firms benefit from higher profits. The presence of clustering results in lower production costs and enhances the competitiveness of small firms. Therefore, clustering is assumed important for Indonesian manufacturing SMEs.

Cibaduyut Cluster

In this research, we select the cluster of Cibaduyut because it is one of established cluster that has been well known for centre of shoes industry in Indonesia. Based on data 2009, this cluster consists of 844 unit business which involved in shoes business chain in Cibaduyut (Installation of Clustered Shoe SMEs Development, 2008). This cluster consists of four areas: Kelurahan Kebonlega, Kelurahan Cibaduyut, Kelurahan Cibaduyut Wetan dan Kelurahan Cibaduyut Kidul.

The history of shoe cluster in Cibaduyut had been started from some of shoe workers who worked in shoe factory in Bandung. After having the skill of shoe making, then they started to open they own small business near to their house in Cibaduyut. To run this business, they involved families and neighbors to be their workers, then after several years demand for Cibaduyut shoes was increasing.

During the years, skill of shoe making had been spread to family and neighborhood in Cibaduyut. In 1950, there were 250 shoe producers then in 2009 there were 844 shoe unit businesses which have absorbed 3,590 workers and in the same year, they produced 4 million pair of shoes.

Cibaduyut cluster does not only absorb employees but also develops local economy development and create more opportunity for new entrepreneurships. When the business was set- up and seemed promising, then many supporting industries will also set up their business there.

The following information shown that the shoes maker cluster has bringing other related industries to be set up in this cluster:

Table 1. Shoe related industry in Cibaduyut

Description	**2005**	**2006**	**2007**
Shoe showroom/ outlet	150	154	211
Shoe making tools (shop)	38	43	43
Shoelast industry	8	12	14
Spare part industry	3	3	5
Packaging industry	15	15	15
Shoe Rubber sole			

Source: Installation of Clustered Shoe SMEs Development, 2008

Methodology

This research has been conducted using both quantitative and qualitative methods. The questionnaire, which is quantitative, gathers empirical data in order to test the hypothesis. To collect data about innovation we adopted several questionnaires such as Kesidou (2007), Rominjn et al. (2007). The following steps have been used in this quantitative method:

1. Classification of the concepts of innovation and EO into measurable operational variables.
2. Testing of the hypothesis through questionnaires.
3. Evaluation of the data and recommendation for further.

Qualitative in-depth interviews were conducted with owners, managers and employees of manufacturers together with their suppliers, customers and distributors. In addition, government representatives responsible for guiding the

cluster on technical implementation were also interviewed. Several steps were taken in the qualitative phase of this study:

1. Classification of actors involved in the value chain of manufacturing SMEs.
2. Interviewing selected manufacturers and their stakeholders following specific guidelines.
3. Converting raw data into information and knowledge and reporting them in this study.
4. The object of this study is the Indonesian manufacturing of shoe cluster in Cibaduyut- West Java.

The manager(s) and owner(s) of the firms within the cluster are the respondents of the questionnaires. We choose managers and owners as our sample because they are the decision maker of firms and their decision will influence the firm's strategies. In this research, qualitative in-depth interviews were conducted followed by multistage sampling. Multistage cluster is one of complex sample designs since the sample is taken more than one step, which select a sample of primary units first, then in each of those selected; a sample of secondary units is selected, and so on. Therefore two or more levels of units are imbedded in one in the other (Trochim, 2006).

Innovation in Cibaduyut Cluster

According to the pros and cons whether cluster is still relevant to support innovation for SMEs, the author tries to investigate the following hypothesis.

$$H_0: \mu_1 = \mu_2$$

$$H_1: \mu_1 \neq \mu_2$$

Ho = clustered firms have no different on innovation performance with non clustered firms.

H1 = there is a significant different on innovation performance between clustered and non clustered firms

In this research we used questionnaire and interview to collect innovation data in shoe industry. We gave questionnaire and direct assistance to guide to 95 SMEs manufacturing in Cibaduyut to fill the questionnaire. The respondents of questionnaire are owners and managers of shoe producers. We also compare innovation performance in this clustered firm with several shoe producers which

located outside the cluster. From the result, we found those clustered firms have more innovation performance than dispersed firms.

Table 2. Cluster and non cluster 's innovation mean

Group Statistics

	Cluster	N	Mean	Std. Deviation	Std. Error Mean
Jlh_innov	cluster	95	3.65	1.412	.145
	non cluster	8	2.50	1.069	.378

Table 3. Significance of test with Levene's test

		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Jlh_innov	Equal variances assumed	4.729	.032	2.250	101	.027	1.153	.512	.137	2.169
	Equal variances not assumed			2.847	9.195	.019	1.153	.405	.240	2.065

From the Independent- samples t test analysis indicates that clustered firms had a mean higher on innovation rather than the non clustered firms, and the mean differ significantly at the $p < 0.05$. Table 3 shows Levene's test for equality of variance, and indicates variances for cluster and non cluster firms differ significantly (p=0.032). Hence the second row of Table 3 is used, that strong evidence that the *there is a different significant of innovation performance between clustered and non clustered firms (p=0,019).*

Tabel 4. ANOVA of the number of innovation between clustered and non-clustered firms.

		Sum of Squares	df	Mean Square	F	Sig.
Jlh_innov * Cluster	Between Groups (Combined)	9.803	1	9.803	5.063	.027
	Within Groups	195.537	101	1.936		
	Total	205.340	102			

In this research we also found that most of innovation ideas come from internet (sign p= 0.033) followed by international network and customer had significant impact to innovation.

Tabel 5. Comparison of innovation from different sources.

Model		Unstandardized Coefficients	Standardized Coefficients			95.0% Confidence Interval for B	
		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	2.010	.584		3.440	.001	.848	3.172
	source_group	-.196	.106	-.201	-1.839	.069	-.407	.016
	source_newemploy	.203	.140	.177	1.448	.151	-.076	.482
	source_customer	.291	.157	.202	1.851	.068	-.021	.603
	source_supplier	-.033	.156	-.027	-.214	.831	-.343	.277
	source_competitor	.078	.155	.070	.503	.616	-.230	.386
	source_internatNW	.370	.153	.347	2.426	.017	.067	.674
	source_vertical	-.279	.215	-.242	-1.296	.199	-.706	.149
	source_horizontal	-.066	.213	-.059	-.307	.759	-.490	.358
	source_consultant	-.262	.179	-.242	-1.469	.145	-.617	.093
	source_riset_lab	-.401	.229	-.313	-1.750	.084	-.856	.054
	source_univ	-.145	.247	-.123	-.585	.560	-.637	.347
	source_public_innov	.128	.247	.113	.520	.605	-.363	.620
	source_indust_asso	.125	.187	.120	.671	.504	-.246	.497
	source_patent	.014	.193	.015	.075	.941	-.369	.398
	source_internet	.268	.123	.252	2.173	.033	.023	.512
	source_conference	.151	.163	.125	.925	.358	-.173	.475

a. Dependent Variable: Jlh_innov

Type of Innovation Cibaduyut Cluster

We observed that innovation in Cibaduyut Cluster mostly is product innovation. Their innovative products are in the vicinity of new design and material. The new designs are inspired by shoes design from internet then these producers give some modification on the design according to the local's choice of style. Besides that, they also find inspiration from shoe catalogs that have been published by shoes distributors who collects and publish shoes design from many producers. In other words, the producers can learn about their competitor design from the catalog. In addition, they also get input from distributors and consumers for the new design. In product innovation they use new material and they depend on the materials offered by material shops which are also depended on what materials have been produced by factories. This situation creates problem for the shoes producers because when they get repeat order, they can't provide the same product because the material has no longer available.

Process innovation

Process innovation is still limited in Cibaduyut cluster because they use the same techniques and tools for many years. Event thought they know, it is better to join some parts of shoes using sewing machine for shoes, they still use cloth sewing machine. As the result, some of shoes seams are easily broken and the seam is not neat. It is rarely for Cibaduyut shoes producers to think about how to make a comfortable, safe, healthy and durable shoe for customers. Actually they forget that motivation of customer to buy shoes not only for it cheap price. Once they found that cheap shoes are easily broken, they will change they preference and tell something bad about the shoes to their friends and it will be a bad advertising for Cibaduyut shoes.

Marketing Innovation

On the other hand, mostly there is no marketing innovation; they only depend on existing distributors to market their product. The capability to market their product is low, since most of them only focus on shoes production which ordered by distributors. In this business chain, the bargaining power of producers are low because they have no their own brand. If the producers have no deal about the price and design, then it is very easy for distributors to find other shoes makers. As an example, one of big distributors can get shoes offering from around 500 shoes producers in Cibaduyut then they select and only have contract order with 125- 250 shoes producer for a year. Then these producers will get order based on customer's requirement from the catalog. Since there are so many producers compete in order to be chosen in distributor's catalog, a distributor has many choices for partnering on that year, moreover all the brand of shoes are distributor's brand.

The advantage of being in a cluster

The producers stated that being in the cluster help them to know the latest trend faster because they can hear, see and discuss about shoe trend rather than located in dispersed location. It is also easy for them to get information for the new trend materials, designs and prices because the adjacent location with shoe supporting industries. Almost every day, they passed their supplier and competitors shops. This situation gives them comparison information about shoes rate price in the market. The imitation among the producers are inevitably , so far they don't feel it as the

problem within them because they have contract already with the distributor, but they will keep their unpublished design till the contract is signed-up.

Innovation's obstacles

From the field research we found that Shoes Cluster in Cibaduyut are having problem with shortage of skilled of human resources. It is very difficult to find young people who have skill as a shoes craftsman. This situation also hampers innovation because this shoe cluster needs a new generation as their employees. The particular skill is needed to produce shoes which can follow the latest trend. Limited training how to make good shoes and new trend hampers the producers to produce quality and trendy shoes.

Limited SMEs that have their own brands is also one factor inhibiting innovation. Having no own brand forces most of the producers just only follow the distributor requirement. This also hamper innovation since the design is selected by some suppliers because it will use suppliers' brand names. Besides that, having no brand also creates another problem for the succession of business leader to the next generation. The image of product which embedded many years at the name of previous owner will be change when the next generation takes over the business. He/ she will start from beginning to build a new reputation based on his/her name. In contrast, if they have their own brand, it is easier to continue network with existing clients because clients believe on firm's brand and no doubt on quality of product which embedded in the brand. From the observation, we saw that producers who have their own brand shoes are more confident to sell their product outside Cibaduyut area. Since they have their own brands, they have responsibility to produce a better quality of shoes.

Network and share of knowledge

Form the result we found that the interaction between network in the cluster are low. From the interview we found that relationship between supplier and producers mostly because of business transaction. The producers only come to buy material that they need. On the other hand, interaction between supplier and distributor is quite good, because they also have a special meeting for discussion about the expectation of customers, how to make a good shoes, trend of that year and new policies from government and distributor. Network between producers are quite low since they awareness only for production activities. In general, producers have

more intense interaction with their family which also are shoe producers. They are more willing to share their idea and solution with their family. On the other hand, there is an initiative of some champion in this cluster to make a forum discussion to share and learn from each other to accelerate quality awareness in this cluster because bad image from Cibaduyut shoes can affect all the image of shoes made in Cibaduyut.

The communication within the producers also low, because they only spend a few time to discuss their problem and learn from each other. Since the interaction among the producers is low, transfer of knowledge also quite low. In the past, the togetherness within produces were high and they helped each other to solve their production problems. In contrast, nowadays the producers are more willing to have interaction with supplier and distributor (vertical ties) rather than to build a good association within the producers.

Fortunately, some of the producers which are already successful in this business (champions) have awareness that local producers must have a good collaboration and transfer of knowledge. Therefore, they create a discussion forum for producers and share about their business problems. The champion producers in Cibaduyut help them by giving advice, solusion, trick and new knowledge.

Champions in this business also give some training how to make a better quality product. Some of these champions have ISO, and they are willing to motivate and teach other producer to keep the shoe quality. These champions are also willing to involve the other producers become their partner to deal with big order from big shoe companies which in turn will lead them to develop local economy in Cibaduyut. If the quality of product from these producers is low, then champion cannot make them as their partner to offer a good product to their customers.

Education and business awareness of SMEs Cibaduyut

We found that most of formal education and business skill of shoes producers in Cibaduyut are low. In cibaduut cluster, we also found very general problems of SMES such as buying consumerism goods such as new hand phone, new motorcycle, new car, and new house rather than to think about investment and the growth of their business. If their business sense and knowledge are higher, they can invest their profit into on new machines, new better shoes pattern, and trying to get new orders which has consequence to have more worker and materials.

Besides that, the awareness of learning a new better method for shoe making is low. The government has tried to send some of SMEs to join with shoes training in other city but only some SMEs that has good relationship with government will be the representative of SMEs to join the training. When the government held a seminar and training how manage their business and how to make good shoes, most of producers prefer to stay in their workshop doing their routine business activities instead of improving their skill regularly.

Entrepreneur spirit in Cibaduyut

From the observation and interview with cluster expertise in Cibaduyut, we found that there is an entrepreneurship problem in Cluster Cibaduyut. The spirit of entrepreneurship is strongly needed in this cluster because the spirit of entrepreneurship will drive the entrepreneurs to pursue innovation and offer better quality of product. Even though the sense of entrepreneurship is important for the cluster members, it is still not touched by the government. We believe that if the level of entrepreneurial spirit is high in this cluster, then it will enhance the spirit of learning simultaneously. The spirit of entrepreneurship will activate the network ties which encouraging knowledge sharing inside and outside the cluster. This knowledge sharing perhaps increases the innovation.

The strong points of Cibaduyut Cluster

Why does Cibaduyut cluster still survive? From the observation, we found that the key success of this cluster is their handmade and using leather materials. Even though imported shoes are over whelming in national market, Indonesian customers still have preferences to use local leather shoes. The imported shoes to Indonesia are mass production shoes which use machineries as the tool of production. The shoes machines have good function in making shoes from synthetic material, but the machine have limitation in joining leather material to make a neat shoe especially man's formal shoe and thick shoe. Therefore, many shoe factories give the fabrication of formal shoe and thick shoe to shoe craftsman, because making that kind of shoes needs specific techniques and the craftsman in Cibaduyut have that kind of competency. Interviewing with customer give us information that mass production shoes that are imported to Indonesia with a very cheap price are not durable products. They bought that imported shoes because of its cheap price, but soon they are disappointed with that shoes.

If the cluster Cibaduyut wants to compete with these mass production shoes in price competition, Cibaduyut cluster will lose their strong point. It is very difficult for Cibaduyut Cluster to defeat the efficiency of China products, but there is still chance for this cluster to compete with its quality handmade product and innovative products.

Summary

From the research, we found that cluster has an important role for supporting innovation on SMEs in Cibaduyut cluster. The adjacent location generates advantages for SMEs in developing countries such as innovation, efficiency and local economic development. Moreover, the SMEs can get efficiency and benefits from transportation cost, soft loan from supplier and get information about shoe trend faster.

Located in cluster creates business atmosphere more competitive and increase their motivation to improve more innovative shoes. Since the characteristic of SME's in developing countries is still highly depend on their local environment. It is difficult for an SME to attract customers to come to their outlet in dispersed location since there is no a specific uniqueness product on their shoes.

From the result we found that mostly innovative ideas come from internet. Therefore we suggest to government to give these SMEs more training in using internet and how to get benefit from it. Not only idea for innovative product is important but also how to create a comfort, health and durable shoes.

In line with innovation enhancement in cluster, the network in cluster also must be activated, they should maximize the benefit of being located in the cluster, transfer of knowledge, sharing and finding solution for their problems because this will lead them also to improve innovation in process and marketing since lobbing, joint marketing and joint research is possible to do in cluster. We also highlight that entrepreneurship spirit is important in cluster. When the spirit of entrepreneurship is higher, then it will impact to their aggressiveness, creativeness and more confident to take risks that will lead them to enhance innovation and higher financial performance.

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