



**MODEL GUIDANCE AND DEVELOPMENT PRODUCT INNOVATION
CAPABILITIES AND THE INTERMEDIARY ROLE IN SMEs CRAFT
APPROACH STRUCTURAL EQUATION MODELING (SEM)**

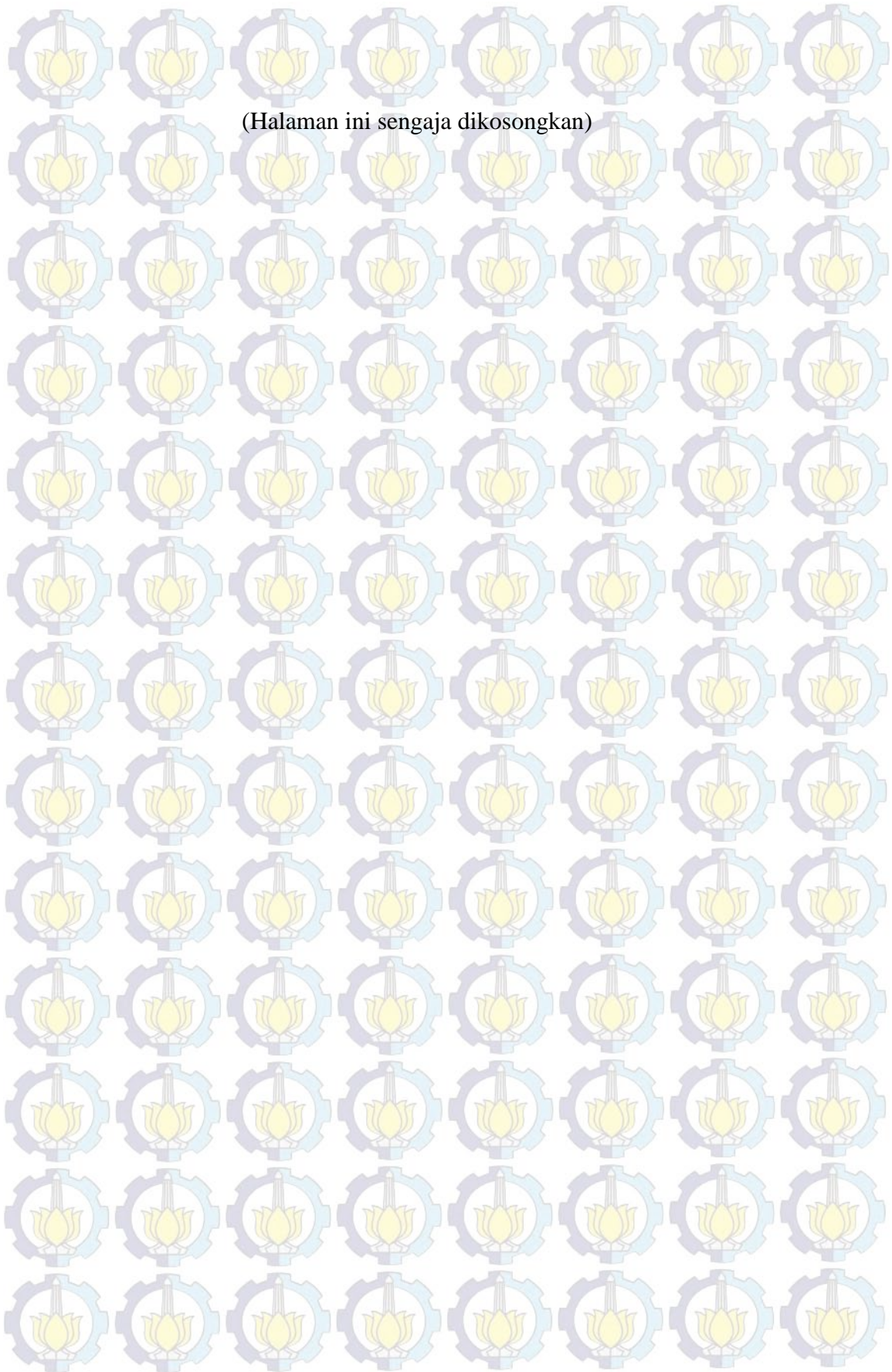
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ABSTRACT

Mostly Indonesian MSMEs produces a low quality of products due to less innovative capabilities. It seems that this weakness of capability is caused to less intermediary role from government to SME i.e. to increase innovation capabilities of MSMEs in order to raise their competitiveness. According to Lee et al (2010), intermediary role in small and medium scale industry found in developed countries has an important role in increasing innovation capacity, however in Indonesia a research and survey has not been conducted yet whether this role has a same impacts as compared to small scale industry in developed country. This research proposes to study and identify what's an influence factors that affects an innovation product (c/q. technology innovation) and to measure the important role of intermediary for increasing innovation capability in SME especially in a traditional craft's industry in Indonesia. To do so, Structural Equation Modeling (SEM) approach as a confirmatory model which is able to test qualitative and quantitative factor of the influence and significance of relations between latent variables and influenced factors of capability of product innovation is proposed to implemented.

T-value is based on research results obtained by factors that significantly affect the product innovation capabilities is the role of intermediary of 2.23 and market orientation of 3.02, while the effect is not significant ie learning orientation of 0.45, the leader capabilities of 0.48, and marketing information technology of -0.26. The role of intermediary has a very significant influence on the learning orientation (13.36), the capabilities of leader (9.37), marketing information technology (10.24), and market orientation (12.85).

Keywords : Micro Small Medium Enterprises (MSMEs), Product Innovation Capabilities, Intermediary Role, Structural Equation Modeling (SEM)



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