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Collaborative Innovation Between SMEs and Startups: Open Business Model Implementation in Batam

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Abstract

This study explores the collaboration between Small and Medium Enterprises (SMEs) and startups in Batam, emphasizing open business model implementation and co-creation strategy. Using qualitative methods through case study and literature review, this research reveals that collaborative efforts enable SMEs to gain access to technological innovation, flexible funding, and digital transformation support at the same time, startups gain from market opportunities and real-world validation. Despite differences in organizational culture and technological readiness, collaboration enhances mutual value creation and competitiveness in the digital era.

Keywords:

Collaboration, SMEs, Startup, Open Business Model, Co-Creation

Introduction

The increasing competitiveness in the Indonesian SME sector, as evidenced by the 2023 Business Competition Index (IPU) rising to 4.91 from 4.87 in 2022, indicates a more dynamic and intense market environment. This increase reflects the need for SMEs to evolve rapidly in response to economic and technological changes. In this highly competitive and uncertain economy, SMEs in Indonesia are expected to innovate and adopt strategic partnerships to sustain and grow. This is where collaboration with startups becomes highly relevant. Startups bring in innovation agility, while SMEs offer operational experience and established customer bases.

SMEs inherently struggle with limited resources, low innovation capacity, and structural inflexibility. However, their flexibility, motivation, and localized knowledge position them as potential collaborators in innovation ecosystems. Conversely, startups—though rich in innovation—often lack market access and established business models. By combining strengths, both entities can benefit through co-creation of value and mutual learning. This collaboration aligns well with the concept of open business models, where firms combine internal and external ideas and assets to create value.

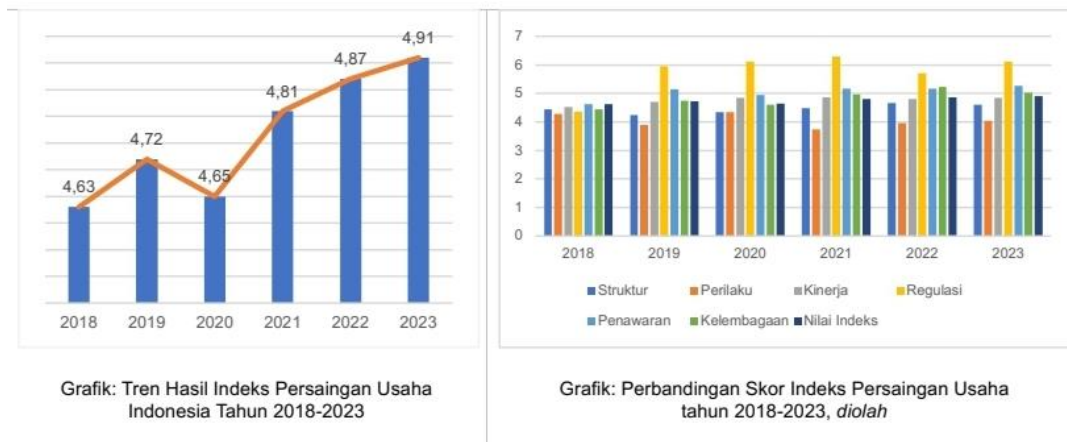


Figure 1. Business Competition Index in Indonesia 2020-2023
Source : Kaltimkita.com(2024)

This growing competition, paired with internal limitations such as lack of innovation, constrained capital, and limited technological adoption, urges SMEs to seek collaborative strategies to stay relevant. At the same time, the rapid increase of startups—Indonesia is now ranked 6th globally with over 2,562 startups—opens new possibilities for synergy. Unlike traditional SMEs, startups tend to be innovation-driven, agile, and growth-oriented, although they often lack stable cash flow and established customer bases.

In such conditions, collaboration between SMEs and startups becomes not only relevant but strategic. The co-creation of value through open business models enables these two different yet complementary types of businesses to bridge their gaps and amplify their strengths. Startups can offer cutting-edge technology and flexibility, while SMEs provide market access, operational stability, and local insights. When both entities engage in co-development, shared digital platforms, and open innovation, they can create solutions that neither could achieve alone.

This study aims to investigate such collaborations, particularly how SMEs in Batam collaborate with startups to adopt open business models and co-create value. Batam, as a rapidly industrializing and strategically located city, offers a unique business ecosystem that fosters innovation-driven partnerships. Through a case study of Haus Indonesia (specifically its outlet Haus KitKat Batam) and its fintech partner Modalku, this research explores the practical strategies, challenges, and outcomes of SME-startup collaborations in driving sustainable innovation and competitiveness in the digital age.

Literature Review

The topic of collaboration between Small and Medium Enterprises (SMEs) and startups has gained increasing scholarly attention in recent years due to its significance in driving innovation and sustainable business development. This section reviews key theoretical frameworks and empirical studies that support the foundation of this research, particularly focusing on open business models and co-creation as strategic mechanisms for SMEs in digital transformation efforts.

The literature suggests that collaboration in the business ecosystem is a fundamental factor for enhancing SMEs' innovation capabilities. According to Ghezzi et al. (2022), SMEs can significantly benefit from engaging in strategic collaborations with startups by adopting open business models. These models rely not solely on internal resources and ideas but integrate external knowledge, skills, and technologies to create, deliver, and capture value collaboratively. In their study of Italian SMEs, Ghezzi et al. found that business model innovation plays a crucial role as a precursor to open business model implementation, enabling SMEs to operate more flexibly in rapidly changing markets.

Supporting this view, Loučanová et al. (2022) introduced the concept of eco-innovation within open business models. Their research, conducted in Slovakia, emphasized the integration of environmentally friendly innovations and the importance of customer engagement in sustainability transitions. They found that barriers such as high costs, lack of information, and limited experience could be mitigated by effective communication strategies and open collaboration with customers and partners.

Another significant contribution comes from Livieratos et al. (2022), who examined 106 European SME case studies and highlighted how SMEs tend to engage in open innovation initiatives not merely for economic gain, but to address attention-based challenges such as resource scarcity and external visibility. Their findings revealed a paradox: while resource limitations motivate SMEs to seek partnerships, they may also discourage sustained collaboration due to the high attention and coordination required.

Furthermore, Ibarra et al. (2020) explored how business model innovation (BMI) in established SMEs could be fostered through dynamic capabilities. Their research identified managerial orientation and collaborative competencies—such as customer understanding, technological foresight, and the ability to conceptualize and experiment—as critical enablers of BMI, especially in the context of post-pandemic recovery. These findings support the notion that open innovation and collaborative strategies are not just beneficial but necessary for SMEs seeking resilience and growth.

Jabeen et al. (2023) extended the discussion by investigating the role of open innovation during the COVID-19 pandemic. Their qualitative study on six SMEs in traditional sectors in Italy found that external shocks like the pandemic can catalyze business model innovation, especially when firms adopt open innovation approaches that involve digital transformation, customer engagement, and knowledge sharing.

The theoretical basis for this study also draws from the broader concept of *collaborative and open business models*, which are often linked to strategic alliances, resource orchestration, and network theory. According to Cosenz and Bivona (2021), open business models differ from traditional closed models in that they emphasize the orchestration of both internal and external resources, aiming not solely for internal innovation but for broader value creation through external engagement.

In this context, startups serve as ideal partners for SMEs. While both entities are small and agile, startups are often more growth-oriented, innovation-driven, and technologically adept. Their collaboration with SMEs offers mutual benefits: startups can gain access to established markets and operational infrastructure, while SMEs can access cutting-edge innovations and scalable solutions (Lippolis et al., 2023; Moradi et al., 2021). Despite these benefits, the literature also acknowledges potential obstacles, including differing organizational cultures, goal misalignment, and trust issues (Shahzad et al., 2021).

Open innovation theory, as introduced by Chesbrough (2003), further reinforces this argument. It posits that firms must harness both internal and external ideas to achieve sustainable innovation. The *inbound open innovation* model, specifically, involves the acquisition and integration of external knowledge into a firm's R&D and innovation processes. This approach enables SMEs to compensate for their resource limitations while accelerating their innovation cycles (Obradovic et al., 2021; Hervás-Oliver et al., 2021).

Finally, the concept of *innovation performance* is central to evaluating the outcomes of such collaborative efforts. Innovation performance refers to the effectiveness of a firm in generating and implementing novel ideas that contribute to competitive advantage, efficiency, and customer value (Rumanti et al., 2023). Collaborative business models that integrate open innovation practices are found to significantly enhance innovation performance by promoting shared learning, joint product development, and stronger market responsiveness.

In conclusion, the reviewed literature underlines the importance of integrating open business models and co-creation strategies into SME-startup collaborations. By embracing openness, both SMEs and startups can overcome individual limitations, foster mutual growth, and co-create innovative solutions that are more aligned with market needs and digital trends. This theoretical foundation supports the research aim of exploring how SMEs and startups in Batam, Indonesia, collaborate to enhance innovation and value creation in the digital economy.

Research Methods

The limitations of this method include its non-generalizability due to the focus on a single case. However, the goal of qualitative research is not to generalize but to explore and understand specific contexts. Still, the insights from this case can inform broader theories and be applicable to other similar contexts in Indonesia and Southeast Asia.

Ethical considerations were also taken into account. Participants were informed about the purpose of the study, and their consent was obtained before conducting interviews. Anonymity and confidentiality were assured to protect sensitive business information and personal data.

This case study method allows for an in-depth understanding of real-life phenomena within its natural context. It is especially useful for investigating contemporary events when the boundaries between phenomenon and context are not clearly evident. Furthermore, it enables the researcher to provide rich, holistic descriptions and gain insights that are difficult to achieve through purely quantitative methods.

For the data analysis, Miles and Huberman's framework was employed, which involves three key steps: data condensation, data display, and conclusion drawing/verification. In the data condensation phase, all interview transcripts and documents were coded and summarized to identify themes and patterns. These themes were then organized in data displays such as matrices and charts to highlight relationships and inconsistencies. The final step involved drawing conclusions based on these displays and verifying them with existing literature and additional interviews.

Secondary data sources included business articles, press releases, company websites, and government reports. These documents provided contextual and factual support to the interview findings. Furthermore, previous academic studies on similar topics were reviewed to triangulate the insights and ensure credibility. This method of triangulation is essential in qualitative research to strengthen the validity and reliability of the findings.

Data collection relied on multiple sources, including primary and secondary data. Primary data was gathered through semi-structured interviews with key stakeholders in both organizations. This included executives from Haus Indonesia and business development personnel from Modalku. Interviews focused on how the partnership was initiated, the nature of collaboration, resource sharing mechanisms, perceived benefits, and barriers encountered.

The subject of this study is Haus Indonesia, particularly its Batam-based outlet Haus KitKat, which has formed a strategic partnership with Modalku, a financial technology (fintech) startup specializing in SME financing. This partnership is an ideal representation of how traditional SMEs and modern startups can work together to adopt open business models. The selection of this case was based on its relevance, the richness of available data, and the practical application of open innovation principles.

This research utilizes a qualitative-descriptive method to deeply investigate the collaboration between SMEs and startups. Qualitative research is appropriate for exploratory studies that aim to understand complex social phenomena, particularly when the goal is to gain in-depth insight rather than to test hypotheses. This method aligns well with the aim of this study: to understand the mechanisms, benefits, and challenges of open innovation collaborations between SMEs and startups.

Results and Discussion

The collaboration between SMEs and startups represents a strategic innovation pathway in the era of digital disruption. In this study, the partnership between Haus Indonesia (SME) and Modalku (startup) provides a real-world illustration of how open business models and co-creation can enhance mutual business resilience, agility, and value creation.

Haus Indonesia, operating in the competitive Food and Beverage (F&B) industry, needed substantial capital to expand its business operations and develop innovative products. Traditionally, SMEs like Haus often face barriers in accessing financial support due to limited assets or credit history. Modalku, a fintech startup, entered the scene as a technology-driven funding platform designed to provide working capital to SMEs without requiring collateral.

Through this collaboration, Haus Indonesia was able to access flexible and unsecured funding, ranging from IDR 300 million to IDR 2 billion, with customized repayment terms. This financial support played a critical role in expanding outlets such as Haus KitKat Batam and launching unique products like “Choco Cheese Crunchy made with KitKat.” By not building a proprietary financial infrastructure, Haus Indonesia instead integrated Modalku’s digital lending service into its business operations, a clear example of leveraging external resources under an open business model framework.

In this arrangement, Modalku also benefitted by expanding its client base, collecting data from real business transactions, and reinforcing its credibility as a scalable SME-focused lender. The success of this mutual value exchange underscores the potential of open business models where resource sharing, rather than exclusive ownership, leads to growth.

Beyond financial collaboration, Haus Indonesia applied co-creation principles by involving multiple stakeholders—including KitKat as a brand partner and customers through digital engagement—in product development. The result was a limited-edition drink that combined KitKat spread, KitKat bites, and cheese foam, tailored to local consumer preferences in Batam. This form of collaborative product design highlights the importance of aligning internal and external creativity to meet market demands more effectively.

The company also harnessed social media platforms, especially TikTok, to engage directly with customers, gather feedback, and monitor trends. These digital touchpoints transformed passive customers into active co-creators, influencing not only product design but also branding and marketing narratives. This process reflects the power of co-creation to drive innovation beyond traditional R&D settings.

Despite these successes, the partnership faced several challenges. One significant barrier was the misalignment of organizational culture. SMEs like Haus Indonesia typically operate within structured routines focused on operational stability. In contrast, Modalku, as a startup, embraces rapid iterations, data-centric decision-making, and flexible workflows. Harmonizing these two approaches required adjustment, communication, and mutual understanding. For instance, the implementation of financial reporting tools and real-time monitoring systems introduced by Modalku may not have seamlessly integrated with Haus Indonesia’s existing practices.

Another challenge was the limited digital readiness among some of Haus’s internal teams. Although digital finance and analytics tools were introduced, not all personnel were fully equipped to use them effectively. This digital literacy gap could impede the full utilization of the platform’s capabilities and hinder performance assessment and financial planning. To overcome this, continuous training and technical support are essential.

Sustainability of the partnership also depends on clearly defined long-term roles and value-sharing mechanisms. While Modalku initially provided capital support, the evolving business relationship raises questions: Will Modalku continue as a passive financial enabler, or will it evolve into a strategic partner contributing to product innovation, expansion planning, or data-driven insights? Similarly, what proportion of the value generated from new product launches or market expansions should be attributed to the startup’s contributions?

Without structured agreements and performance metrics, such collaborations risk becoming transactional and short-lived. Therefore, formalizing these relationships through partnership agreements and shared KPIs is crucial for long-term sustainability.

The partnership demonstrates that collaboration between SMEs and startups can result in increased innovation capacity, better market responsiveness, and improved competitiveness. For Haus Indonesia, access to external financial and technological resources accelerated its growth trajectory. For Modalku, the collaboration provided real-case validation of its fintech platform and deeper market penetration.

Furthermore, such partnerships contribute to the formation of an innovation ecosystem in regions like Batam. As SMEs adopt digital tools and engage in collaborative innovation, they influence other enterprises to follow, fostering a culture of openness and continuous improvement. This ripple effect has the potential to transform Batam into a model city for SME-startup synergy in Indonesia.

Conclusions

The strategic collaboration between SMEs and startups, exemplified by Haus Indonesia and Modalku, demonstrates the potential of open business models and co-creation in fostering innovation and competitiveness. Through shared resources and collaborative innovation, both entities achieved mutual growth and resilience. However, for such partnerships to be sustainable, alignment in organizational culture, clear value-sharing mechanisms, and continuous digital adaptation are crucial.

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