

Artikel 1

Intellectual Property Rights Potential among Small and Medium Enterprises in Malang District

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 Publication Articles Mei - Jun 2025 Dosen UMM

 University of Muhammadiyah Malang

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Submission ID

trn:oid::1:3262405699

Submission Date

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ential_among_Small_and_Medium_Enterprises_in_Malang_District.pdf

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Intellectual Property Rights Potential among Small and Medium Enterprises in Malang District

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ABSTRACT

Small and Medium sized enterprises (MSMEs) are playing an important role in Indonesia's economic growth. The purpose of this research is to discover the potential of Intellectual Property Rights (IPR) among SMEs in Malang district, East Java. A survey was conducted among 31 SMEs in the district of Malang district. This was supported by data from Department of Industry and Trade and Regional Development Implementing Agency. Observation, in-depth interviews, review of documents and purposive sampling techniques were employed and findings showed the MSMEs predominate in the handicraft (45.16%) and processed food (41.94%) sectors which have a potential for IPR, especially in regard to trademarks (58.06%), copyright (35.48%) and industrial design (6.45%). Only 11.11% of the trademarks had been registered, while the copyright and industrial design have not been registered yet. The main markets of the SMEs were Malang Raya region (51.61%), inter-city (38.71%), inter-island market (6.45%) and international market (3.23%). IPR issues occur to 3.23% of respondents, especially in regard to design plagiarism.

Keywords: Copyrights, industrial design, intellectual property, SMEs, trademark

INTRODUCTION

The Micro, Small and Medium-sized Enterprises (MSMEs) refer to a productive business that stands alone, carried out by an individual and business entity with particular criteria. According to Indonesian Law Number 20, 2008, the differences among the MSMEs are based on the company's net income and annual sales. During the 1997 economic crisis in Indonesia, the MSMEs

ARTICLE INFO

Article history:

Received: 03 January 2017

Accepted: 30 July 2017

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were able to persist and even contributed significantly to the Indonesian economy (Departemen Koperasi RI, 2008, p. 2).

The MSMEs were the fastest and earliest to recover from the economic crisis. According to Indonesian Law Number 20, 2008, the criteria for small enterprise are: an industry that possesses assets of more than Rp.50,000,000 (fifty million rupiah) (US\$3600) to Rp.500,000,000 (five hundred million rupiah) (US\$36,000) excludes business land and building (Undang-undang RI No.20 Tahun, 2008, p. 5). Data also indicated show that MSMEs significantly contributed to improving Indonesia's economic prospects and in generating employment across Indonesia. Besides that, they contribute significantly to half of the country's Gross Domestic Product (GDP) (Utami, 2010, p. 14).

In Indonesia, the MSMEs are the largest employer. In 2008, there were 51,409 million MSMEs which account for 99.99% of income of the entrepreneurial sector (Biro Perencanaan Kementerian Usaha Kecil dan Menengah, 2008, p. 1-2). In short, MSMEs contribute to employment provision, national GDP and income, and national investment (Utami, 2010, p. 14).

During the 1997-1998 crisis, MSMEs contributed significantly to national GDP, to the tune of 458,072 billion rupiahs (US\$327,194 millions) or 28.89%. But between 2002 and 2013, their contribution decreased to only 5.63%. Therefore, MSMEs in Indonesia are an important source of economic security.

In comparison, the contribution of Malaysia's MSMEs to the country's GDP during the period of 2014-2015 averaged 36.1% (Department of Statistics, Malaysia, 2016, p. 7) while it was 58.5% for China (Ministry of Commerce People's Republic of China, 2012, p. 6). In India, the contribution of MSMEs, including service sector, to the country's GDP during 2012-13 was 37.54% (CSO, MoSPI, 2015, p. 5).

The existence of Small and Medium Enterprises (SMEs) is closely related to their Intellectual Property Right (IPR). It ranges from the kinds of product, technology applied, product designs and a trademark for marketing purposes. The Indonesian government had attempted to improve awareness of SMEs managers towards the importance of PR, especially creative industries. It is critical for the managers of SMEs to employ every regime of IPR in developing their business (Dinas Koperasi & UMKM Propinsi Riau, 2013, p. 2). Currently, there are over 60 million freely accessible technologies for SMEs to learn and benefit from, develop and register their IPR.

In order to determine the need for IPR protection regime for SMEs, we need first to comprehend the potential that exists in a particular enterprise. Generally, its IPR potential includes copyright, trademarks/service, industrial design, patent or simple patent. It is evident that IPR are not always the same for each business unit of a certain SMEs. This research was aimed at discovering IPR potential of SMEs in Malang district. The findings are expected to support SME research and development

IPR potential of SMEs in Malang District

programme, especially for ascertaining their IPR potential. The study will also provide information on how to obtain IPR protection for SMEs in the district of Malang and to map their potential.

MATERIALS AND METHODS

This research employed a survey method which included an in-depth-interviews of 31 SMEs in 7 sub districts of Malang. They were Singosari, Lawang, Karangploso, Dau, Tumpang, Pakis and Kromengan. Secondary data was obtained from the Department of Industry and Trade and Regional Development Implementing Agency. A purposive sampling technique was used including observation, in-depth interviews and documentary study.

RESULTS AND DISCUSSION

Data showed there were 14 SMEs (45.16%) focusing on handicraft products followed 41.94% in the processed food sector, 9.67% in farming and 3.22% in the fisheries (Table 1). The craft industries include onyx/marble statue, horse statue, rackets, shoes, picture frames, calligraphy, furniture, bamboo, gypsum, glass, stainless steel and handicraft. The processed food industry focused on chips such as potatoes, fruit, cassava, spinach, and tempeh, grass jelly powder, crackers, apple cider, tempeh production and brown sugar. The agricultural business in the district of Malang district was mainly dominated by the seeds sector (especially wood plant/forestry), followed by agribusiness, production of oyster mushrooms and hydroponic vegetables.

Table 1
The types of SMEs in the seven sub-districts of Malang, East Java

Business Type	Number (%)
Processed food	13 (41.94)
Craft	14 (45.16)
Agriculture	3 (9.67)
Fishery	1 (3.22)
Total	31 (100)

Based on the survey, the region of Malang Raya (consisting of Malang District, Malang City and Batu City) is the most famous marketing area (51.61%), followed by inter-city area (38.71%). Only one SME here which sells its products internationally, craft enterprises (Table 2). Based on the data, it can be inferred SMEs that target foreign markets, have a higher need for IPR registration. Trademark is a simple example, that if a product was sold without being registered, it would be difficult for the consumer to search for the product origin. Furthermore, in the case of counterfeiting, it will be very difficult to determine the originality of a particular product considering that it does not possess any legal protection.

Table 2
Product marketing areas of SMEs in seven sub-districts of Malang, East Java

Marketing Area	Number	Percentage (%)
Inter-city (Malang)	16	51,61
Intra-city	12	38,71
Other islands	2	6,45
International	1	3,23
Total	31	100

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Table 3
The number and percentage of SMEs' IPR potential in seven sub districts of Malang, East Java

Intellectual Property Rights	Number (%)	Registered (%)	Unregistered (%)
Brand	18 (58.06)	2 (11.11)	16 (88.89)
Patent	0	0	0
Industrial design	2 (6.45)	0	2 (100)
Copy right	11 (35.48)	0	11 (100)
Total	31	2 (6.45)	29 (93.55)

Table 4
The number and percentage of SMEs related to counselling of IPRs in seven sub-districts of Malang

Has undergone counselling related to IPR	Has not undergone counselling related to IPR
1 (3.22%)	30 (96.78 %)

The results showed there were two IPR potentials: brand and industrial design. The potential for trademark protection was 58.06% although only 11.11% of them had their trademarks registered. On the other hand, the copyright potential reached 35.48%, while industrial design reached 6.45%, and none were registered (Table 3). Overall, findings showed that 96.78% of small enterprises have not received any counselling on IPR (Table 4).

Table 5
Intellectual Property Issues among SMEs in Malang District

Issues of Intellectual Property	Number
Craft design plagiarism	1 (3.23 %)

Table 6
The need for IPR awareness among SMEs in Malang District

Requiring IPR Seminar	Not requiring IPR Seminar
1 (3.23%)	30 (96.77%)

About 3.23% of SMEs faced issues related to design plagiarism by other industries (Table 5). Only 3.23% of SMEs stated their need for IPR awareness programme the rest were not aware of its importance (Table 6). Indonesia has also signed AFTA agreement (*ASEAN Free Trade Area*) which means Indonesia and other ASEAN countries have agreed to eliminate all costs related to customs inspection and tariffs. AFTA agreement offered both opportunities and challenges. The Agreement required the signatories to educate society and prepare them for its introduction. The IPR protection regime is one of the prerequisites of implementing AFTA. There is an urgent need to convert challenges of IPR protection regime into an opportunity. Therefore, a

IPR potential of SMEs in Malang District

database related to IPR potential that exists in the society (Setyowati, Lubis, Anggraehi, & Wibowo, 2005, p. 9) is important.

IPR challenges have been experienced by 3.23% of SMEs in Malang district, especially on design plagiarism. Only 3.22% of SMEs have received information on IPR from the government. Most SMEs (96.77%) in this study admitted they lacked knowledge of IPR protection. There is a good potential for IPR as shown in this study; however, the SMEs have not fully realised the importance of IPR registration for their business improvement and sustainability. Besides their low level of understanding, it is clear the SMEs have not fully comprehended the benefits of IPR, hence their lacklustre interests in registering their product trademarks.

CONCLUSION

Most of the SMEs in Malang district focused on the craft business (45.16%) and processed food (41.94%) where there is significant potential for IPR, especially on trademark (58.06%), copyright (35.48%) and industrial design (6.45%). Nevertheless, only 11.11% of the trademarks have been registered, while copyright and industrial design have not been registered at all. In terms of marketing areas, the most dominant was intra-city (51.61%), inter-city (38.71%), inter-island (6.45%) and international (3.23%). The current and most significant IPR issue faced by SMEs was design plagiarism. Only 3.22% of the respondents

said they knew about IPR while the rest have not neither understood nor realised the importance of this issue.

ACKNOWLEDGEMENT

The authors express their gratitude to Rector of University of Muhammadiyah Malang (UMM) through the Directorate of Research and Community Services that funded this study via Excellence Research Program of Centre Study for the Centre of Intellectual Property (Sentra HKI) of UMM.

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Submission title: Intellectual Property Rights Potential among Small and Medium...
File name: ential_among_Small_and_Medium_Enterprises_in_Malang_Dist...
File size: 218.83K
Page count: 6
Word count: 2,219
Character count: 12,108
Submission date: 28-May-2025 04:06PM (UTC+0700)
Submission ID: 2686698344

Pertanika J. Soc. Sci. & Hum. 25 (5): 55-58 (2017)

 **SOCIAL SCIENCES & HUMANITIES**
Journal homepage: <http://www.pertanika.upm.edu.my/>

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Article history:
Received: 03 January 2017
Accepted: 30 July 2017
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