



EXPLORING CO - CREATION IN SMALL MEDIUM ENTERPRISES (SMes): STRATEGY, IMPLEMENTATION AND CHALLENGES

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Abstract

This study aims to explore co-creation applied by small and medium enterprises. Various studies on co-creation have been conducted, but there are still few that specifically explain the implementation strategy and challenges of SMEs in implementing co-creation, most suggest the application of innovation in the implementation of SME strategy. This review uses 53 literatures over the past 10 years from 2015 to 2024. This review found that the co-creation strategies used by SMEs are customer segmentation, use of digital platforms, building customer communities. The implementation of co-creation in SMEs is in the form of platform-based collaboration, collaboration with suppliers and partners, and providing a fast feedback mechanism. The challenges faced by SMEs in implementing co-creation are limited resources, customer expectation management, lack of expertise in digital technology, and intellectual property risks.

Keywords: Co-Creation; Strategy; implementation; challenges; SMes

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INTRODUCTION

Small and medium enterprises (SMEs) are globally recognized as a key pillar of dynamism, innovation and flexibility. SMEs play a major role in creating the majority of jobs and contributing to increased productivity and economic growth (Lutfi & Rusliati, 2020). SMEs make a significant contribution of 61% to the Gross Domestic Product (GDP), and absorb 97% of the workforce in Indonesia in 2023 (Hermina, 2024). In Malaysia Small and Medium Enterprises (SMEs) make significant contributions to a country's economy, job creation and trade balance. SMEs in the food and beverage (F&B) sector in Malaysia, for example, are the third most important sector in terms of GDP contribution and job creation. They generate significant turnover and play a role in economic development. Government policies also underline the importance of sustainability and inclusiveness in advancing SMEs to achieve the development goals set by the United Nations. Government and private sector engagement is needed to drive the sustainability agenda among Malaysian businesses, especially exporters, to meet the requirements of a more advanced international market (Mohamad et al., 2022). Although SMEs have a significant contribution to economic growth they face several challenges. SMEs need

to make efforts to be able to maintain their business (Suratman et al., 2023). The many challenges faced by SMEs such as limited access to finance, lack of access to technology, lack of managerial skills, inadequate infrastructure, and unfavorable government regulations, and lack of innovation require them to constantly adapt to change. In order to provide value-added services, many companies focus on consumers as a powerful tool. to build a performance company through dialogue, participation and engagement. Methods that companies can use to engage consumers effectively are through creating shared value, using consumer feedback for product improvement, creating interactive and participatory experiences, and by building loyal consumer communities (Omar et al., 2020)

The Digital Era has given rise to a new culture in people's lives. The rapid and massive use of social media such as online social networking sites (SNS), is accompanied by rapid changes in consumer behavior. Sites such as YouTube, Facebook and Instagram have developed and grown significantly (Paramadita et al., 2019). Current technological developments make it easier for consumers to analyze a product. More and more people are using social media to search for information about products and decide to buy and share experiences with others through social media. Social media usually plays an influential role in the entire pre-travel phase determination process. With the growth and prevalence of social media platforms, many companies have used them to interact with customers and encourage user-generated content about their products and services (Yang et al., 2019).

Co - creation with customers becomes a new source of competence for business strategy. Collaboration in Co-Creation between consumers and producers can improve marketing performance (Farida & Listyorini, 2021). In its implementation, consumers must also learn that co-creation is a two-way street. The risk cannot only occur on one side. They must take responsibility for the risks they accept consciously, and the challenge to create shared value (co-creation) requires great effort from all parties involved (Prahalad & Ramaswamy, 2004).

Customer to customer Co-Creation research should not be burdened with positivistic attempts to obtain absolute truths or predetermined behavioral models, nor should it view reality as purely in the mind. Instead, practical applications and solutions to specific research problems should be prioritized (Rihova et al., 2018). In co-creation, customer interactions often involve social complexity rich with meaning, context, and subjectivity. Trying to obtain absolute truths or fixed behavioral models is unrealistic because customer behavior is highly contextual and dynamic. Contextual Variation and Situation Each co-creation interaction has unique characteristics that depend on the culture, situation, and individual's unique experiences that cannot be measured by one absolute framework.

Co -Creation has become a very important topic in several disciplines. It is observed that Co-Creation has been analyzed mainly from a marketing or service perspective.(Nájera-Sánchez et al., 2020) There are many articles that examine co-creation. The term co-creation was popularized in the business context by Phalarad and Ramaswamy. Co-creation as a new approach to creating value that emphasizes the active role of customers in the process of creating value together with the company. changes the way the business world views how value is created. Co-creation shifts the focus from internal company processes to interactions with customers. By involving customers as active partners, companies can create value that is more personal, innovative, and relevant to the needs of the modern market. (Prahalad & Ramaswamy, n.d. 2004). This study attempts to answer the following research questions , first to find out how the Co - creation strategy is used in small and medium enterprises . To find out how the implementation of co - creation in small and medium enterprises , and third, what are the strategic challenges of small and medium enterprises in implementing Co - Creation . To answer these questions, the researcher first limited the sample to only Small and Medium Enterprises and analyzed the knowledge structure. After that, the descriptive analysis was made. Analysis of the evolution of documents published from 2015 to 2024.

METHOD

This research follows the procedure (Hu, 2019) with some adaptations the author determines several steps, First, building a database, relevant articles were collected from Google Scholar and Science Direct Database. The keywords typed to search for the articles were: “co-creation in SMEs, “, implementation strategies and challenges of SMEs. This literature review presents the results of a review of 53 studies that explain various aspects of co-creation implementation in small and medium enterprises (SMEs). In the process

of collecting and analyzing data from research papers, the PRISMA guidelines (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) were used to reduce the risk of flawed reporting and to increase the clarity and transparency of how this systematic review was conducted. The papers selected for review were published between academic journals in 2015 and 2024.

First, we started to list the characteristics of co-creation in small and medium enterprises (SMEs). The results of the systematic literature review are presented. With the search protocol, 155 papers were retrieved from the publications. After the first screening based on title similarity, 155 paper titles were obtained. Many studies tend to be theoretical and do not include case studies or in-depth empirical data on SMEs. This makes it difficult to gain practical insights and real-world applications of co-creation in the SMEs context, then filtering was carried out based on studies relevant to the topic of co-creation in small and medium enterprises and the year of research, 102 papers were excluded, leaving 47 papers. This literature review is structured as follows: first, relevant literature focusing on the relationship between strategy, implementation and strategic challenges of co-creation in small and medium enterprises. Third, the research findings of the articles were analyzed and synthesized. Related studies were identified by analyzing key concepts or themes from research findings in selected studies on the impact of co-creation on SMEs competitiveness or success. Finally, a synthesis of findings from various studies is presented.

RESULTS

The implementation of co-creation is an important issue in increasing the competitiveness of SMEs. Various studies have found that co-creation can improve business performance.(Kim et al., 2020; Trang & Khuong, 2023). Study on Batik SMEs in Pati and Semarang found that the implementation of co-creation can improve their marketing performance. By involving customers in the product design and innovation process, batik SMEs can meet consumer preferences more specifically and create stronger emotional relationships with customers. This strategy increases customer loyalty and helps them survive in local and global markets (Widjojo et al., 2020). In addition, SMEs that use e-business strategies based on co-creation in e-commerce platforms are able to improve the sustainability of their businesses. In this study, co-creation is used to allow customers to participate directly in the production process through interactive features, such as product customization options or on-demand services. This approach improves customer experience and provides added value (Simanjuntak et al., 2022), a strengthened event and experience has a significant influence on purchase decisions (Prayudi & Nugraha, 2022).

Various studies on co-creation have been conducted and reveal how the implementation of co-creation can help increase competitive advantage, but there are still few that specifically explain the implementation strategy and challenges of SMEs in implementing co-creation, most of which suggest the implementation of innovation in the implementation of SMEs strategy. How Small and Medium Enterprises (SMEs) carry out strategies, implementations and challenges of co-creation application can be seen from various literature studies from journals, and proceedings. The following are the articles used in this literature review.

Table 1. Articles Used In Literature Review From Year 2015-2024

No	Writer, Year, and Publication Type	Research Result
1	A. Fadil, 2015, Journal	This model shows that providers who optimize viral marketing in their small and medium businesses are able to better integrate with their online communities, thereby increasing the value co-creation process.
2	Millsbaugh, J Kent A, 2016, Journal	This study examines how small and medium-sized firms respond to and adapt their brand identity interpretations through co-creation processes, as they seek to introduce and develop their businesses in the global fashion market.
3	Qazi A, Commer P at Al, 2017, Journal	The research findings show that customer participation in the creation process is influenced by brand attractiveness, brand responsiveness, active involvement, and sense of community. As a result, the involvement of SME customers in the process in Pakistan contributes to increased behavioral loyalty, attitudinal attachment, and resilience to negative information.

No	Writer, Year, and Publication Type	Research Result
4	Papageorgiou et al, 2017 Proceeding	The research results found that Customer Involvement (CI) in relation to the New Product Development (NPD) process was able to increase the company's profit, increase its market share, and reduce the costs of 50 SMEs in the Cypriot manufacturing sector.
5	Zaborek P, Mazur J, 2017, Journal	The main finding of the study is that there is a significant positive effect between customer involvement in shared value creation and innovation in 432 manufacturing and service SMEs.
6	K. Grafmüller et al, 2018 Journal	This research found that the co-creation process reflects an active, creative and social collaboration between providers and customers with the aim of producing joint development in SMEs network
7	Eikebrokk T. et al, 2018, Journal	Research finds that for small businesses Co-Creation is an important way to invest in IT and realize IT Value.
8	Zaborek P, 2019, Journal	The research findings show that facilitated co-creation can drive positive operational and financial outcomes, for both service providers and manufacturers, across 395 manufacturing and service SMEs in Poland.
9	Nurul Utami H. et al, 2019, Journal	This study found that the specific benefits of creating shared value for both business actors and consumers are very important in determining actor participation and the continued use of e-commerce channels.
10	Cobelli N. & Chiarini A, 2019, Journal	creating value Co-Creation with a multi-channel communication and supply approach through the use of new technological tools for pharmacists as SMEs owners in Italy
11	Indriastuti H, 2019, Journal	Developing relational capabilities have an influence on the process of creating shared value in the context of SMEs
12	Rahayu A et al, 2020, Journal	This article finds that by optimizing market attractiveness and dynamic capabilities, SMEs can formulate and implement co-creation and collaboration strategies more effectively to create value for customers.
13	Suman Bhattacharya and Nadja Dami. 2020, Journal	This paper reveals key resource elements in SMEs that can be integrated with resources from other stakeholders to complement the internal resource limitations of SMEs, thereby supporting increased value co-creation in the HPC service ecosystem.
14	Widjojo H et al 2020, Journal	This paper examines how interactions between different parties play a role in creating shared value and its impact on innovation processes in small business communities.
15	Omar N.A et al 2020, Journal	his research contributes to the development of insights into the application of the concept of customer co-creation of value in the context of small and medium enterprise (SME) services.,
16	Kim Dong, W . et al, 2020, Journal	This study finds the impact of co-creation on the performance of small and medium-sized manufacturers (SMMs) that supply parts or components to large corporate buyers, co-creation has a significant positive impact on organizational performance by enhancing their strategic advantage.
17	Iglesias et al, 2020, Journal	This study finds that co-creation of corporate brand identity in a B2B context is an ongoing dynamic process in which multiple internal and external stakeholders engagement
18	Marc Dressler & Ivan Paunovic, 2021, Journal	discussing SMEs brand strategy as a means to position and engage successfully in competitive markets in German. Co-creation turns out to be the main profiling trait that characterizes one type of brand strategy.
19	Dongdong Li et al, 2021, Journal	the research results show that when manufacturing SMEs experience high network externality revenue loss, the dominant strategy of industrial Internet platforms is to adopt a value co-creation strategy
20	Omar N AQ et al, 2021, Journal	This study shows that the influence of shared value creation on brand equity of SMEs in Malaysia is positive.
21	Abdel Aziz K. et al , 2021, Journal	The results of the study prove that online customers of modest fashion SMEs in Egypt create shared value through affective and behavioral engagement. This means that Egyptian customers are stimulated by emotional reactions, pleasure, and preferences as well as by behavioral engagement involving actions such as loyalty.
22	Farida N, Listyorini S, 2021, Journal	Co-Creation variable had a significant effect on marketing performance Batik SMEs in Pati and Semarang city
23	Eikebrokk et all, 2021, Journal	the conceptual model outlines co-creation as a two-phase process: the first phase involves generating momentum, bringing together stakeholders, and establishing networks, while the second phase focuses on managing and advancing the network's development
24	Han Mei and Bilin Xu, 2021, Journal	there is a significant influence between social proximity and cognitive proximity on the creation of shared green value in chemical small and medium-sized enterprises in clusters in China
25	Asante D.J et al, 2021, Journal	This study found that inter-firm value co-creation mediates the positive relationship between Foreign direct investment (FDI) inflow activities and economic sustainability decisions. Thus, the 856 SMEs in Ghana should embrace FDI inflow activities in the country and create knowledge from the technology and human skills of these businesses.
26	Pia Ulvenblad, et al, 202 Journal	co-creation can be used to develop Human Resource Management practices in SMEs
27	Hongyun Tian et al, 2021	The study found a relationship between supply chain integration, inter-firm shared value creation, and firm performance in Ghanaian SMEs;

No	Writer, Year, and Publication Type	Research Result
28	Fready S. et al 2021, Journal	Qualitative findings show that organizational readiness, empathy, digital content, and trust are key factors driving the effectiveness of B2B virtual interactions. These factors contribute to increasing the shared value created, thereby supporting the increase in company value.
29	Purwaningsih et al, 2022, Journal	Collaborative-commerce leverages digital technology to enable SMEs to design, develop, manage, and explore innovations related to products, services, and applications with their stakeholders. This concept is very relevant to be applied in the SME business environment to build long-term business relationships, support collaboration, and adapt to the dynamics of environmental change
30	Zhang Yue et al, 2022, Journal	This research find SMEs In Cina leverage their strengths to engage stakeholder to co-create knowledge and practice for the better capturing and utilization of external and internal knowledge
31	Chatterjee et al 2022, Journal	this study emphasizes the importance for companies to shift from a product-focused approach to a customer-centric strategy. The study also revealed that in order to increase profits and achieve more optimal business results, customers need to be actively involved in various business activities, such as collaboration in design, idea development, and other relevant activities carried out by the company.
32	Mohamad A et al, 2022,	research focused on co-creation between SMEs and service providers This research aims to explore collaboration between SMEs and service providers enabled by digital interactive platforms (DIPs) to accelerate the internationalization of SMEs in Malaysia.
33	Simanjuntak M. et al, 2022, Journal	MSME entrepreneurs need to design an e-business strategy that focuses on creating shared value in the context of e-commerce. The main approach in viewing e-business and e-commerce places MSMEs as a center connected to customers. Therefore, initiatives and innovations in e-commerce co-creation are key to MSME sustainability. This shared value creation allows direct interaction, where customers play an active role in the production process, while MSMEs utilize e-commerce to provide self-service to customers.
34	Chong W et al 2022, Journal	According to research conducted for this article, SMEs can benefit from engaging with clients in co-creation experiences.
35	Re B, Magnani G, 2022, Journal	Value Co-creation between circular companies and customers occurs through four main mechanisms: engagement, feedback, activation, and rewards. One of the most interesting findings is that in the context of circular entrepreneurship, engaging customers not only serves to persuade them to support the company's circular mission, but is also an effective way to encourage and spread sustainable consumption practices more widely.
36	Song Sen et al, 2023, Journal	This study investigates the relationship between information interaction and competitive advantage acquisition for SMEs in Henan, China. In addition, the mediating role of value co-creation as a mediating variable has an important role in enhancing competitive advantage
37	Oleksiuk et al, 2023, Journal	research on the application of co-creation business to become a potential developer of Short food supply chains (SFSCs) SFSC in Lithuania, Latvia, and Poland
38	Trang T et al, 2023, Journal	This study explains that SMEs must consider external factors such as risk and partner compatibility to enhance organizational creativity, value co-creation, and company performance.
39	Bhattacharya, S. and Damij, N., 2023, Journal	This paper identifies critical resource elements owned by SMEs, which have the potential to be integrated with other stakeholders' resources. This integration can complement the internal resource limitations of SMEs to enhance value co-creation in the high-performance computing (HPC) service ecosystem.
40	Bonaque R et al, 2024, Journal	innovation that combines co-creation practices helps improve SME innovation outcomes
41	Lopez E et al 2024, Journal	the role of service innovation through resource reconfiguration and how this can be an effective strategy to enhance customer shared value creation during the Covid-19 Pandemic
42	Runfola A et al 2024, Journal	This paper identifies specific actors, resources and activities that define the role of corporate network organizers. It then analyzes locally co-created value to discuss four strategies used by SMEs to develop linkages with national and international actors.
43	Purnami N. et al, 2024, Journal	This study found that effective shared value creation strategies can be implemented by SMEs by emphasizing the importance of adapting to technological advances and sustainability trends.
44	Hermina N, 2024, Journal	The findings of the study indicate that digital economic factors significantly contribute to value creation for MSMEs.
45	Juntunen M, 2024, Journal	This study presents the collaborative creation of SME brands in terms of concept, development process and causal process, and introduces a framework called the SME brand creation diamond research.
46	Giordino D et al, 2024, Journal	This article examines the role of stakeholder engagement in partnerships and its impact on the competitiveness of small and medium-sized enterprises (SMEs) and their ability to enter international markets.
47	Matarazzo M. et al, 2024, Journal	The case study analysis shows that SMEs activate certain levels of stakeholder engagement to support the achievement of the Sustainable Development Goals (SDGs) through circular value creation.

Based on the analysis of the Literature Review article to answer the strategy for implementing co-creation, the implementation of co-creation and the challenges of implementing co-creation in SMEs can be grouped into the following Categories and Sub-Categories:

Table 2. Category, Sub-Category of Articles Used In Literature Review

Category	Sub-Category	Author & Year
Strategy Implementation of Co-Creation	Co Create Knowledge and Information	Zhang Yue et al, 2022, Song Sen et al
	Optimization Technology	Digital A. Fadil, 2015, Millspaugh J, Kent A, 2016, Eikebrokk T., et al, 2018, Mohamad A et al, 2022, Simanjuntak M. et al, 2022, Purwaningsih et al, 2022, Dongdong Li et al, 2021. Cobelli N., Chiarini A, 2019, Purnami N. et al, 2024,
Implementation of Co-Creation	Collaboration and Partnership	Indriastuti H, 2019, Runfolo A et al, 2024, Juntunen M, 2024, Asante D.J et al, 2021, Abdel Aziz K. et al, 2021, Omar N AQ et al, 2021
	Use Source Internal Power	Bhattacharya & Damij, 2020, Pia Ulvenblad et al, 2021, Zhang Yue et al, 2022
	Collaboration Active with Customer	Qazi A, Commer P, et al, 2017, Papageorgiou et al, 2017, Zaborek P, Mazur J, 2017, Iglesias et al, 2020, Abdel Aziz K. et al, 2021, Omar N.A. et al, 2020, Chatterjee et al, 2022,
Challenge Implementation of Co-Creation	Improvement and Performance	Innovation Source Bonaque R et al, 2024, Kim D. et al, 2020, Re B, Magnani G, 2022, Omar N AQ et al, 2021, Widjojo H. et al, 2020, Giordino D et al, 2024, Lopez E et al, 2024
	Limitations Internal Power	Source Bhattacharya, S. and Damij, N., 2023, Simanjuntak M. et al, 2022, Millspaugh J, Kent A, 2016
Challenge Implementation of Co-Creation	Lack of skills in utilizing technology	Eikebrokk T., et al, 2018, Mohamad A et al, 2022, Chong W et al 2022, Song Sen et al, 2023, Purnami N et al
	Management Dynamics Market	Giordino D et al, 2024, Matarazzo M. et al, 2024,

The development of the topic of co-creation in Small and Medium Enterprises (SMEs) over the last 10 years, based on a literature review, can be presented as follows:

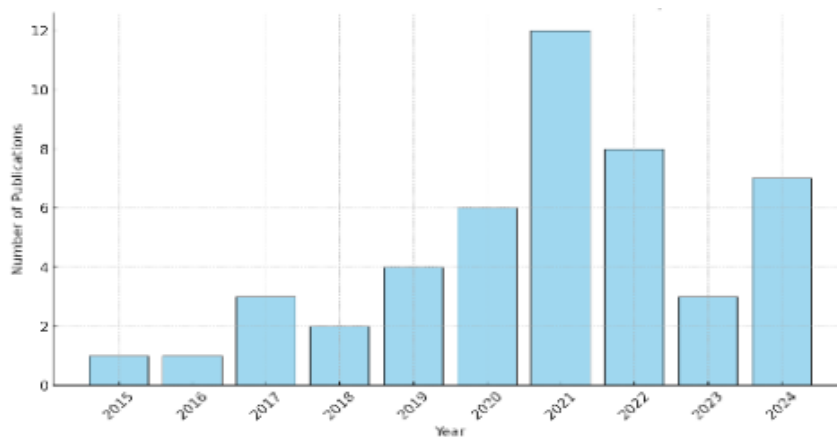


Figure 1. Trends in Publication of Co-Creation Articles in SMEs 2015-2024

In 2015-2016, co-creation research was still very limited with only 1 publication per year. The research focused on the role of co-creation in enhancing integration with online communities and brand identity recognition in the global market. In 2017: The number of studies began to increase with 3 publications. Research topics included customer participation in the co-creation process, new product development in the manufacturing sector, and the impact of co-creation on innovation in SMEs. There was a slight decrease with 2 publications in 2018, The focus of the research included creative collaboration between customers and providers, and the relationship between co-creation and technology investment in SMEs. In 2019, the number of publications increased to four research topics covering the benefits of co-creation on operational and

financial results, the use of technology for multi-channel communication, and the development of relational capabilities to create shared value. The research jumped to 6 publications in 2020. The research discussed optimizing market appeal, engaging multiple stakeholders, and the role of co-creation in organizational performance in the manufacturing and service sectors. In 2021, the number of researches peaked with 12 publications. Topics include co-creation strategies in branding, human resource development, supply chain integration, and the influence of shared value on SME business performance in various countries. There was a decrease in the number of publications in 2022 to 8 publications. Research includes the use of digital technology in e-commerce, co-creation in the circular economy, and customer-based strategy transformation. In 2023, the number of publications decreased further to 3. Research focuses include information interaction for competitive advantage, short food supply chains, and increasing organizational creativity through co-creation. Finally, in 2024, research on the topic of co-creation in SMEs increased again with 7 publications. Focuses include co-creation-based innovation, the role of digitalization in creating shared value, and stakeholder involvement in achieving the Sustainable Development Goals (SDGs). Co-creation research in SMEs shows an overall upward trend, with a significant spike in 2021 marking a period of in-depth exploration of the various dimensions of co-creation across sectors and countries.

Based on the results of the literature review analysis regarding co-creation in SMEs, the following concept map can be created:

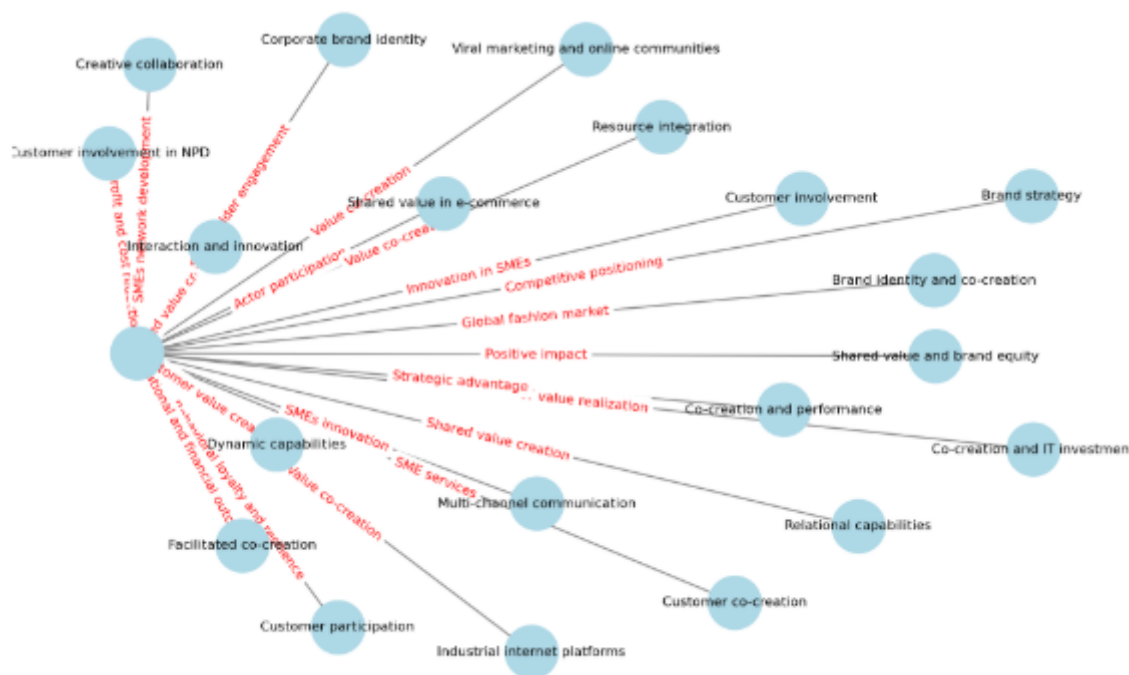


Figure 2. Mind Map Of Study Co-Creation In SMEs

This mind map explains the concept of co-creation as a collaborative process between SMEs, customers, and partners to create shared value. This process involves various aspects, such as customer involvement in new product development (NPD), creative collaboration, and interactions that drive innovation. SMEs can leverage dynamic capabilities to adapt to change through resource integration and active participation of actors involved, resulting in positive impacts and strategic advantages. In addition, co-creation plays a role in building brand identity, improving business performance, and creating sustainable shared value. Technology and digitalization, such as industrial internet platforms and investment in IT, are key enablers in facilitating co-creation. By focusing on these aspects, co-creation provides opportunities for SMEs to compete in the global market and create mutually beneficial relationships with customers and partners.

DISCUSSION

Co-creation can be defined as “organizational creativity or a form of commercial strategy, which brings together various stakeholders such as ‘company and customers’ to cooperatively develop products that satisfy customers and generate profits for the company (Prahalad & Ramaswamy, 2004). Interest in co-creation in innovation and technology continues to grow. The authors state that co-creation involves multiple stakeholders, with clients playing a number of roles, such as information providers, development partners, and innovators. In addition, they identify three main research streams: open innovation, consumer-based analysis, and service and innovation ecosystems (Nájera-Sánchez et al., 2020). The focus of this research is to answer the strategy of implementing co-creation in developing SMEs not only in terms of co-creation with consumers but also various stakeholders involved to increase their competitiveness.

The strategy that needs to be used by SMEs to achieve competitive advantage is to leverage external and internal knowledge, in accordance with previous research that highlights how SMEs leverage their strengths to engage stakeholders to co-create knowledge and practices to be better by using external and internal knowledge. This strategy is carried out by three main processes of knowledge co-creation for Chinese SMEs in the B2B context knowledge sharing, knowledge integration, and knowledge application. SMEs promote knowledge sharing by building and maintaining trust with stakeholders. Knowledge integration is driven by the openness of the owner, while shared learning plays a key role in enabling effective knowledge application (Kazadi et al., 2016; Zhang et al., 2023). In addition to knowledge, the use of information interaction plays a significant role in creating shared value and competitive advantage. A study of SMEs in Henan Province, China found that SMEs should develop effective systems and processes that facilitate smooth information sharing, collaboration, and knowledge exchange within the organization of human resource management, infrastructure, and intangible resources. This can involve the application of technology, the adoption of data-driven decision-making practices, and the promotion of a collaborative work environment. By leveraging the power of information interaction, such as through social networking platforms, interacting with users through various new forms of social marketing, including microblogs, wechat, and online forums, SMEs can enhance agility, responsiveness, and innovation capabilities, leading to improved performance and sustainable competitiveness. (Song Sen et al., 2023).

The business world is driven to grow in accordance with innovation, which is increasingly rapid regardless of the type and scale of the business. This is a major concern for new entrepreneurs in terms of resources and quality of knowledge. These factors occur in the spread of innovation, with one of the factors acting as an opportunity. In general, there are several obstacles associated with the experience of newly pioneered entrepreneurs in innovation strategies. Therefore, the ability to compete, innovative and dynamic marketing capabilities are important for entrepreneurs. (Hu, 2019). The company's innovative product development strategy accelerates the co-creation of customer experiences. Its marketing actions go beyond product development and innovation to actively co-create experiences with customers, foster a sense of community among users, facilitate communication within that community, act on feedback, and continuously build and maintain community relationships. (Omar et al., 2020). To achieve greater profitability and better business outcomes, customers must be involved in business activities by engaging in co-design, and idea generation, with the company. The co-design process is implied to enhance value creation through active participation of users in product and service development. Through this approach, feedback and ideas from users are not only collected, but also integrated into the design and development process, resulting in solutions that are more relevant and tailored to their needs (Chatterjee et al., 2022), SMEs in the manufacturing sector carry out product innovation through the implementation of co-creation with customers, new product development involves customers by giving customers tools to design new products themselves, customers are allowed to create designer prototypes, customers are allowed to independently design products according to their needs (Papageorgiou et al., 2017). Direct customer interaction implemented includes the use of social media, such as Facebook, to invite customers to participate in product development. From the findings, Apepak founders involved customers by asking customers to provide feedback on the product prototype through a post on Facebook. After using the product, customers were asked to fill out a questionnaire containing questions

about their experience, such as their preference for the product's aroma, texture, and price (Re & Magnani, 2022).

Service-Dominant Logic (SDL) is used as a theoretical framework because it encompasses four important factors that influence the success of a firm's innovation activities: actor value networks, resource disbursement, resource density, and resource integration (Chester Goduscheit & Faullant, 2018). Service Dominant Logic (SDL) conceptualization, shared value creation in service ecosystems occurs through the integration of stakeholder resources, especially operator resources that are essentially intangible and dynamic (such as human skills, knowledge, and information) and are capable of acting on other resources, transforming micro-specialized individual competencies into complex services. According to the SDL conceptualization, shared value creation in service ecosystems occurs through the integration of stakeholder resources, especially operator resources that are essentially intangible and dynamic (such as human skills, knowledge, and information) and are capable of acting on other resources, transforming micro-specialized individual competencies into complex services. The implementation of UKM related to resource integration is a collaboration between UKM in Europe and higher education institutions (HEIs) to improve competence through education and training programs. In this case, the resources integrated are information, knowledge, and skills obtained from HEIs to build awareness and improve the capacity of UKM human resources. (Bhattacharya & Damij, 2023; Yar Hamidi & Machold, 2020). SDL states that value is not created by producers alone, but is generated in the interaction between producers and customers (value co-creation). In SDL, customers are not only consumers but also "co-creators" of value. Research shows that SMEs that involve customers in innovation, marketing, or product development. Customer involvement in new product development (NPD) increases SMEs' profits and market share (Papageorgiou et al., 2017). From a Service-Dominant Logic (SDL) perspective, we argue that SMEs make a greater contribution to shared value creation by identifying opportunities to integrate firm resources into new and existing service ecosystems.

Implementation of co-creation in SMEs is carried out by using sources internal power such as human resource management (HRM). Redefining HR practices for the future is a crucial step for organizations that want to remain relevant and competitive amidst change (Dini Riani, 2024). SMEs usually have a lower level of complexity compared to larger organizations, in the integration of HR efficiency requires leadership skills to overcome the transition to a more professional organization at the strategic level, while at the same time continuing the daily routines of the operational level. The potential to combine these challenging aspects with the parties involved between employers and workers in the process of identifying and implementing HR practices can be associated with the concept of co-creation. Employees can be involved in HRM practices in several ways. First, through the development of policies and guidelines that cover various stakeholders, including work procedures and behaviors of the existing workforce. In addition, it is important to create forums for dialogue, exchange of experiences and knowledge between managers and employees, which can enhance interaction and collaboration. Specific HRM strategies that facilitate co-creation are by developing workforce skills through needs-based training programs. Customized training helps hone employee skills according to business demands, Involving employees in the decision-making process related to business or operational strategies creates a sense of ownership and encourages innovation and implementing a digital employee management system can help manage employee data, work schedules, and performance appraisals effectively (Ulvenblad & Barth, 2021).

Through the implementation of co-creation, customers not only become passive consumers, but also active partners in the development of new products (Papageorgiou et al., 2017), and increase loyalty and reduce the impact of negative information (Qazi et al., 2017). Customer loyalty is a key element for companies that must be maintained through effective, consistent and sustainable strategies (Nurjanah & Juanim, 2020). The concept of Co-Creation is also known as one of the new marketing strategies, where third parties are involved in developing a product. Co-Creations is also a solution when research and development in a department becomes too expensive. On the one hand, by involving customers in the development of a product, it can create a psychological effect for consumers towards the product. Furthermore, it is expected that closeness in the form of loyalty will be created between consumers and products. The scale for measuring the behavioral

process in creating value Co-Creation has an implicit hierarchical structure based on eight activities to ensure adequate semantic coverage, concepts: brain activity, cooperation, research and information gathering, a combination of complementary activities, habit change, co-production, co-learning, and connection. Moreover, this work highlights that the analysis of customer value creation behavior leads to three distinct steps, value Co-Creation and various levels of interaction (Tommasetti et al., 2017). High-quality interactions that allow an individual customer to co - create unique experiences with the company are the key to unlocking new sources of competitive advantage (Prahalad & Ramaswamy, 2004). Co-creation is formed from the value of collaboration, customer perception and customer participation with the intermediary of the salesperson, the ability to produce unique co-creation values, according to the needs and requirements of customers. Unique value is a value in itself for the company, this value needs to be continuously built and informed into company values (Marlien et al., 2017).

In addition to developing new products, the application of co-creation in SMEs can also increase brand equity, equity through several ways, namely first with customer involvement, by involving customers in the innovation and product development process, companies can create more meaningful experiences. This builds a stronger relationship between the company and customers, giving customers a sense of ownership of the brand. Second with direct feedback, through co-creation, companies get direct and honest feedback from the market. This allows them to customize products and services according to customer needs and preferences, which in turn can increase customer satisfaction and loyalty. Third, building a community, co-creation produces a strong brand community, where customers become part of the community. This can increase brand trust and loyalty, which is very important for brand equity. Fourth, through social legitimacy, the application of co-creation also contributes to the social legitimacy of the brand, where the company is considered more responsive to customer needs and expectations, thereby improving the brand image in the public (Chong et al., 2022).

Models are always associated with the systematic creation, structure, processes and practices to make openness a sustainable and permanent attribute of SMEs business models, the challenge is that companies cannot implement this business model if partners are not open. Openness in partnership refers to the attitude and commitment of partners to share information, ideas, and resources transparently. Openness includes the ability to actively listen and collaborate, creating an environment conducive to the exchange of knowledge and innovation. Openness also includes recognition of each partner's contribution and a willingness to explore the potential of new ideas together. Successful SMEs have navigated the challenges of systematic model creation by adopting a more open and collaborative approach to business. SMEs are encouraged to build systematic structures and processes in collaborating with innovative startups. This includes ongoing monitoring of innovative solutions, rather than a one-off approach (Ghezzi et al., 2022). In addition, formal governance mechanisms, such as contracts, can help regulate the value creation and capture of collaboration between SMEs and startups without the need for equity alliances. This approach allows SMEs to implement open business models that are sustainable and continuously innovate (Child et al., 2017; Ghezzi et al., 2022). The process of openness can also occur in a way Open innovation also needs to be carried out by SMEs engaged in the service sector, by proposing the exchange of information between companies and external stakeholders to improve the results of the innovation process. open innovation approach to improve the company's innovation performance by implementing co-creation practices with customers (Giordino et al., 2024).

Another challenge faced by SMEs is the limited consumer information. Research has been conducted on the fashion industry, which experiences limited access to important consumer information in the early stages of development. Fashion SMEs often struggle to define their brand identity and interact with consumers to gain valuable feedback. To address this, it is important for SMEs to actively engage in the co-creation process by developing strong relationships with consumers and industry stakeholders. The process that entrepreneurial fashion design companies go through in introducing their collections to the industry network involves several key steps. First, they start with significant product development, where the design aesthetic and the designer's personal identity play a major role. After that, the collection is introduced through showrooms and presentations at fashion week events, where buyers, editors, and industry influencers provide feedback on the collection (Millspaugh & Kent, 2016).

Many SMEs face difficulties in managing the technological tools needed for co-creation, such as digital platforms and analytical systems. Lack of skills in utilizing technology can slow down the process and reduce the effectiveness of co-creation (Eikebrokk et al., 2018; Mohamad et al., 2022; Song Sen, 2023). The digital technology barriers faced by SMEs are found to cover several aspects, such as limited resources to adopt and integrate digital technologies, lack of digital skills among staff, and uncertainty about investing in new technologies. In addition, there are challenges related to accessibility and inadequate technology infrastructure, which can slow down the process of digital transformation and collaboration between SMEs and their partners. These are inhibiting factors in the implementation of technology that can support interaction and co-creation (Mohamad et al., 2022). Potential solutions that can be undertaken by SMEs include increasing technological competency through training, collaborating with more experienced partners, and building networks to share knowledge and best practices. This can help increase the speed and effectiveness of the co-creation process (Eikebrokk et al., 2021). The technology-related challenges faced by SMEs also relate to the implementation of the digital economy. The development of the configuration of the digital economy business model can create certain problems related to value creation. However, in other studies, the digital economy has been shown to be able to increase value co-creation for West Java SMEs by adopting digital technology in SMEs operations (Hermina, 2024).

CONCLUSION

Co-creation is a collaborative strategy that involves customers and other stakeholders in product and service development. The results of this literature review are: (1) The strategy for implementing co-creation in SMEs is carried out in four ways (a) integrating internal and external knowledge, SMEs can utilize knowledge sharing, information integration, and knowledge application to improve innovation and competitiveness. (b) Utilizing information interactions, by using digital platforms such as social media and data-based technology, SMEs can improve collaboration, agility, and innovation. (c) Improving HR competency, the implementation of co-creation in SMEs also includes employee involvement in decision making, needs-based training, and the use of digital management systems to improve operational efficiency. (d) Customer involvement in the innovation process, providing tools for customers to participate in product design, provide feedback, and build a loyal and responsive customer community. (2) Implementation of Co-creation. The implementation of co-creation is supported by the service-dominant logic approach (Service-Dominant Logic, SDL) which emphasizes shared value generated through the integration of resources between the company and customers. Implementation of co-creation involves: (a) Integration of resources, such as SMEs working with higher education institutions to increase human resource capacity. (b) Product innovation, SMEs in the manufacturing sector provide tools to customers to create their own product prototypes, (c) Digitalization process, the use of digital technology for effective interaction with customers, such as through social media or online platforms. (d) Collaboration with External Parties, SMEs can partner with startups and other parties to accelerate innovation. (3) The challenges faced by SMEs in implementing co-creation are: (a) Limited partner openness: some partners do not have a commitment to share information or collaborate transparently. (b) Limited consumer information, SMEs, such as in the fashion industry, often have difficulty in obtaining adequate data from consumers in the early stages. (c) Technology Barriers, Many SMEs face limitations in technology infrastructure, staff digital skills, and investment in new technologies. (d) Lack of resources: Managing human resources and developing efficient systems is often a challenge due to financial and operational constraints. Areas for further research, although this study specifically examines the strategy, implementation and challenges of implementing co-creation in SMEs based on research in 2015-2024, further research is needed such as, Gaps in technological literacy, In-depth studies on how SMEs can improve technological competence through training or collaboration with more experienced partners and sustainability in co-creation, examining how co-creation can encourage sustainable and environmentally friendly innovation in the SMEs sector.

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