

## CO-PRODUCTION AND COLLABORATIVE NETWORKING IN THE PUBLIC ENTREPRENEURSHIP ECOSYSTEM:AN ANALYSIS OF HETERO SPACE IN CENTRAL JAVA

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### Abstract

*Public service innovation in the development of micro, small, and medium enterprises (MSMEs) in Indonesia has been historically dominated by the managerial logic of New Public Management, which positions efficiency and quantitative targets as the measure of success. This approach fails to build long-term relational capacity among entrepreneurs, government, and the broader supporting ecosystem. This article analyses HETERO SPACE (House of Entrepreneurs, Technology-driven Ecosystem, Resource Optimization, Supportive Programs, Accessible Network, Collaborative Environment), a public service innovation developed by the Cooperatives and SME Office of Central Java Province, which received outstanding recognition in the 2025 Public Service Innovation Competition. The analysis applies a New Public Governance framework with emphasis on two sub-theoretical dimensions, namely co-production and collaborative networking. The research approach is a qualitative case study drawing on secondary data from the official Public Service Innovation System, implementation reports of the Central Java Cooperatives and SME Office, and relevant academic literature. The central argument is that HETERO SPACE is not merely an expanded MSME assistance programmed but a transition in the role of government from a sole service provider to an ecosystem orchestrator that mobilizes resources across actors. Findings indicate that HETERO SPACE success rests on three interrelated conditions, namely a platform design that facilitates inter-actor encounters, trust built through repeated interaction, and institutional commitment from the provincial government to share authority with non-state partners. The article contributes to Indonesian public administration literature by shifting the analytical arena of co-production from the social and health sectors to economic governance, and by demonstrating that New Public Governance principles can be operationalized concretely at the subnational level.*

**Keywords:** Co-Production; Collaborative Networking; Entrepreneurial Ecosystem; Hetero Space; New Public Governance; MSMEs

### 1. INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) are the structural backbone of Indonesia's economy. According to data from the Ministry of Cooperatives and MSMEs, MSMEs account for more than 60 percent of the national Gross Domestic Product and

employ approximately 97 percent of the private-sector workforce. This contribution is not matched by commensurate innovation capacity and competitiveness. Most MSMEs operate at the micro level with limited access to technology, formal financing, and broader market networks. These issues are structural in nature and cannot be resolved through fragmented sectoral interventions.

Over the past two decades, MSME empowerment policies in Indonesia have been dominated by an approach rooted in the New Public Management paradigm. Cooperative and SME agencies at the provincial, regency, and city levels operate based on quantitative targets—ranging from the number of SMEs assisted, the volume of credit disbursed, to the number of training participants. The logic of competition and efficiency is applied in the allocation of funds, while the government’s relationship with business actors tends to be transactional. This approach produces reportable outputs but fails to build a sustainable entrepreneurial ecosystem.

Criticism of New Public Management in SME governance is not new. Stam’s (2015) research in Europe shows that a top-down approach to SME development results in long-term dependence on government subsidies and fails to foster autonomous entrepreneurial capacity. Pollitt and Bouckaert (2017) document a paradigm shift in various countries from New Public Management toward a more collaborative network model. In Indonesia, this debate remains largely normative, and there are few empirical studies demonstrating how alternative paradigms can be operationalized within the context of local government.

Indonesia’s political and institutional context poses specific challenges to the operationalization of the network paradigm. The decentralized political system in place since 1999 grants substantial authority to provincial and regency governments in managing MSMEs; however, the technical and institutional capacity to exercise that authority is unevenly distributed across regions. Some provinces with strong economic bases and reformist leadership have been able to develop innovative governance models. Other provinces, still grappling with fundamental structural issues, tend to remain stuck in implementing standard programs without contextual adaptation. This variation creates a natural laboratory for studying the conditions that enable public service innovation to flourish, and Central Java’s HETERO SPACE is one such relevant case worthy of in-depth study.

It is in this context that HETERO SPACE is worth examining. This innovation, developed by the Central Java Provincial Cooperative and Small and Medium Enterprises Agency, was awarded the “outstanding” distinction in the 2025 Public Service Innovation Competition (KIPP) organized by the Ministry of State Apparatus Empowerment and Bureaucratic Reform in the category of Economic Equity and SME Strengthening. The acronym HETERO SPACE encapsulates the core components of the innovation, including House of Entrepreneurs, Technology-driven Ecosystem, Resource Optimization, Supportive Programs, Accessible Network, and Collaborative Environment. The use of the terms “ecosystem,” “network,” and “collaborative” in the innovation’s name is no mere semantic coincidence. It reflects a conceptual shift in how the government positions itself in relation to business actors.

Unlike conventional SME assistance programs, which take the form of a one-way relationship between the government as the provider and business actors as the recipients, HETERO SPACE is designed as a platform involving a diverse range of actors, including

universities, financial institutions, state-owned enterprises (SOEs), regionally-owned enterprises (ROEs), business associations, and entrepreneurial communities. The provincial government does not provide all services directly but rather mobilizes and coordinates existing capacities within the ecosystem. This approach theoretically aligns with the New Public Governance paradigm developed by Osborne (2006, 2010), particularly in the dimensions of co-production and collaborative networking.

This article formulates two research questions. First, how do the mechanisms of co-production and collaborative networking operate within HETERO SPACE? Second, to what extent does this innovation represent a shift in the government's role from sole service provider to ecosystem manager? By addressing these two questions, this article argues that HETERO SPACE provides empirical evidence that the principles of New Public Governance can be concretely operationalized at the local government level in Indonesia, while simultaneously expanding the literature on co-production—which has traditionally been more prevalent in analyses of the social and health sectors—into the realm of economic governance.

KIPP's institutional role within Indonesia's government innovation policy also needs to be understood. Established in 2014, KIPP serves as a mechanism for the state to recognize best practices at the level of public service delivery units, as well as an instrument for the diffusion of innovations across agencies. The "outstanding" designation awarded to HETERO SPACE in 2025 is not merely ceremonial. It carries policy implications, including a requirement for replication by the KIPP Replication Group the following year, attention from the Ministry of State Apparatus Empowerment and Bureaucratic Reform, and political legitimacy for the provincial government to expand the program. Studies of innovations endorsed by KIPP are important because they directly influence the direction of institutional learning at the national level, rather than merely serving as reports on isolated local best practices.

The significance of this article is twofold. At the academic level, it fills a gap in the Indonesian public administration literature, which has rarely analyzed MSME innovations through the New Public Governance framework. At the policy level, the findings of this article are relevant to other local governments seeking to design MSME empowerment models that go beyond the transactional logic of New Public Management. The following sections outline the conceptual framework, followed by the research methods, discussion, and conclusions.

## **LITERATURE REVIEW**

### **New Public Governance as a Paradigmatic Foundation**

New Public Governance emerged as a theoretical response to the limitations of New Public Management in addressing complex public issues involving multiple actors. Osborne (2006) noted that New Public Management, which is based on the managerial logic of the private sector, is inadequate for situations where the desired outcomes cannot be produced by a single organization. When public issues involve many stakeholders with differing interests and capacities, both the Weberian hierarchical model and the market-based model characteristic of New Public Management reach their limits. New Public Governance proposes a network model as a more suitable mode of governance for such conditions.

In the volume he edited, Osborne (2010) clarifies that New Public Governance is not merely a variation on existing governance studies, but rather a paradigm that views the delivery of public services as a process of co-constructing public values between state and non-state actors. The state has not disappeared from the arena. It continues to hold regulatory authority and democratic accountability. What has changed is the way that authority is exercised not through hierarchical command or market contracts, but through network coordination based on trust and reciprocity.

Torfinn, Peters, Pierre, and Sørensen (2012) expand this framework with the concept of interactive governance, which views public governance as a sustained and institutionalized interaction among actors. In their view, successful public innovation in the contemporary era is almost always collaborative in nature. No single actor possesses all the resources, knowledge, and legitimacy required to address complex public issues. This argument is relevant to the context of MSMEs, where competitiveness issues cannot be resolved solely through interventions by the cooperative agency without the involvement of universities, the private sector, and the entrepreneurial community itself.

In Indonesia, the New Public Governance paradigm has not yet fully replaced New Public Management in institutional practice, although the rhetoric of collaboration is already quite common in policy documents. One of the challenges in operationalizing New Public Governance in local government is the limited capacity of the bureaucracy to act as a network facilitator, rather than merely a program implementer. Research by Bryson, Crosby, and Stone (2015) shows that cross-sectoral collaboration requires specific competencies in building trust, managing conflicts of interest, and maintaining pluralistic accountability. Without these competencies, the rhetoric of collaboration tends to devolve into a practice of superficial coordination that remains dominated by the government.

The understanding of New Public Governance used in this article is operational in nature, not a paradigmatic debate. The question at hand is not whether New Public Governance is generally superior to New Public Management, but rather whether the New Public Governance framework provides a sharper analytical tool for understanding HETERO SPACE as a concrete innovation. This question shifts the focus from abstract paradigmatic debates to interpretive work on ongoing institutional practices).

It is also important to clarify the position of New Public Governance in relation to other relevant alternative paradigms, particularly New Public Service as formulated by Denhardt and Denhardt (2015). Both paradigms share a critique of New Public Management but differ in their focus. New Public Service centers on the relationship between the state and citizens as individuals, with an emphasis on democratic values, participation, and public dialogue. New Public Governance centers on the relationships among organizations and actors within networks of public value production, with an emphasis on coordination, co-production, and the governance of shared resources. For the HETERO SPACE case, which involves a multi-actor network (government agencies, universities, funding institutions, and associations), the New Public Governance framework is more appropriate than New Public Service, although the two are complementary at the conceptual level.

### **Co-production: Concept, Mechanisms, and Typology**

The concept of co-production has a longer theoretical history than New Public Governance as a paradigm. Early studies by Ostrom and her colleagues in the 1970s in

Chicago demonstrated that public safety as a service is not produced solely by the police, but through interactions between the police and citizens. This concept has since experienced a resurgence over the past two decades alongside the development of New Public Governance studies. Alford (2009) redefined co-production as the involvement of public sector clients in the process of value creation, rather than merely the passive acceptance of ready-made services.

Voorberg, Bekkers, and Tummers (2015) conducted a systematic review of 122 articles on co-production and co-creation, then proposed a typology useful for empirical analysis. They distinguished three modes of engagement. The first mode, “citizen as co-implementer,” occurs when citizens assist in the implementation of government-designed services. The second mode, “citizen as co-designer,” occurs when citizens participate in designing services. The third mode, “citizen as initiator,” occurs when citizens or non-state actors initiate a service that is subsequently supported by the government. This typology is useful for measuring the depth of co-production in concrete innovations, while also identifying the actual level of authority sharing that takes place.

A critical question in the co-production literature is: under what conditions does co-production function effectively, and when does it fail to deliver the promised public value? Voorberg and his colleagues identified three structural conditions: the capacity of non-state actors to participate; participation incentives aligned with their interests; and institutional designs that facilitate sustained engagement. The key takeaway from this review is that co-production is not an administrative technique that can be applied mechanically, but rather a relational practice requiring an investment of time and trust.

In the context of the SME ecosystem, co-production takes on a specific character. Business owners are not passive clients who simply receive assistance. They are economic actors who possess contextual knowledge about markets, technological needs, and industry dynamics that is often more nuanced than that of bureaucrats. Effective co-production in SME development means that the government creates space for business actors to define the problems they face and help design solutions, rather than merely serving as participants in pre-determined programs.

Studies on co-production in Indonesia remain relatively limited and tend to focus on the social services sector, health, or community-based natural resource management. Its application to SME governance is virtually nonexistent. This is not because SMEs are irrelevant to co-production analysis, but rather because the dominant theoretical framework in Indonesian SME studies is development economics and industrial policy, not public administration. This article seeks to bridge that gap by positioning SMEs as a legitimate arena of public governance, not merely as objects of economic policy.

The dark side of co-production must also be acknowledged before applying it to empirical analysis. Steen, Brandsen, and Verschuere (2018) demonstrate that co-production practices can lead to unintended consequences, including the shifting of workloads from government officials to citizens, the exclusion of groups with low participatory capacity, and tokenism that masks state control behind the rhetoric of participation. In the context of MSMEs, a specific risk worth considering is when co-production becomes a mechanism for the government to shift the responsibility for investing in supporting infrastructure to



business actors who lack the resources to bear that burden. The co-production framework must therefore be applied with a critical, rather than an apologetic, mindset.

### **Collaborative Networking in Public Governance**

While co-production focuses on the relationship between service providers and service recipients, collaborative networking focuses on the relationships among providers—or, more precisely, among the various actors who collectively build service capacity. Provan and Kenis (2008) proposed a widely cited typology of governance networks. The first type, participant-governed networks, consists of networks managed by the participants themselves without an administrative entity. The second type, lead organization-governed networks, consists of networks with a single organization that assumes a leadership role. The third type, network administrative organizations, consists of networks with a dedicated administrative entity. This typology is useful for analytically identifying the governance structure of HETERO SPACE.

Ansell and Gash (2008) complement this discussion with a collaborative governance framework that identifies the conditions for successful multi-actor collaboration. Based on a comparative analysis of 137 cases, they identified four success variables: initial conditions, which include power imbalances and a history of conflict among actors; an inclusive and transparent institutional design; facilitative leadership; and the collaborative process itself, which encompasses face-to-face dialogue, trust-building, and commitment to the process. This framework serves as a productive evaluative tool for assessing whether a network is truly collaborative or merely formal.

A critical issue in the literature on collaborative networking is the question of power. Networks that are nominally collaborative can still be dominated by certain actors who possess greater resources or legitimacy. In the context of provincial governments collaborating with MSMEs, power asymmetry is an initial condition that cannot be ignored. The government holds regulatory authority, access to public budgets, and the capacity to set the agenda. MSMEs especially micro-enterprises come to the table with significantly weaker bargaining power. A relevant empirical question is whether HETERO SPACE possesses mechanisms that reduce this asymmetry, or whether it actually reproduces it in a more subtle form.

Bryson, Crosby, and Stone (2015) deepen the analysis by demonstrating that sustainable cross-sector collaboration requires institutionalized governance structures, not merely ad hoc meetings. They emphasize the importance of written agreements on the roles of each actor, clear decision-making mechanisms, and accountability systems that accommodate the plurality of stakeholders. Without such formalization, collaboration is vulnerable to ending with a change in leadership or a shift in political priorities.

An important contribution by Klijn et al. (2025) to this discussion is the explicit acknowledgment that governance networks do not automatically produce fair or efficient outcomes. The quality of a network must be evaluated along two dimensions simultaneously: the quality of the process (whether decisions are made inclusively and accountably) and the quality of the outcomes (whether the network generates tangible public value). Neglecting either dimension leads to a misleading assessment whether of a network that is democratic but unproductive, or one that is effective but exclusive.

The literature on collaborative governance in the Indonesian context is still in its formative stages, but several studies provide relevant starting points. Research on collaborative governance in the sectors of natural resource management, public health, and disaster management indicates that the success of multi-stakeholder collaboration in Indonesia is highly dependent on local leadership that possesses political legitimacy and relational competence. Indonesia's political and cultural characteristics—including patron-client relationships, a still-strong bureaucratic hierarchy, and a tradition of communal deliberation—lend a unique texture to collaborative practices that cannot be fully understood through frameworks developed in the contexts of North America or Western Europe. Context-sensitive conceptual adaptation is a critical agenda for local scholarship.

### **The Entrepreneurship Ecosystem as an Arena for Public Governance**

The concept of the entrepreneurship ecosystem originated in studies of regional economic development and later entered the public administration literature. Isenberg (2011) identified six interrelated components of the entrepreneurship ecosystem: public policy, financing, entrepreneurial culture, support systems (including mentors and professional networking infrastructure), human capital, and markets. The policy implication of this framework is that interventions focused solely on a single component such as financing alone—tend to fail if other components do not develop in parallel.

Stam (2015) expands on this analysis by contrasting two approaches to entrepreneurship ecosystem policy: a top down approach that replicates the Silicon Valley model in other locations, and a context-based approach that builds ecosystems from existing local conditions. His study shows that the top-down approach almost always fails because it does not adapt to local social and economic structures. The context-based approach is more promising, but it requires local governments to have a deep understanding of local dynamics and the capacity to mobilize existing actors in their regions.

The role of government in the entrepreneurial ecosystem has undergone a conceptual shift. In the classic New Public Management model, the government is a service provider that channels assistance to MSMEs. In the more advanced facilitative model, the government acts as a facilitator that eases MSMEs' access to various resources. In the model proposed in recent literature, including by Torfing and colleagues (2012) and Stam (2015), the government acts as an ecosystem manager that actively mobilizes and coordinates other actors without having to control them directly. The role of an orchestrator requires different competencies from those of a provider or facilitator.

The context of Indonesia's MSME ecosystem has structural characteristics that distinguish it from the contexts of developed countries, which serve as the primary references in the literature on entrepreneurial ecosystems. First, the distribution of capacity among MSMEs is highly uneven, with the majority falling into the subsistence micro-tier and a minority in the medium tier ready to compete in formal markets. Second, access to formal financing remains a major obstacle, with SME financial inclusion levels still far from adequate. Third, uneven digital and logistics infrastructure across regions creates differing market access gaps for SMEs in Java compared to those outside Java. These characteristics demand an ecosystem model that is adaptive to the internal heterogeneity of SMEs, rather than a model that simplifies policy into a single approach.

A synthesis of these four subsections of the conceptual framework yields three analytical propositions that will be tested against HETERO SPACE data in the discussion section. The first proposition is that HETERO SPACE can be understood as a New Public Governance innovation insofar as it possesses a network structure designed for the co-production of public value between government and non-state actors. The second proposition is that the effectiveness of HETERO SPACE depends on whether it meets the conditions for successful collaboration identified by Ansell and Gash (2008) and employs a network type appropriate to its context, as outlined by Provan and Kenis (2008). The third proposition is that the role of the provincial government in HETERO SPACE can be evaluated along a spectrum of provider, facilitator, and orchestrator, with different implications for the required institutional capacity.

## 2. RESEARCH METHOD

This article employs a qualitative case study approach as developed by Yin (2018), with HETERO SPACE as the sole unit of analysis. The choice of a single case study was based on two considerations. First, HETERO SPACE is an innovation that has recently been recognized as an outstanding KIPP 2025 initiative and does not yet have an equivalent comparator case in the Indonesian context. Second, the analytical objective of this article is to gain an in-depth understanding of the institutional and relational mechanisms that make this innovation work, rather than to produce statistical generalizations. An in-depth case study is more suitable for this purpose than a comparative design involving multiple cases.

Data were collected from three primary sources. The first source consists of official documents published through the Public Service Innovation System (SINOVIK) of the Ministry of State Apparatus Empowerment and Bureaucratic Reform, including innovation application forms, panel evaluation reports, and the announcement document for the 2025 Outstanding KIPP award. The second source consists of institutional documents from the Central Java Provincial Cooperative and Small and Medium Enterprises Agency, including annual reports, strategic plans, and publications about HETERO SPACE on the provincial government's official channels. The third source comprises academic literature relevant to the frameworks of New Public Governance, co-production, collaborative networking, and entrepreneurial ecosystems, drawn from both international and Indonesian contexts.

The analysis was conducted in two stages. The first stage was descriptive and interpretive, involving the reconstruction of HETERO SPACE's profile, including its objectives, design, involved actors, operational mechanisms, and reported achievements. The second stage is analytical and conceptual, involving the mapping of empirical findings against propositions formulated at the end of the conceptual framework, with the aim of assessing the extent to which HETERO SPACE meets the criteria for New Public Governance innovation and identifying limitations arising from the Indonesian context.

The main limitation of this article lies in its reliance on secondary data, most of which was produced by institutions with a vested interest in a positive assessment of their innovation. Reporting bias is an inherent risk. To mitigate this, this article employs triangulation with independent academic literature and a theoretical framework that provides external evaluative criteria. Field validation through interviews with network actors—including MSME operators and university partners—is necessary for further study but was



not conducted in this article. Acknowledging these limitations places the article's findings at a conceptual-interpretive level rather than as conclusive empirical claims.

The operationalization of the analytical stage was carried out through explicit mapping between concepts and empirical indicators. For co-production, the three modes identified by Voorberg, Bekkers, and Tummers (2015) were translated into operational questions: who defines the problem, who designs the solution, and who implements the service. For collaborative networking, the four conditions identified by Ansell and Gash (2008) were broken down into indicators that could be traced in the documents: actor profiles (initial conditions), rules and procedures (institutional design), the role of organizational leaders (leadership), and dialogue mechanisms (collaborative processes). Provan and Kenis's (2008) network typology was applied by identifying the network's coordination center and level of operational autonomy. This explicit mapping ensures that conceptual interpretations can be traced back to empirical data, thereby preventing the analysis from becoming theoretical speculation detached from the case.

Research ethics were upheld through the exclusive use of openly published data sources, whether from official government channels or academic journals. No personal data of MSME actors or internal information from the Cooperative and SME Agency was used without permission. Official data sources were cited with clear attribution, and the interpretations presented in this article are solely the responsibility of the authors and do not represent the institutional positions of the referenced parties.

### 3. RESULTS AND DISCUSSION

#### 3.1. Results

##### **HETERO SPACE Profile: Background, Design, and Stakeholders**

HETERO SPACE emerged from the institutional realization within the Central Java Provincial Government that the development of MSMEs could no longer rely on a fragmented, program-by-program approach. The province is home to more than four million MSMEs spread across 35 regencies and cities, with a wide range of capacities and needs. Traditional approaches focused on mass training or the distribution of capital assistance have proven inadequate for reaching the segment of MSMEs that require substantive guidance in product development, access to technology, and market expansion.

The HETERO SPACE design operationalizes six components that form its acronym. The "House of Entrepreneurs" component serves as a physical and digital space where MSME actors can access various services through a single point of contact. The "Technology-driven Ecosystem" component encompasses the integration of digital platforms for marketing, learning, and coordination. The "Resource Optimization" component refers to the utilization of existing resources within the network's partners, so the government does not need to provide all the infrastructure itself. The "Supportive Programs" component is a portfolio of mentoring programs that can be accessed according to the needs of MSMEs. The "Accessible Network" component includes inclusive membership and access mechanisms. The Collaborative Environment component encapsulates the norms and culture of cooperation among stakeholders.

Stakeholders involved in the HETERO SPACE network fall into at least five categories. The provincial government, through the Cooperative and SME Agency, acts as

the initiator and coordinator. Universities contribute to market research, product development, and academic mentoring. Financial institutions, including banks and microfinance institutions, provide access to capital. State-owned enterprises (SOEs) and regionally-owned enterprises (ROEs) in related sectors contribute to market access and supply chains. Business associations and entrepreneurial communities bring practical knowledge and networks of fellow business actors. MSME actors themselves are end-users and, in certain configurations, co-producers of ecosystem services.

The KIPP 2025 Outstanding Recognition for HETERO SPACE explicitly refers to its ecosystemic nature, not merely quantitative achievements. The panel commended the initiative's ability to integrate components previously scattered across different programs and create a platform that can be replicated in other provinces. This recognition also validates the argument that sustainable SME empowerment requires a governance approach different from the New Public Management model that has dominated until now.

The day-to-day operations of HETERO SPACE are carried out through a combination of physical and digital channels. The physical channel consists of coworking spaces located in strategic areas within provincial capitals, equipped with training facilities, consultation rooms, and product display areas. Digital channels consist of an online platform that connects MSME actors with mentoring services, learning curricula, online market access, and program registration. The integration of these two channels allows MSMEs with different geographic profiles and technological capacities to enter the ecosystem through appropriate pathways. This dual-channel design also makes HETERO SPACE relatively resilient to operational disruptions such as restrictions on in-person interactions during disease outbreaks since core functions can continue to operate through digital channels.

### **Analysis of Co-production in HETERO SPACE**

Applied to the typology developed by Voorberg, Bekkers, and Tummers (2015), HETERO SPACE exhibits a combination of the three modes of co-production they identified, with varying intensities across each service component. In the training and mentoring components, MSME actors tend to act as co-implementers. They participate in programs largely designed by the government and university partners, with limited room for adaptation. In the product development component, there is more room for co-design. Business actors help determine the direction of development based on market needs, which they understand better than bureaucrats. In certain components, such as the development of thematic entrepreneurial communities, non-state actors may act as initiators, with the government providing support for initiatives already launched by the community.

This varying intensity of co-production is not a weakness of the innovation but rather a reflection of the realistic condition that not all public service components require the same level of co-production. The critical question is whether the HETERO SPACE design allows for a shift in the intensity of co-production over time, as MSME actors build greater capacity to participate substantively in service design. Based on available documents, formal feedback mechanisms are in place, but it remains unclear how effectively this feedback is translated into changes in program design.

The three structural conditions of co-production identified by Voorberg and colleagues can be evaluated in the case of HETERO SPACE. The capacity of non-state actors, particularly micro-level SMEs, remains variable. Business owners who already

possess managerial capacity and digital literacy are better prepared for co-production than those still operating at a subsistence level. Incentives for participation are quite clear, including market access, financing, and professional networks needed by MSMEs and provided by the ecosystem. Institutional designs that facilitate engagement appear to be present in the form of digital platforms and physical spaces, although the degree of formalization varies.

The analytical implication of this evaluation is that HETERO SPACE meets most of the co-production criteria formulated in the international literature, albeit with a profile specific to the MSME context. Co-production here is not about political or democratic participation in the classical sense, but rather about economic collaboration aimed at generating shared value. This represents a conceptual expansion that broadens the co-production literature, which has thus far developed primarily within the analysis of social and health services.

A critical question that must be raised regarding co-production in HETERO SPACE is whether it is inclusive of the most vulnerable segments of the SME sector. Co-production that succeeds among organized small and medium-sized SMEs does not automatically apply to micro-SMEs operating at a subsistence level. If the platform's design does not actively address this capacity gap, co-production risks reaching only those who are already relatively well-off, while those most in need remain out of reach. This risk is the SME equivalent of the criticism of tokenism identified by Steen, Brandsen, and Verschuere (2018). The available secondary data is insufficient to assess whether HETERO SPACE effectively mitigates this risk, and this remains an important empirical question for field studies.

### **Collaborative Networking Analysis**

Applied to the typology proposed by Provan and Kenis (2008), the governance structure of HETERO SPACE best aligns with the “lead organization-governed network” model, in which the Central Java Provincial Cooperative and SME Agency acts as the lead organization, assuming a leadership role without having to be a separate administrative entity. This configuration is realistic for the initial stage of network development, as the agency possesses formal authority, access to funding, and the ability to mobilize other actors. This model has limitations: the network becomes vulnerable if the agency's leadership changes or if political priorities shift. A transition toward a more autonomous “network administrative organization” model is a development direction that should be considered for long-term sustainability.

The four success variables of collaborative governance identified by Ansell and Gash (2008) can be used to evaluate HETERO SPACE. In the initial phase, there was significant capacity asymmetry between the agency and micro-SMEs; however, the history of conflict among actors was relatively low because Central Java has a tradition of relatively collaborative governance. In terms of institutional design, HETERO SPACE exhibits inclusive characteristics in the form of open access for MSMEs and is relatively transparent, as the program is publicized and well-documented. Regarding leadership, the roles of the agency head and the technical team appear to be facilitative based on available documentation. In the collaborative process, dialogue among actors is facilitated through

regular forums and digital platforms, although the depth of this dialogue needs to be verified with primary data.

Power dynamics inherent in multi-stakeholder collaboration are unavoidable in HETERO SPACE. The provincial government holds asymmetric authority over MSMEs, and universities and financial institutions possess asymmetric resources relative to micro-entrepreneurs. A key empirical question is whether the network's design actively mitigates these asymmetries or allows them to operate through invisible informal mechanisms. Available documentation indicates an awareness of inclusion issues, but specific mechanisms to ensure equal participation by micro-level MSMEs require further examination.

Bryson, Crosby, and Stone (2015) note that sustainable cross-sector collaboration requires adequate formalization. In the case of HETERO SPACE, formalization has already occurred at the level of innovation as an entity (naming, branding, KIPP recognition), but not yet fully at the level of relationships among actors (formal agreements on roles, collective decision-making mechanisms, plural accountability systems). Consolidation at this second level is a critical institutional agenda for the next phase of development.

Applied to Klijn et al.'s (2025) network quality framework, HETERO SPACE demonstrates varying strengths across the two dimensions they identified. In the outcome quality dimension, HETERO SPACE demonstrates verifiable achievements, including the number of MSMEs involved, market access opened up, and formal recognition from the Ministry of State Apparatus and Bureaucratic Reform (KemenPAN RB). In the process quality dimension, a thorough evaluation requires more in-depth data on the inclusivity of decision-making, transparency in resource allocation, and accountability mechanisms toward participating MSMEs. This evaluation asymmetry between the two dimensions is a common characteristic of public service innovations, where it is easier to quantify outputs than to qualify processes, and it represents a methodological challenge that deserves recognition in contemporary public administration research.

The aspect of trust within the HETERO SPACE network requires special attention. Ansell and Gash (2008) emphasize that trust is the product of repeated interactions that demonstrate commitment to the process, not a given initial condition that can be assumed. In the context of HETERO SPACE, trust among actors is built through traceable mechanisms, including the consistency of provincial government support for multi-year programs, the availability of regular dialogue among partners, and the reliability of fulfilling promised commitments. These factors are institutional, not personal, so trust can endure through changes in key officials, provided that the institutional structures supporting it remain intact. Conversely, networks that rely on personal leadership relationships will become fragile when officials change. This assessment is crucial for designing strategies to ensure the network's sustainability.

### **The Shift in the Government's Role from Provider to Orchestrator**

The analysis in the previous three subsections yields one overarching finding: HETERO SPACE reveals a shift in the role of the provincial government that goes beyond the classic provider model. The Cooperative and SME Agency is no longer the sole provider of services for MSMEs. It mobilizes the capacities of universities, financial institutions, state-owned enterprises, and entrepreneurial communities to build an ecosystem richer than

what the agency could provide on its own. This shift aligns with the concept of government as an orchestrator developed in recent New Public Governance literature.

This shift is neither comprehensive nor without tension. In some areas, the agency continues to operate under a provider logic, particularly in programs based on direct budgets and quantitative output targets. In other areas, the agency acts more as a facilitator, easing SMEs' access to partner services. In the most mature components, the agency acts as an orchestrator that actively mobilizes other actors. The coexistence of these three roles within a single innovation reflects an ongoing paradigmatic transition, not a completed substitution.

The implications for institutional capacity resulting from this role shift are significant. The role of orchestrator requires competencies that traditional bureaucracies do not automatically possess, including the ability to build and maintain networks, manage conflicts of interest among actors, design platforms that facilitate collaboration, and ensure accountability within pluralistic configurations. Developing these competencies requires long-term investment in human resources and an organizational culture oriented toward relationships, not merely output achievements.

The cultural dimension of this role transformation deserves attention. The Indonesian bureaucracy has historically been shaped by an administrative tradition that emphasizes hierarchy, procedural compliance, and vertical accountability to superiors. The role of an orchestrator demands a substantially different work style, as civil servants must be able to negotiate as equal partners with external actors who are not under their formal authority, manage the ambiguity inherent in network coordination, and shoulder accountability that extends in multiple directions. Not all civil servants are ready for this transformation, and not all organizational structures provide room for this kind of work style. The development of HETERO SPACE in the next phase will test whether the Central Java SME and Cooperatives Agency is able to maintain the momentum of transformation or revert to conventional bureaucratic work patterns once the KIPP recognition period has passed.

A theoretical insight emerging from this analysis is that New Public Governance in the Indonesian context should not be understood as a paradigm that completely replaces New Public Management, but rather as a new layer added to existing institutional practices. HETERO SPACE demonstrates that local governments can adopt the logic of New Public Governance in certain parts of their service portfolio, while maintaining managerial logic in other areas where that approach is more appropriate. This paradigmatic plurality is a realistic characteristic of contemporary public governance, and the public administration literature needs to accommodate this plurality rather than impose an artificial paradigmatic coherence.

This shift in roles also has implications for the configuration of public accountability that warrant serious discussion. In the classical provider model, accountability flows vertically from civil servants to their superiors and to formal oversight bodies such as the Inspectorate and the State Audit Board (BPK), with budget documents and performance reports serving as the primary instruments. In the "orchestrator" model, some activities that generate public value are carried out by non-state actors who are not subject to the same accountability regime. Bryson, Crosby, and Stone (2015) refer to this condition as "accountability ambiguity," where the chain of accountability becomes difficult to trace because it is dispersed among many actors with differing institutional logics. In the case of HETERO SPACE, available documentation indicates an awareness of this issue in the form



of program performance reports submitted to the KIPP channel and to the agency's internal structures; however, there is currently no network accountability mechanism that explicitly extends to nongovernmental partners. Designing such mechanisms for example, through network performance contracts, multi-stakeholder accountability forums, or collaborative audits is an institutional development agenda worth considering to strengthen the democratic legitimacy of network governance.

## Discussion

### Theoretical Contributions and Limitations of the Case

The HETERO SPACE analysis yields two theoretical contributions that warrant explicit articulation. The first contribution is the expansion of the scope of application of the co-production concept from the social and health sectors to economic governance. To date, most studies of co-production in both international and national literature have focused on services in which citizens participate as beneficiaries such as education, health care, or social protection. Positioning MSMEs as co-producing partners opens up a new analytical category economic co-production where participating actors are business operators who possess commercial interests while also maintaining a relationship with the state as citizens. The resulting conceptual implication is the need for a typology of co-production that is sensitive to pluralistic motives for participation, rather than a singular assumption that citizens are actors oriented toward the public interest.

The second contribution is the development of a model for the government's role in the entrepreneurial ecosystem that is appropriate for the context of Indonesian provincial governments. The "orchestrator" literature has largely been developed from the experiences of countries with high bureaucratic capacity and mature traditions of network governance. The HETERO SPACE case demonstrates that the "orchestrator" role can be partially adopted in contexts with more varied bureaucratic capacities, provided there is leadership commitment, political support, and an institutional framework that allows for experimentation. This adaptation is not a direct replication of an external model, but rather a combination of general principles of network governance with Indonesian cultural and institutional elements.

The analytical limitations of this article must be honestly acknowledged. First, reliance on secondary data means that aspects of relational dynamics and actors' perceptions that are not formally documented cannot be accessed. Field studies using in-depth interviews and institutional ethnography would substantially deepen these findings. Second, the focus on a single case limits the capacity for generalization. Comparative studies that contrast HETERO SPACE with similar MSME innovations in other provinces, or with co-production innovations in the non-economic sector, would strengthen the theoretical claims presented here. Third, the analytical timeframe is limited to the period of the KIPP 2025 ratification. A longitudinal study tracking the evolution of the network over time would provide a richer understanding of the dynamics of resilience and transformation in public governance networks.

The methodological implications of this analysis apply not only to the HETERO SPACE study but also to the broader research agenda in Indonesian public administration. Studies on public service innovation have thus far tended to stop at the level of describing achievements and conducting normative validation based on best-practice frameworks. A

more analytical approach needs to be developed, characterized by the use of an explicit theoretical framework, the identification of testable propositions, rigorous triangulation of data sources, and a willingness to acknowledge negative findings or interpretive uncertainties. Such studies will contribute to the accumulation of cumulative knowledge, rather than merely documenting disconnected, case-by-case examples.

The final reflection in this discussion section addresses the relationship between theory and practice in public governance. The New Public Governance paradigm emerged from the institutional experiences of countries with well-established governance traditions and was subsequently codified into an academic concept. When this concept is reapplied to other contexts, including Indonesia, there is a risk of mimetic isomorphism, where institutions adopt the formal structure of network governance without substantive transformation of the underlying institutional practices. HETERO SPACE shows early signs of substantive transformation, but deeper consolidation requires a long-term commitment to changing bureaucratic culture, civil service incentive systems, and political accountability that accommodates the complexity of network governance. Without transformation at this deep level, innovations like HETERO SPACE risk becoming mere showcases of success that are not rooted in broader institutional practices.

It is also necessary to consider HETERO SPACE's position within the national political economy of Indonesia's SME policy. Innovations at the provincial level do not operate in a vacuum. They interact with the national policy framework established by the Ministry of Cooperatives and SMEs, with Bank Indonesia and the Financial Services Authority's SME financing agendas, with economic empowerment programs implemented by other ministries, and with macroeconomic dynamics beyond the control of the provincial government. The sustainability of HETERO SPACE depends not only on the internal capacity of the Central Java Cooperative and SME Agency but also on the continuity of national-level policies that support a network governance approach to SME empowerment. Shifts in priorities at the central level such as a return to a rigid focus on quantitative targets—could hinder the scope for innovations like HETERO SPACE, even if commitment at the provincial level remains strong.

The position of this research within Indonesia's public administration research ecosystem also warrants clarification. Studies such as this article, which combine international theoretical frameworks with local empirical cases, serve as a bridge between two traditions that often run parallel without intersecting. On one hand, there is a theory-based public administration research tradition that employs foreign frameworks with cases that are largely abstract or drawn from other contexts. On the other hand, there is a tradition of public service innovation case studies that are rich in empirical data but lack an explicit theoretical framework. The combination of the two makes a stronger contribution, both to the development of context-sensitive theory and to evidence-based policy practice. This article seeks to occupy that position, with the awareness that such an effort requires ongoing dialogue between the research community and the practitioner community.

#### 4. CONCLUSION

This article analyzes HETERO SPACE as a public service innovation in the MSME empowerment sector developed by the Central Java Provincial Government, which received an “outstanding” rating at the 2025 KIPP. The analysis was conducted using the New Public Governance framework, with an emphasis on two sub-theories: co-production and collaborative networking. The two research questions formulated at the outset have been substantively answered. The co-production mechanism in HETERO SPACE operates at three different levels of intensity across each service component, ranging from co-implementation in training to co-design in product development. The collaborative networking mechanism takes the form of a lead organization-governed network, with government agencies serving as the leading actors, and demonstrates an adequate level of success based on the criteria established by Ansell and Gash (2008).

The main argument of this article is that HETERO SPACE represents a shift in the role of the provincial government from a sole service provider to an ecosystem manager that actively mobilizes the capacities of non-state actors. This shift is not comprehensive, but it is substantial enough to categorize HETERO SPACE as an innovation grounded in the New Public Governance paradigm, rather than merely an extension of the classical New Public Management program. This article’s contribution to the Indonesian public administration literature is to expand the analysis of co-production from the social and health sectors to economic governance, while demonstrating that New Public Governance can be concretely operationalized at the local government level despite certain capacity constraints.

Three recommendations are proposed for future policy development and research. First, other provincial governments interested in replicating the HETERO SPACE model should pay special attention to developing the competencies of “orchestrators” within the cooperative and SME bureaucracy, rather than merely adopting the innovation’s name and formal structure. These competencies include relational skills, network management, and the design of participatory platforms skills not automatically covered in conventional public administration training.

Second, formalizing the governance of the HETERO SPACE network in the next phase should be considered to ensure the innovation’s sustainability beyond political cycles and leadership transitions. Transitioning from a lead-organization-governed network to a more autonomous structure for example, a network administrative organization based on formal agreements among actors will reduce the network’s vulnerability to shifts in government priorities.

The third recommendation is that further research involving primary field data gathered through interviews with MSME actors, university partners, and financing institution actors will deepen our understanding of the dynamics of power and trust within the HETERO SPACE network. Aspects such as the participation experiences of micro-level MSMEs, the effectiveness of feedback mechanisms, and the distribution of benefits among actors are important empirical questions that cannot be adequately addressed by document-based analysis, such as that conducted in this article.

The fourth recommendation addresses a broader research agenda: the development of a theoretical foundation for Indonesian public administration that seriously reflects local experiences. To date, the public administration literature in Indonesia has largely relied on frameworks imported from the contexts of developed nations, with only minor adjustments

to local political, institutional, and cultural conditions. Case studies such as HETERO SPACE provide empirical material for the development of more contextual theories, provided that the research is conducted using a consistent analytical framework and with a willingness to question the assumptions inherent in foreign frameworks. The development of such theories is not the task of individual researchers but rather a collective agenda of the academic community that requires collaboration among researchers, dialogue with policy practitioners, and a long-term commitment.

As a broader concluding note, the HETERO SPACE case demonstrates that a paradigmatic transformation in public governance in Indonesia need not await institutional reforms from the central government. Local governments with adequate capacity and leadership can serve as concrete laboratories for developing a New Public Governance model suited to the Indonesian context. The public administration literature needs to document and analyze such experiences more systematically, both for the sake of accumulating academic knowledge and for the practical purpose of disseminating best practices across regions.

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