

## The Role of Small and Medium Enterprises in Local Economic Development: A Case Study of Tanjung Jabung Timur, Jambi Province

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### Abstract:

This study examines the strategic role of Small and Medium Enterprises (SMEs) in driving local economic development in Tanjung Jabung Timur, Jambi Province, against a backdrop of place-based development imperatives and underutilized local resources. The research aims to (1) identify the contributions of SMEs to job creation, household income, and local economic structure, and (2) analyze the enabling and constraining factors affecting SME development, including access to finance, technology, market, and managerial capacity. Employing a qualitative case study approach, data were collected through in-depth interviews, participant observation, and document review with SME owners, local government officials, and relevant stakeholders, and analyzed using thematic coding and triangulation. Findings indicate that SMEs substantively contribute to employment and income generation and strengthen local value chains by leveraging local raw materials, yet their growth is constrained by limited financing options, weak managerial skills, low adoption of digital marketing, and episodic institutional support. The study contributes conceptually by integrating local economic development, SME roles, and community empowerment frameworks, and offers practical recommendations for capacity building, inclusive financing schemes, and policy measures to enhance SME-driven, sustainable local development.

### Keywords:

*Small and Medium Enterprises; Local economic development; Institutional support; Capacity building; Tanjung Jabung Timur*



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## INTRODUCTION

The phenomenon of local economic development is increasingly recognized as an important strategy in creating equitable growth and community welfare in both developing and developed countries. In Indonesia, the Small and Medium Industry (SMI) sector plays a strategic role due to its contribution to GDP and employment, although it still faces constraints on productivity, innovation, and competitiveness (Surya et al., 2021). The findings of the World Economic Forum (2024) reveal that limited access to financing, technology, and global networks are the main factors that hinder the optimization of the role of SMEs in local economic development. In the context of regions such as East Tanjung Jabung, Jambi Province, the large natural resource potential and local raw material-based SMEs have not been fully utilized due to weak policy support, business management, and a sustainable institutional ecosystem.

The gap between the potential and reality of SME management indicates the academic and practical urgency to explore the empirical experiences of SME actors at the local level. Many studies still focus on macro and statistical aspects, while qualitative studies that reveal micro dynamics such as managerial constraints, collaboration with stakeholders, and adoption of digitalization are still rare. This gap shows the need for a more contextual understanding of the role of SMEs as agents of change in underdeveloped regions such as East Tanjung Jabung, including how they adapt to limited resources and suboptimal policies.

This study uses a conceptual framework that combines local economic development theory, SME role theory, and community economic empowerment theory. Local economic development theory emphasizes the importance of regional potential development and community participation (Hasanah, 2020), SME role theory highlights the sector's multiplier effect on the regional economy (RSIS International), while economic empowerment theory explains that innovation, collaboration, and access to resources are key in strengthening community economic empowerment. A qualitative case study approach is used to explore the experiences of SMEs, their constraining and enabling factors, and their adaptation strategies in strengthening the local economy.

The research focuses on two main aspects: (1) identifying the strategic role of SMEs in driving local economic development through job creation, income generation, and strengthening the regional economic structure; and (2) analyzing the constraining and driving factors of SME development such as access to capital, technology, market, and managerial capacity. With this approach, the study contributes to the empirical and theoretical mapping of how SMEs function as regional economic drivers. This study also provides novelty in integrating the three theories into a conceptual model of economic development based on local potential that is contextual and applicable (Utari, 2025).

Recent research trends indicate an important shift in the study of local economic development, from a macro and aggregate focus towards narrative and participatory approaches that highlight micro dynamics at the community level (Emergent Concepts in Local Economic Development, 2024). This research seeks to fill this gap by adopting a qualitative perspective that places SMEs as the main subject in the development narrative. The resulting conceptual synthesis places SMEs as drivers of the local economy through job creation, innovation, and cross-stakeholder collaboration influenced by internal (capacity and innovation) and external (policies and networks) factors. This framework is the basis for the methodological analysis and field data collection described in the Research Methods section.

## **METHOD**

This research uses a qualitative approach with a case study research strategy, which aims to deeply explore social and economic phenomena related to the role of Small and Medium Industries (SMIs) in local economic development in East Tanjung Jabung Regency. This approach was chosen because it is able to generate contextual and narrative understanding of socio-economic dynamics that cannot be explained through quantitative data alone (Creswell & Poth, 2018). The types of data used consisted of primary and secondary data. Primary data were obtained through in-depth

interviews, participatory observation, and field documentation, while secondary data were obtained from local government reports, policy documents, scientific publications, and official statistical data from the Central Statistics Agency (BPS). Interviews were conducted in a semi-structured manner with the guidance of interview guidelines to maintain flexibility and depth of information (Kallio et al., 2016). Observation techniques were used to observe production activities, distribution, and socioeconomic interactions of SMEs in their business environment (Angrosino, 2019).

Documentation was conducted on policy archives, financial reports, and business profiles as triangulation material. Research informants were determined using a purposive sampling technique, with criteria of relevance to the research objectives, which included: (1) SMEs from various business sectors (agriculture, fisheries, processed food, and handicrafts); (2) officials or staff of the East Tanjung Jabung District Cooperative, MSME, and Industry Office; (3) representatives of subdistrict or village governments; and (4) community leaders who understand the dynamics of the local economy. The number of informants was determined flexibly until data saturation was reached (Fusch & Ness, 2015). Data analysis was conducted using thematic analysis with the stages of data reduction, data presentation, and conclusion drawing according to the Miles and Huberman model (Miles et al., 2018). To maintain data validity and reliability, the research applied source, method, and time triangulation techniques (Patton, 2015). The entire analysis process was assisted by NVivo 12 Plus software to perform coding, theme categorization, and systematically map the relationships between conceptual variables (Woolf & Silver, 2018). This methodological approach allows researchers to understand the contribution of SMEs to local economic development in depth through a participatory perspective and based on the experience of actors in the field.

## RESULTS AND DISCUSSION

### Results

The results of this study were obtained through a qualitative data collection and analysis process conducted systematically with a case study approach on a number of Small and Medium Industry (SMI) actors in East Tanjung Jabung Regency. Based on the results of thematic coding and categorization using NVivo 12 Plus, three main themes were found that describe the role of SMEs in local economic development, namely: (1) direct economic contribution through job creation and increased community income; (2) strengthening of regional economic structure through optimization of local resources; and (3) institutional challenges and adaptive capacity of SMEs in facing changes in the business environment. Each main theme consists of several sub-themes obtained from in-depth interviews, field observations, and relevant supporting documents.

The first category, direct economic contribution, shows that SMEs have a strategic role in improving community welfare at the local level. Based on interviews with business actors in the agricultural and fishery product processing sector, the majority of respondents revealed that their production activities are able to absorb labor from the surrounding environment, especially families and local communities. Field data shows that one small business unit is able to open employment opportunities for 3-10 workers with a community-based work system. In addition, SME activities contribute to an increase in household income, where business owners experience an increase in

income of between 15 - 30% after running the business sustainably for the past two to three years. This phenomenon is in line with a report by the Central Bureau of Statistics (2024), which confirms that the MSME sector is the largest contributor to employment in Indonesia, accounting for around 97% of total national employment.

The second relates to strengthening the regional economic structure through optimizing local potential. The findings show that most SMEs in East Tanjung Jabung rely on raw materials sourced from the surrounding environment, such as coconuts, sea fish, and local agricultural products. The use of local resources creates an economic value chain that involves various parties ranging from farmers, fishermen to processing businesses. Some businesses have also started to implement simple innovations such as diversification of processed products and the use of environmentally friendly packaging to increase added value. For example, the coconut processing industry not only produces coconut oil, but also develops derivative products such as soap and activated charcoal. This strengthens the economic multiplier effect at the local level, as the entire supply chain takes place within the same region. Secondary data from the Ministry of Industry (2023) shows that strengthening value chains based on regional potential contributes significantly to increasing the small industry development index at the district level.

The third theme, institutional challenges and adaptive capacity of SMEs, describes the structural barriers faced in the business development process. From interviews with seven key informants, it is known that most SMEs experience difficulties in accessing business capital and financing facilities due to limited collateral and lack of financial literacy. In addition, low managerial and technological skills are an obstacle in increasing productivity. Some SMEs admitted that they have not optimally understood digital marketing strategies, even though online platforms such as e-commerce have become the main means of marketing products in the digital era. Data from the Indonesian Institute of Sciences (LIPI, 2022) also shows that more than 60% of SMEs in Indonesia do not have a mature business digitization strategy.

Another barrier is the lack of institutional support and cross-sector collaboration. Despite training efforts from the Office of Cooperatives and MSMEs, most business owners assessed that the program is not sustainable and has not addressed the specific needs of their business sector. In addition to these three main themes, the study also identified supporting and constraining factors for the development of SMEs in the study area. Supporting factors include the abundance of local natural resources, social support from the community, and the high entrepreneurial spirit of the community. The inhibiting factors include limited access to infrastructure, lengthy licensing bureaucracy, and low synergy between the local government, financial institutions, and business actors. Observation data shows that some SMEs rely on informal social networks to obtain capital assistance or market their products, indicating the existence of a strong form of social capital at the local level. This result is supported by the findings of a study by Widodo and Sutopo (2023) which states that social capital plays an important role in improving the economic resilience of SMEs in rural areas.

Further findings show a shift in the production and marketing orientation of SMEs towards a more adaptive business model. Some SMEs have started to utilize social media such as Facebook and WhatsApp to reach new customers. Although still limited, this digital innovation shows the process of microeconomic transformation towards a digital-based economic system. Research from Yusuf and Rahmawati (2022) also supports these findings by showing that digitalization can improve competitiveness and expand the market reach of SMEs in remote areas.

However, limited internet infrastructure in some areas of Tanjung Jabung Timur is still an obstacle to optimizing this potential. From a social perspective, the results show that SMEs strengthen solidarity and empower local communities. Community-based economic activities create a high level of social engagement, where businesses, workers, and the surrounding community interact regularly in the production and distribution process. This gotong royong economic model plays an important role in building a sense of collective ownership towards business sustainability. A study by Nugraha and Pratama (2023) showed that community involvement in small economic activities can increase social trust and strengthen household economic resilience in the region.

Finally, from the results of data triangulation, the empirical conclusion is that the role of SMEs in local economic development in East Tanjung Jabung Regency covers economic, social, and institutional dimensions in an integrated manner. Although the contribution of SMEs is quite significant towards improving community welfare and strengthening the regional economy, challenges in access to capital, technological innovation, and institutional strengthening are still the main obstacles. This data provides an objective picture of how SMEs operate in a complex and dynamic local economic system, and forms the basis for further analysis in the discussion section.

## Discussion

The results of this study confirm that Small and Medium Industry (SMI) actors in East Tanjung Jabung Regency play a strategic role in local economic development-through job creation, community income generation, and local resource optimization-which directly answers the research objectives regarding the role of SMI and its inhibiting and driving factors. The findings show the existence of community-based businesses that provide employment opportunities for 3-10 workers per business unit, as well as an increase in household income between 15-30% over two to three years. In terms of barriers, limited access to capital, technology, and managerial skills as well as the lack of utilization of digital platforms mark significant challenges. All of this is consistent with the proposed problem formulation, namely how the role of SMEs and what are the inhibiting and driving factors in driving the local economy.

Interpretation of the findings within the framework of local economic development (LED) theory, SME role theory, and economic empowerment theory shows that SMEs not only function as microeconomic actors, but also as development agents rooted in the social and economic structure of the region. LED theory emphasizes that economic development must be place-based and local potential to truly create an inclusive impact (Emergent Concepts in Local Economic Development, 2024). The finding that SMEs use local raw materials and engage the community value chain directly illustrates the applicability of the approach. The theory of the role of SMEs states that small

and medium enterprises can strengthen the regional economic structure and create a multiplier effect for the community (Surya, 2021).

Meanwhile, economic empowerment theory suggests that managerial capacity, access to resources, and institutional networks are key for SMEs to contribute optimally (Susana & Andarwati, 2021). Theoretically, the integration of these three frameworks enables a holistic understanding of the role of SMEs-not just as business units-but as part of the local economic development system. Comparison with previous studies shows both congruence and important differences. As studies show that empowering SMEs through training and government support increases profitability and welfare (Subroto & Baidlowi, 2024), the results of this study are in line with the importance of policy support and business capacity. However, in contrast to many quantitative, macro, and national studies such as Henryanto et al. (2025) who found causality between the number of SMEs and macroeconomic indicators (Henryanto et al., 2025), this study highlights the micro-local level and contextual adaptation factors of SMEs in disadvantaged areas. The paucity of qualitative literature that explores the adaptation process and experiences of local SMEs has been identified as a significant research gap, and this study contributes to filling that space.

The scientific contribution of this article lies in three main aspects: (1) enriching the literature on local economic development through a focus on SMEs in underdeveloped regions, with a qualitative approach that explores the experiences of actors; (2) expanding the conceptual framework with the integration of LED theory, the role of SMEs, and economic empowerment-as a model that can be applied in similar contexts; and (3) from the policy side, providing empirically-based recommendations for regional policymakers, financial institutions, and stakeholders to design interventions that are sensitive to the local context (Panjaitan, 2021). Thus, this article not only adds academic insights but also has practical relevance for strengthening SMEs as the motor of local economic development.

The limitations of this study are also acknowledged proportionally. As it is a qualitative case study with a limited sample of SMEs in Tanjung Jabung Timur, the results cannot be generalized to all regions in Indonesia. The use of primary data based on interviews and participant observation also relies on the openness of the informants and the interpretation of the researcher, which may lead to subjective bias. In addition, the time coverage of the study was limited and therefore did not capture long-term dynamics or the effects of major policy changes. Recommendations for future research include the use of longitudinal designs, inter-regional comparisons, and the addition of quantitative data to strengthen the generalizability of the findings.

In terms of practical implications, this study suggests that local governments develop more targeted policies to improve the managerial capacity of SMEs through technical training, digital literacy, and production technology; financial institutions encourage flexible microfinance schemes for community-based SMEs; and SMEs are expected to build business networks and collaborations with universities or research institutions to strengthen product innovation and digital marketing. For further research, it is recommended to explore the digitalization strategy of SMEs in the rural context, evaluate the effectiveness of empowerment programs and multi-stakeholder collaboration,

as well as comparative studies among disadvantaged districts to understand the variability of local contexts and different forms of adaptation.

## CONCLUSION

This research confirms that Small and Medium Industries (SMIs) have a strategic role in driving local economic development in East Tanjung Jabung Regency through their contribution in creating jobs, increasing community income, and strengthening the economic structure based on regional potential. The results show that SMEs function as economic drivers that are adaptive to local conditions, with the ability to utilize natural resources and local labor efficiently. However, the development of SMEs is still hampered by limited access to capital, technology, markets, and managerial capacity of business actors. These factors slow down the transformation process of SMEs towards highly competitive and sustainability-oriented businesses. On the other hand, institutional support, government policies, and inter-stakeholder collaboration have proven to be important drivers for a more inclusive and sustainable growth of SMEs.

Theoretically, this study enriches the literature on local economic development by demonstrating the close linkages between the role of SMEs, community empowerment, and the strengthening of regional economic structures. The findings integrate local potential-based development perspectives and community participatory approaches, thus expanding the understanding of how local economies can grow from the bottom-up. Practically, this research contributes to formulating policy strategies oriented towards improving the capacity of SMEs, strengthening institutional networks, and developing business support systems such as training, marketing digitalization, and inclusive access to financing. For future research, it is recommended that similar studies be extended to other regions with different socioeconomic characteristics to obtain a broader comparative picture. In addition, a mixed methods approach can be used to strengthen the findings with quantitative data that supports the qualitative results. Future research is also expected to explore in more depth the policy innovations and digitalization strategies of SMEs in strengthening regional economic competitiveness, so that the results can contribute more significantly to the sustainable development agenda and the economic independence of local communities.

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