



THE ROLE OF THE MICRO, SMALL, AND MEDIUM ENTERPRISE SECTOR IN POVERTY ALLEVIATION EFFORTS: AN ANALYSIS OF ECONOMIC VALUE TRANSMISSION MECHANISMS AND DETERMINING FACTORS

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Abstract

This study examines the role of micro, small, and medium enterprises (MSMEs) in poverty alleviation through a qualitative literature review. It focuses on two key aspects: the mechanisms of economic value creation in the MSME sector and the factors that differentiate successful MSMEs from those that remain at subsistence level. The findings show that value creation depends on several factors, including position in supply chains, scale of operations, product differentiation, social capital, adaptive capacity, technology access, and power relations that influence value capture. Meanwhile, the success of MSMEs in improving owners' welfare is shaped by internal factors such as absorptive capacity, personal characteristics, asset ownership, and diversification and external factors, including social networks, inclusive finance, market access, supportive policies, technology and information access, spatial conditions, and environmental sustainability. The study concludes that MSMEs can effectively reduce poverty only when supported by an integrated development approach that strengthens both enterprise capabilities and the broader ecosystem through coordinated policies, capacity building, and improved market access.

Keywords: micro small and medium enterprises, poverty, value creation, welfare, success determinants, people's economy, inclusive development.

Introduction

Poverty has become a structural issue embedded in the development dynamics of many countries, including Indonesia. Its characteristics are multidimensional, not only limited to low income but also extending to limited access to education, health services, and marginalization from economic decision-making processes (Cho et al., 2016). For decades, poverty alleviation efforts have largely been directed toward social assistance-based approaches that are residual in nature. Although this approach provides a short-term safety net, it often fails to build a foundation of economic independence for communities. Through a phenomenological lens, the experiences of individuals and groups in escaping the trap of poverty show that ownership of productive assets and access to economic value chains become crucial turning points. This dynamic indicates that solutions to poverty require strengthening the people's economic base capable of absorbing labor on a broad scale and providing space for initial capital accumulation among vulnerable groups. Micro, small, and medium enterprises (MSMEs) then emerge as entities that are closest to the everyday lives of low-income communities. Their presence, which spreads even to remote areas, makes them a potential economic infrastructure to be empowered. The narrative regarding the sector's ability to create new employment opportunities often becomes the starting point for discussions about its contribution to poverty alleviation (Jauhari & Periansya, 2021).

Academic debates regarding the role of MSMEs in poverty alleviation are often trapped in a dichotomy between theoretical potential and unequal empirical realities (Ewubare & Osuji, 2021). From a theoretical perspective, the MSME sector has high flexibility in labor absorption because its operational scale does not require strict formal qualifications. This makes it the first entry point for new labor force participants or those pushed out of the formal sector due to various economic shocks. However, at the empirical level, this contribution does not automatically correspond with a reduction in poverty rates. Many MSME actors are trapped in a cycle of subsistence economic activities, where the income generated is only sufficient to meet daily basic needs without leaving room for savings or investment. This condition creates an illusion of contribution, where the sector is considered important merely because it absorbs a large number of workers, without

significantly changing the welfare status of its actors. The subjective experiences of MSME actors who live below the poverty line are often overlooked in macro analyses. They face structural constraints such as limited access to formal capital, extreme fluctuations in raw material prices, and an inability to compete with products from large corporations. The accumulation of these experiences shows that the relationship between business ownership and poverty alleviation is complex and not automatic (Widowati & Purwanto, 2019).

The structure of the modern economy, which tends to prioritize large-scale efficiency, often places MSMEs in a vulnerable position. Massive industrialization has created a sharp disparity between the modern business sector and the traditional sector (Fortunato, 2014). On the one hand, MSMEs become the primary absorber of labor that is not accommodated by large industries. On the other hand, they often become victims of unequal competition, particularly in terms of access to technology, market information, and stable supply chains. This phenomenon creates economic segregation in which poor communities are concentrated in the informal sector and micro-scale MSMEs with stagnant productivity (Widowati & Purwanto, 2019). They not only face capital constraints but also encounter difficulties in transforming traditional skills into higher value-added outputs. The everyday life experiences of street vendors, home-based craftsmen, or small-scale farmers show that their businesses function more as a survival strategy rather than as instruments of wealth accumulation. From this perspective, the existence of MSMEs cannot yet be fully interpreted as the main driving force for escaping poverty. Instead, it is the absence of better employment alternatives that forces them to remain in the sector. Therefore, understanding the contribution of this sector requires a clear distinction between its function as a labor absorber and its function as a poverty alleviation mechanism.

In addition to internal factors that limit productivity, the policy ecosystem surrounding MSMEs also plays a significant role in determining whether this sector can become an engine for poverty alleviation (Beck et al., 2005; Geremewe, 2018). Policies that have been implemented so far are often partial in nature, focusing on the provision of cash capital assistance or short-term technical training without considering aspects of

sustainability and market linkages. This fragmented approach produces discontinuous impacts, where the assistance provided fails to encourage structural improvements in business capacity. In the experiences of many MSME actors in rural areas and urban peripheries, empowerment programs often fail to reach those who need them most due to complicated bureaucratic procedures or administrative requirements that do not align with their realities. Furthermore, macroeconomic policies that tend to favor large corporations through easier access to imported raw materials often make local MSME products less competitive. This condition strengthens the argument that without policy transformation that supports the creation of local value added, the contribution of MSMEs to poverty reduction will remain at a normative level. Micro-entrepreneurs directly experience how uncoordinated policies create business uncertainty, ranging from complicated licensing issues to spatial regulations that often displace their economic activities from strategic locations.

Entering the twenty-first century, awareness of the importance of inclusive development has shifted the paradigm of poverty alleviation from merely equalizing the outcomes of development toward equalizing access to productive resources (Ayyagari et al., 2007; Geremewe, 2018). Within this stream of thought, MSMEs are no longer positioned as a residual sector that absorbs surplus labor, but rather as the spearhead of equitable job creation. This shift in perspective is important because it changes the way the relationship between economic growth and poverty reduction is understood. Economic growth that is not accompanied by the expansion of business opportunities for poor groups will only widen the gap of inequality. From the experiences of various regions that have successfully reduced poverty rates significantly, a pattern emerges showing that such success is closely related to the strengthening of MSME clusters based on local potential (Porter, 2003). Within these clusters, processes of collective learning, technology diffusion, and the strengthening of marketing networks occur, enabling small-scale entrepreneurs to increase their economic scale. This collective experience shows that the contribution of the MSME sector to poverty alleviation is largely determined by the sector's capacity to build mutually supportive systems, rather than merely a collection of independent business units. Therefore, the examination of this topic must be able to carefully unravel

the transmission mechanisms from MSME activities to improvements in the welfare of poor communities.

The gap between the normative potential of MSMEs as job creators and their empirical reality as pockets of structural poverty constitutes a fundamental issue that needs to be examined (La Porta & Shleifer, 2014). Statistically, this sector absorbs more than ninety percent of the total national workforce, yet its contribution to gross domestic product remains below that of large corporations that employ far fewer workers. This imbalance indicates the existence of a chronic productivity problem. Most MSME units operate at very low productivity levels, use simple technologies, and generate only thin value added. This low productivity directly translates into low wages or income received by workers or business owners. As a result, even when working full-time, many MSME actors and their workers still live below the poverty line (Fields, 2012). This issue is further exacerbated by the employment characteristics of the MSME sector, which are dominated by informal labor relations without social security, long working hours, and wages that are often below the regional minimum wage. Thus, the problem that arises is not the absence of jobs, but rather the quality of the available jobs. Poverty in this sector becomes a phenomenon of the working poor, where economic activities undertaken are unable to sustainably improve welfare status.

The second problem stems from the fragmentation of the supporting ecosystem, which prevents the potential multiplier effect of MSMEs from being realized optimally (Klapper et al., 2006). The development of MSMEs is often carried out separately from macroeconomic policy, trade policy, and infrastructure development. This misalignment causes MSME units to operate in isolation, making it difficult for them to access broader markets and leaving them vulnerable to price shocks. Limited access to formal financing remains a recurring classic obstacle. Formal financial institutions tend to avoid lending to micro-scale MSMEs due to their high-risk profiles and relatively large transaction costs. Meanwhile, access to markets is often hindered by long distribution chains dominated by large traders who capture the largest profit margins (Beck & Cull, 2014). This condition creates a situation in which MSME actors, particularly those in rural areas, function as producers of raw commodities whose prices are

largely determined by buyers. They lose control over the value added of the products they produce. Fragmentation also occurs in terms of technical and technological support. Innovations produced by research institutions or universities often fail to reach MSME actors due to the lack of adaptive technology transfer mechanisms. Without an integrated ecosystem, the MSME sector will continue to revolve at the subsistence level, where its contribution to poverty alleviation will never reach its maximum potential.

Re-examining the contribution of MSMEs to poverty alleviation becomes increasingly relevant as the structure of employment shifts following a period of significant global economic changes (Haltiwanger et al., 2013). The formal sector, which has long been considered the main pathway to improving welfare, shows stagnant and even declining absorption capacity. In such circumstances, the burden of job creation shifts toward the informal sector and MSMEs. The consequence of this shift is the growing number of people who depend on micro- and small-scale economic activities for their livelihoods (Benjamin & Mbaye, 2012). If this sector is unable to provide adequate returns for its actors, what will occur is the expansion of new pockets of poverty within communities that are statistically recorded as employed. Therefore, understanding precisely how this sector can be directed not merely to absorb labor but also to improve welfare constitutes an urgent academic necessity. This examination is important to avoid misperceptions in policy formulation, which have so far tended to equate a high number of business units with a high level of community welfare. In reality, the quality of life of these entrepreneurs must become the primary benchmark for the success of MSME sector development.

The importance of this study is also driven by the need to build a more contextual theoretical framework regarding the relationship between ownership of productive assets and socio-economic mobility (De Soto, 2000). Classical theories of development often assume a linear path from the traditional sector to the modern sector as the only route out of poverty. However, empirical realities show that many community groups remain within the traditional sector yet are able to achieve welfare through internal transformation within that sector. This indicates that a new understanding is required regarding the mechanisms of capacity

improvement within the MSME sector itself. Factors such as social capital, adaptive innovation, and the formation of collective networks appear to play highly significant roles, yet they have not been extensively explored systematically in the literature linking MSMEs with poverty alleviation (Stam et al., 2014). This study becomes important to fill that gap by synthesizing various scattered empirical findings. Through systematic examination, key factors can be identified that differentiate MSMEs functioning as survival strategies from those functioning as engines of welfare improvement. This identification is crucial for formulating more targeted interventions, not merely providing capital assistance, but also building long-term capacities that enable entrepreneurs to escape the poverty trap permanently.

This research aims to analyze the mechanisms of economic value creation within the MSME sector that are capable of increasing the income of poor communities and to identify the determinant factors that distinguish MSMEs that successfully lift their actors out of poverty from those that remain in subsistence conditions. The theoretical contribution of this research is to formulate a new conceptual framework that maps the transmission pathways from MSME activities to welfare improvement, going beyond conventional perspectives that focus solely on labor absorption. Practically, the results of this research are expected to serve as a reference for policymakers in designing more effective and targeted intervention programs by emphasizing the strengthening of key factors such as social capital, access to technology, and supply chain integration, so that the MSME sector can truly function as a sustainable instrument for poverty alleviation rather than merely a temporary economic safety net.

Method

This study is designed as a library research with a qualitative approach. This method was chosen because the objective of the study is to gain a deeper understanding of the theoretical and empirical mechanisms that connect the MSME sector with poverty alleviation, which requires a critical synthesis of various findings documented in the literature. As stated by Creswell (2009), qualitative research allows researchers to explore the meanings constructed by individuals or groups regarding a social issue, which in this context refers to the interpretation of the contribution of

MSMEs to the welfare of their actors. This approach is appropriate because the phenomena of poverty and economic empowerment are complex and cannot be reduced merely to statistical figures. By relying on library sources, this study examines various theories of economic development, concepts of structural poverty, and previous studies on MSME dynamics. The primary data sources consist of scientific publications such as books, journal articles, research reports, and relevant policy documents. The data collection process was conducted through a systematic search of academic databases using predetermined keywords. All collected sources were then evaluated for credibility by assessing the reputation of the publishers, the peer review process, and the consistency of arguments with findings from other sources. This approach follows the principles outlined by Powell and Connaway (2010), which state that library research in the social sciences requires careful source selection in order to obtain a strong analytical foundation.

The data analysis in this study uses qualitative content analysis with a thematic approach. The first stage involves organizing all literature materials based on thematic categories referring to the research questions, namely the mechanisms of economic value creation and the determinant factors of MSME success. After that, data reduction was conducted by selecting relevant key statements from each source and arranging them into more specific thematic patterns. This process adopts the procedures described by Connaway and Powell (2010), which emphasize that in qualitative library-based research, the researcher acts as the main instrument who interprets scientific texts. To ensure the validity of the findings, this study applies a source triangulation strategy, which involves comparing findings from various literature with different methodological backgrounds and geographical contexts in order to obtain a more comprehensive and unbiased understanding. In addition, an audit trail was conducted by systematically documenting the processes of searching, selecting, and analyzing sources so that each step can be traced. This thematic analysis approach enables the researcher to identify recurring patterns within the literature while also capturing nuances that are contradictory or divergent. Thus, the results of this research are not merely a summary of the literature but represent a new construction emerging from a process of critical synthesis. All of these procedures were designed

to answer the research questions comprehensively while maintaining the depth of analysis that characterizes qualitative research (Creswell, 2009).

Result and Discussion

Mechanisms of Economic Value Creation in the MSME Sector and Its Influence on the Income of Poor Communities

Economic value creation in the MSME sector does not occur in a vacuum but rather through a series of processes that connect the assets owned by entrepreneurs with the market (Kaplinsky & Morris, 2001). For poor communities, the starting point of this process often involves very limited asset ownership, whether in the form of financial capital, technical skills, or marketing networks. However, experience shows that the most available assets for these groups are labor itself and local knowledge passed down from generation to generation. Such limited initial conditions often become an important point for understanding how communities build survival strategies through simple economic activities (Fauzi, 2021). From this starting point, the mechanism of value creation begins when a micro-entrepreneur is able to transform simple raw materials into products that have higher utility in the eyes of consumers. This transformation process is essentially an activity of value addition, which forms the main foundation for increasing income (Gereffi et al., 2005; Hussain et al., 2017). Unfortunately, in the reality of many micro-scale MSMEs, this value-adding activity often stops at a very early stage due to limited access to processing technology and information about market preferences. As a result, the products produced are often only raw or semi-finished commodities with low selling value. When value creation cannot go beyond a certain point, the income earned becomes sufficient only to cover production costs and basic needs, leaving no surplus that can be accumulated as capital for business development.

Furthermore, the mechanism of value creation in MSMEs is strongly determined by the position of entrepreneurs within the supply chain (Humphrey & Schmitz, 2002). MSME actors who occupy the position of primary producers or small-scale farmers generally face highly unfavorable market structures. They sell products during peak harvest periods when prices fall, while intermediary traders possess much greater bargaining power because they control price information and access to final markets.

In this situation, the value created through the hard work of MSME actors is actually captured by the distribution chains above them. This process of value extraction causes the income received by primary producers to be disproportionate to the labor and resources they have expended (Neilson et al., 2014). Such conditions show that community economic dynamics are influenced not only by production processes but also by power relations and social structures that develop within society (Rojak et al., 2021). In contrast, MSMEs that successfully cut distribution chains by selling their products directly to final consumers, or those that are able to establish fair partnerships with buyers, demonstrate greater ability to capture the value they create. Thus, the mechanism of value creation is not only about how much value is added through production processes but also about how much of that value can be retained by the entrepreneurs themselves. The inability to capture the value that has been created is one of the main reasons why many MSMEs remain in poverty even though their business activities continue.

Another aspect that is equally important in the mechanism of value creation is the scale of operation (Berry et al., 2001). Micro-scale MSMEs that operate individually are often unable to achieve adequate efficiency in production costs. Purchasing raw materials in small quantities results in higher unit costs, while limited space and equipment constrain production capacity. This condition creates a vicious cycle in which small scale leads to high costs, high costs lead to uncompetitive selling prices or thin profit margins, and thin margins lead to an inability to accumulate capital to expand scale. In rural development literature, this phenomenon is known as the household-level poverty trap, where small economic units lack the capacity to make a leap in scale (Markelova et al., 2009; Rostiana & Djulius, 2019). At this stage, cooperation among entrepreneurs often becomes one of the ways that can help small businesses support one another in facing limited resources (Putra et al., 2021). However, there is an alternative mechanism that allows MSME actors to overcome scale constraints without having to undertake individual expansion requiring large capital. This mechanism involves the formation of groups or cooperatives that enable the pooling of resources for collective raw material purchases, shared use of production facilities, and coordinated product marketing. Through this collective model, small MSME units can enjoy

economies of scale that were previously accessible only to large enterprises, thereby significantly increasing the value created per unit of production.

Value creation is also closely related to product differentiation, namely the ability to offer something that is not mass-available in the market (Porter, 1985). In competition with factory products that are mass-produced at low cost, MSMEs that rely on homogeneous commodities will always be in a pressured position. Conversely, MSMEs that are able to develop products with unique characteristics reflecting local wisdom, specialized skills, or the story behind their production process have greater opportunities to obtain premium prices. This differentiation process requires a good understanding of the values appreciated by consumers, which often include not only the physical function of a product but also aesthetic, cultural, and ethical aspects of production (Kraus et al., 2017). In practice, the process of understanding consumer preferences is also often influenced by changes in household consumption patterns and increasing public awareness of products considered to have social and environmental value (Halizah & Nuraini, 2021). For poor communities that begin businesses from traditional skills, the greatest challenge is transforming from merely producing functional goods into products that possess cultural value and stories that can be communicated to the market. This process is not purely technical but also involves building confidence and the capacity to narrate the value of their products. When differentiation is successfully achieved, the value created is no longer determined solely by production costs but by perceived value in the eyes of consumers, which allows significantly higher profit margins.

In addition to internal factors related to production processes and marketing strategies, the mechanism of value creation in MSMEs is strongly influenced by the quality of social relationships built by entrepreneurs (Nahapiet & Ghoshal, 1998). Social capital in the form of trust, cooperative networks, and a sense of solidarity among entrepreneurs has proven to play a significant role in opening access to previously unreachable resources. MSME actors who are members of associations or joint business groups have greater ability to obtain information about market prices, new technologies, and funding opportunities. More than that, social capital functions as a risk-sharing mechanism, where group members can support each other when one of them faces liquidity

difficulties or production disruptions (Adler & Kwon, 2002). Such social relationships are often formed through community networks or groups with similar interests that facilitate the exchange of information and experiences among members (Rejeki, 2021). In poor communities that have very limited access to formal financial institutions, this risk-sharing mechanism through social networks becomes crucial for maintaining business continuity. When social capital is strong, the value created is not only economic value in the form of monetary income but also social value in the form of security and stability that enables entrepreneurs to take innovative steps which ultimately impact long-term income growth.

The mechanism of value creation must also be understood in the dimension of time, because the process of increasing income from MSME activities is rarely linear. Many entrepreneurs begin at very low income levels and then experience gradual improvement as experience increases and market access opens up (Dewi, 2019; McMullen & Shepherd, 2006). However, many also experience stagnation or even decline due to various external shocks such as natural disasters, extreme fluctuations in raw material prices, or unfavorable policy changes. In such situations, social solidarity and collective responsibility within communities often become factors that help individuals survive various economic pressures (Saputra & Darmawan, 2021). From this perspective, the ability to create value sustainably is determined not only by technical production capacity but also by the capacity to adapt to environmental changes. MSME actors who are able to diversify products or markets and who possess resource reserves to overcome difficult periods demonstrate greater resilience in maintaining income stability (Sullivan-Taylor & Branicki, 2011). Conversely, those trapped in single specialization without risk mitigation mechanisms are highly vulnerable to shocks. This resilience becomes a key factor that distinguishes MSMEs that successfully use their businesses as a pathway out of poverty from those that continuously remain on the edge of poverty, where every small shock can return them to a worse condition.

The role of technology in the mechanism of value creation has also experienced a significant shift over time (Dewandaru & Vitasmoro, 2018). Digital technology opens new opportunities for MSMEs to access broader markets without passing through long conventional distribution chains. The use of digital platforms allows small-scale producers to interact directly

with consumers, capture market preferences more accurately, and conduct promotions at relatively low cost. Business visibility in the digital space also becomes an important factor because it helps products be more easily discovered by consumers amid increasingly broad competition (Arifin et al., 2021). However, access to digital technology is uneven. Poor communities that are the focus of this study often face barriers related to digital literacy and limited telecommunications infrastructure in the areas where they live. As a result, the potential of digital technology to increase the value created by MSMEs has not been fully utilized by those who need it the most. This digital divide creates a new dualism within the MSME sector, where some entrepreneurs are able to leap into more profitable markets through technology while others remain trapped in traditional supply chains that offer minimal returns. Thus, the mechanism of value creation in MSMEs today cannot be separated from the question of how technology can be accessed and adopted inclusively by communities that have long been marginalized.

Furthermore, it is important to understand that value creation in MSMEs does not only occur at the level of individual business units, but also at the level of the ecosystem in which these business units operate. The presence of MSMEs that complement one another within a particular area can create agglomeration effects that are collectively beneficial. When many similar businesses are concentrated in a single location, production centers emerge that attract buyers and facilitate the provision of raw materials as well as supporting services. In such ecosystems, transaction costs become lower because information about prices and product quality is easier to obtain, while healthy competition encourages innovation and quality improvement. A balanced working and living environment also influences the productivity of entrepreneurs and workers within it, particularly those operating in the informal sector (Eddine & Darmawan, 2021). For MSME actors from poor communities, joining an established ecosystem provides advantages such as reduced uncertainty and the presence of learning mechanisms from fellow entrepreneurs. However, a healthy ecosystem does not form automatically. It requires actors who function as facilitators, whether from government, non-governmental organizations, or the private sector, who help build shared infrastructure, provide supporting services, and coordinate the various interests involved.

When such an ecosystem is properly established, the value created becomes far greater than the sum of the values produced by each individual business unit separately.

An aspect often overlooked in discussions about value creation is the role of local knowledge possessed by poor communities. Knowledge about the characteristics of local raw materials, traditional production techniques, and consumer preferences within the surrounding environment constitutes a form of intangible asset whose value is highly significant. This local knowledge cannot easily be replicated by newcomers or large corporations because it is formed through a long process of accumulated experience and is closely connected to the local socio-cultural context. When this local knowledge is combined with access to broader markets and appropriate modern technology, a process of innovation emerges that produces products with uniqueness that is difficult to match. In many cases, poor communities that are often perceived as having limited assets actually possess a wealth of knowledge that is extremely valuable. The challenge lies in how this knowledge can be economically valued through adequate value creation processes, rather than being exploited by external actors who capture profits without providing fair compensation. Therefore, a fair value creation mechanism must begin with recognition of the contribution of local knowledge and the provision of appropriate compensation for its use.

The process of value creation is also closely related to the ability of MSME actors to carry out simple yet effective financial planning. Many micro entrepreneurs run their businesses without separating household finances from business finances, making it difficult to determine whether the business is actually profitable or not (Retnandari, 2009). The inability to maintain financial records causes business decisions to be made intuitively rather than based on accurate information. As a result, opportunities to improve efficiency or expand scale are often missed because they are not properly identified. Conversely, MSME actors who are able to separate finances and record cash flow in a simple manner have better visibility of their business performance. They can identify which cost components can be reduced, which products provide the highest margins, and when the appropriate time is to make investments. This visibility enables them to carry out targeted interventions to increase

the value generated from their business activities. Thus, value creation is not only about production and marketing aspects but also about managerial capacity that allows entrepreneurs to manage their resources more effectively.

Micro-scale MSME actors are often in a weaker position compared with large buyers, suppliers of raw materials, or even government authorities that issue permits. This imbalance of power relations influences the distribution of value generated from economic activities. In situations where MSME actors lack sufficient bargaining power, they are forced to accept prices determined by other parties, even when those prices do not reflect the labor contribution and risks they have borne. Therefore, efforts to increase the income of poor communities through the MSME sector cannot focus solely on the technical aspects of improving productivity but must also consider structural aspects in the form of strengthening the bargaining position of MSME actors. This strengthening can be achieved through collective organization, improved access to information, and policies that guarantee fair business competition. When the bargaining position of MSME actors becomes stronger, they have greater capacity to demand fair value distribution, ensuring that the mechanism of value creation truly contributes to increasing their income and welfare in a sustainable manner.

Determinant Factors of MSME Sector Success in Improving the Welfare Status of Business Actors

The success of the MSME sector in transforming the welfare status of its actors from poor to non-poor does not occur by chance, but is determined by the interaction of various factors that operate simultaneously. In general, small-scale economic activities such as MSMEs play an important role in improving community welfare because they are able to create business opportunities and sources of income for households (Darmawan, 2016). One of the most fundamental factors is individual absorptive capacity, namely the ability of business actors to absorb, process, and apply new information into their business practices (Suseno et al., 2020). MSME actors who succeed in escaping poverty generally demonstrate a high ability to learn from experience, both their own experiences and the experiences of others. They do not merely repeat traditional methods passed down

through generations, but actively seek new knowledge about more efficient production techniques, cheaper alternative raw materials, or more effective marketing methods. This absorptive capacity is closely related to the level of formal education, but it is not entirely determined by it. Many entrepreneurs who do not possess higher education nevertheless have strong practical intelligence in recognizing opportunities and adapting new methods that fit their conditions. In modern business practices, the ability to adapt to changes in the business environment has also become one of the key factors for the success of both small and large enterprises (Darmawan, 2021). This learning ability becomes a crucial differentiating factor because in a constantly changing business environment, the inability to adapt will cause businesses to lag behind and eventually become marginalized. This continuous learning process becomes the engine that drives gradual yet sustainable productivity improvements, which ultimately are reflected in increased income and welfare.

The next determining factor is the ownership of productive assets, which is not limited to physical assets such as land, buildings, or equipment, but also includes financial assets and human assets. MSME actors who successfully escape poverty generally possess sufficient asset accumulation to absorb economic shocks without sacrificing the continuity of their businesses. When disasters occur or demand declines, they have reserves that can be used to survive without having to sell productive assets or borrow from moneylenders with extremely high interest rates. In contrast, MSME actors living in poverty usually do not have reserve assets, so even a small shock has the potential to destroy their businesses and return them to the starting point. Asset ownership also enables them to invest in increasing business capacity, such as purchasing more productive machinery or expanding their business premises. Such investments are difficult to undertake if all income is spent on daily consumption needs. Thus, asset accumulation functions both as a safety buffer and as capital for expansion. The accumulation process itself requires discipline and the ability to delay consumption, which in the context of poor communities is very difficult because of pressing needs. Success in escaping poverty is often marked by reaching a point where business actors have the ability to save regularly.

Strong social networks also become a determining factor that distinguishes stagnant MSMEs from those that successfully improve the welfare of their actors (Hussain et al., 2017). Good social relationships and communication among business actors often help create cooperation and the exchange of information that is beneficial for business development (Gardi et al., 2021). Social networks do not only function as sources of information about market opportunities or new technologies, but also as mechanisms of solidarity that provide support in the form of interest-free loans, labor assistance, or access to more profitable buyers. MSME actors who are connected within broad and diverse networks possess significant competitive advantages compared to those who operate in isolation. Within healthy networks, informal knowledge transfer processes occur that are difficult to obtain through formal channels. A craftsman who joins an association, for example, can learn new techniques from colleagues without having to attend paid training. Likewise, a farmer who has a good relationship with an honest trader can obtain information about market prices before the harvest season, enabling better sales strategies. The quality of these social networks is strongly determined by the level of trust built among their members. In communities with high social capital, transaction costs become lower due to the reduced need for monitoring and formal contract enforcement. This trust enables more intensive and mutually beneficial collaboration, which ultimately drives collective income growth.

Another determinant factor that is equally important is the existence of inclusive financial institutions capable of reaching micro-scale MSME actors with products and services that match their characteristics. Community-based or cooperative financing models are also often used to help small businesses gain easier and more affordable access to capital (Wiyandarini et al., 2021). Success in escaping poverty often requires access to financing at certain moments, for example to purchase raw materials in large quantities when prices are low, or to invest in equipment that can increase productivity. However, conventional formal financial institutions are generally reluctant to serve micro MSMEs due to the high transaction costs per loan unit and collateral requirements that are difficult to fulfill. In this situation, the existence of microfinance institutions that implement group-based lending methodologies or

collateral-free loans becomes very crucial (Firdaus et al., 2020). MSME actors who succeed in improving their welfare generally have access to reliable sources of financing with reasonable costs. This access allows them to take advantage of emerging business opportunities without becoming trapped in high-interest debt to moneylenders. More than just providing loans, good inclusive financial institutions also offer savings services that enable entrepreneurs to develop disciplined saving habits. With a safe and easily accessible place to store money, the risk of losing cash or the pressure to spend available money is significantly reduced. Affordable and easily accessible financial services become an important infrastructure that enables micro MSMEs to conduct long-term financial planning.

Leadership factors and personal characteristics also play an important role in determining the success of MSMEs as an instrument for poverty alleviation (Riwayati, 2017). Research on MSMEs shows that entrepreneurial characteristics such as risk-taking courage and the ability to innovate can contribute to improving business performance (Putra et al., 2016). Entrepreneurs who successfully escape poverty generally have a high level of perseverance, the ability to tolerate risk within reasonable limits, and a strong future orientation. They do not easily give up when facing failure but instead treat it as a lesson for improvement. In many case studies, it is found that this success is often supported by figures who become the driving force within a group or community. Such figures possess the ability to motivate others, coordinate collective activities, and act as bridges between the community and external parties such as the government or the private sector. Without effective leadership figures, joint business groups or cooperatives often fail to function properly because no one is able to manage internal conflicts and maintain collective commitment. These personal characteristics are indeed difficult to intervene in directly through public policy, but they can be developed through intensive and continuous mentoring programs. The presence of mentors who can serve as role models and provide psychological encouragement has proven effective in strengthening the motivation and perseverance of business actors. Therefore, personal and leadership factors cannot be ignored in the analysis of the determinants of MSME success in poverty alleviation.

Access to profitable markets also becomes a very significant determinant factor (Firdaus et al., 2020). In marketing activities, appropriate service strategies and marketing mix can help entrepreneurs gain competitive advantages in the market (Darmawan & Grenier, 2021). Many MSMEs have good production capacity but fail to improve welfare because they are trapped in markets with highly competitive prices and thin profit margins. Success in escaping poverty is often marked by the ability to access markets that provide premium prices, either due to superior product quality, relationships established with buyers who value sustainability, or the ability to market products directly to end consumers. Access to better markets does not occur automatically but requires active efforts to build reputation, meet established quality standards, and develop trust-based relationships with buyers. In this context, the presence of facilitators who help connect small-scale producers with larger buyers becomes very important. Well-designed partnership programs, for example between MSMEs and large companies within fair supply chains, can open opportunities for small entrepreneurs to obtain better prices and purchase certainty. However, such partnerships must be carefully designed to avoid creating dependency that could disadvantage MSMEs. The balance between stability obtained from partnerships and the independence to continue developing new markets is a challenge that must be managed carefully so that the success achieved remains sustainable.

Policy environment factors also determine whether MSMEs can function as effective instruments for poverty alleviation or instead remain a marginalized sector. Good public policy should be able to create a balance between economic, social, and environmental interests so that development can proceed sustainably (Mardikaningsih & Hariani, 2021). Regulations that are too complex and bureaucratic procedures that are convoluted often become major obstacles for micro-scale MSMEs to grow. In addition, ease of business licensing is also an important factor that can increase the willingness of small business actors to develop their businesses more formally (Mardikaningsih & Arifin, 2021). Licensing processes that require a long time and high costs encourage many micro businesses to operate informally, which in turn limits their access to various assistance programs and formal financial services. Conversely, regions that succeed in simplifying licensing processes and providing one-

stop services for MSMEs show higher levels of business formalization, which are then followed by increased access to financing and markets. In addition, government procurement policies that provide opportunities for MSME participation have also proven to be significant driving factors. When governments allocate part of their budgets to purchase products from local MSMEs, a stable market is created that enables entrepreneurs to plan production with greater certainty. However, such affirmative policies must be balanced with capacity-building efforts so that MSMEs are able to meet the required quality and quantity standards. Without readiness on the MSME side, affirmative policies may become counterproductive because they create dependency on subsidies without being accompanied by improvements in long-term competitiveness. Thus, policies that support MSME success are those that not only open access but also build capacity.

Innovation and technology adaptation factors are becoming increasingly important in determining MSME success in an era where change occurs very rapidly. The development of digitalization also provides new opportunities for micro and small businesses to improve business performance through the utilization of information technology and digital marketing (Falentina et al., 2021). Entrepreneurs who are able to adopt new technologies, both in production processes and in business management, possess significant competitive advantages. However, innovation does not always mean adopting expensive advanced technologies. In many cases, simple innovations such as improving the layout of business premises to increase efficiency, changing packaging to be more attractive, or utilizing social media for promotion have already produced substantial impacts on increasing income. What differentiates successful MSMEs from stagnant ones is an open attitude toward change and the willingness to try new things. Entrepreneurs who successfully escape poverty generally do not cling to familiar old methods but continuously seek ways to make improvements. This attitude often arises from the experience that maintaining the status quo actually causes their businesses to gradually erode under competitive pressure. Innovation also often emerges from collaboration with external parties such as research institutions, universities, or private companies that bring new perspectives. Openness to such collaboration becomes a distinguishing factor because

many entrepreneurs tend to be closed and reluctant to share information with outsiders due to fears of losing competitive advantages. In fact, in many cases, collaboration actually opens opportunities that were previously unimaginable.

The success of MSMEs in improving the welfare of their actors is also strongly determined by the diversification of income sources, both at the household level and within the business itself. Business sustainability strategies often require entrepreneurs to be able to adapt to various changes in the business environment and managerial challenges that arise (Mardikaningsih & Darmawan, 2021). Good relationships between entrepreneurs and customers can create consumer satisfaction and loyalty, which positively impacts business development (Jahroni & Sinambela, 2021). Dependence on a single type of business or a specific commodity makes households highly vulnerable to shocks. Conversely, households with diverse sources of income, such as a combination of micro-enterprises and seasonal work, or the production of several types of products with different harvest seasons, show greater resilience in facing economic fluctuations. Diversification can also be carried out in the form of processing derivative products that allow entrepreneurs to sell products to various market segments. A farmer who only sells fresh fruit is highly dependent on market prices at harvest time, but if they also process part of the harvest into processed products such as preserves or chips, they have the flexibility to sell at different times and to different market segments. This diversification requires additional skills and investment but provides much greater income stability. In the long term, the ability to diversify becomes one of the factors distinguishing MSMEs that can permanently escape poverty from those that can only survive on the edge of poverty with unstable income fluctuations.

Gender factors and intra-household dynamics also cannot be ignored in the analysis of MSME success determinants. In many societies, micro-enterprises are often managed by women who have dual responsibilities between managing the household and running the business. This condition creates a particular challenge due to the limited time and energy available to develop the business. However, at the same time, women's control over income from micro-enterprises often has a greater impact on the welfare of children and the family overall compared

to income controlled by men. MSME success in poverty alleviation is often linked to the empowerment of women as business managers because women tend to allocate income to consumption needs that are directly felt by family members, such as nutritious food, education, and health. Conversely, when business income is fully controlled by men, there is not always a proportional increase in family welfare, as part of the income may be allocated for personal consumption unrelated to family welfare. Therefore, MSME development programs aimed at poverty alleviation need to consider gender dynamics and ensure that increased business income truly translates into improved welfare for all family members, especially children. Approaches that consider gender aspects have proven more effective in achieving poverty alleviation goals than gender-neutral approaches.

Spatial or locational factors also play an important role in determining MSME success. Businesses located in areas with good infrastructure access, such as proper roads, stable electricity, and adequate internet connectivity, have far greater opportunities to grow compared to businesses in remote, isolated areas. Location also determines proximity to markets, both in the physical sense and in terms of access to distribution networks. MSMEs located near economic growth centers have advantages in the form of wider markets and access to various supporting services such as banking, shipping services, and suppliers of raw materials. However, a strategic location alone is not enough if it is not accompanied by the capacity to take advantage of the location's benefits. Many MSMEs located in strategic areas remain stagnant because they are unable to compete with more established businesses. Conversely, there are MSMEs in remote areas that succeed by leveraging the uniqueness of local products not available elsewhere and by building special marketing channels that reach consumers in major cities. In this case, success is more determined by the ability to create unique value that does not depend on location. Thus, location is not an absolutely determining factor, but its influence greatly depends on how entrepreneurs respond to the surrounding environment. The right strategy can turn location constraints into competitive advantages if directed properly.

Sustainability and environmental awareness factors are also emerging as important determinants in the long-term success of MSMEs.

Efforts to maintain a balance between economic activities and environmental preservation are often communicated through sustainability strategies such as green marketing to raise consumer awareness (Essa & Mardikaningsih, 2021). Modern consumers are increasingly concerned about sustainability aspects in the products they consume, including how the products are produced, their environmental impact, and whether the producers treat their workers fairly. MSMEs that are able to integrate sustainability principles into their business practices have the opportunity to gain higher consumer loyalty and access to premium market segments. For MSMEs based on natural resources, such as agriculture, fisheries, or crafts from natural materials, sustainability is not merely an ethical issue but a prerequisite for the continuity of the business itself. Overexploitation of natural resources will cause environmental damage that ultimately undermines their production base. Therefore, MSME actors who successfully escape poverty in the long term generally have a high awareness of the importance of maintaining a balance between economic activity and environmental sustainability. They adopt practices such as crop diversification to maintain soil fertility, responsible waste management, or the use of renewable raw materials. This environmental awareness not only protects their production base but also becomes an added value that can be communicated to consumers. With the increasing global awareness of environmental issues, MSMEs that implement sustainability principles have a brighter prospect for continued growth.

Access to quality and timely information must also be considered. Information asymmetry between small-scale MSME actors and large businesses is often a source of fundamental inequity. MSME actors who do not know fair market prices can easily be disadvantaged by buyers who exploit their lack of knowledge. Likewise, ignorance about regulatory changes, assistance program opportunities, or technological developments can cause them to fall behind competitors. Conversely, MSMEs that have access to good information, whether through social networks, mass media, or extension services, have a greater ability to make advantageous decisions. Access to this information becomes increasingly crucial in the digital era, where information is available in vast quantities, but not all of it is accurate or relevant. The ability to filter relevant information and

distinguish what can be trusted becomes an extremely valuable skill. In many cases, the presence of field extension workers or business mentors who can serve as trusted information sources has proven very helpful for MSME actors in making better decisions. Thus, the information factor is not just about availability but also about the capacity to access, verify, and utilize the information for business improvement. The combination of information access and strong absorptive capacity forms the foundation for a continuous learning process that drives gradual yet sustainable income growth.

Conclusion

This study shows that the contribution of the MSME sector to poverty alleviation is not automatic, but highly dependent on the value creation mechanisms that occur and the accompanying determinant factors. The value creation mechanism in MSMEs involves the process of transforming assets into economically valuable products, the effectiveness of which is determined by their position in the supply chain, scale of operations, product differentiation capabilities, strength of social capital, capacity to adapt to changes, access to technology, and balance of power relations that allow entrepreneurs to capture the value they have created. Meanwhile, the success of MSMEs in improving the welfare of their actors is determined by the interaction of internal factors such as absorptive capacity, personal characteristics, asset ownership, and diversification ability, as well as external factors such as social networks, access to inclusive finance, market accessibility, policy environment, access to technology and information, spatial conditions, and sustainability awareness. These two groups of findings reinforce that MSMEs can only function as an effective instrument for poverty alleviation when developed through an integrated approach that not only focuses on increasing the number of business units but also on strengthening business quality, supporting ecosystems, and the bargaining position of entrepreneurs within the broader economic structure.

Theoretically, the findings of this study enrich the conceptual framework on the relationship between the informal sector and poverty by showing that the contribution of MSMEs cannot be measured solely by employment absorption levels, but must consider the quality of work

and the distribution of the value generated. This implication shifts the analytical focus from a quantitative approach emphasizing the number of business units toward a qualitative approach emphasizing the internal and external mechanisms that influence entrepreneur welfare. Practically, these findings provide direction for formulating more targeted MSME development policies. Interventions are not sufficient if limited to short-term capital assistance but must include strengthening the absorptive capacity of entrepreneurs, building inclusive social networks, providing financial services suited to the characteristics of micro MSMEs, and creating a policy environment that reduces transaction costs and opens access to fair markets. In addition, the MSME development approach for poverty alleviation needs to consider spatial aspects by taking local potential into account and gender aspects by ensuring that increased business income genuinely translates into comprehensive family welfare.

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