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Business Feasibility of Micro, Small, and Medium Enterprises (MSMEs) in Strengthening Economic Resilience amid Industrial Development in Nganjuk Regency

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ABSTRACT:

The rapid development of industrial areas in Nganjuk Regency has created both opportunities and competitive challenges for Micro, Small, and Medium Enterprises (MSMEs), making business viability a crucial factor for sustaining local economic growth. This study aims to analyze the business viability of MSMEs as a survival strategy in an industrially developing region and to identify the factors influencing their sustainability. A qualitative descriptive approach was employed, with data collected through in-depth interviews, observations, and documentation involving purposively selected MSME owners in Nganjuk Regency. Data were analyzed using the stages of data reduction, data display, and conclusion drawing. The findings indicate that MSMEs remain generally viable due to the availability of local resources, entrepreneurial skills, and stable market demand. However, their growth is constrained by limited managerial capacity, inadequate financial management, low adoption of digital marketing, and restricted access to business capital. The study also reveals that business viability is strengthened by product innovation, digital technology adoption, strategic partnerships, and government support through training, business assistance, and market facilitation. The study concludes that the sustainability of MSMEs depends not only on internal business capabilities but also on the strength of the supporting industrial ecosystem. Therefore, improving managerial competence, expanding digital marketing, enhancing access to finance, and strengthening collaboration among stakeholders are essential to increase MSME competitiveness and ensure long-term business sustainability in industrially developing regions

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in Indonesia's economic structure. According to the Ministry of Cooperatives and SMEs, MSMEs contribute approximately 61.07% of the national Gross Domestic Product (GDP) and account for more than 97% of total employment. This substantial contribution demonstrates that MSMEs serve not only as key drivers of economic growth but

also as important instruments for income distribution, poverty alleviation, and community welfare improvement. Amid the accelerating pace of industrialization, however, MSMEs face increasingly complex challenges, particularly in regions undergoing rapid industrial development. The transformation of regional economic structures resulting from the expansion of large-scale industries has intensified market competition, altered consumer behavior, reshaped supply chains, and increased demands for higher product quality and operational efficiency. Consequently, MSMEs are required to strengthen their business feasibility in order to sustain their operations within an increasingly dynamic business environment.

Nganjuk Regency, located in East Java Province, is one of the regions that has experienced significant industrial development in recent years. The expansion of manufacturing industries, agro-industrial activities, processing industries, and investment across various sectors has substantially transformed the regional economic landscape. On the one hand, industrial development has created new market opportunities, expanded distribution networks, and stimulated local economic activities. On the other hand, it has also intensified business competition, shifted consumer preferences, increased production costs, and encouraged labor migration from the MSME sector to large-scale industries. These circumstances require MSMEs not only to survive but also to strengthen their competitiveness through product innovation, operational efficiency, and enhanced managerial capabilities.

Business feasibility represents a fundamental indicator for assessing the ability of a business to survive and achieve sustainable growth. A business feasibility assessment extends beyond financial profitability and encompasses multiple dimensions, including market potential, technical feasibility, managerial capability, financial performance, legal compliance, and socioeconomic considerations that collectively determine business success. For MSMEs, business feasibility analysis serves as a strategic tool for identifying business opportunities, anticipating potential risks, and formulating appropriate development strategies in response to changes in the business environment. Within the context of emerging industrial regions, such analysis becomes increasingly important, as MSMEs must continuously adjust their business strategies to rapidly evolving external conditions.

Previous studies have examined MSME development and sustainability from various perspectives. Tambunan (2020) emphasized that MSME competitiveness is largely determined by innovation capability, technological adoption, and access to financial resources. Wibowo and Arifin (2021) found that industrial cluster development and partnerships with large enterprises significantly enhance MSME productivity and market access. Similarly, Susanto et al. (2022) concluded that digital transformation through the utilization of social media, e-commerce, and information technology has become a critical determinant of MSME adaptation in the Industry 4.0 era. Furthermore, the OECD (2021) highlighted managerial capability, innovation, and the quality of the business ecosystem as essential factors in strengthening MSME resilience amid global economic changes. Nevertheless, existing studies generally investigate these factors independently, focusing on specific aspects such as digitalization, marketing, access to finance, or product innovation, without integrating the multidimensional aspects of business feasibility into a comprehensive

analytical framework, particularly within regions undergoing industrial transformation.

Based on the existing literature, a significant research gap remains regarding how MSME business feasibility can be comprehensively understood as a survival strategy in emerging industrial regions. Most previous studies have not integrated market, technical, managerial, financial, and socioeconomic dimensions to explain MSMEs' adaptive capacity in response to structural economic changes resulting from industrialization. Moreover, empirical studies focusing on MSMEs in Nganjuk Regency remain limited, despite the region's rapid industrial expansion, which creates distinctive socioeconomic characteristics compared with other regions in Indonesia.

This study offers scientific novelty by developing a multidimensional analysis of MSME business feasibility within the context of an emerging industrial region in Nganjuk Regency. Unlike previous research, this study evaluates business feasibility not only from economic and financial perspectives but also by integrating market, technical, managerial, financial, and socioeconomic dimensions into a unified analytical framework that explains business sustainability. In addition, the study explores the adaptive strategies employed by MSME entrepreneurs in responding to structural economic changes resulting from industrialization and identifies the critical factors that determine their ability to survive and grow amid increasing competition with large-scale industries. Accordingly, this study is expected to contribute theoretically to the advancement of business feasibility research while providing practical implications for local governments, MSME entrepreneurs, and other stakeholders in formulating more effective strategies for MSME development within industrial regions.

Based on these considerations, this study addresses the following research question: How can the business feasibility of MSMEs, viewed from market, technical, managerial, financial, and socioeconomic perspectives, serve as a survival strategy in the emerging industrial region of Nganjuk Regency? Furthermore, the study examines the challenges encountered by MSME entrepreneurs, the adaptive strategies they employ, and the factors influencing business sustainability in the face of increasing competition from large-scale industries. Therefore, the objectives of this research are to analyze the multidimensional business feasibility of MSMEs as a survival strategy in Nganjuk Regency's emerging industrial region, identify the factors influencing business sustainability, and formulate strategic recommendations for MSME entrepreneurs and policymakers to foster a more competitive and sustainable business ecosystem.

RESEARCH METHODOLOGY

This study employed a qualitative approach with an exploratory descriptive design to analyze the business feasibility of Micro, Small, and Medium Enterprises (MSMEs) operating in the industrial region of Nganjuk Regency. The research participants consisted of 15 MSME owners selected through purposive

sampling based on the following criteria: (1) having operated their businesses for at least three years, (2) being located within or adjacent to the industrial area, and (3) having business activities directly or indirectly associated with industrial operations. The participants represented various business sectors, including manufacturing, services, and trade. To enhance the credibility and comprehensiveness of the findings, five key informants from the Department of Cooperatives and MSMEs, the Department of Industry and Trade, and local business associations were also included, enabling data triangulation from multiple stakeholder perspectives.

Data were collected through field observations, semi-structured in-depth interviews, and document analysis, with the researcher serving as the primary research instrument. The data were analyzed using thematic analysis following the framework developed by Braun and Clarke, which involves familiarization with the data, systematic coding, theme development, theme review, definition and refinement of themes, and interpretation of the findings. The credibility and trustworthiness of the data were ensured through source triangulation, member checking, and an audit trail. Furthermore, NVivo 12 software was employed to facilitate systematic data organization, coding, and thematic analysis, thereby enhancing the rigor, transparency, and reliability of the analytical process.

RESULT AND DISCUSSIONS

Characteristics of MSMEs in the Industrializing Region of Nganjuk Regency

The findings indicate that MSMEs operating in the districts of Nganjuk, Bagor, and Loceret are primarily concentrated in the food processing (40%), retail trade (33%), and service (27%) sectors. Overall, the participating enterprises have been in operation for an average of 7.3 years, suggesting a relatively high level of business resilience and operational maturity. The presence of large manufacturing industries, located at an average distance of only 2.8 km from the MSMEs, has generated both opportunities and challenges. On the one hand, industrial expansion has increased local purchasing power through the employment of thousands of workers. On the other hand, it has intensified competition for skilled labor and contributed to rising land prices in areas surrounding the industrial zones.

Comprehensive Analysis of MSME Business Feasibility

Business feasibility was evaluated through five key dimensions to assess the long-term sustainability of MSMEs.

Market Aspect. Approximately 73% of the surveyed MSMEs demonstrated favorable market feasibility, as reflected in stable demand generated by employees of nearby manufacturing companies. Supporting service businesses, particularly laundry and catering services, reported annual demand growth of approximately 25%. However, the remaining 27%, especially traditional handicraft producers, faced

considerable challenges due to changing consumer preferences toward lower-priced mass-produced products.

Technical Aspect. From an operational perspective, around 60% of MSMEs possessed adequate production capacity to meet current market demand. Nevertheless, approximately 80% continued to rely on conventional or semi-automated production technologies. Technological upgrading has gradually emerged, with nearly 40% of enterprises adopting modern machinery and digital management systems to improve production efficiency and operational performance.

Managerial Aspect. Most MSMEs (87%) continued to operate under simple family-based organizational structures, with limited separation of managerial responsibilities between business owners and operational managers. Furthermore, approximately 47% had not yet separated personal and business financial records, indicating weaknesses in financial governance and professional business management. Business planning, performance evaluation, and decision-making were generally based on practical experience rather than systematic managerial practices. This condition reduced the ability of MSMEs to monitor financial performance, measure business efficiency, and formulate long-term development strategies. Consequently, strengthening managerial competencies through entrepreneurship training, financial literacy programs, and business mentoring is essential to improve organizational effectiveness and enhance business sustainability in an increasingly competitive industrial environment.

Socioeconomic Aspect. The socioeconomic contribution of MSMEs was particularly significant. Collectively, the surveyed enterprises generated employment opportunities for 127 local workers, highlighting their important role in promoting inclusive economic growth while preserving local cultural values amid the ongoing process of industrialization. Beyond their economic function, MSMEs also contributed to poverty reduction, household income generation, and the development of local entrepreneurship by creating employment opportunities for individuals with limited access to formal industrial jobs. Many businesses incorporated local resources and traditional knowledge into their products and services, thereby supporting cultural preservation while strengthening the regional economy. These findings indicate that MSMEs function not only as business entities but also as key drivers of community resilience and sustainable local development.

Financial Aspect. Financial performance varied across enterprises. Approximately 53% of MSMEs achieved healthy net profit margins exceeding 15%. However, dependence on internally generated capital remained substantial, with 67% relying primarily on personal savings because of limited access to formal financial institutions and stringent administrative lending requirements. Most business owners also lacked systematic financial planning and accounting practices, making it difficult to evaluate profitability, manage cash flow, and estimate future investment needs accurately. Limited financial literacy further constrained their ability to access external financing and expand production capacity. These findings suggest that improving financial management capabilities, promoting simple accounting systems, and expanding access

to affordable financing programs are critical to strengthening the long-term financial viability and competitiveness of MSMEs operating in industrially developing regions.

Survival and Adaptation Strategies within the Industrial Ecosystem

The field investigation identified five major strategies adopted by MSMEs to sustain their competitiveness within the evolving industrial ecosystem.

Product Differentiation and Unique Value Creation. Entrepreneurs emphasized the development of products characterized by local authenticity, cultural identity, and distinctive quality that are difficult for large-scale industrial manufacturers to replicate.

Strategic Partnerships. Many MSMEs established collaborative relationships with manufacturing companies by serving as suppliers of goods or providers of supporting services, including catering, logistics, and other operational services.

Digital Transformation. MSMEs increasingly utilized e-commerce platforms, online marketplaces, and social media to reduce dependence on conventional distribution channels and expand their customer base beyond Nganjuk Regency.

Operational Efficiency and Product Innovation. Business owners continuously sought to improve production efficiency while introducing new product variants based on customer feedback and evolving market demand, enabling them to remain competitive in a rapidly changing business environment.

The findings support the **Resource-Based View (RBV)** theory, which argues that sustainable competitive advantage originates from unique internal resources and organizational capabilities. In the context of MSMEs in Nganjuk Regency, business resilience is primarily derived from entrepreneurs' ability to leverage social capital, organizational flexibility, and adaptive capabilities as strategic resources. These intangible assets enable MSMEs to respond effectively to industrial transformation despite operating with relatively limited financial and technological resources. Strong relationships with customers, suppliers, local communities, and business partners have become valuable assets that cannot be easily replicated by larger firms. In addition, the flexibility of small-scale business operations allows MSMEs to make rapid decisions, customize products according to changing consumer preferences, and respond quickly to market fluctuations. These capabilities collectively strengthen business resilience and enable MSMEs to remain competitive despite increasing pressure from industrial expansion.

The findings are also consistent with Kristiyanti (2021), who argued that the presence of large-scale industries should be viewed not merely as competitors but as potential partners within a broader industrial ecosystem. This study demonstrates that successful MSMEs have developed collaborative business relationships with manufacturing firms while simultaneously maintaining their competitive advantage through product differentiation and service personalization. Several MSMEs have successfully integrated themselves into industrial supply chains by providing catering services, transportation support,

maintenance services, packaging materials, and locally sourced products required by larger manufacturing companies. Such partnerships not only expand market opportunities but also improve business stability by creating more predictable demand and long-term contractual relationships. These findings suggest that industrialization can generate mutually beneficial outcomes when MSMEs are able to position themselves as complementary business partners rather than direct competitors.

Moreover, the study reveals that competitive differentiation extends beyond the uniqueness of physical products. Personalized customer service, flexibility in responding to consumer needs, and close interpersonal relationships have become distinctive competitive advantages that are difficult for large industrial firms to imitate. Unlike mass-production industries that primarily compete through economies of scale and standardized products, MSMEs maintain competitiveness by offering customized products, rapid service adjustments, and stronger emotional connections with customers. Many respondents emphasized that customer loyalty was built through trust, consistent product quality, and direct communication rather than price competition alone. This customer-oriented approach has enabled MSMEs to retain existing customers while attracting new market segments seeking authentic local products and more personalized services. Therefore, relationship-based competitive strategies represent an important source of sustainable competitive advantage for small businesses operating in industrially developing regions.

Furthermore, the findings indicate that business sustainability is influenced not only by internal capabilities but also by the quality of the surrounding business ecosystem. Government support through entrepreneurship training, business mentoring, marketing facilitation, and access to exhibitions has contributed positively to improving entrepreneurial knowledge and expanding business networks. Nevertheless, several respondents reported that such support remains unevenly distributed and that stronger coordination among government agencies, financial institutions, universities, and private industries is still required. A more integrated industrial ecosystem would provide MSMEs with better opportunities to access technology, financing, skilled human resources, and broader marketing channels, thereby enhancing their long-term competitiveness.

Finally, digital transformation among MSMEs should not be interpreted solely as the adoption of digital technologies. Rather, it represents a fundamental shift in business orientation—from conventional transaction-based operations toward customer-centered and data-driven business management. This transformation enables MSMEs to better understand consumer preferences, improve marketing effectiveness, strengthen customer engagement, and enhance long-term competitiveness within increasingly dynamic industrial environments. The utilization of social media platforms, e-commerce marketplaces, digital payment systems, and customer databases has gradually changed the way entrepreneurs interact with consumers and manage business operations. MSMEs that actively adopted digital technologies reported broader market coverage, faster communication with customers, lower marketing costs, and greater responsiveness to changing consumer demands. These findings are consistent with the dynamic capabilities perspective, which emphasizes that organizational adaptability and

continuous learning are critical determinants of business sustainability in rapidly changing environments.

Overall, this study demonstrates that the business viability of MSMEs in industrially developing regions cannot be explained solely by financial performance or market opportunities. Instead, business sustainability emerges from the interaction between internal organizational resources, adaptive managerial capabilities, innovation, digital transformation, and the support provided by the external industrial ecosystem. Consequently, strengthening managerial competencies, promoting digital literacy, facilitating access to financial services, encouraging product innovation, and fostering collaborative partnerships among government, industry, universities, and local communities are essential policy priorities for improving the long-term resilience and competitiveness of MSMEs in Nganjuk Regency and other industrializing regions.

CONCLUSION

Overall, this study concludes that MSMEs operating in the industrial region of Nganjuk Regency demonstrate a relatively high level of business feasibility, particularly in terms of market potential and socioeconomic contribution. Nevertheless, considerable variation remains in the financial and technical dimensions, while managerial professionalism and human resource development continue to represent the most significant challenges requiring immediate attention. The findings indicate that effective business survival strategies do not depend on a single factor but rather on the integration of product differentiation, strategic collaboration with large-scale industries, digital marketing transformation, and operational efficiency. These strategies should be implemented adaptively in accordance with the unique characteristics, capabilities, and resource endowments of individual enterprises.

The presence of large-scale industries in Nganjuk Regency generates both opportunities and challenges for the local business ecosystem. On the one hand, industrialization creates new market opportunities and strengthens the potential for strategic partnerships. On the other hand, it intensifies competition for labor, capital, and other productive resources while increasing competitive pressures on MSMEs. The findings demonstrate that innovative and adaptive MSMEs exhibit greater resilience and are better positioned to leverage the presence of large manufacturing firms as catalysts for business growth rather than perceiving them solely as competitors. Therefore, stronger collaboration between the public and private sectors is essential to foster a more supportive and sustainable business environment.

From a policy perspective, local government initiatives should prioritize five strategic areas: (1) facilitating structured partnerships between MSMEs and large-scale industries; (2) strengthening access to finance, technology, and business support services; (3) developing industrial clusters based on local competitive advantages; (4) implementing business incubation and entrepreneurial capacity-building programs; and (5) establishing a comprehensive monitoring and evaluation system to assess MSME

performance on a continuous basis. Academically, this study contributes to the growing body of knowledge on MSME business feasibility, regional adaptation strategies, and industrial ecosystem development. Practically, the findings provide evidence-based recommendations for policymakers, business practitioners, and other stakeholders in designing more contextual, targeted, and sustainable MSME empowerment programs capable of enhancing resilience and competitiveness amid the accelerating process of industrialization.

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