

Empowering SMEs through Cultural Heritage and Clustering: Insights from Jambi Province

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Abstract

This study examines the impact of local wisdom and clustering strategies on the performance of Micro, Small, and Medium Enterprises (SMEs) in Jambi Province. Using Structural Equation Modeling (SEM) based on Partial Least Squares (PLS), this research analyzes data collected from SMEs to identify key factors that influence their performance. The findings reveal that local wisdom, characterized by the integration of cultural and traditional values into business practices, has a positive and significant effect on SMEs performance. Among the indicators, Traditional Craftsmanship (TK) emerges as the most dominant, highlighting its role in enhancing the uniqueness and marketability of SMEs. Similarly, clustering strategies are found to significantly improve SMEs performance, with Competitiveness (DS) identified as the most influential indicator. Clustering enables SMEs to optimize resources, foster innovation, and strengthen their market competitiveness. These results underscore the importance of leveraging both cultural heritage and organizational strategies to create sustainable and competitive SME ecosystems. The implications of this study are twofold. Theoretically, it validates the integration of cultural and structural approaches in SME development. Practically, it provides actionable insights for policymakers and stakeholders to support initiatives that promote local wisdom and cluster-based strategies.

Keywords: local wisdom, clustering strategies, SMEs performance, traditional craftsmanship.

INTRODUCTION

The concept of cluster policy has emerged as a critical strategy for enhancing global competitiveness. According to Arslan (2020), cluster policies systematically address issues such as innovation, productivity, and competitiveness, making them a focal point in global economic development. Clustering allows for regional segmentation based on cultural factors, productivity, innovation, competitiveness, and employment absorption (Gancarczyk & Gancarczyk, 2021).

In the context of Micro, Small, and Medium Enterprises (MSMEs), clustering fosters collective efficiency through collaboration between business actors, supporting businesses, and related enterprises (Haris, 2021). This approach has been adopted across ASEAN countries, including electronics clusters in Malaysia, agricultural clusters in Thailand, and Batik clusters in Yogyakarta and Pekalongan, Indonesia (Indriani et al., 2021). Meanwhile, Weaven et al. (2022) highlight that MSMEs serve as the backbone of the global economy, contributing significantly to economic growth, especially during crises like the COVID-19 pandemic. MSMEs not only drive Gross Domestic Product (GDP) but also play a crucial role in income distribution (Zafar Mustafa, 2021; KemenkopUKM, 2022). Data from March 2021

reveals that MSMEs contributed 61.07% to Indonesia's GDP, employed 97% of the workforce, and accounted for 60.42% of total investments.

Research on MSME empowerment consistently highlights the effectiveness of clustering as a strategy to improve competitiveness. Royo-Vela et al. (2022) emphasize that clustering fosters collective efficiency through positive externalities generated by collaboration among business actors. This collaboration enables MSMEs to access shared resources, enhance productivity, and innovate more effectively. Similarly, Bahena-Álvarez et al. (2022) underline the role of innovation derived from local wisdom in boosting MSME performance. They argue that local wisdom-based practices not only preserve cultural identity but also serve as a unique selling proposition that differentiates MSMEs in competitive markets.

In Indonesia, the One Village One Product (OVOP) approach mirrors clustering by leveraging local resources to enhance product quality. Indriani et al. (2021) note that this strategy has successfully elevated MSME competitiveness while fostering economic inclusivity. However, ensuring alignment with local cultural values remains a challenge. Kaplinsky & Morris (2022) advocate for governance models that incorporate local wisdom to address this gap, promoting both sustainability and competitiveness.

Recent findings by Weaven et al. (2022) highlight that MSMEs oriented toward local wisdom are more resilient during economic crises, such as the COVID-19 pandemic. This resilience is attributed to the unique value propositions and strong community ties that these businesses maintain. Similarly, Wahyudiono & Soekiman (2021) define local wisdom as a cultural identity that adapts global influences while preserving its core values, enabling MSMEs to thrive in diverse markets.

Several previous studies have applied Structural Equation Modeling (SEM) based on Partial Least Squares (PLS) methodology to analyze factors influencing MSME performance. Himawan et al. (2022), for instance, employed SEM-PLS to study the integration of local wisdom into MSMEs within tourism villages in Yogyakarta, concluding that local cultural integration significantly enhances MSME sustainability and competitiveness. Additionally, a study by Gancarczyk & Gancarczyk (2021) utilized clustering strategies in Poland and identified that clusters significantly improve SMEs' performance through collaboration-driven innovation and resource optimization. Moreover, Bahena-Álvarez et al. (2022) used SEM-PLS to identify the positive impact of local wisdom-driven innovations on MSMEs' competitive advantages in culturally rich regions.

While these studies provide foundational insights, this research offers distinct novelty by simultaneously integrating local wisdom and clustering strategies in the specific context of Jambi Province, Indonesia a region that has not been extensively explored. Furthermore, this research uniquely identifies Traditional Craftsmanship (TK) as the most influential local wisdom indicator and Competitiveness (DS) as the dominant indicator within clustering strategies. These specific findings provide concrete and actionable guidance for policymakers and practitioners to effectively leverage cultural heritage and clustering to strengthen MSME competitiveness.

In Jambi Province, MSMEs hold a vital role in the local economy. Data from the Jambi Cooperative and MSME Office shows fluctuations in MSME numbers from 2018 to 2021, with Jambi City having the highest number in 2021. Despite this potential, Jambi Province lacks a localized cluster model tailored to its cultural uniqueness to optimize efficiency and competitiveness. Thus, this study aims to develop a governance model for MSME clusters that incorporates local wisdom, serving as a strategy to enhance the competitiveness of MSMEs both locally and globally.

Research Problems and Objectives

Based on the findings from Partial Least Squares (PLS) analysis and the importance of local wisdom and clustering, this research addresses the following key questions:

1. How does local wisdom influence MSME performance in Jambi Province?
2. How does clustering affect MSME performance in Jambi Province?

The objectives of this study are:

1. To analyze the influence of local wisdom on MSME performance in Jambi Province.
2. To evaluate the impact of clustering on MSME performance in Jambi Province.

METHOD

This study employs a quantitative research methodology utilizing Structural Equation Modeling (SEM) based on Partial Least Squares (PLS). SEM-PLS is chosen for its ability to analyze complex relationships between latent variables, accommodate small sample sizes, and model reflective and formative constructs effectively. This method is particularly suitable for exploratory research, where theoretical frameworks are still under development.

The research population consists of MSMEs operating across various districts and cities in Jambi Province. This study adopts purposive sampling, specifically the judgment sampling technique, to select respondents based on predefined criteria. This ensures that the sample represents the study's objectives and includes key individuals or enterprises capable of providing relevant data.

Data collection involves primary data gathered through structured surveys containing closed and open-ended questions to capture insights about respondents' experiences and practices. Secondary data, including reports and prior studies, complements the primary data, enhancing the study's robustness.

The study focuses on the effects of local wisdom and clustering strategies on MSME performance in Jambi Province. While purposive sampling ensures targeted insights, it may limit generalizability. The findings provide actionable recommendations for policymakers and stakeholders to enhance MSME competitiveness and sustainability, contributing to academic knowledge and practical applications.

RESULT AND DISCUSSION

Result

The following are the results of the SEM PLS calculation in this study:

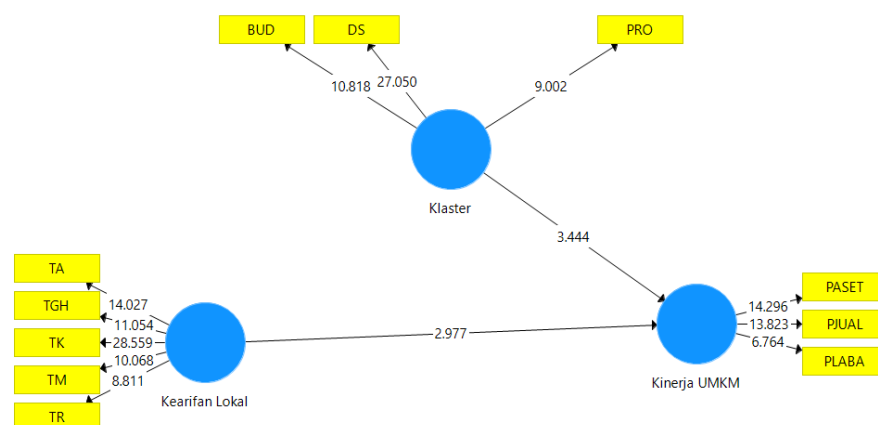


Figure 1. Bootstrapping
Source: PLS Output

This study includes three variables: the cluster variable, the local wisdom variable, and the SMEs performance variable. The cluster variable comprises three indicators: Culture (BUD), Competitiveness (DS), and Productivity (PRO). Meanwhile, the local wisdom variable consists of five indicators: Traditional Customs (TA), Traditional Lifestyle (TGH), Traditional Craftsmanship (TK), Traditional Music (TM), and Traditional Rituals (TR). Lastly, the SMEs performance variable is composed of three indicators: Asset Growth (PASET), Sales Growth (PJUAL), and Profit Growth (PLABA).

Based on Figure 1, it can be concluded that for the cluster variable, the most dominant indicator is Competitiveness (DS), with a value of 27.050. This finding signifies that clustering strategies in SMEs within Jambi Province are strongly associated with their market competitiveness. SMEs adopting clustering strategies tend to possess higher market competitiveness.

For the local wisdom variable, the most dominant indicator is Traditional Craftsmanship (TK). This indicates that the form of local wisdom that can be leveraged by SMEs managers as their flagship product is traditional craftsmanship, reflecting the unique cultural identity of the local community.

Finally, for the SMEs performance variable, the most significant indicator is Asset Growth (PASET). This implies that the improved performance of SMEs can primarily be observed through their asset growth.

The table below further summarizes the path coefficient analysis of the study:

Table 1. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Local Wisdom -> SMEs Performance	0,348	0,366	0,117	2,977	0,003
Cluster-> SMEs Performance	0,415	0,409	0,121	3,444	0,001

Source: PLS Output

Meanwhile, based on Table 1, the following influences can be concluded:

1. Local Wisdom on SMEs Performance

Local wisdom has an original sample value of 0.348 (positive), a t-statistic value of 2.977 (greater than 1.96), and a p-value of 0.000 (less than 5%). These t-statistic results indicate a significant influence. Therefore, it is concluded that local wisdom has a positive and significant effect on SMEs performance.

2. Cluster on SMEs Performance

The cluster variable has an original sample value of 0.415 (positive), a t-statistic value of 3.444 (greater than 1.96), and a p-value of 0.001 (less than 5%). These t-statistic results indicate a significant influence. Therefore, it is concluded that clustering strategies have a positive and significant effect on SMEs performance.

Discussion

1. Local Wisdom and SMEs Performance

The finding that local wisdom positively influences SMEs performance aligns with previous research emphasizing the role of cultural and local values in business practices. For instance, Bahena-Álvarez et al. (2022) highlighted that local wisdom can provide a unique competitive advantage by embedding authenticity and cultural relevance into products and services. This differentiation not only appeals to local markets but also attracts interest from international consumers seeking culturally rich experiences. Furthermore, Sugianti (2022) demonstrated that integrating local traditions and practices fosters stronger community ties and brand loyalty, which are essential for sustainable growth.

Among the indicators of Local Wisdom, Traditional Craftsmanship (TK) is identified as the most dominant. This finding emphasizes that traditional craftsmanship not only serves as a key cultural asset but also as a practical driver of SMEs' marketability and distinctiveness. Leveraging traditional craftsmanship enables SMEs to meet consumer demands for unique and authentic products while preserving cultural heritage. However, as noted by Himawan et al. (2022), integrating traditional practices with modern market expectations requires innovation. SMEs must maintain cultural authenticity while enhancing product quality and functionality to meet diverse customer preferences. Policymakers and community leaders should provide targeted support, including training programs and infrastructure development, to enable SMEs to capitalize on their cultural assets effectively.

2. Cluster and SMEs Performance

The positive and significant influence of clustering on SMEs performance is consistent with findings from Royo-Vela et al. (2022), who reported that clustering fosters collaborative innovation, resource sharing, and market expansion among SMEs. Clustering enables businesses to access shared infrastructure, pool resources, and participate in collective marketing efforts, which enhance efficiency and competitiveness. Additionally, Kaplinsky & Morris (2022) emphasized that cluster-based strategies can reduce operational costs and improve supply chain coordination, providing a strong foundation for SMEs to scale their operations.

The most dominant indicator for the Cluster variable is Competitiveness (DS). This highlights that clustering significantly enhances SMEs' market competitiveness by enabling them to collaborate, share resources, and innovate collectively. In the context of Jambi Province, where SMEs often face challenges due to fragmentation, clustering offers a structured approach to optimize resource utilization and market presence. For example, SMEs within clusters focused on traditional crafts can collectively brand their products, enhancing recognition and demand both locally and internationally.

However, successful clustering requires effective governance and coordination. As noted by Indriani et al. (2021), clusters must be supported by robust leadership and clear objectives. Policymakers must incentivize cluster participation and provide platforms for knowledge sharing and collaboration. Additionally, fostering trust and cooperation among cluster members is essential to ensure that the benefits of clustering are equitably distributed and sustainable over time. By emphasizing competitiveness as a central element, SMEs can strengthen their market position and achieve long-term growth.

CONCLUSION

This study highlights the significant roles of local wisdom and clustering strategies in enhancing the performance of SMEs in Jambi Province. The findings demonstrate that local wisdom, characterized by the integration of cultural and traditional values into business practices, has a positive and significant impact on SMEs performance. Among the indicators, Traditional Craftsmanship (TK) stands out as the most dominant, underscoring its role as a key cultural asset and driver of SMEs' uniqueness and marketability.

Furthermore, the results confirm that clustering strategies significantly enhance SMEs performance by providing access to shared resources, promoting collaboration, and fostering innovation. The most dominant indicator for clustering is Competitiveness (DS), highlighting that SMEs leveraging cluster strategies are better positioned to compete effectively in local and broader markets.

The implications of this research are both theoretical and practical. Theoretically, the findings contribute to the literature by validating the importance of integrating cultural and structural approaches in SME development. Practically, they provide actionable insights for policymakers, business leaders, and community stakeholders. By supporting initiatives that promote local wisdom, particularly in traditional craftsmanship, and enhancing cluster-based competitiveness, stakeholders can create an ecosystem that empowers SMEs to thrive sustainably.

Future research can build on these findings by exploring additional factors influencing SMEs performance or examining the long-term effects of integrating local wisdom and clustering strategies. Overall, this study provides a robust framework for enhancing SME competitiveness and resilience through culturally and structurally informed approaches.

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