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Policy-Driven Capability Building and MSME Competitiveness: Evidence from a Local Government Business Support Program in Indonesia

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) play a critical role in local economic development, yet many face structural constraints related to managerial capacity, innovation, and market access. This study examines the effectiveness of the Business Clinic Program initiated by the Malang City Government in strengthening MSME competitiveness. Using a mixed-methods approach, data were collected from 60 MSME participants across five districts in Malang, Indonesia. Quantitative analysis was conducted using multiple linear regression, complemented by qualitative insights from interviews and program documentation. The findings indicate that the program significantly contributes to improving MSME competitiveness, particularly through enhanced entrepreneurial management and production innovation. However, limited program coverage, low digital literacy, and restricted access to formal financing remain key challenges. This study proposes an integrated intervention framework linking input resources, capability development, and market expansion as a policy model to support MSME competitiveness. The findings highlight the importance of sustained institutional support and targeted capacity-building initiatives in local economic development.

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in economic development, particularly in emerging economies where they contribute significantly to employment generation and income distribution. In Indonesia, MSMEs represent a dominant component of the national economic structure. Data from the Ministry of Cooperatives and SMEs indicate that approximately 64.19 million MSME units operate across the country, contributing around 61.07% to the national Gross Domestic Product (GDP) and absorbing nearly 97% of the total workforce (Meilantika et al., 2024). This substantial contribution highlights the importance of MSMEs as a driving force for inclusive economic growth and regional economic resilience. In addition to their contribution to employment, MSMEs are also

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recognized for their relatively high flexibility in responding to market dynamics and economic fluctuations compared to large enterprises (Suryana & Bayu, 2012).

Despite their strategic importance, MSMEs continue to face various structural constraints that hinder their capacity to grow and compete in increasingly competitive markets. Previous studies indicate that MSMEs frequently encounter challenges related to limited access to capital, inadequate managerial capabilities, complex regulatory environments, and restricted access to modern technologies (Syahputra et al., 2023). Access to financing remains one of the most significant barriers to MSME development, particularly because many small businesses lack sufficient collateral to meet formal banking requirements (Hasibuan & Marliyah, 2024). Recent reports show that approximately 59.62% of MSME credit applications were rejected by banks during the 2023–2024 period, reflecting persistent financing constraints within the sector (Kristianus, 2024). Furthermore, limited digital literacy among MSME actors—estimated to be only around 30–40%—restricts their ability to utilize digital platforms for marketing, production management, and business expansion (Saptantinah et al., 2025). Additional challenges include fluctuations in raw material prices, market information asymmetry, and low production efficiency caused by small-scale operations and weak managerial practices.

Recognizing both the strategic importance and persistent constraints faced by MSMEs, government intervention plays a crucial role in strengthening their competitiveness and sustainability. Public policy interventions are often necessary to address market failures such as information asymmetry, limited access to financial services, and inadequate entrepreneurial capabilities among small businesses. In this context, local governments have increasingly implemented various support programs designed to enhance MSME capacity, improve access to resources, and facilitate market integration.

One such initiative is the Business Clinic Program implemented by the Department of Cooperatives, Industry, and Trade (Diskopindag) of Malang City. This program is designed as a policy intervention aimed at strengthening MSME competitiveness through integrated support services, including business consultation, managerial training, marketing assistance, and licensing facilitation. Through this initiative, the local government seeks to improve the managerial capacity of MSME actors while simultaneously expanding their access to markets and financial resources.

Although the Business Clinic Program has been implemented as a strategic initiative to support MSME development, its effectiveness in enhancing MSME competitiveness has not been empirically examined in a comprehensive manner. In particular, there is limited empirical evidence regarding how integrated government support programs influence key determinants of MSME competitiveness, such as raw material accessibility, production innovation, entrepreneurial management capability, access to financing, and market access.

Therefore, this study aims to evaluate the effectiveness of the Business Clinic Program in accelerating MSME competitiveness in Malang City. Specifically, this research examines the influence of five key dimensions—raw material accessibility, production innovation, entrepreneurial management, access to capital, and market access—on the competitiveness of MSMEs participating in the program. In addition, the study seeks to identify the major challenges faced by MSMEs and propose strategic recommendations for strengthening local government intervention in supporting sustainable MSME development.

2. Literature Review

Government Intervention and MSME Development

Government intervention plays a fundamental role in supporting economic development, particularly in sectors characterized by structural constraints and market failures. In the context of MSME development, government policies are often designed to address barriers such as limited access

to information, financial services, and technological capabilities. Economic theory suggests that government intervention becomes necessary when market mechanisms fail to allocate resources efficiently due to externalities, information asymmetry, or monopolistic structures.

In many developing economies, MSMEs face persistent institutional and structural challenges that limit their ability to grow and compete in broader markets. Government support programs therefore serve as an important policy instrument to enhance MSME productivity and competitiveness through regulatory frameworks, financial assistance, training programs, and institutional facilitation. In this context, local government initiatives are particularly significant because they are often closer to the operational realities faced by MSME actors and can implement targeted interventions that address region-specific challenges.

The Business Clinic Program implemented by the Department of Cooperatives, Industry, and Trade (Diskopindag) of Malang City represents a practical form of local government intervention designed to strengthen MSME competitiveness. The program provides business consultation, training, licensing assistance, and networking opportunities for MSME actors. Such initiatives aim to reduce structural barriers faced by small businesses while simultaneously improving their managerial capabilities and market access.

MSME Competitiveness

Competitiveness is a key determinant of the sustainability and long-term growth of MSMEs. In general, competitiveness refers to the ability of firms to produce goods and services that meet market requirements while maintaining efficiency and profitability in competitive environments. For MSMEs, competitiveness is closely related to their capacity to innovate, manage resources effectively, and adapt to changing market conditions.

Porter (2001) emphasizes that competitiveness is influenced by four main determinants within the Diamond Model, namely factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. These determinants collectively shape the competitive environment in which firms operate and influence their capacity to achieve sustained competitive advantage.

Complementing this perspective, the Resource-Based View (RBV) introduced by Barney (1991) highlights the importance of internal organizational resources in generating competitive advantage. According to this theory, firms can achieve sustained competitiveness when they possess resources that are valuable, rare, inimitable, and non-substitutable (VRIN). For MSMEs, such resources may include managerial capabilities, entrepreneurial skills, innovation capacity, and organizational knowledge.

In dynamic and rapidly changing markets, firms must also develop the ability to adapt and reconfigure their resources in response to environmental changes. The concept of **dynamic capabilities** proposed by Teece et al. (1997) explains that organizational competitiveness depends not only on existing resources but also on the firm's capacity to integrate, build, and reconfigure internal and external competencies in response to technological and market changes.

Entrepreneurship, Innovation, and Value Creation

Entrepreneurship plays a central role in driving innovation and economic development. Schumpeter (1934) conceptualizes entrepreneurs as agents of change who introduce innovations that disrupt existing market structures and create new economic opportunities. In the context of MSMEs, entrepreneurial behavior enables firms to identify market opportunities, develop new products, and adopt innovative business practices that enhance competitiveness.

Innovation itself is not limited to technological development but also includes improvements in production processes, marketing strategies, and organizational management. Drucker (1985) argues

that innovation is a systematic process that allows organizations to exploit changes in the environment as opportunities for creating new value. For MSMEs, innovation can take various forms, including product differentiation, process efficiency improvements, and the adoption of digital technologies.

Another important framework for understanding competitiveness is the **value chain concept** introduced by Porter (1985). The value chain approach emphasizes that competitive advantage can be achieved by optimizing value-creating activities across all stages of production and distribution. For MSMEs, improving efficiency within the value chain—such as procurement, production, marketing, and distribution—can significantly enhance their ability to compete in broader markets.

Financial Access and Market Expansion

Access to financial resources is widely recognized as one of the most critical factors influencing MSME growth and competitiveness. Beck et al. (2008) highlight that limited access to financing is a major constraint faced by small firms in developing countries. Financial institutions often perceive MSMEs as high-risk borrowers due to limited collateral, insufficient financial records, and uncertain business prospects.

Improved access to financial services enables MSMEs to invest in technology, expand production capacity, and enter new markets. Without adequate financing, many small businesses remain trapped in low-productivity activities and struggle to achieve sustainable growth.

Market access is another key determinant of MSME competitiveness. Effective marketing strategies allow firms to expand their customer base, increase brand visibility, and enhance product competitiveness. According to Kotler and Keller (2016), marketing strategies should focus on understanding consumer needs, developing differentiated products, and utilizing appropriate communication channels to reach target markets. The rapid development of digital technologies has also created new opportunities for MSMEs to access broader markets through e-commerce platforms and social media.

Conceptual Framework of the Business Clinic Program

The Business Clinic Program represents an integrated policy intervention designed to strengthen MSME competitiveness through several strategic dimensions. In this study, five key variables are used to evaluate the effectiveness of the program.

The first dimension is raw material accessibility, which reflects the ability of MSMEs to obtain production inputs with stable prices and consistent quality. Reliable access to raw materials is essential for maintaining production continuity and cost efficiency (Tambunan, 2009).

The second dimension is production innovation, which refers to the capacity of MSMEs to improve production methods, adopt new technologies, and develop innovative products that enhance market competitiveness.

The third dimension is entrepreneurial management, which encompasses the ability of entrepreneurs to manage resources, formulate business strategies, and organize operational activities effectively. Strong managerial capability enables MSMEs to respond more effectively to market challenges and competitive pressures.

The fourth dimension is access to capital, which reflects the extent to which MSMEs can obtain financial resources from formal and informal financial institutions to support business expansion and operational development (Beck et al., 2008).

The fifth dimension is market access, which represents the ability of MSMEs to reach broader markets through both traditional distribution channels and digital platforms (Kotler & Keller, 2016).

These five dimensions collectively form the analytical framework used in this study to evaluate the effectiveness of the Business Clinic Program in improving MSME competitiveness.

3. Methodology

Research Design

This study employs a mixed-methods approach that integrates quantitative and qualitative techniques to examine the effectiveness of the Business Clinic Program in enhancing MSME competitiveness in Malang City. The mixed-methods approach allows for a more comprehensive understanding of the research problem by combining statistical analysis with contextual insights obtained from qualitative data.

The quantitative component aims to measure the influence of several key variables associated with the Business Clinic Program on MSME competitiveness. Meanwhile, the qualitative component is used to enrich the interpretation of the quantitative findings through in-depth interviews, observations, and document analysis related to program implementation.

Population and Sample

The population of this study consists of all Micro, Small, and Medium Enterprises (MSMEs) in Malang City that participated in the Business Clinic Program organized by the Department of Cooperatives, Industry, and Trade (Diskopindag) during 2024.

A total of 60 MSME actors were selected as research respondents. The sampling process used a cluster sampling technique based on the administrative districts of Malang City, namely: Kedungkandang, Sukun, Klojen, Blimbing, Lowokwaru.

In addition to geographic clustering, respondents were also categorized based on the scale of business, including micro, small, and medium enterprises. This approach ensures representation of different MSME characteristics participating in the Business Clinic Program.

Data Collection

Data collection in this study involved both primary and secondary sources. Primary data were collected through structured questionnaires distributed to MSME participants in the Business Clinic Program. The questionnaire used a four-point Likert scale to measure respondents' perceptions regarding several aspects of program effectiveness and business competitiveness.

In addition, qualitative data were obtained through: in-depth interviews with MSME participants, direct observation of program activities, analysis of official program documents. These qualitative sources were used to complement and validate the quantitative findings through methodological triangulation.

Variables and Measurement

This study assumes that the effectiveness of the Business Clinic Program can be reflected through five key intervention dimensions that influence MSME competitiveness. These variables are operationalized as follows: Dependent Variable, Y: MSME Competitiveness; Independent Variables, X1: Raw Material Accessibility, X2: Production Innovation, X3: Entrepreneurial Management, X4: Access to Capital, X5: Market Access.

These five variables represent the core components of the Business Clinic Program designed to strengthen the competitiveness of MSMEs through capacity building, innovation support, and market facilitation.

Data Analysis Techniques

The quantitative data were analyzed using multiple linear regression analysis to determine the influence of independent variables on MSME competitiveness. Multiple regression analysis allows

researchers to predict the value of a dependent variable based on several independent variables simultaneously and to assess the relative contribution of each variable to the model (Ghozali, 2018).

The regression model used in this study is expressed as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where: Y: MSME competitiveness, X1: Raw material accessibility, X2: Production innovation, X3: Entrepreneurial management, X4: Access to capital, X5: Market access, a: constant, b1, b2, b3, b4, b5: regression coefficients, e: error term.

Instrument Testing

To ensure the quality and reliability of the research instruments, several statistical tests were conducted. The validity of the questionnaire items was tested using exploratory factor analysis, which evaluates whether each measurement item appropriately represents the intended construct.

The reliability of the instrument was assessed using Cronbach's Alpha coefficient. A variable is considered reliable when the Cronbach's Alpha value exceeds the acceptable threshold, indicating internal consistency among measurement items.

Classical Assumption Tests

Before performing regression analysis, several classical assumption tests were conducted to ensure the validity of the regression model. The normality test was performed to determine whether the residuals of the regression model follow a normal distribution.

Multicollinearity testing was conducted to identify whether strong correlations exist among independent variables. This test was evaluated using **Tolerance** and **Variance Inflation Factor (VIF)** values. The heteroscedasticity test was used to determine whether the variance of residuals remains constant across different observations.

Program Effectiveness Analysis

In addition to regression analysis, this study also evaluates the effectiveness of the Business Clinic Program using two indicators: Success Ratio, which measures the proportion of MSME participants experiencing business improvement after participating in the program.

Satisfaction Ratio, which reflects the level of satisfaction of MSME participants with the program implementation. These indicators provide additional insights into the perceived effectiveness of the Business Clinic Program from the perspective of program beneficiaries.

Qualitative Data Analysis

Qualitative data obtained from interviews, observations, and document analysis were analyzed using a triangulation approach. This method allows researchers to compare and integrate different sources of information to strengthen the validity of the research findings and provide deeper insights into the implementation of the Business Clinic Program.

4. Results

Respondent Characteristics

A total of 60 MSME actors participating in the Business Clinic Program in Malang City were included as respondents in this study. The demographic profile of respondents indicates that the majority belong to the productive mature age group (41–50 years), representing 48% of the sample. This suggests that most participants possess substantial experience in managing their businesses.

In terms of educational background, most respondents have relatively adequate educational attainment. Approximately 35.7% of respondents hold a bachelor's degree (S1), while 34.3% have

completed senior high school education. This distribution reflects a relatively balanced educational composition, which may support the ability of MSME actors to absorb knowledge and training provided through the Business Clinic Program.

Geographically, respondents were distributed across five districts in Malang City, with the highest representation from Blimbing (24.2%) and Lowokwaru (22.7%). Regarding business scale, the majority of respondents (69.7%) operate micro-scale enterprises, which is consistent with the primary target group of the Business Clinic Program.

Participation intensity in the program also varies. Approximately 33.3% of respondents have participated in the program for more than three years, while 36.9% reported attending program activities once a month. These findings indicate sustained engagement of MSME actors in the Business Clinic Program.

Instrument Testing

The validity test was conducted to evaluate whether the measurement indicators appropriately represent the constructs used in this study. The results indicate that all variables demonstrate acceptable levels of validity, with significance values exceeding 0.50, indicating that the measurement items are statistically valid for representing their respective constructs.

The reliability of the research instrument was assessed using the Cronbach's Alpha coefficient. The results show that all variables have Cronbach's Alpha values above 0.60, indicating satisfactory internal consistency of the measurement instrument.

For example, the variables Production Innovation and Entrepreneurial Management recorded Cronbach's Alpha values reaching 1.000, indicating very high reliability levels in the measurement of these constructs.

Classical Assumption Tests

Before conducting regression analysis, several classical assumption tests were performed to ensure the robustness of the regression model. The normality test results indicate that the significance value (p-value) for all variables is 0.200, which exceeds the threshold of 0.05. This result suggests that the residuals of the regression model are normally distributed, satisfying the normality assumption required for regression analysis.

The multicollinearity test was conducted using Tolerance and Variance Inflation Factor (VIF) values. The results indicate that all independent variables have tolerance values greater than 0.10 and VIF values below 10, indicating that no multicollinearity problem exists among the independent variables.

The heteroscedasticity test shows that all independent variables have significance values greater than 0.05, indicating that the regression model does not exhibit heteroscedasticity. Therefore, the variance of the residuals can be considered constant across observations.

Multiple Linear Regression Analysis

To examine the influence of Business Clinic Program dimensions on MSME competitiveness, a multiple linear regression analysis was conducted.

The regression model used in this study follows the equation:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where: Y: MSME competitiveness, X1: Raw material accessibility, X2: Production innovation, X3: Entrepreneurial management, X4: Access to capital, X5: Market access.

Partial Test (t-test), The results of the t-test indicate that all independent variables significantly influence MSME competitiveness. Among the five variables examined, entrepreneurial management (X3) demonstrates the strongest influence on MSME competitiveness, with a significance value of 0.009 and a standardized coefficient (Beta) of 0.291. This result suggests that improvements in entrepreneurial management capability play a crucial role in strengthening the competitiveness of MSMEs participating in the Business Clinic Program.

Coefficient of Determination (R^2), The regression analysis shows that the R Square value is 0.706, indicating that 70.6% of the variation in MSME competitiveness can be explained by the five independent variables included in the model: raw material accessibility, production innovation, entrepreneurial management, access to capital, market access. The remaining 29.4% of variation in MSME competitiveness may be explained by other factors not included in the model.

Simultaneous Test (F-test), The results of the F-test indicate a significance value of less than 0.001, demonstrating that the five independent variables simultaneously have a statistically significant effect on MSME competitiveness.

This result confirms that the Business Clinic Program dimensions collectively contribute to improving the competitiveness of MSMEs in Malang City.

Program Effectiveness Analysis

In addition to statistical analysis, the effectiveness of the Business Clinic Program was also evaluated using success and satisfaction ratios. Success Ratio, The results show that 54 out of 60 respondents (90%) reported positive business development after participating in the Business Clinic Program. This percentage indicates that the program falls into the "very effective" category in supporting MSME development.

Satisfaction Ratio, Furthermore, 56 out of 60 respondents (93%) expressed satisfaction with the Business Clinic Program. This result indicates a very high level of participant satisfaction, reflecting the perceived usefulness and relevance of the program for MSME actors.

Qualitative Findings

Qualitative insights obtained from interviews and open-ended responses reveal that many MSME participants reported improvements in their marketing strategies after participating in the Business Clinic Program. Participants also indicated greater confidence in managing their businesses and responding to market competition.

In addition, the program has contributed to the development of business networks among MSME actors, enabling new forms of collaboration and information exchange. Many respondents emphasized that the training materials provided through the program were practical and easy to apply in their business activities.

However, several challenges were also identified, including: limited follow-up mentoring, uneven program coverage across regions, insufficient digital technology training. Participants also expressed expectations for future program improvements, including more intensive mentoring, increased number of expert facilitators, expanded digital training modules, and stronger support for financing and marketing activities.

5. Discussion

The results of this study demonstrate that the Business Clinic Program implemented by the Malang City Government plays a significant role in enhancing MSME competitiveness. The findings indicate that the five examined variables—raw material accessibility, production innovation, entrepreneurial management, access to capital, and market access—collectively contribute to improving the

competitiveness of MSMEs. The regression results show that these variables explain 70.6% of the variation in MSME competitiveness, indicating that government intervention through integrated support programs can substantially influence the performance and sustainability of MSMEs.

Among the examined variables, entrepreneurial management (X3) emerged as the most influential determinant of MSME competitiveness. This finding highlights the importance of managerial capability in enabling small businesses to adapt to changing market conditions and competitive pressures. Effective entrepreneurial management allows business owners to make strategic decisions, allocate resources efficiently, and develop long-term business strategies. This result is consistent with the Resource-Based View (RBV) proposed by Barney (1991), which emphasizes that competitive advantage is derived from internal capabilities and organizational resources that are valuable, rare, inimitable, and non-substitutable.

The strong influence of entrepreneurial management also aligns with the perspective of Drucker (1985), who argues that entrepreneurship should be understood as a systematic managerial practice rather than merely an individual trait. In the context of MSMEs participating in the Business Clinic Program, managerial training and consultation services provided by the program appear to strengthen the decision-making capacity of business owners, allowing them to manage operational and strategic aspects of their enterprises more effectively.

Another important finding of this study is the positive influence of production innovation (X2) on MSME competitiveness. Innovation enables MSMEs to improve product quality, increase production efficiency, and differentiate their products in competitive markets. This finding supports the innovation theory introduced by Schumpeter (1934), which views innovation as the primary driver of economic development and competitive advantage. By introducing new products, improving production methods, or adopting new technologies, MSMEs can create additional value and respond more effectively to market demands.

The Business Clinic Program appears to facilitate innovation among MSME actors by providing training and mentoring related to product development and production processes. This result is also consistent with the concept of dynamic capabilities proposed by Teece et al. (1997), which suggests that firms must continuously integrate and reconfigure their resources to adapt to changing market environments. Through innovation-oriented training and knowledge transfer, MSMEs participating in the program are better positioned to enhance their adaptive capabilities.

Although raw material accessibility (X1), access to capital (X4), and market access (X5) also contribute to MSME competitiveness, their influence appears to be less dominant compared to entrepreneurial management and innovation. Nevertheless, these variables remain essential components of the overall competitiveness framework. Reliable access to raw materials supports production continuity and cost efficiency, which are critical factors for small businesses operating with limited financial resources. Tambunan (2009) emphasizes that stable access to production inputs is a key prerequisite for maintaining productivity and operational stability in MSMEs.

Access to capital is another important determinant of MSME development. According to Beck et al. (2008), limited access to financial services is one of the most persistent barriers faced by small businesses in developing economies. Although the Business Clinic Program provides guidance related to financial management and financing opportunities, many MSME actors still experience difficulties in obtaining credit from formal financial institutions due to collateral requirements and administrative constraints.

Similarly, market access plays an important role in determining the long-term sustainability of MSMEs. Effective marketing strategies enable firms to expand their customer base, increase brand recognition, and strengthen their market position. Kotler and Keller (2016) highlight that marketing

strategies should involve a comprehensive understanding of consumer needs, product differentiation, and the effective use of distribution channels. The increasing use of digital platforms also presents new opportunities for MSMEs to access wider markets and improve their competitiveness.

The program effectiveness analysis further strengthens these findings. The success ratio of 90% indicates that most MSME participants experienced positive business development after participating in the program, while the satisfaction ratio of 93% reflects a very high level of participant satisfaction. These results suggest that the Business Clinic Program functions not only as a capacity-building initiative but also as a platform for strengthening entrepreneurial confidence and business networks among MSME actors.

However, several challenges remain in the implementation of the program. Interviews with participants revealed that the coverage of the Business Clinic Program is still limited, and not all MSME actors have equal access to the services provided. In addition, the relatively low level of digital literacy among MSME participants remains a significant barrier to maximizing the benefits of digital marketing and online business platforms. These findings indicate that while the program has demonstrated positive impacts, further improvements are necessary to ensure broader and more sustainable outcomes.

Policy Implications and Recommendations

The findings of this study provide several important policy implications for local governments seeking to strengthen MSME competitiveness through targeted support programs.

First, the strong influence of entrepreneurial management suggests that capacity-building initiatives should remain the central focus of MSME development programs. Local governments should expand training programs related to business management, financial planning, strategic decision-making, and digital entrepreneurship. Continuous mentoring programs should also be introduced to ensure that MSME actors can effectively apply the knowledge obtained from training activities.

Second, the positive impact of production innovation highlights the need for policies that encourage innovation-driven MSME development. Government institutions should facilitate collaboration between MSMEs, universities, and innovation centers to promote product development, technology adoption, and creative industry growth. Innovation grants and technology transfer programs may also help MSMEs improve their production processes and product quality.

Third, improving access to financial services remains a critical policy priority. Local governments should strengthen partnerships with financial institutions, cooperatives, and financial technology (fintech) platforms to provide financing schemes that are more accessible to MSMEs. Simplifying administrative procedures and providing financial literacy training can also help MSME actors better prepare for accessing formal financing.

Fourth, expanding digital market access should become an integral component of MSME development strategies. Digital marketing training, e-commerce integration programs, and partnerships with online marketplaces can help MSMEs reach broader markets and improve their competitiveness in the digital economy.

Finally, the Business Clinic Program should adopt a more inclusive and decentralized implementation model to ensure that MSMEs across different districts can access the services provided. Establishing local business consultation centers at the sub-district or village level may help expand program outreach and provide continuous support for MSME actors.

Overall, strengthening the institutional framework of MSME support programs and improving coordination between government agencies, financial institutions, and private sector partners will be essential for creating a more sustainable and inclusive MSME development ecosystem.

6. Conclusion

This study examines the effectiveness of the Business Clinic Program implemented by the Malang City Government in enhancing the competitiveness of Micro, Small, and Medium Enterprises (MSMEs). The findings indicate that the program plays a significant role in strengthening MSME competitiveness through integrated support mechanisms that include improvements in raw material accessibility, production innovation, entrepreneurial management, access to capital, and market access.

The empirical results show that the five examined variables collectively explain 70.6% of the variation in MSME competitiveness, indicating that the Business Clinic Program represents an effective policy instrument for strengthening MSME performance at the local level. Among the variables analyzed, entrepreneurial management emerges as the most influential factor affecting MSME competitiveness, highlighting the importance of managerial capability in enabling MSME actors to manage resources, formulate strategies, and respond to market dynamics. In addition, production innovation also contributes significantly to competitiveness by enabling MSMEs to improve product quality and adapt production processes to changing market demands.

The program effectiveness analysis further demonstrates that the Business Clinic Program has generated positive outcomes for participating MSMEs. The success ratio indicates that 90% of respondents experienced business development after participating in the program, while 93% expressed satisfaction with the program implementation. These findings suggest that the program not only enhances business performance but also strengthens entrepreneurial confidence and knowledge among MSME actors.

Despite these positive outcomes, several challenges remain in the implementation of the program. Limited program coverage, relatively low levels of digital literacy among MSME actors, and restricted access to formal financing institutions continue to constrain the broader impact of the program. Addressing these structural challenges will require stronger institutional coordination, expanded training initiatives, and improved access to financial and digital resources.

Overall, this study highlights the importance of integrated local government intervention in strengthening MSME competitiveness. By combining managerial capacity building, innovation support, financing facilitation, and market access expansion, the Business Clinic Program provides a practical model of policy intervention that can support sustainable MSME development and contribute to inclusive regional economic growth.

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