



RESEARCH ARTICLE

Synergy and Innovation in Micro and Small Enterprises: A Policy Network Approach to Developing the Potential of MSMEs in Lhokseumawe, Indonesia

Maryam^{1*}, Ade Muana Husniati², Muryali³, Safrida⁴¹ Ilmu Administrasi Publik, Fakultas Ilmu Sosial dan Ilmu Politik Malikussaleh University Aceh² Ilmu Administrasi Komunikasi, Fakultas Ilmu Sosial dan Ilmu Politik Malikussaleh University Aceh³ Ilmu Administrasi Publik, Fakultas Ilmu Sosial dan Ilmu Politik Malikussaleh University Aceh⁴ Ilmu Administrasi Negara, Fakultas Ilmu Sosial dan Ilmu Politik, Universitas Teuku Umar**ARTICLE INFO****ABSTRACT**

Received: Oct 13, 2024

Accepted: Dec 12, 2024

Keywords

MSMEs

Policy Network Synergy

Innovation

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in the Indonesian economy, but face significant challenges such as limited access to capital, technology, markets, and suboptimal public policy support. This research aims to explore how synergies and innovations are sought to be enhanced in the development of MSMEs in Lhokseumawe, Indonesia, through a policy network approach, which involves collaboration between the government, private sector, and local communities. The research uses a qualitative case study approach, involving in-depth interviews and participatory observation with key stakeholders, including local government representatives, MSME owners, academics, and non-government organizations in Lhokseumawe. The research data will later be analyzed to identify interaction patterns and policy network dynamics in supporting MSME growth. The results reveal that synergies created through cross-sector collaboration have great potential to improve the competitiveness and sustainability of MSMEs. However, this study also found challenges in these efforts, namely rigid bureaucracy, suboptimal communication, and lack of sustainability aspects of the program. However, initiatives such as digital marketing training and market access support undertaken by the private sector are visible and, if properly managed within the policy network framework, can have a significant positive impact on MSMEs. In conclusion, the policy network approach can strengthen collaboration between the government, private sector, and local communities, providing an effective strategy to address structural challenges and increase the growth potential of MSMEs in Lhokseumawe.

***Corresponding Author:**

maryammar@unimal.ac.id

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the Indonesian economy. Based on data from the Ministry of Cooperatives and SMEs (2023), MSMEs contribute more than 61 percent of Gross Domestic Product (GDP) and provide around 97 percent of national employment (Ministry of Cooperatives and SMEs of the Republic of Indonesia, 2024). According to (Institute for Development of Economics and Finance (INDEF), 2024), there are more than 65.4 million MSMEs in Indonesia in 2022, which account for about 99 percent of all business units in Indonesia, and have the ability to adapt to market developments in Indonesia. However, despite their crucial role, MSMEs in Indonesia face significant challenges, including limited access to capital, technology, markets, and management knowledge, which hinder their growth and innovation potential (Institute for Development of Economics and Finance (INDEF), 2024; Ministry of Cooperatives and SMEs of the Republic of Indonesia, 2024; Malhotra et al., 2007; Tambunan, 2007). For example, many MSMEs in Indonesia are still trying to access financing, but data from Pricewaterhouse Coopers (PwC) in 2019 showed that 74 percent of MSMEs have not received financing from formal institutions (Santoso, 2020).

Therefore, synergy and innovation are important elements that cannot be ignored in the development of Indonesian MSMEs. Synergy itself refers to mutually beneficial cooperation between various parties to achieve better results, while innovation is the introduction of new ideas that can improve business efficiency and effectiveness ((Guloglu & Tekin, 2012; Herman & Nohong, 2022; Porter M.E., 1990). By adopting synergy and innovation approaches, MSMEs can improve their competitiveness. This is evidenced by several successful examples from various regions, which show that synergy between the government, private sector, and local communities can create an ecosystem to support innovation and growth of MSMEs ((Ministry of Finance RI, 2023; Rothwell & Zegveld, 1985).

Seeking elements of synergy and innovation from various parties makes the policy network approach relevant in examining this context. The policy network concept was first introduced by Rhodes (1988) to describe the dynamic relationship between government and non-government actors in policy making. Policy networks illustrate that policy networks can replace traditional hierarchical structures in the context of British government. Thus, this approach provides a new view of how policies can be shaped through more horizontal interactions between various actors (Rhodes, 1990; Rothwell, 1985). Rhodes in (Rhodes, 1997) then developed a typology of policy networks, such as interest networks and implementation networks, which help classify interactions in public policy. Then, Knock in (Knock, 1993) also introduced the concept of Social Network Analysis (SNA) to analyze the structure and dynamics of policy networks in decision making, and mentioned that the most important element in policy making is the relationship and influence between actors. Furthermore, (Jenkins-Smith & Sabatier, 1994) developed the concept of Advocacy Coalition Framework (ACF) to emphasize the urgency of the role of advocacy coalitions in policy change. Rhodes in (Rhodes, 1997) continued with the addition of the concept of governance in policy networks, which emphasized the importance of collaboration between government, private sector, and civil society. Then, (Adam et al., 2008) explored the application of policy networks in various contexts, while (Provan & Kenis, 2008a) explored the modes of governance of policy networks. However, (Dowding', 1995) criticized these approaches, highlighting the challenges of measuring impact and the complexity of network analysis which is not simple. Until then, in the late 2010s and early 2020s, digital technologies and social media increasingly influenced the structure and dynamics of policy networks, including the use of big data analysis to evaluate the effectiveness and dynamics of networks in various policy fields, and showed the expansion of the influence of various aspects such as globalization, digitalization in shaping increasingly complex policy issues.

This trend shows that policy networks are increasingly influenced by globalization, digitalization, and the complexity of policy issues (Provan & Kenis, 2008a). The policy network approach is important in achieving synergy and innovation in MSMEs because it is a concept in which various policy actors such as government, non-governmental organizations, business communities, and academics collaborate to create effective policies (Rhodes, 1997). This approach can be applied in the development of MSMEs in Lhokseumawe through collaborative network building between local stakeholders to overcome existing barriers and maximize the potential of MSMEs. This is because Lhokseumawe City is one of the cities in Aceh province with great potential in the MSME development sector. A large population, reaching around 188 thousand people and supported by potential in various sectors such as agriculture, fisheries, fashion handicrafts and food, opens up great opportunities for MSMEs in Lhokseumawe to grow rapidly (Tambunan, 2007; Ula et al., 2023). However, so far the existence of MSMEs in Lhokseumawe has faced various critical challenges. One of them is inadequate infrastructure that hinders product distribution and access to wider markets, for example, damaged roads or lack of transportation access, which affects the efficiency of shipping goods (Ilham Sahputra et al., n.d.).

Then, limited market access is also a major problem for MSMEs in Lhokseumawe. It is undeniable that many MSME actors have difficulty marketing their products outside the region due to limited networks and knowledge of the wider market (Anwar, 2023). In addition, policy support that has not been optimal is also an obstacle, although there are several initiatives from the local government, such as the implementation and effectiveness of programs, these programs still need to be improved in order to really help MSMEs overcome these challenges (World Development Report, 2016). There have been initiatives from the Lhokseumawe City Government that adopt the concept of synergy and innovation, such as collaborating with local universities to provide business management training for MSME owners (Anwar, 2024; Ayi Jufridar, 2022; Naury et al., n.d.). However, these initiatives have

yet to contribute significantly to the development of MSMEs in Lhokseumawe. Therefore, it is important to strengthen the policy network approach in supporting MSMEs in Lhokseumawe, which could include steps to build collaboration platforms, provide better access to resources, and increase the capacity of MSME actors through training and mentoring (Marchese et al., 2019; Renny Oktafia and Abdul Rahman Hidayat, 2018; World Development Report, 2016). So based on various previous descriptions, this research will try to analyze the research formulation regarding the role of government, private sector, and local communities in strengthening policy networks for MSME development in Lhokseumawe.

LITERATURE REVIEW

Policy network

Policy network refers to the concept developed by Rhodes in (Rhodes, 1990; Rothwell, 1985), (Rhodes, 1997) and others to analyze the relationship between the center and the regions in the context of public policy. Policy network is also interpreted as a complex network of organizations that are interconnected due to the nature of dependence on resources. So that the role of policy networks of various organizations and actors can influence the implementation of public policies, especially in the context of central-regional relations and how resources and interests are exchanged and negotiated in the process (Hardy et al., 1990). Therefore, it can be noted that the policy network framework Figure 1.1 is adapted from (Rhodes, 1997):

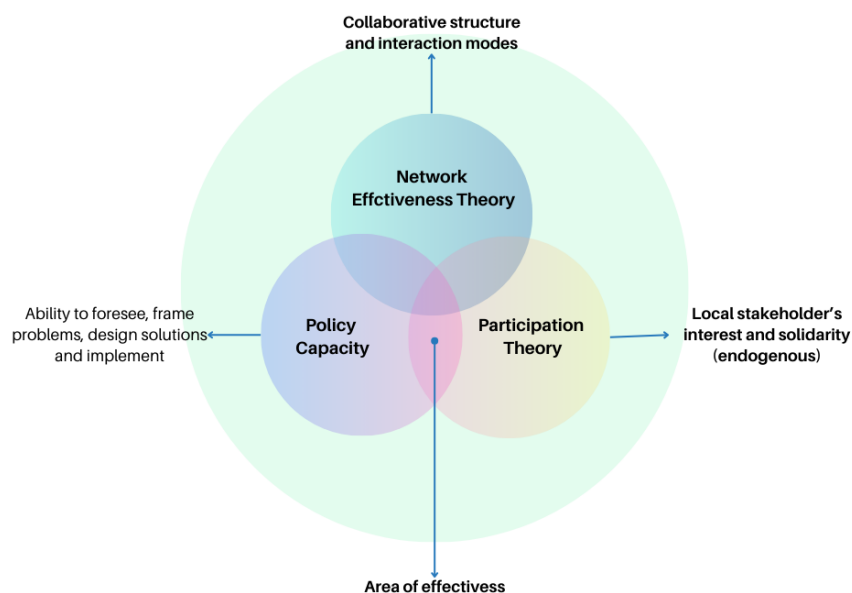


Figure 1.1: Policy network framework

Source: Processed from (Rhodes, 1997)

Based on Figure 1.1, it can be seen that effective networks, policy capacity, and participation are important aspects in building a policy network in an organization. The network concept is commonly known as “policy networks”. A policy network is a collection of institutional relationships, both formal and informal, that exist between the government and other actors. As such, it is one of a number of concepts that highlight the relationship between government and its dependence on state actors and society. Relationships within these networks are formed due to shared trust and interests, and are constantly negotiated in the process of making and implementing public policies. These actors depend on each other and interact with each other to produce policy (Rhodes, 2017).

MATERIALS AND METHODS

This research uses a qualitative method with a case study approach. This approach was chosen because it is suitable for examining complex and in-depth phenomena related to synergy and innovation in MSME development, especially in the context of policy in Lhokseumawe. Case studies allow researchers to explore the dynamics and interactions between various actors involved in the policy network. According to (Yin, 2018) case studies are a suitable research strategy used to answer

“how” and “why” questions in the context of contemporary phenomena that require in-depth understanding (Yin, 2018).

Location and research subjects

The research location is in Lhokseumawe City, Aceh Province. The selection of this location is based on the great potential that MSMEs have in Lhokseumawe, as mentioned in the research background. The city has a population of around 188,000 and has potential sectors such as agriculture, fisheries, handicrafts, fashion and food, which offer great opportunities for MSME development (Tambunan, 2007). The data in this study will be collected through several techniques, the description of data collection techniques can be explained as follows, In-depth Interviews, and document Analysis

RESULTS

The results of this study emphasize the importance of synergy between the government, private sector, and local communities in the development of MSMEs in Lhokseumawe. This synergy can be achieved through the strengthening of an effective policy network, where each stakeholder plays an important role to support the growth of MSMEs. The following will discuss the important role of each stakeholder or policy actor and their impact on MSME development through a policy network approach (synergy and innovation) by paying attention to the policy network of MSME development policy actors in Lhokseumawe with the following description:

1. Government's role in strengthening the policy network

a. Policies and regulations

Government policies and regulations play an important role in supporting MSME development, but findings from field interviews in Lhokseumawe indicate that MSME actors often feel that policies are inconsistent and lack sustainability. For example, while there are policies that support the provision of stalls and tents for MSMEs, many businesses complain about the lack of follow-up from the government after the initial assistance is provided (Interview, May 31, 2024). This is supported by (Mourougane, 2012), the government should not only provide facilities, as more responsive training to market demand is also needed to support MSMEs. MSME actors feel that there is a void in government regulations that should ensure the sustainability of these development programs. Therefore, the government needs to design public policies that are flexible and responsive to feedback from the field to ensure that they remain relevant and effective for MSME development. This is because regulations that are too rigid or poorly targeted can hinder innovation and growth of MSMEs (Chatra et al.r, n.d.). This can be seen from the experience of MSME actors in Lhokseumawe who feel trapped in regulations that do not support their business development (Interview, May 31, 2024).

Based on these findings, as explained by (Rhodes, 1997) public policy cannot be separated from the network of actors involved in its making. Policy networks consisting of government, private sector, and civil society actors have common interests in a particular field. Thus, effective policies require coordination and synergy between stakeholders in the policy network in achieving the desired goals. In Lhokseumawe, it is important for the government to not only rely on formal regulations, but also build strong collaborative networks with MSMEs and private actors to ensure sustainable and adaptive policy implementation.

b. Government facilitation and support

The government plays a crucial role in the development of MSMEs, especially through the provision of adequate facilities, support and infrastructure. In Lhokseumawe City, this effort is seen through various programs, such as the People's Business Credit (KUR) and training organized by the Disperindagkop (Department of Industry, Trade, Cooperatives and SMEs) (Interview, 06 June 2024). These programs include training in digital marketing and product packaging, which are designed to increase the capacity of MSMEs. While these programs provide significant initial support, field interviews revealed that there is still a gap between the initial assistance and the ongoing support needed to ensure MSMEs can grow consistently (Interview, 06 June 2024).

This gap suggests that initial support alone is not enough. Many MSME actors in Lhokseumawe benefit from training programs and initial support, but they face major challenges in sustaining

growth without ongoing support (Interview, 26 June 2024). In this context, it is important for the government to not only provide technical training, but also ensure continued access to markets and commercialization support. This view is in line with the findings of (Jatmiko et al., 2021a) that technical training must be accompanied by adequate support for MSMEs to thrive and compete.

c. Policy implementation and monitoring

Policy implementation and monitoring are key elements in ensuring that policies designed by the government to support MSMEs are effective and sustainable. One of the strategies implemented by the Lhokseumawe Government is programs such as Ahad Vestival, which serves as a promotional platform as well as a monitoring mechanism, thus becoming an important part of the government's efforts in advancing MSMEs (Interview, 06 June 2024). The program includes training activities organized based on the results of a survey of the field needs of MSME actors, and education on aspects of bookkeeping and digital marketing. However, while the program is good, the biggest challenge is the lack of continuous monitoring and evaluation after the initial implementation of the policy.

This shows that continuous policy monitoring is crucial to ensure that MSMEs are able to adapt to changing market conditions and MSME needs. Without effective monitoring, policies often become static and unresponsive to field dynamics (John Inyang et al., 2016; Li et al., 2023). This is consistent with the views of respondents from MSME actors in Lhokseumawe, who revealed that after initial assistance is provided, the government rarely evaluates or provides additional support to MSMEs (Interview, June 09, 2024).

This context is in line with the policy network framework proposed by Rhodes (2017), which emphasizes the importance of monitoring and evaluation involving various actors in the policy network. In this network, the government does not stand alone but needs to collaborate with various stakeholders to monitor policy effectiveness on an ongoing basis. This collaboration allows the government to receive direct feedback from MSME actors, so that the policies implemented can be continuously updated and adjusted to remain relevant.

2. Role of private sector in strengthening policy networks

a. Collaboration with government and local communities

The private sector plays an important role in strengthening policy networks that support MSMEs, particularly through collaboration with government and local communities. Based on interviews in Lhokseumawe, collaboration between the private sector, such as Bank Aceh, and the government and local communities has helped in providing training and technical support for MSMEs (Interview, June 06, 2024). MSME players in Lhokseumawe, such as Bylilu and Nasi Bakar, noted that digital marketing training provided by the private sector greatly helped improve their marketing capabilities. In addition, CSR (Corporate Social Responsibility) programs run by the private sector also provide wider market access for MSMEs (Interview, 09 and 28 June 2024).

However, to have a more significant long-term impact, some experts argue that collaboration should be more structured and sustainable. (Chege & Wang, 2020) point out that while collaboration between the private sector and government can create powerful synergies, its long-term success depends on how well it is organized and sustainably supported. They emphasize the importance of active engagement from all stakeholders to ensure that the training and support provided is truly integrated with local needs and able to sustainably improve the capacity of MSMEs.

From a policy network perspective according to (Rhodes, 2017), the concept of Corporate Social Responsibility (CSR) undertaken by the private sector should be seen as an integral component of the network that supports MSME development. CSR should not be viewed only as a separate social program, but as part of a coordinated strategy within a policy network, where the government, private sector, and local communities work together to achieve common goals. In addition, (Kim et al., 2023) emphasized that the private sector needs to be more proactive in supporting technological innovation among MSMEs. This is because technology support from the private sector is often limited to basic training, and rarely includes ongoing support for the application of advanced technologies that can help MSMEs compete in the global market. While digital marketing training has provided significant benefits, there is a need to expand the scope of technology support to more advanced areas such as e-commerce and data management.

b. Provision of resources and expertise

The research revealed that the private sector, government and financial institutions in Lhokseumawe City play a crucial role in supporting MSME development, particularly through the provision of resources and expertise. One significant form of support comes from Bank Aceh, which, through digital marketing training programs and financial assistance, has successfully helped MSMEs such as Bylilu and Nasi Bakar entrepreneurs to improve their capacity and expand their market reach (Interview, 06 and 28 June 2024). The positive impact of the training is evident in the increased competitiveness of MSMEs in the local market, allowing them to respond better and faster to market demands. This is in line with the view of (Davidson, 2007) that emphasizes the importance of the private sector in creating shared value through the integration of business strategies according to community needs.

However, this research also shows that the support provided is often not optimally integrated with MSMEs' long-term business strategies. Although the training and financial assistance provided have provided immediate benefits, many MSMEs still revert to old practices after the training ends. This weakness indicates the need for a targeted and sustainable strategic approach. As asserted by (Moore & Manring, 2009), networked MSMEs provide many financial and organizational efficiencies that enable technological and market development to achieve sustainable development. In this context, interviews with Disperindagkop (Department of Industry, Trade, Cooperatives and SMEs) staff confirmed that while many trainings have been conducted, the lack of ongoing mentoring after training means that the knowledge gained is not always applied consistently (Interview, June 26, 2024).

Theoretical debates enrich this understanding with various perspectives. Rhodes in (Rhodes, 1997), through policy network theory, argues that policy success is highly dependent on effective interaction and coordination among actors in the network. In this study, the collaboration between Bank Aceh, Disperindagkop, and MSMEs reflects the importance of synergy in the policy network, where each actor plays a role in supporting MSME development. However, when compared to the embeddedness theory of (Granovetter, 2008), it was found that private sector support in Lhokseumawe lacked the social context and local network relationships. Granovetter emphasizes that economic actions, such as the provision of resources by the private sector, should be seen within the social context and existing networks, to create a more relevant and sustainable impact (Granovetter, 2008). Furthermore, core competencies (Jatmiko et al., 2021b) highlight the importance of business management to achieve sustainable competitive advantage, which includes the ability to manage financing and technology is often the weakness of a business. Reading this urgency, there has actually been digital marketing training provided by Bank Aceh to MSMEs in Lhokseumawe, but not yet on the financial technology aspect, even though this will help MSMEs in designing long-term business strategies to be stronger in facing changing market conditions.

c. Corporate social responsibility (CSR)

Corporate Social Responsibility (CSR) is recognized as a strategic instrument in supporting the development of Micro, Small, and Medium Enterprises (MSMEs) in various regions, including Lhokseumawe City. Based on interviews with MSME actors, as well as related parties such as Disperindagkop and the private sector such as Bank Aceh, it was found that CSR programs made a significant contribution to strengthening the capacity of MSMEs (Interview, June 2024). Programs such as digital marketing training and halal certification assistance not only improve the competitiveness of MSMEs in local and national markets, but also open access to markets that were previously difficult to reach. This is in line with research by (Jenkins, 2009) which states that integrating CSR into the core of a business is an important key to its success. However, the research findings also reveal that the implementation of CSR in Lhokseumawe still faces various obstacles, especially regarding the sustainability and relevance of the program. MSME actors, as revealed by Disperindagkop, often revert to old practices after the CSR program ends, suggesting that a more sustainable and in-depth approach is needed (Interview, June 06, 2024).

Research (Toran et al., 2019) emphasizes the importance of CSR that focuses on the sustainable development of local communities, with training and mentoring programs that provide not only basic knowledge, but also ongoing support to enable MSMEs to apply the skills they have acquired in their daily business practices. Furthermore, within the framework of Rhodes' (1997) policy network theory, CSR is part of a broader policy network in which various stakeholders, including government,

the private sector and local communities, collaborate to support MSME development. Interviews with Disperindagkop also show that, although CSR has had a positive impact, collaboration between the private sector and government policies still needs to be improved to create more effective synergies. This is in line with the findings of (Steurer, 2010a) who emphasized that CSR designed without regard to local context and not integrated with public policy often fails to achieve the desired goals.

3. The role of local communities in strengthening policy networks

a. Active community participation

This research highlights the role of local communities as dynamic actors who are not only passive participants, but also influence and shape MSME development policies in Lhokseumawe City. Based on interviews with MSME actors such as Bylilu and Nasi Bakar entrepreneurs, as well as officials from Disperindagkop and KUR facilitators, it was found that local communities play an important role in providing subtle but significant input into policy decision-making. It is undeniable that the environmental and cultural conditions of the people in a location can influence their perception of a program or policy. Local communities in Lhokseumawe come from various social layers and interests that are closely intertwined, and play a dual role as policy recipients as well as drivers who are able to highlight local issues that are often overlooked by policy makers. For example, community involvement in local events is not just a participant, but also serves as a party that articulates the needs and challenges of MSMEs. This is in line with the ladder of citizen participation theory by (Arnstein, 2019), which states that when local communities are actively involved in the decision-making process, they can make a greater contribution in shaping policies to be responsive to local needs.

In the policy network framework proposed by Rhodes (1997), the dynamic to address this challenge is the implementation of bottom-up governance, where policies are not solely dictated from the top down, but are also influenced by pressure and input from actors on the ground, such as local communities. Rhodes (2017) often emphasizes the importance of complex and interrelated actor networks in effective policy making. In Lhokseumawe City, local communities act as one of the components that contribute to policy flexibility and adaptability. When local communities are able to demonstrate concrete and urgent needs, they indirectly force the government and private sector to adjust their strategies, as well as ensure that the resulting policies are not only in accordance with regulations but also relevant and effective at the grassroots level.

b. Social and cultural support

Social and cultural support from local communities plays an important role in MSME development, particularly in creating an environment conducive to business growth. Based on the interviews in Lhokseumawe, local social and cultural values are very supportive of MSMEs, both through the promotion of local products and through social networks that help deal with daily challenges. This shows how local cultural support, as described by (Mourougane, n.d.) in the thick description theory, can strengthen the identity of MSME products and make them more competitive in the market in a wider scope. From the interviews conducted, it appears that local social and cultural values strongly support the sustainability and growth of MSMEs. Bylilu, a local hijab business, started its business in 2019 with pashmina as its main product, and managed to grow by utilizing social networks in its community (Interview, June 28, 2024). Bylilu not only focuses on hijab products, but also empowers more than 10 other MSMEs, mostly women and single parents, by implementing skills training and providing access to markets. Staff from Disperindagkop also emphasized that local cultural support not only helps in marketing but also in maintaining the product's unique identity rooted in local traditions and culture (Interview, 06 June 2024).

In addition, MSMEs in Lhokseumawe also get support from Rumah BUMN, which not only offers training and mentoring but also helps with business legality, which is one of the big challenges for many MSMEs. While social and cultural support is crucial, some scholars such as (Zhao et al., 2024).

c. Collaboration with government and private sector

The collaboration between the government, private sector and local communities in supporting MSME development in Lhokseumawe shows significant synergies, although it is not free from challenges and constraints. Based on interviews conducted, it was revealed that MSME players, such as Bylilu, have felt the positive impact of involvement in programs organized by the government and

the private sector, especially in terms of capacity building and market access (Interview, 28 June 2024). Bylilu, as one of Bank Indonesia's mentees, stated that "Bank Indonesia bridged Bylilu to 'go global,' which shows real support in expanding the market through product recommendations to national events such as the festival in Batam Centre. This is in line with the principle of policy networks proposed by Rhodes (1997), where collaboration between actors in the policy network is essential to achieve the expected optimal results.

However, challenges in this cross-sector collaboration were also revealed, especially related to the management and coordination of programs that are still not optimal. Previous research such as (Parker & Selsky, 2004), emphasizes the importance of good management and effective coordination to achieve cross-sector collaboration success. In an interview with an employee of the Disperindagkop, it was explained that although there are collaborative efforts such as the Sunday Festival initiated by the government, the consistency and continuity of the program is still an obstacle (Interview, 06 June 2024). As expressed by one food MSME actor, they expect certain events to be organized as a means of attracting buyers and promotion (Interview, 09 June 2024). However, this shows that there is a dependency of MSME actors on temporary events, so the sustainability side is still difficult to realize and becomes a risk for the sustainability of MSME businesses. This is true, as the policy network framework proposed by (Rhodes, 1997) states that the success of this collaboration depends not only on initial participation, but also on sustainability and good management.

4. Inter-stakeholder synergies in the policy network

a. Three-pillar collaboration model

Collaboration between the government, private sector and local communities, known as the three-pillar collaboration model, plays a central role in strengthening policy networks that support MSMEs. Based on the findings of the research conducted in Lhokseumawe, it appears that the success of MSME development often depends on how effectively these three parties can work together. For example, Bylilu and MSME player Nasi Bakar pointed out that the synergy between the government, private sector such as Bank Aceh, and the local community has resulted in significant initiatives, especially in terms of improving market access and training for MSMEs. This confirms that good collaboration between stakeholders is key in the sustainable development of MSMEs. Informants from Rumah BUMN added that this collaboration not only improves access to markets, but also enables MSMEs to gain better access to technology and capital, crucial in supporting competitiveness in an increasingly competitive market (Interview, July 26, 2024). For example, digital marketing training provided by the private sector has helped MSMEs in Lhokseumawe utilize modern technology to expand their markets. This is in line with Rhodes' (2017) policy network framework, which emphasizes that the success of public policy relies heavily on a network of actors working together synergistically, where each actor brings unique expertise and resources to achieve a common goal.

b. Innovation ecosystem development

Innovation ecosystem development is one of the key elements in driving MSME growth, especially through close collaboration between the government, private sector and local communities. Based on interviews conducted in Lhokseumawe, it was revealed that synergies between stakeholders play a significant role in creating an ecosystem conducive to innovation, particularly in the provision of technology training and access to digital markets. Bylilu and Nasi Bakar MSME players, for example, asserted that training programs organized by the private sector, with support from the government, have enabled them to improve their skills and adopt new technologies that are crucial to compete in the current digital era (Interviews, 09 and 28 June 2024). This statement highlights the importance of cross-sector synergies in strengthening the innovation capacity of MSMEs.

Existing research supports the importance of synergy in building a strong innovation ecosystem (Dzhengiz & Patala, 2024), This is especially true in light of (Daradkah et al., 2023)'s view of the "triple helix" concept as shown in Figure 1.4 below:

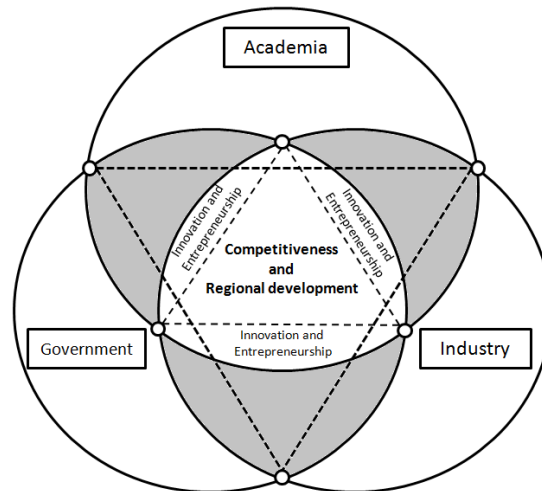


Figure 1.4: Triple helix triangulation

Source: (Farinha & Ferreira, 2013)

The three pillars in Figure 1.4 consisting of the government, industry or companies, and academia do have important roles that require cooperation, in order to create an environment conducive to the realization of innovation (Daradkah et al., 2023). While the involvement of academia in Lhokseumawe may not be optimal, the synergy between the government, private sector and local communities has formed a strong foundation for innovation, especially in terms of digitalization and market access.

c. Challenges and opportunities in collaboration

Collaboration between the government, private sector and local communities is a key element in shaping effective network policies to support MSMEs. However, interviews in Lhokseumawe revealed some significant challenges in creating optimal collaboration. Bylilu and MSME player Nasi Bakar mentioned that one of the main obstacles is the rigid bureaucracy and lack of effective coordination between government agencies, which often slows down the decision-making process and the implementation of programs that support MSMEs (Interview, 09 and 28 June 2024). Staff from Disperindagkop added that differences in organizational culture and working methods between the private and government sectors often lead to miscommunication, which results in inefficient policy implementation (Interview, 06 June 2024).

Therefore, Rhodes' (2017) policy network framework suggests that overcoming these barriers requires institutional reform and strengthening of the policy network structure. This includes improved coordination, transparency, and open communication between stakeholders that help overcome challenges to cross-sector collaboration. However, despite these challenges, there are also great opportunities to improve the quality of collaboration. This is because research by (Ulibarri et al., 2020) shows that by strengthening communication and building trust between stakeholders, collaboration can be more effective, resulting in greater good impact for MSMEs. Moreover, active collaboration between stakeholders can improve policy effectiveness, strengthen communication, and build trust and flexible governance structures. This is evidenced by the research findings in Lhokseumawe, where informants agreed that when there is an open dialogue between the government, private sector and local communities, innovative and relevant solutions are more easily found to address the various issues faced by MSMEs.

5. Impact of strengthening the policy network on MSME development

a. Improved MSME capacity

Improved capacity of MSMEs is one of the main outcomes of the strengthened policy network formed through collaboration between the government, private sector and local communities. Staff from Disperindagkop also confirmed that the training provided enabled MSME players to better understand how digital technology optimizes competitiveness in an increasingly competitive market. On the other hand, the Head of Disperindagkop added that the access to technology provided through this cross-sector cooperation also provides encouragement for MSMEs to innovate and improve the quality of their products. The party from Rumah BUMN also confirmed that support in the form of

financing and technology provided by the private sector plays a crucial role in strengthening the capacity of MSMEs, enabling them to create new products and expand their markets both locally and nationally (Interview, July 26, 2024).

In the perspective of the policy network framework proposed by Rhodes (2017), collaboration between various actors in the policy network not only ensures policy implementation, but also creates sustainable positive impacts for MSMEs. The capacity building experienced by MSMEs in Lhokseumawe through training and access to technology is clear evidence of effective synergy between the government, private sector, and local communities in the policy network.

b. Access to markets and resources

Ease of access to markets and resources is also a key element that determines the success and growth of MSMEs. From the research findings in Lhokseumawe, it was revealed that collaboration between the government, private sector and local communities has played an important role in paving the way for MSMEs to reach wider markets and obtain resources that were previously difficult to access. Digital marketing training provided by the private sector, as noted by staff from Disperindagkop, has enabled MSMEs to utilize e-commerce platforms, thus significantly expanding their market reach. In the context of the policy network theory proposed by Rhodes (2017), a strong policy network requires close synergy between the government, private sector, and local communities to open access and provide support on an ongoing basis, so that MSMEs can develop and survive in an increasingly competitive market.

c. Sustainability and scalability of policy network

The sustainability and scalability of the policy network is a determining aspect of how well support to MSMEs evolves and survives the changing dynamics of the business. Based on interviews conducted in Lhokseumawe, many MSME actors expressed concerns that training programs are not sustainable, which could ultimately hinder the long-term growth of MSME businesses. This is in line with the view of staff from Disperindagkop that the biggest challenge of the training program is the lack of support for the program to be sustainable so that MSMEs continue to grow. In fact, the head of Disperindagkop emphasized that in order to achieve sustainability, it is not enough to make an initial intervention, but a long-term commitment from all stakeholders is needed to continue providing support, especially in terms of access to markets and technology (Interview, 06 June 2024). Without this commitment, as emphasized by Rumah BUMN, MSMEs may find it difficult to survive in the long term, especially in the midst of increasingly fierce and dynamic market competition (Interview, June 26, 2024).

Given these conditions, according to the policy network theory proposed by Rhodes (2017), the sustainability and scalability of a policy is highly dependent on the network's ability to adapt to environmental changes and the evolving needs of MSMEs. Therefore, an effective policy network must have mechanisms that ensure support to MSMEs is not only temporary, but also sustainable and adapted to market conditions.

CONCLUSION

This research comprehensively examines the role of synergy and innovation in the development of Micro, Small and Medium Enterprises (MSMEs) in Lhokseumawe through a policy network approach. The findings show that this approach can significantly improve the competitiveness and sustainability of MSMEs, which relies heavily on the active involvement of stakeholders, including local government, the private sector, and local communities. This is because these parties play a crucial role in creating an ecosystem that supports the growth of MSMEs. The synergy between these actors allows for more targeted initiatives, such as digital marketing training and market access support, that address the specific needs of MSMEs. These initiatives have succeeded in increasing the capacity of MSMEs, especially in terms of adapting to digital technology and expanding market reach. However, this study also identified several challenges that hinder the optimization of the policy network approach. These include rigid bureaucracy and sub-optimal communication between stakeholders, which hampers the decision-making process and program implementation. The implemented programs are also not sustainable, which is a significant obstacle in ensuring the long-term positive impact of these programs.

Research Limitations

Although this research provides deep insight into the role of policy networks in the development of MSMEs in Lhokseumawe, there are several limitations that need to be considered. First, this research uses a qualitative method with a case study approach focused on one specific area, namely Lhokseumawe. Secondly, the data collected from the in-depth interview process and participatory observation have limitations in terms of subjectivity. Thirdly, this research emphasizes synergies between actors in the policy network, but does not delve deeply into the role of technology and digitalization in the context of globalization, which has a significant influence on the development of MSMEs.

REFERENCES

- Anwar. (2024, May 13). *Pemko Lhokseumawe Tingkatkan Kualitas Produk UMKM Melalui Pelatihan*. Portal Pemerintah Kota Lhokseumawe .
- Anwar, K. (2023). Pendayagunaan dan Pengembangan Potensi UMKM Desa Batuphat Timur Kecamatan Muara Satu Kota Lhokseumawe. In *Jurnal Solusi Masyarakat* (Vol. 3, Issue 2).
- Arnstein, S. R. (2019). A Ladder of Citizen Participation. *Journal of the American Planning Association*, 85(1), 24–34. <https://doi.org/10.1080/01944363.2018.1559388>
- Ayi Jufridar. (2022). *Dosen FEB Unimal refleksi UMKM di Lhokseumawe Belum Optimalkan Pasar Digital*. Unimal News.
- Chatra, A., Budaya, I., Judijanto, L., Sakti Alam Kerinci, S., Antakusuma, U., & Jakarta, I. (n.d.). *Dynamic of Product Innovation, Community Involvement, and Regulatory Policy: Case Study of MSME Entrepreneurship in Indonesia* (Vol. 5, Issue 1). <https://ijble.com/index.php/journal/index>
- Chege, S. M., & Wang, D. (2020). The impact of entrepreneurs' environmental analysis strategy on organizational performance. *Journal of Rural Studies*, 77, 113–125. <https://doi.org/10.1016/j.jrurstud.2020.04.008>
- Daradkah, A. M., Alotaibi, T. K., Mahmoud, A. M. A., Awais, B. E., Al-Qudah, M. A., Shannaq, R. M. Al, Al-Momani, M. I., Al_Ruheel, A. A. K. H., Albadarneh, A. M., Alqsaireen, E. M., Alkenani, R. A., Badarneh, H. A., & Mahmoud, S. S. M. (2023). A Proposed Model for Integration and Cooperation between University, Industry, and Government in Arab countries: Innovation Triple Helix Model. *Applied Mathematics and Information Sciences*, 17(6), 1109–1144. <https://doi.org/10.18576/amis/170618>
- Davidson, D. K. (2007). Strategy and society: The link between competitive advantage and corporate social responsibility [1]. *Harvard Business Review*, 85(5), 138–139.
- Dowding', K. (1995). Model or Metaphor? A Critical Review of the Policy Network Approach. In *Political Sfudies*.
- Dzhengiz, T., & Patala, S. (2024). The role of cross-sector partnerships in the dynamics between places and innovation ecosystems. *R and D Management*, 54(2), 370–397. <https://doi.org/10.1111/radm.12589>
- Granovetter, M. (2008). Economic Action and Social Structure: The Problem of Embeddedness. In *Readings in Economic Sociology*. <https://doi.org/10.1002/9780470755679.ch5>
- Guloglu, B., & Tekin, R. B. (2012). A Panel Causality Analysis of the Relationship among Research and Development, Innovation, and Economic Growth in High-Income OECD Countries. *Eurasian Economic Review*, 2(1), 32–47. <https://doi.org/10.14208/BF03353831>
- Hardy, B., Wistow, G., & Rhodes, R. A. W. (1990). Policy networks and the implementation of community care policy for people with mental handicaps. *Journal of Social Policy*, 19(2), 141–168. <https://doi.org/10.1017/s0047279400001975>
- Herman, B., & Nohong, M. (2022). Pengaruh Jaringan Usaha, Inovasi Produk, dan Persaingan Usaha Terhadap Perkembangan Usaha Mikro Kecil dan Menengah (UMKM). *JBMI (Jurnal Bisnis, Manajemen, Dan Informatika)*, 19(1), 1–19. <https://doi.org/10.26487/jbmi.v19i1.18575>
- Ilham Sahputra dkk. (n.d.). *View of Pelatihan dan Pendampingan Pemanfaatan Media Digital untuk Medukung Peningkatan Pemasaran Produk UKM di Desa Uteunkot Kota Lhokseumawe*.
- Institute for Development of Economics and Finance (INDEF). (2024). *Peran Platform Digital Terhadap Pengembangan Umkm Di Indonesia*.
- Jatmiko, B., Udin, U., Raharti, R., Laras, T., & Ardhi, K. F. (2021b). Strategies for MSMEs to Achieve Sustainable Competitive Advantage: The SWOT Analysis Method. *Journal of Asian Finance, Economics and Business*, 8(3), 505–515. <https://doi.org/10.13106/jafeb.2021.vol8.no3.0505>

- Jenkins, H. (2009). A "business opportunity" model of corporate social responsibility for small-and medium-sized enterprises.
- John Inyang, J., Sunday Etim, G., Tom, E., Glory, B., & Juliet Alfred, U. (2016). AN APPRAISAL OF NIGERIA'S MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES): GROWTH, CHALLENGES AND PROSPECTS. In *British Journal of Marketing Studies* (Vol. 4, Issue 5). <https://www.researchgate.net/publication/333951444>
- Kementerian Keuangan RI. (2023, June 27). *UMKM atau Usaha Mikro, Kecil dan Menengah di Indonesia*. Direktorat Jenderal Perbendaharaan .
- Kementerian Koperasi Dan Ukm Republik Indonesia. (2024). *Kementerian Koperasi Dan Ukm Republik Indonesia Terms Of Reference (Tor) Pengadaan Jasa Lainnya Tenaga Pendukung Pengembangan Ekosistem Bisnis*.
- Kim, M., Lim, C., & Hsuan, J. (2023). From technology enablers to circular economy: Data-driven understanding of the overview of servitization and product-service systems in Industry 4.0. *Computers in Industry*, 148. <https://doi.org/10.1016/j.compind.2023.103908>
- Knoke, D. (1993). Networks of Elite Structure and Decision Making. *Sociological Methods & Research*, 22(1), 23–45. <https://doi.org/10.1177/0049124193022001002>
- Malhotra, M., Chen, Y., Criscuolo, A., Fan, Q., Hamel, I. I., & Savchenko, Y. (2007). *Expanding Access to Finance Good Practices and Policies for Micro, Small, and Medium Enterprises Learning Resources Series*.
- Marchese, M., Giuliani, E., & Carlos Salazar-Elena, J. (2019). *Enhancing SME productivity: Policy highlights on the role of managerial skills, workforce skills and business linkages*. <https://doi.org/10.1787/825bd8a8-en>
- Moore, S. B., & Manring, S. L. (2009). Strategy development in small and medium sized enterprises for sustainability and increased value creation. *Journal of Cleaner Production*, 17(2), 276–282. <https://doi.org/10.1016/j.jclepro.2008.06.004>
- Mourougane, A. (2012). Promoting SME development in Indonesia. *Organisation de Coopération et de Développement Économiques*. <https://doi.org/10.1787/5k918xk464f7-en>
- Naury, C., Budhi Santosa, E., Dwi Hastomo, M., Pantjarani, A., Purbiyanto, E., Budhi Santosa, T., Wahyuni Samaratul Zanah, S., Lakstian Catra Mulia, V., Annaningtyas, C., Nur Kusuma, N., Parker, B., & Selsky, J. W. (2004). Interface dynamics in cause-based partnerships: An exploration of emergent culture. In *Nonprofit and Voluntary Sector Quarterly* (Vol. 33, Issue 3, pp. 458–488). SAGE Publications Inc. <https://doi.org/10.1177/0899764004266016>
- Porter M.E. (1990). *The Competitive Advantage of Nations*. Free Press.
- Provan, K. G., & Kenis, P. (2008a). Modes of network governance: Structure, management, and effectiveness. *Journal of Public Administration Research and Theory*, 18(2), 229–252. <https://doi.org/10.1093/jopart/mum015>
- Renny Oktafia dan Abdul Rahman Hidayat. (2018). PENGUATAN KAPASITAS PELAKU BISNIS MIKRO MELALUI PENATAAN PENGELOLAAN KEUANGAN USAHA: PANDANGAN ISLAM. *Jurnal Masharif Al-Syariah: Jurnal Ekonomi Dan Perbankan Syariah*, 3(2).
- Rhodes. (2017). *Network Governance and the Differentiated Polity*.
- Rhodes, R. A. W. (1990). Policy Networks: A British Perspective. *Journal of Theoretical Politics*, 2(3), 293–317. <https://doi.org/10.1177/0951692890002003003>
- Rhodes, R. A. W. (1997). *Understanding governance: Policy networks, governance and accountability*. Open University Press.
- Rothwell, R. (1985). Innovation policy Reindustrialization and technology: towards a national policy framework. In *Science and Public Policy* (Vol. 12, Issue 3).
- Santoso, B. (2020). *Laporan Kajian Kesenjangan Sisi Permintaan (demand) dan Penawaran (supply) terhadap Pembiayaan Usaha Mikro dan Kecil (UMK)*. www.kompak.or.id
- Steurer, R. (2010). The role of governments in corporate social responsibility: Characterising public policies on CSR in Europe. *Policy Sciences*, 43(1), 49–72. <https://doi.org/10.1007/s11077-009-9084-4>
- Tambunan, Tulus. (2007). Development Of Smes In A Developing Country: The Indonesian Story. *Journal of Business and Entrepreneurship*, 9(2).
- Toran, *, Verma, L., & Nema, D. K. (2019). Role Of Micro, Small And Medium Enterprises (MSMES) In Achieving Sustainable Development Goals. *International Journal for Research in Engineering Application & Management (IJREAM)*, 04(12), 2454–9150. <https://doi.org/10.18231/2454-9150.2019.0189>

- Ulibarri, N., Emerson, K., Imperial, M. T., Jager, N. W., Newig, J., & Weber, E. (2020). How does collaborative governance evolve? Insights from a medium-n case comparison. *Policy and Society*, 39(4), 617–637. <https://doi.org/10.1080/14494035.2020.1769288>
- World Development Report. (2016). *DIGITAL DIVIDENDS*.
- Zhao, Z., Alli, H., Ahmadipour, M., & Che Me, R. (2024). Sustainable agility of product development process based on a rough cloud technique: A case study on China's small and medium enterprises. *PLoS ONE*, 19(8). <https://doi.org/10.1371/journal.pone.0300266>