

Small and Medium Enterprise Development: The Role of Community-Based Business Incubation

Vicky Indarto Setyono¹, Putri Wulandari², Choirul Hudha³

^{1,2,3}Universitas Jember

ABSTRACT: Micro, small, and medium enterprises are an economic sector that contributes significantly to gross domestic product and employment. However, this sector often faces classic challenges or problems such as market access, limited capital, low managerial capabilities, and minimal product innovation. This article aims to examine the role of business incubation and business diversification as determining factors in the development of cracker business centers. This research was conducted using a qualitative approach, and the results show that business incubation plays a role in improving managerial capacity, innovation, networking, and access to financing for MSMEs. Furthermore, business diversification is an adaptive strategy that can increase business resilience to market fluctuations. Therefore, this article emphasizes the importance of integrating both in sustainable development.

KEYWORDS- Business Development, Business Diversification, Business Incubation, Innovation, MSMEs

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a vital sector in the national economy, especially in developing countries. Data from the Ministry of Cooperatives and MSMEs (2023) shows that MSMEs contribute more than 60% to the national GDP and absorb more than 90% of Indonesia's workforce. However, MSMEs still face various structural problems such as limited capital, low technological capabilities, weak marketing access, and a lack of product innovation (Tambunan, 2019).

Business incubation is important to strengthen the competitiveness of micro, small, and medium enterprises. Business incubation serves as an integrated coaching program that provides technical, financial, and managerial support for entrepreneurs (Aernoudt, 2004). Various studies have also discussed business incubation in the context of MSME development, but these factors have not yet contributed optimally to MSME development from an empirical perspective. Therefore, the proper implementation of business incubation will benefit micro, small, and medium enterprises in supporting economic sustainability.

Bojonegoro Regency has considerable MSME potential, particularly in the food industry sector, such as the cracker production business center. Based on a report from the Bojonegoro Cooperative and MSME Office (2023), there are dozens of cracker MSMEs spread across several sub-districts that have become a source of livelihood for the local community. However, this potential has not been followed by an increase in competitiveness. One of the main obstacles is the weak managerial capacity of MSME actors, where most cracker entrepreneurs still rely on experience passed down from generation to generation without the support of modern management knowledge. This is in line with Alma's (2020) opinion that the common weaknesses of MSMEs lie in the aspects of marketing management, financial recording, and product quality management. Low competence in these areas will certainly make it difficult for MSMEs to compete and grow. This condition is also evident in the Bojonegoro BPS (2024) report, which shows that the productivity of MSMEs in the snack food sector has remained stagnant in the last five years.

Another problem that arises is limited access to technology and production innovation. The technology currently in use is still rudimentary, resulting in inconsistent product quality. However, research conducted by Dhewanto, Herliana, and Permatasari (2019) shows that business incubation can ideally help MSMEs access appropriate technology, innovate processes, and improve production efficiency. In reality, however, the implementation of business incubation for cracker MSMEs in Bojonegoro is still not optimal and does not reach all business actors. In addition, the lack of product diversification is also one of the factors slowing down the development of MSMEs. Most business actors produce the same type of crackers without any variation in taste, shape, or packaging. This is a very important strategy to increase competitiveness, expand market segments, and minimize business risks.

Another equally important issue is limited market access. Although the demand for crackers is fairly stable, Bojonegoro MSME products are still not well known outside the region. Digital marketing, which should be an opportunity, has not been optimally utilized. Research by Nugroho and Pratiwi (2022) explains that many food MSMEs in the region still find it difficult to

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utilize digital platforms due to a lack of knowledge and marketing assistance.

In terms of the ecosystem, the lack of strong collaboration between local governments, incubation institutions, cooperatives, and universities is also a cause of stagnant development in MSME centers. Widyastuti and Puspitasari (2021) emphasize that strengthening MSME centers requires continuous multi-stakeholder collaboration so that assistance programs do not stop halfway. Considering these various problems, the role of business incubation is very important to accelerate the capacity building of MSMEs, open access to technology, expand marketing networks, and increase the readiness of MSMEs in obtaining financing. Meanwhile, business diversification is a complementary key strategy for cracker MSMEs to compete, differentiate their products, and increase added value. Thus, research on the role of business incubation and business diversification strategies in the development of cracker MSME centers in Bojonegoro is relevant and important to provide comprehensive and sustainable recommendations for strengthening MSMEs.

II. LITERATURE REVIEW

The Role of Micro, Small, and Medium Enterprises in the Economy through Business Incubation

MSMEs are the backbone of the national economy because they are able to absorb a large number of workers, support regional economic growth, and play an important role in income distribution. The characteristics of MSMEs, which are small in scale with limited resources, mean that business actors often experience obstacles in terms of financing, marketing, financial management, and technology utilization. This condition means that the ability of MSMEs to develop and compete still needs to be improved through the support of structured coaching and mentoring programs (Putri, 2023).

Micro, small, and medium enterprises also often face gaps in access to broader business ecosystems, such as supplier networks, digital markets, and financial institutions. Therefore, various interventions such as management training, entrepreneurial mentoring, and business incubation programs are considered important to strengthen internal capacity and improve long-term business sustainability (Tulsi, 2025).

Business incubation is defined as a structured coaching process that provides training facilities, mentoring, workspace, technology, and network access for entrepreneurs (Aernoudt, 2004). Business incubators serve as catalysts for new business growth, especially for MSMEs that lack managerial or technical capabilities. Previous studies have shown that business incubation increases business survival and growth rates by up to 87% in some countries (Bruneel et al., 2012). In addition, business incubation helps MSMEs in new product development, managerial capacity building, access to investors and capital, and market penetration through networking. This is in line with the concept of knowledge-based development, which states that improving business competence is a key factor in the success of MSMEs (Lalkaka, 2002).

The Concept of Business Incubation in Supporting MSME Development

Business incubation is a structured coaching mechanism that aims to accelerate growth and increase the success of new businesses or MSMEs. Incubation programs typically include business skills training, provision of work facilities, managerial consulting, mentoring, and access to business networks and funding sources. According to various studies, business incubation can provide significant added value because MSME actors gain knowledge transfer, increased entrepreneurial capacity, and support from a business ecosystem that was previously difficult for them to access independently (Sedayu, 2025).

Business incubation serves as a "bridge" between MSME players and the external environment, such as the government, financial institutions, investors, and the market. This function is crucial for business players who are just starting out and still face a high degree of uncertainty. Several studies also show that the success of incubation is greatly influenced by the competence of mentors, the suitability of the training curriculum, the intensity of mentoring, and the quality of the network provided (Shillie, 2024).

Business incubation is understood as a series of processes and services designed to accelerate and stabilize the development of new businesses or MSMEs by providing facilities, training, mentoring, network access, and managerial support. Early theories and systematic reviews show that incubation serves as *an enabler* to reduce initial business uncertainty, improve managerial capabilities, and increase business survival rates (Hackett & Dilts, 2004).

The modern incubation process framework emphasizes context-intervention-mechanism- outcome: that incubation success depends on intervention design (training, mentoring, market access), local context (cultural, policy), and internal mechanisms (learning, networking) that together produce outcomes in the form of capacity building, digitization, and business growth.

Research on the incubation process framework highlights the need for models that are adaptive to the needs of small businesses.

Empirical evidence from various contexts (Africa, Asia, and Indonesia) shows that incubation can improve the performance of microenterprises, e.g., through improved marketing, simple financial management, access to distribution, and strengthened digital capacity, although the effects vary depending on the quality of assistance and continuity of services. Case studies and field research confirm that incubation provides added value through mentoring, facilities, and networking.

In the Indonesian context, the incubation models developed (e.g., university incubators, government/regional programs,

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or community-based incubation) often emphasize the following stages: pre-incubation (selection & preparation), incubation (intensive training & mentoring), and post-incubation (market access & follow-up). Practical reports and local studies recommend combining technical training (production, finance) with marketing digitalization and strengthening partner networks so that MSMEs are truly sustainable.

The Concept of Community-Based Business Incubation

Community-based business incubation is a business assistance approach that utilizes local social structures as the basis for program development. This model combines the principles of formal incubation with the role of communities such as business groups, youth organizations, cooperatives, or specific community groups. The community-based approach is considered more inclusive because it addresses contextual needs and is in line with local culture, making it easier for MSME actors to get involved and feel the benefits (Firdaus, 2023)



Figure 1.1 Concept of Community-Based Business Incubation (Johnson & Alvarez, 2013)

The advantage of this model lies in the social capital possessed by the community, such as trust, mutual cooperation, social closeness, and informal networks. This social capital can accelerate the learning process, encourage collaboration between business actors, and strengthen access to local resources. Research shows that when communities are actively involved, incubation programs become more effective due to emotional support, solidarity, and a more participatory learning climate (Purwito et al., 2024).

Community-based business incubation is an approach to assisting MSMEs that places local communities at the heart of the ecosystem for strengthening businesses. This model emphasizes that the success of MSMEs is not only determined by physical facilities, but also by social support, collective learning, and community networks (Lalkaka, 2002). This perspective is in line with Putnam's (2000) concept of *social capital*, which asserts that social relationships, trust, and shared norms strengthen collaboration and economic growth.

Within the incubation framework, the community provides access to knowledge, mentors, training, and practical experience that help improve business capacity. Hackett and Dilts (2004) emphasize that incubators serve to strengthen the chances of success for MSMEs through integrated services such as mentoring, managerial training, and network strengthening. If is community-based, these services become more adaptive to local needs, making the program more effective.

Empirical research also shows the benefits of this approach. Suryana (2019) found that community incubation improves the production and management skills of MSMEs, while Wibowo (2020) confirmed an increase in the strategic capacity of business actors. Pratiwi (2021) showed that digital marketing training in community incubation can expand the marketing reach of micro MSMEs. Overall, community-based business incubation can be viewed as an MSME empowerment strategy that optimizes collaboration, social capital, and local resources to create sustainable and relevant assistance.

III. RESEARCH METHOD

This study uses a qualitative method with a phenomenological approach to gain an in-depth understanding of the meaning and experience of small and medium-sized cracker businesses in Bojonegoro Regency. The qualitative method was chosen because it is suitable for exploring the complex social reality and specific context of business activities, with descriptive and narrative data (Rina & Yuriadi, 2019). The qualitative research process involves questions and procedures that arise naturally, data collection in the participant's setting, inductive data analysis, pattern or theme building, and interpretation of data meaning by the researcher (Creswell, 2018). This research was conducted in Bojonegoro district cracker MSMEs. The research participants consisted of business owners, family members involved in operational management, and business partners who played a role in product distribution and marketing.

Table 1.1 Demographic profile of participants

Participant Category	Number	Age Range	Role Description
Business Owner	10	29-50 years	Making decisions, managing production, managing finances, and developing business strategies
Family Members Involved in Operations	10	22-35 years	Assisting with production, packaging, logistics, record-keeping, online marketing, and daily operational support.
Business Partners (Distribution & Marketing)	10	29-47 years	Distributors, agents, resellers, partner couriers, and affiliates who support product distribution and marketing.

Data was collected through in-depth interviews with business owners, then analyzed using phenomenological analysis, which included: data collection, data reduction through filtering relevant information, presentation of data in the form of themes and categories, and interpretation of the meanings of the experiences of business actors with community-based business incubation.

IV. RESULTS AND DISCUSSION

Challenges, Obstacles, and Improvements in Managerial Capacity

The results of the study show an increase in the managerial capacity of MSME actors after participating in community-based incubation programs. MSME actors reported that the training materials, particularly those related to business management, simple financial record keeping, and business planning, helped them understand the operational flow of their businesses more systematically.

Some entrepreneurs admitted that they had never done structured financial records before, but after participating in the mentoring program, they began to compile simple financial reports such as cash flow, production cost calculations, and monthly profit and loss evaluations. This improvement has had an impact on their ability to make more accurate and measurable business decisions. One of the important findings of the study is the increased ability of MSME entrepreneurs to market their products digitally. Through online marketing training, incubation participants began to utilize e-commerce platforms, social media, and instant messaging applications to promote their products.

Community assistance also helped business actors expand their market networks through community bazaars, joint product exhibitions, and collaborations with other business groups. This led to an increase in the number of customers and sales for several business actors after participating in the program. The community-based incubation program also facilitated MSME actors' access to financing sources, whether through microfinance institutions, cooperatives, or government capital schemes. Some entrepreneurs received initial capital assistance that was used for packaging improvements, equipment purchases, and production capacity enhancements.

In addition, the community provides shared facilities, such as production kitchens, creative workspaces, and packaging equipment, thereby reducing participants' operational costs. The use of these shared facilities is one of the factors that increases business efficiency. The findings reveal that the community plays a significant role in strengthening business networks among MSME players. The social relationships built within the community create a collaborative climate, mutual sharing of market information, joint learning, and moral support for fellow entrepreneurs. Intensive interaction during the incubation process creates a strong sense of belonging and increases trust among community members. This becomes an important social capital that strengthens business resilience and encourages collective innovation.

Based on interviews conducted by researchers regarding community-based business incubation among cracker business owners in Bojonegoro Regency, the findings are as follows:

Participant Code	Supporting Interview Quotes	Phenomenological Meaning
PU01	<i>"Before joining the incubation program, I ran my cracker business based solely on habit. After receiving guidance, I came to understand the importance of calculating COGS and recording daily expenses. Now I feel more confident in determining the selling price."</i>	Participants experienced an increase in basic financial literacy, particularly in calculating COGS and simple record-keeping as a basis for business decision-making.

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PU03	<i>"The training from this community broadened my horizons. I now understand that margins must be calculated, not just arbitrarily added to prices. With guidance from mentors, I can set stable margins and my business feels more organized."</i>	Participants experienced a shift in mindset when determining margins resulting in a more structured and sustainable business.
PU05	<i>"I never used to think about cash flow. I just sold whatever I could. After joining the program, I learned to keep track of income and expenses, so I know when to buy materials and when to hold back on spending. My business is now more controlled."</i>	Participants realized the importance of simple cash flow management, which has an impact on operational control and business stability.

Based on interviews with cracker business owners in Bojonegoro Regency, it appears that community-based business incubation programs have had a tangible impact on improving business management capacity. Business owners who previously ran their businesses intuitively began to understand how to calculate production costs, determine profit margins, and manage simple cash flow after receiving assistance. This transformation shows that community incubation is able to strengthen their financial literacy, managerial skills, and entrepreneurial mindset.

These findings are consistent with previous studies that confirm that business incubation programs can improve the managerial competence and decision-making capacity of MSME actors (Hackett & Dilts, 2004; Bruneel et al., 2012). In addition, simple financial training has been shown to contribute to the sustainability of small businesses by helping entrepreneurs understand cost structures and cash flow (Fatoki, 2014). Community-based support is also considered effective in strengthening psychological empowerment and business independence, especially in the MSME sector in rural areas (Mutambi et al., 2010). In the Indonesian context, Suryani (2019) emphasizes that community assistance plays an important role in improving the business literacy and professionalism of MSMEs. Thus, the findings of this study are in line with empirical evidence that community-based incubation can create positive and measurable changes in small business management.

Although community-based incubation programs offer many benefits, several obstacles remain, such as: (1) Limited availability of professional mentors, resulting in less intensive mentoring sessions for all participants, (2) Fluctuating program funding, making the sustainability of incubation activities less than optimal, (3) Variations in the capabilities of MSME actors, resulting in uneven application of training materials, and (4) A lack of standard evaluation indicators, making it difficult to measure long-term impact. These obstacles indicate the need to strengthen the incubation system and long-term planning to make the program more sustainable.

Based on the results of interviews conducted by the researcher regarding community-based business incubation carried out with cracker business owners in Bojonegoro Regency, the findings are as follows:

Participant Code	Participant Category	Age Range	Core Perception of Mentoring
K01–K10	Business Owner	30-55 years	Recognizes the importance of consistency, business vision, and long-term planning as the foundation for business sustainability
A01–A10	Family Members Involved	20-45 years	Believe that mentoring helps improve understanding of the family's role in maintaining operational sustainability and supporting the business vision.
M01–M10	Business Partners (Distribution Marketing)	25-50 years	Seeing that the long-term vision of business owners is important for building stable distribution and marketing partnerships.

Findings from various categories of participants show that business mentoring has a significant impact on how entrepreneurs view business management. Business owners, family members involved in the business, and distribution partners stated that mentoring helped them understand the importance of consistency, vision, and long-term planning. Quotes such as "a business must be consistent and have a vision" illustrate that mentoring not only improves technical skills but also shapes a strategic mindset in business management. This is in line with Wibowo's (2020) research, which found that MSME mentoring programs have a positive effect on business actors' ability to formulate a vision and direction for business development. Rahmawati and Sari (2021) also emphasize that family involvement in small businesses strengthens operational governance and helps maintain business continuity. From a partnership perspective, Nugroho (2019) shows that distribution partners are more confident in working with business actors who have a vision and consistency in their long-term strategies. Thus, community-based business mentoring has

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proven to play an important role in strengthening the mental, strategic, and collaborative capacities of small business actors.

Community-Based Business Incubation as MSME Development

Research findings indicate that community-based business incubation can be an effective instrument in strengthening the capacity of MSMEs. This approach is relevant to the social conditions of local communities, where community ties, social proximity, and a spirit of mutual cooperation are key factors that support the effectiveness of assistance. The results of this study are in line with the findings of Firdaus (2023), who states that community involvement can increase active participation and encourage more significant changes in business behavior.

The improvement in the managerial and operational capacity of MSMEs is evidence that the training provided through incubation plays an important role in reducing the risk of business failure. This is in line with Sedayu (2025) and Hakim (2024), who emphasize that intensive mentoring and integrated business service support increase the readiness of business actors to compete in the market.

The success of community-based incubation is also influenced by the strength of social capital that conventional incubators do not have. Strong social relationships enable information exchange, business collaboration, and emotional support that strengthen business resilience. The findings of this study are consistent with the review by Purwito et al. (2024), which emphasizes that community social capital has a strategic role in building a local entrepreneurial ecosystem.

Access to capital is a classic problem for MSMEs. Incubation programs that are able to provide a bridge between MSME actors and sources of financing have been proven to accelerate production capacity growth. Similarly, the use of *shared facilities* () reduces operational costs so that business actors can improve the quality and volume of production without large investments. The results of the study provide several policy implications, including the need to expand community-based incubation because it is more adaptive to local characteristics, the need for the government and supporting institutions to strengthen the capacity of mentors and provide long- term funding, the need for uniform evaluation standards to measure the impact of incubation at the business and community levels, and the need to strengthen multi-stakeholder collaboration between the government, universities, communities, and the private sector to create a sustainable MSME support ecosystem.

This study concludes that community-based business incubation has a significant contribution to strengthening MSME development through increased managerial capacity, market access, financing support, strengthening social capital, and efficient use of resources. Despite obstacles in implementation, this model has proven to be effective and has the potential to become a key strategy in sustainable MSME development. Based on the results of our interviews regarding the community-based business incubation model, one of which is training on digital marketing, the following is the conclusion:

Participant Code	Participant Category	Quote Supporting Interview	Core Perception of Mentoring
K03	Business Owner	"At first, I only relied on buyers from around my house. After participating in digital marketing training, I learned how to photograph products well and post them on Instagram. Now my customer reach is much wider."	Digital training provides a transformation of knowledge and new skills that open up wider market access.
A07	Family Members	I usually only help with production But after participating in the training, I can now create product videos and manage TikTok accounts. It turns out that has impact; many people ask questions and place orders via DM."	Family members have taken on new roles in marketing demonstrating enhanced digital a big capabilities that strengthen business operations.
M05	Business Partners (Distribution Marketing)	"I've noticed that business owners who participated in the digital marketing training have become more active in promoting their products. This makes it easier for us as partners to distribute products because demand is increasing."	Digital training not only impacts producers, but also strengthens relationships and benefits business partners in distribution.

Interview data shows that digital marketing training in a community-based business incubation model has a significant impact on improving the capacity of business actors. Participants from various categories, such as business owners, family members, and business partners, stated that before participating in the training, they did not understand how to market products

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online. However, after receiving assistance, they were able to create simple content, upload it to social media such as Instagram and TikTok, and experience an increase in demand. These findings are in line with Rogers' (2003) theory of technology adoption, which explains that mentoring and training can accelerate the process of innovation adoption among small business owners.

Digital marketing training significantly improves the ability of MSMEs to utilize social media for promotion and market expansion (Pratiwi, 2021). A study by Hasanah and Putra (2020) also confirms that marketing digitalization helps small businesses increase their customer reach and competitiveness. From a business incubation perspective, Suryana (2019) found that training provided in community-based incubators can strengthen the core competencies of business actors, including in the field of digital marketing. Thus, digital marketing training in communities not only provides technical knowledge but also serves as an important catalyst for business transformation and increased sustainability of small businesses.

CONCLUSIONS

This study confirms that community-based business incubation has a significant contribution in strengthening the capacity, independence, and sustainability of MSMEs. The results show that an incubation approach involving community networks, social solidarity, and participatory empowerment can create a support ecosystem that is more responsive to the needs of MSME entrepreneurs than conventional incubation models.

First, incubation programs within communities can improve the managerial competence, financial literacy, and digital skills of MSMEs through training and direct mentoring. MSME actors experience improved capabilities in business planning, digital-based marketing, simple financial management, and product innovation. Second, the existence of communities provides MSMEs with access to extensive networking opportunities. Social support, experience sharing, and collaboration among business actors become social capital that has been proven to accelerate the process of MSME adaptation to market changes and business environment dynamics. This social capital is a strength that is not found in top-down coaching models. Third, community-based incubation plays a role in improving business sustainability through three mechanisms: (1) increasing the capacity of individual business actors, (2) collective collaboration within the community, and (3) facilitating access to resources such as capital, marketing, and technology. As a result, MSMEs are better able to survive, adapt, and develop their businesses independently. Fourth, this study found that the effectiveness of community incubation is greatly influenced by the active involvement of MSME actors, the quality of mentors, and the sustainability of the mentoring program. However, there are still obstacles in the form of limited digital literacy among some community members, limited program operational funds, and suboptimal utilization of incubation facilities.

Overall, this study concludes that social community-based business incubation is an effective, adaptive, and sustainable MSME empowerment strategy. This model not only strengthens business capacity but also builds social solidarity, collaboration, and community economic independence. Therefore, the implementation of community-based incubation needs to be expanded, strengthened through policy support, and developed with the integration of digital technology to face modern economic challenges.

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