Exploring Local Wisdom: a Qualitative Study of Innovation in Traditional MSMEs in the Digital Era

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Abstract This research aims to explore the forms, meanings, and processes of innovation undertaken by traditional Micro, Small, and Medium Enterprises (MSMEs) in facing the challenges of the digital era, with a particular emphasis on the role of local wisdom as a foundation for innovation. Using a qualitative approach with a case study design, this research explores the subjective experiences of MSMEs integrating cultural values with technological transformation. Data collection was conducted through in-depth interviews, participant observation, and document analysis, which were then analyzed using thematic methods. The results show that innovation in traditional MSMEs is not solely focused on technological aspects, but rather is the result of negotiations between cultural values, social adaptation, and modern market demands. Local wisdom has proven to be a source of values and ethics in product development, marketing strategies, and the digital transformation process. The innovation process occurs contextually and gradually, and is heavily influenced by community support and strong local social networks. This study confirms that culture-based innovation strategies provide a more sustainable and inclusive direction for MSMEs navigating the digital era. Therefore, digital transformation should not be separated from the social and cultural context in which MSMEs are rooted. This approach opens up space for a new understanding of more holistic innovation, which is not only technology-oriented, but also strengthens local identity and social cohesion within the MSME ecosystem.

Keywords: Community; Digitalization; Innovation; Local Wisdom; Qualitative Study.

1. Introduction

Amid the rapid wave of globalization and digital transformation, traditional Micro, Small, and Medium Enterprises (MSMEs) in Indonesia face significant challenges to remain relevant, adaptive, and sustainable. These enterprises, which have long relied on manual production methods, conventional business models, and deep-rooted cultural values, are now being pushed to transform in response to changing times. Interestingly, behind these challenges lies a great opportunity: the local wisdom that has long been an internal strength of MSMEs can serve as a rich source of innovation in navigating the digital era. This intersection between local wisdom and technology constitutes a unique form of socio-cultural innovation worthy of deeper academic exploration.

Local wisdom represents the accumulated values, practices, and knowledge systems that have proven effective in maintaining social and environmental harmony. As stated by Keraf (2010), local wisdom is an ecological and ethical framework derived from the long-standing interaction between people, nature, and culture. Within the MSME context, local wisdom functions not only as a foundation of values but also as a key element of product and service identity. Locally rooted crafts, culinary products, fashion, and traditional services often reflect cultural uniqueness, which becomes a competitive advantage in the market. Suryani (2017) argues that MSMEs that incorporate cultural values tend to have strong market positioning, as they attract consumers who value authenticity, heritage, and sustainability.

Digital transformation has become a necessity for MSMEs to stay competitive in the face of technological disruption, including the rise of e-commerce platforms, digital payment systems, and artificial intelligence in marketing. However, technology adoption in traditional MSMEs must consider local cultural contexts to avoid alienation, particularly among business owners rooted in traditional communities. Hapsari and Anggraini (2020) emphasize that major challenges in digitalizing traditional MSMEs include low digital literacy and fears that cultural values may be lost in the process of modernization. Therefore, innovation approaches grounded in local values are crucial to bridging the gap between tradition and technology.

Several studies have demonstrated that the integration of local wisdom with digital innovation can yield positive impacts for MSME development. Nugroho and Sugiharto (2018) found that craft-based MSMEs in Yogyakarta who combined classical batik motifs with social media marketing strategies experienced significant increases in brand visibility and sales volume. Similarly, Rahayu et al. (2021) noted that traditional food MSMEs that adopted e-payment systems and digital logistics successfully expanded their market reach while maintaining authentic taste and cultural storytelling.

Moreover, innovation in traditional MSMEs is not merely technical; it is also deeply social and cultural. According to Rogers (2003) in his Diffusion of Innovations theory, innovation adoption within traditional communities is influenced by social norms, informal networks, and trust. This suggests that the success of digital transformation among traditional MSMEs depends greatly on whether innovation efforts are participatory and aligned with existing cultural structures. Zakaria (2022) further supports this by showing that MSMEs embedded within indigenous communities are more successful in their digital transitions when the approaches are contextual and respectful of local value systems.

From a methodological standpoint, a qualitative approach is essential to capture the depth of meaning, motivation, and dynamics behind innovation within traditional MSME environments. As Creswell (2013) asserts, qualitative methods are well-suited for understanding complex social and cultural contexts, particularly when the researcher seeks to explore the lived experiences of business actors. Through in-depth interviews, participatory observation, and case studies, this research aims to reveal how MSMEs respond to change while staying anchored in their cultural values.

Hence, this study is significant in its aim to explore and document various forms of innovation grounded in local wisdom as practiced by traditional MSMEs in the digital era. In addition to contributing to the theoretical development of culture-based innovation, the findings are expected to inform policy formulation for more contextual and sustainable MSME empowerment strategies. Ultimately, this study strengthens the narrative that local wisdom is not a barrier to modernization, but rather a critical foundation for building MSME business models that are resilient, inclusive, and culturally meaningful in the long term.

2. Literatur Review
Traditional MSMEs and Their Role in the Local Economy

Traditional Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the economic development of many developing countries, including Indonesia. MSMEs not only absorb a significant portion of the labor force, but also drive people-centered economic growth, particularly in areas that are not fully reached by large-scale investment. According to Tambunan (2019), more than 90% of business units in Indonesia are classified as MSMEs, most of which are traditional in nature relying on inherited skills, the use of local raw materials, and business models that grow organically within local communities.

The main strength of traditional MSMEs lies in their deep-rooted connection to local cultural values that continue to thrive in society. The products created by traditional MSMEs such as handicrafts, traditional foods, batik, songket, and herbal remedies are manifestations of cultural heritage that possess not only economic value, but also symbolic, aesthetic, and spiritual meaning. Suryani (2017) emphasized that traditional MSMEs are not merely economic entities, but also custodians of local cultural identity. Therefore, their presence is crucial in preserving and continuing cultural values amid the currents of modernization and globalization.

In addition, traditional MSMEs hold significant social roles. They are often family- or community-based businesses, operating under principles of mutual cooperation (*gotong royong*), social solidarity, and trust-based relationships among entrepreneurs and customers. These social relations strengthen local economic networks and foster a business climate oriented toward sustainability rather than short-term profit. As Koentjaraningrat (2004) notes, the

socio-cultural structure within traditional communities shapes how local economic actors think and behave, making MSMEs not only market players but also cultural stewards of their communities.

Despite their large contribution, traditional MSMEs face several structural challenges, such as limited access to capital, technology, marketing, and training. The digital era introduces both opportunities and new challenges, where traditional MSMEs are required to remain relevant without losing the distinctive local identity that defines them. Therefore, it is crucial to understand that the success of traditional MSMEs cannot be solely assessed by their economic performance, but also by their ability to sustain cultural, social, and economic ecosystems.

In conclusion, traditional MSMEs are not merely a component of the national economic engine they are also active agents in preserving and revitalizing the nation's cultural identity. An approach that integrates economic, social, and cultural dimensions is essential to understanding the full potential and challenges faced by traditional MSMEs in an increasingly complex digital transformation era.

The Concept of Local Wisdom in the Context of Innovation

Local wisdom refers to a set of values, norms, knowledge, and practices developed within a community as a result of long-standing interactions between people, culture, and the natural environment. This wisdom is passed down through generations and has been tested over time in maintaining social and ecological balance within local societies. In the context of grassroots economics especially among MSMEs local wisdom serves not only as a foundation for product identity but also as a guide for production methods, consumption patterns, and relationships between producers and consumers.

Keraf (2010) defines local wisdom as a system of ecological and social ethics that guides communities in managing resources fairly and sustainably. In traditional MSME practices, this wisdom is evident in the use of natural materials sourced from the surrounding environment, eco-friendly production techniques such as bamboo weaving or natural dyeing in batik, and trust-based distribution networks among community members. Values such as simplicity, sustainability, honesty, and mutual cooperation (*gotong royong*) form the core framework for business decision-making.

Koentjaraningrat (2004) adds that local wisdom is adaptive, flexible, and dynamic. These values are not static, but evolve over time to respond to changing challenges and opportunities. Therefore, local wisdom can serve as a relevant foundation for innovation rather than being perceived as a barrier to progress. When facing modern shifts such as digitalization, MSME actors often adopt new technologies in ways that continue to honor community values for instance, using social media as a promotional tool while maintaining cultural storytelling attached to their products.

Zakaria (2022) supports this view by highlighting that MSME actors embedded in indigenous communities are highly selective in adopting innovations. Technologies or business practices that are seen as disrupting social, cultural, or spiritual harmony are often rejected. In contrast, innovations that are perceived to reinforce local cultural identity are more likely to be internalized and shared through community networks. This approach, known as value-based innovation, positions local wisdom as both a filter and a compass in determining acceptable and sustainable forms of innovation.

Thus, in the context of MSMEs, local wisdom is not merely symbolic decoration it is a strategic tool for addressing the challenges of modern economies. Innovations rooted in local wisdom enable entrepreneurs to create products that are authentic, culturally contextual, and enriched with cultural value. This approach also contributes to environmental sustainability and social continuity, which are essential components of inclusive and equitable economic development.

Innovation in MSMEs: A Contextual Approach

In many economic development discourses, innovation is often misunderstood as a process that is always synonymous with the adoption of advanced technology or disruptive breakthroughs. However, in the context of traditional MSMEs especially those rooted in local culture and community innovation carries broader and more complex meanings. It does not merely involve transforming production or distribution methods, but also encompasses efforts to contextualize local cultural values into business forms that are adaptive to contemporary change without losing their original identity.

Damanik (2016) explains that innovation in traditional MSMEs is the result of a synthesis between local knowledge and modern strategies, grounded in community values.

Such innovation is not only aimed at efficiency but also at preserving cultural character and ensuring social sustainability. In this sense, innovation is not wholly imported from external systems but is modified and tailored to fit the value structures already embedded in daily community practice.

Sutarno (2015) notes that MSMEs that integrate local wisdom with modern business strategies tend to be more resilient and adaptable in facing market dynamics. For instance, traditional craft MSMEs that incorporate local cultural motifs while redesigning their packaging to appeal to digital consumers represent a form of **contextual innovation**. This type of innovation takes into account the cultural, social, economic, and even spiritual dimensions of the community. Unlike conventional innovation approaches that are linear and globally market-oriented, contextual innovation prioritizes local values and sustainable development.

Theoretically, Rogers (2003), through his *Diffusion of Innovations* framework, outlines five key factors influencing innovation adoption: relative advantage, compatibility, complexity, trialability, and observability. Among these, **compatibility** or alignment with existing values and past experiences is especially crucial for successful innovation within traditional communities. When innovations are perceived as clashing with collective values, resistance or outright rejection is likely to occur, regardless of the technology's technical superiority.

Granovetter's (1985) concept of *embeddedness* further reinforces this perspective, arguing that economic actions cannot be understood separately from the social structures and relational networks in which they are situated. In this view, innovation is embedded within norms, social relationships, and expectations that shape the behavior of MSME actors. Therefore, a successful innovation is not necessarily the most technologically advanced, but the one that is most socially and culturally aligned.

In conclusion, innovation within traditional MSMEs cannot be equated with that of large-scale, tech-driven corporations. It is situational, value-driven, and rooted in a long process of social negotiation. The success of such innovation depends greatly on its cultural proximity to the community and its ability to respond to the real needs of the people it serves.

Digitalization of MSMEs and the Challenges of Transformation

Digital transformation within the Micro, Small, and Medium Enterprise (MSME) sector has become one of the strategic pillars of national economic development. Digitalization enables MSMEs to expand their market reach, enhance operational efficiency, and adapt to increasingly digital consumer behavior. This transformation includes the use of e-commerce platforms, social media for promotion, digital payment systems such as QRIS, and cloud-based financial record-keeping applications.

However, the process of digital transformation does not occur uniformly across all types of MSMEs especially among traditional MSMEs. These enterprises often face structural and cultural challenges that make digitalization more difficult than expected. Hapsari and Anggraini (2020) identify several major barriers hindering the acceleration of digital adoption, including low levels of digital literacy among business owners, limited technological infrastructure in remote areas, and concerns that digital technology may erode the cultural values embedded in their products.

Digitalization often demands changes in how businesses communicate, promote, and transact changes that may not align with the traditional values of communities that prioritize personal relationships and trust-based interactions. This creates a dilemma between operational efficiency and cultural preservation. As Rahayu and Day (2015) explain, technology adoption in MSMEs is influenced by two primary factors: *perceived usefulness* and *perceived ease of use*. If MSME actors perceive technology as overly complex or irrelevant to their business context, resistance to innovation is likely to increase.

Moreover, the success of digitalization efforts is highly dependent on external support such as government-provided training, community-based mentorship, and access to financing. MSMEs that receive this support tend to be more prepared and confident in embracing digital solutions. However, without a contextual and participatory approach, digital transformation programs risk being ineffective or even exacerbating inequality among MSMEs.

Wulandari and Fauzi (2020) emphasize that digitalization of MSMEs should not be implemented in a uniform, top-down manner. Instead, it must be inclusive and grounded in local context, taking into account cultural values, social structures, and community preferences. When digitalization respects cultural context, it becomes more likely to be

accepted and can even serve to strengthen the identity of traditional products through new media platforms.

Thus, digitalization should not be viewed as an end goal, but rather as a means to enhance the capacity of MSMEs without detaching them from their cultural roots the very source of their resilience. For this reason, it is essential to design digital transformation strategies that are dialogical, sensitive to the needs and limitations of MSME actors, and allow for flexibility in technology adoption in accordance with community values and structures.

The Role of Community and Social Networks in MSME Innovation

Local communities play a crucial role in shaping the social readiness of MSME actors to engage in innovation. Social networks provide access to information, moral support, and even social legitimacy for the implementation of innovative practices. Zakaria (2022), in his research on MSMEs within indigenous communities, found that innovations receiving social approval are more easily accepted and replicated within those communities.

According to Putnam (2000), the existence of social capital in the form of trust, shared norms, and community networks serves as a key asset for micro-entrepreneurs. Social capital facilitates collaboration, reduces transaction costs, and accelerates the diffusion of innovation. In traditional MSMEs, where business practices are often embedded within close-knit social systems, the support and approval of the community significantly influence the success or failure of innovation.

Suharto (2020) highlights the importance of community-based storytelling as a strategy for culturally rooted innovation. Through storytelling, local values, historical narratives, and cultural meanings attached to products can be communicated effectively in digital spaces. This approach not only strengthens the identity of traditional MSMEs but also ensures that local wisdom continues to thrive in the digital era.

In this context, communities function as more than just support systems they act as cultural mediators, curators of values, and amplifiers of socially accepted innovation. The close relationship between MSMEs and their communities makes it essential for innovation to be designed in a participatory manner, aligned with the collective values and dynamics of the local setting.

3. Research Findings

This study revealed several key findings on how traditional MSMEs in Indonesia engage in local wisdom-based innovation within the digital context. The findings are categorized into four major themes: (1) forms of innovation rooted in local identity, (2) gradual processes of digital adaptation, (3) the role of cultural values in guiding innovation, and (4) the strength of community in supporting digital transformation.

Forms of Innovation Rooted in Local Identity

Traditional MSMEs demonstrate a high degree of creativity in developing products that reflect their cultural heritage while adopting modern packaging and branding techniques. For example, handloom weavers in Lombok have begun to digitize traditional motifs using graphic design software to enhance production efficiency and marketability in global platforms. Meanwhile, producers of traditional foods such as *rendang, dodol,* and *jamu* have started using eco-friendly packaging, minimalist modern design, and local storytelling as part of their branding strategies.

These findings align with Suryani (2017), who argued that MSMEs that maintain the uniqueness of local identity tend to achieve strong market differentiation. Furthermore, Suharto (2020) emphasized that cultural storytelling has become a powerful innovative strategy to strengthen MSME brand image in the digital era. Storytelling not only conveys authenticity but also creates emotional engagement with customers who seek meaningful cultural narratives behind the products.

Gradual Process of Digital Adaptation

Digital transformation within traditional MSMEs does not occur in a revolutionary manner; rather, it unfolds gradually and is often accompanied by various challenges. Many MSME actors begin their digital journey by using social media platforms such as WhatsApp, Facebook, and Instagram for promotional purposes. Over time, they progressively learn to utilize e-commerce marketplaces like Shopee and Tokopedia, experiment with live selling features, and carry out transactions using QRIS and digital wallets.

However, limited technological knowledge remains a major obstacle. Informants reported that they often learned through self-taught methods, assistance from their children, peer communities, or training provided by local government programs. This finding is

supported by Wulandari and Fauzi (2020), who state that digitalization among traditional MSMEs is strongly influenced by educational background and involvement in learning communities.

The study by Rahayu and Day (2015) further reinforces these insights, arguing that the adoption of digital technology in MSMEs is significantly shaped by perceived ease of use and perceived usefulness two factors closely linked to the availability of training and access to relevant information. Without adequate exposure to digital tools and practical support, MSME actors tend to experience hesitation or resistance, even when the benefits of digitalization are clear.

The Role of Cultural Values in Guiding Innovation

The MSME actors in this study do not base their innovation decisions solely on considerations of efficiency and profit. Instead, they carefully align their innovations with local cultural values and ethical principles. For example, some batik entrepreneurs deliberately avoid using synthetic chemical dyes, believing that such materials conflict with principles of environmental sustainability. Likewise, artisans from indigenous communities in Kalimantan refuse to mass-produce their crafts, viewing it as a violation of the spiritual essence embedded in their artisanal traditions.

These findings support the view of Keraf (2010), who describes local wisdom as a living ethical system that serves as a moral compass for innovation. Rather than being perceived as a constraint, cultural values function as an internal guide that shapes what forms of innovation are considered appropriate and acceptable within a community.

Zakaria (2022) further emphasizes that indigenous community based MSMEs often prioritize the social and cultural meaning of innovation over mere economic growth. For these actors, innovation must not only serve the market but also preserve harmony with the environment, community norms, and spiritual beliefs. In this way, innovation becomes a culturally conscious act one that respects the deep-rooted values of the society from which it emerges.

Community Strength as a Catalyst for Transformation

Community support has proven to be a powerful driver in facilitating the transformation of traditional MSMEs. Entrepreneurs who are actively involved in cultural communities, local cooperatives, or government-supported initiatives tend to have greater access to training opportunities, marketing networks, and business capital. Community involvement also fosters a sense of security and confidence, enabling MSME actors to embrace change more readily.

Rogers (2003), in his *Diffusion of Innovations* theory, explains that opinion leaders within a community play a critical role in accelerating the adoption of innovation. In this study, key figures such as traditional elders, religious leaders, and MSME mentors significantly influenced entrepreneurs' decisions to "step into the digital world." Their endorsement not only validated innovation efforts but also helped reduce resistance to change.

These findings align with the study by Hapsari and Anggraini (2020), which emphasized that MSMEs with strong social networks tend to be more innovative compared to those operating in isolation. Collective action, shared experiences, and peer learning within communities serve as effective mechanisms for knowledge transfer and innovation diffusion. In this context, the community acts not only as a support system but also as an incubator of transformation and resilience.

The Duality of Challenges and Opportunities

Local communities are one of the key factors determining the success of innovation in the Micro, Small, and Medium Enterprise (MSME) sector, especially among traditional enterprises. In this context, the community functions not only as a social environment but also as a source of cultural legitimacy, a space for knowledge exchange, and a pillar of moral and emotional support for entrepreneurs. Communities create a social sphere where ideas are shared, collaboration takes place, and shared values are strengthened forming the foundation for locally grounded innovation.

Zakaria (2022) points out that in indigenous communities, new innovations are more likely to gain widespread acceptance when they receive endorsement and social approval from community leaders or customary authorities. Innovations that align with community values are not only accepted but are also actively supported and collectively replicated. This highlights that innovation in the MSME context is not merely an individual process, but a social one highly dependent on the cultural climate of the community in which entrepreneurs operate. In this sense, the community serves as both a value filter and an innovation multiplier.

Furthermore, Putnam's (2000) concept of social capital reinforces the role of community as a form of capital. Social capital includes networks of trust, shared norms, and social relationships within communities that foster collective action. In the practice of MSMEs, this social capital accelerates innovation adoption by providing entrepreneurs with moral support, access to information, and market opportunities through relational networks. The presence of strong community ties not only boosts motivation but also accelerates social learning, which is essential for adopting new technologies or methods.

Suharto (2020) adds another important dimension through the idea of community storytelling. He asserts that the success of culturally-based innovation is greatly influenced by the narratives constructed and communicated by the community. Storytelling that conveys local values, historical context, and cultural meaning behind a product or service not only enhances the identity of MSME products but also serves as a mechanism for preserving cultural sustainability in digital spaces. Through the community, these stories live on, evolve, and are passed down in formats that are relevant to younger generations and global consumers alike.

In the MSME ecosystem, social networks also serve as crucial channels for disseminating innovative practices. MSMEs that are part of cooperatives, local associations, mentorship groups, or digital communities tend to gain quicker access to training, new technologies, and market opportunities. The community acts as a bridge between tradition and modernity—a space where entrepreneurs can engage in dialogue, adapt, and test the feasibility of their innovations before broader implementation.

Therefore, communities and social networks not only support the economic sustainability of MSMEs, but also ensure that innovation remains rooted in local values, receives social legitimacy, and is more likely to be adopted in a sustainable manner. In the digital era, the role of community becomes increasingly strategic, serving as a mediator between cultural heritage and the evolving dynamics of technology.

4. Discussion

This study reveals that innovation within traditional MSMEs is not merely a matter of technological transformation, but rather a form of hybridization between modernity and cultural values. The innovations carried out by traditional MSME actors reflect an adaptive response to external challenges such as shifting consumer preferences and the evolution of digital platforms while preserving the integrity of local culture as a core foundation. These findings reinforce Suharto's (2020) view that the transformation of traditional MSMEs is a socially meaningful process, deeply intertwined with collective identity.

Findings on culturally rooted innovation demonstrate that MSME actors do not lose their identity in the process of modernization. On the contrary, they strategically use technology to strengthen their cultural image through packaging, historical narratives, and design inspired by tradition. This approach aligns with Robertson's (1995) theory of *glocalization*, which posits that local actors can adopt global elements to reinforce local expression. In this case, traditional MSMEs effectively integrate modern tools such as social media, e-commerce, and digital design with the cultural substance of their heritage.

The gradual nature of technological adaptation observed in this study mirrors Rogers' (2003) *Innovation-Decision Process* model, which outlines five stages: knowledge, persuasion, decision, implementation, and confirmation. The findings reveal that the adoption process is rarely linear, and is often shaped by external factors such as community support, mentorship, and access to information. This confirms that the success of digital transformation is not solely dependent on technological sophistication, but also on the social and psychological readiness of the entrepreneurs (Rahayu & Day, 2015).

Moreover, innovation in the context of traditional MSMEs is shaped by local norms, ethics, and cultural values. MSME actors consider spiritual, environmental, and socio-cultural dimensions in determining the boundaries of acceptable innovation. This supports Granovetter's (1985) theory of *embeddedness*, which argues that economic decisions are inseparable from the social and cultural structures in which they are embedded. Keraf (2010) also emphasizes that local wisdom functions as a socio-ecological value system that guides the direction of community development including in the realm of microeconomics.

The role of the community as a catalyst for innovation is another prominent theme that emerged from the findings. Communities not only provide moral support and resources, but also act as cultural filters for evaluating incoming innovations. When innovations are endorsed and legitimized by the community, their adoption becomes faster and more sustainable. This

supports findings from Zakaria (2022) and Hapsari & Anggraini (2020), who argue that community-based participatory approaches are more effective than top-down methods in empowering MSMEs.

Finally, the discussion underscores the relevance of using a qualitative approach to explore the subjective experiences of MSME actors in navigating the digital era. As Creswell (2013) notes, qualitative methods offer the necessary depth to capture narratives, meanings, and social dynamics that are often invisible to quantitative approaches. Thus, the integration of field insights with theoretical frameworks provides a holistic understanding of how innovation in traditional MSMEs represents not only technological adaptation, but also a process of cultural preservation and renewal.

5. Conclusion

This study concludes that innovation within traditional MSMEs in the digital era is a complex and multidimensional process, not merely centered on technological adoption but also deeply rooted in the continuity of local wisdom and cultural values embedded within society. Rather than abandoning tradition in response to modernization, traditional MSME actors consciously integrate local elements with digital approaches in a selective and contextual manner.

First, the forms of innovation encompass various aspects product design, production processes, marketing strategies, and brand communication. Local cultural values such as traditional aesthetics, ancestral narratives, and community philosophies are not only preserved but also serve as unique differentiators that enhance competitiveness.

Second, the process of digitalization occurs gradually and is heavily influenced by community support, digital literacy, and access to knowledge networks. Social readiness proves to be as critical as technological readiness in facilitating innovation.

Third, local wisdom is not merely maintained as an identity marker, but also functions as an ethical framework guiding the innovation process. Innovations perceived to violate spiritual, ecological, or social values are often rejected by both MSME actors and their communities. This highlights that the orientation of innovation in traditional MSMEs is not solely driven by economic growth, but also by the desire for cultural and social sustainability.

Fourth, the role of local communities and social networks emerges as a crucial catalyst in accelerating digital transformation. Through moral support, social legitimacy, and knowledge exchange, communities provide the infrastructure for inclusive innovation to thrive.

Thus, the success of traditional MSME innovation in the digital era hinges on the balance between local values and modern demands. MSME development strategies should not be solely oriented toward technology and market expansion, but must also emphasize the preservation of cultural values and community empowerment. This study underscores the importance of designing culturally grounded and participatory empowerment models to ensure that innovation is inclusive, sustainable, and meaningful within its local context.

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