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THE INFLUENCE OF CAPITAL, PRODUCTION OPPORTUNITIES, REGULATION, AND BUSINESS MOTIVATION ON THE DEVELOPMENT OF MSMEs IN BATAM CITY, INDONESIA

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ABSTRACT

This study investigates the impact of capital, production opportunities, regulation, and business motivation on the development of Micro, Small, and Medium Enterprises (MSMEs) in Batam City, Indonesia. Using a quantitative approach, 154 respondents were selected from 248 active cooperatives through Slovin's formula with a 5% margin of error. Data were collected through structured questionnaires and analysed using Structural Equation Modelling (SEM-AMOS). The results show that capital, regulation, and motivation positively influence MSME development, but the effects are statistically insignificant. On the other hand, production opportunities have a significant positive impact. Collectively, the four variables explain 43.1% of MSME development variance. The findings underscore the importance of production capacity, which is supported by financial literacy, simplified regulations, and motivational programs, all of which contribute to strengthening MSME sustainability. This study contributes to the Resource-Based View (RBV), Institutional Theory, and Self-Determination Theory in the context of emerging economies. The practical implications suggest the need for integrated strategies between government, financial institutions, and entrepreneurs to enhance MSME competitiveness.

KEYWORDS: Capital, Production Opportunities, Regulation, Business Motivation, MSMEs,

1.0 INTRODUCTION

This research was conducted to understand the government's role in developing MSMEs in Batam City. Micro, Small, and Medium Enterprises (MSMEs) are commanded by the Qur'an, "so that wealth does not circulate among only the rich among you (QS. (Al Hasyir: 7), This command is by Article 33 of the 1945 Constitution regulates the national economy, which is structured as a joint effort based on the principle of family, as a phase of the track towards the fifth principle of Pancasila, "Social justice for all Indonesian people. The state controls essential branches of production that affect the livelihood of many people. Land, water, and the natural resources contained therein are also regulated by the state and used for the greatest prosperity of the people. Consequently, MSMEs play a crucial role in the Indonesian economy, particularly in the Batam, Riau Islands region. In 2020, according to data released by the Ministry of Cooperatives and SMEs (2021), MSMEs contributed approximately 61.07% of Indonesia's total Gross Domestic Product (GDP). In Batam, Riau Islands, MSMEs significantly contribute to job creation, which in turn contributes to poverty reduction.

As a region with a strategic geographical location, namely close to Singapore and Malaysia, Batam has excellent potential to develop the MSME sector. The government has implemented various policies and programs to support MSME development, such as providing People's Business Credit (KUR), entrepreneurship training, and technical guidance. However, MSME actors still face several obstacles and barriers, including limited access to financing, inadequate training and mentoring, and difficulties in navigating the global market and rapidly evolving information technology. Therefore, the author wishes to conduct research with the title: "The Influence of Capital, Production Opportunities, Regulations, Business Motivation on MSME Development in Batam City"

2.0 THEORETICAL BASIS

2.1 Micro, Small and Medium Enterprises (MSMEs)

Allah's Word in the Qur'an: Go forth, whether you feel light or heavy, and strive with your wealth and yourselves in the way of Allah. That is better for you, if you only knew. (QS. At Taubah: 41) UMKM is an abbreviation of Micro, Small and Medium Enterprises. UMKM means a business or enterprise carried out by individuals, groups, small business entities, or households. Indonesia, as a developing country, makes UMKM the primary foundation of the community's economic sector. This is done to encourage the development of independence in society, especially in the financial industry.

According to Kwartono in Sulaiman (2018), a micro-scale business is one with a net worth of IDR 200,000,000. This value is calculated based on the company's annual sales turnover. Primiana in Sulaiman (2023) states that micro-businesses are the main drivers of Indonesia's development.

According to the Republic of Indonesia Law No. 20 of 2008 concerning MSMEs, the definition of MSMEs is determined by the type of business. Capital is a fundamental factor determining the ability of MSMEs to start, run, and grow a business. Capital encompasses not only initial capital but also access to financing from formal and informal financial institutions. Adequate capital availability will increase production capacity, expand market share, and encourage product innovation. The Resource-Based View (RBV) theory explains that economic resources are a

competitive advantage that can drive business growth (Barney, 1991). Research shows that access to capital is positively related to MSME growth in Indonesia, particularly through the People's Business Credit (KUR) scheme and Islamic financing (Rahmawati& Putra, 2021).

2.2 Capital

Access is the entry point, while capital refers to money used as capital for doing business, investing, and so on; assets (money, goods, and so on) that can be used to produce something that increases wealth, and so on. So, access to capital is the entry point for entrepreneurs to obtain money, goods, and so on to produce something (Halawa, 2022).

According to Ketoy and Naruanand, access to capital is the ability to obtain capital despite constraints consisting of external equity capital, credit costs, loan processing costs, instalment requirements, and loan application procedures. Accessibility is a measure of the ease and convenience felt by an individual or group in obtaining and fulfilling their needs, both from facilities and infrastructure that support these needs.

MSMEs face obstacles such as difficulty gaining access to the financial sector, as well as persistent systemic and institutional issues. The government is implementing various approaches to develop the real sector to overcome these obstacles.

Access to capital by MSMEs can increase economic growth. Capital is a fundamental factor determining the ability of MSMEs to start, run, and grow a business. Capital encompasses not only initial capital but also access to financing from formal and informal financial institutions. Adequate capital availability will increase production capacity, expand market share, and encourage product innovation. The Resource-Based View (RBV) theory explains that financial resources are a competitive advantage that can drive business growth (Barney, 1991). Research shows that access to capital is positively related to MSME growth in Indonesia, particularly through the People's Business Credit (KUR) scheme and Islamic financing (Rahmawati& Putra, 2021).

Financial literacy, as defined by OJK regulation number 76/POJK.07/2016, encompasses the knowledge, skills, and beliefs that shape attitudes and behaviours, thereby enhancing the quality of decision-making and financial management to achieve well-being. Meanwhile, the Organization for Economic Cooperation and Development or OECD in 2016 defined financial literacy as knowledge and understanding of financial concepts and risks, along with the skills, motivation, and confidence to apply the knowledge and understanding in order to make effective financial decisions, improve the financial well-being of individuals and society, and participate in the economic sector.

Financial literacy is a person's ability or knowledge to manage all their financial resources effectively. Financial literacy implies the capacity and confidence to make financial decisions. Financial literacy plays a crucial role in determining the success of MSMEs.

The basic principles of financial literacy are:

- a) Planned and measured
- b) Achievement oriented

- c) Sustainable
- d) Collaboration

2.3 Production Opportunities

Rahardjo explains the definition of human resource quality, namely that the quality of human resources is not only determined by the aspect of skill or physical strength, but also determined by education or level of knowledge, experience or maturity, and attitudes and values held. Meanwhile, Matindas states that the quality of human resources is each individual's ability to complete their work, develop themselves, and encourage the self-development of their colleagues (Kakilo, Hinel, and Podungge, 2022). The quality of human resources, according to Kasanuddin, can be measured using the theory:

- a) To achieve maximum work productivity, the organisation must ensure that the right people are selected for the right job and in conditions that allow for work.
- b) Attitudes and behaviours. Attitudes need to be cultivated and developed in planning for the desired future by recognising various factors that impact the organisation, identifying developments, and thinking and acting proactively. Behaviour is essentially goal-oriented; behaviour is generally motivated by our desire to achieve goals.
- c) Communication,
- d) Relationship

Production opportunities refer to the ability of MSMEs to utilise local resources, technology, and innovation to increase production capacity. This concept can be explained through the Production Possibility Frontier (PPF) theory, which states that optimising resources will increase economic output. In the context of MSMEs, production opportunities are determined by input factors (raw materials, labour, technology) and the ability to adapt to market changes (Mankiw, 2016). Recent research confirms that utilising production opportunities through product diversification and digitalisation can increase the competitiveness of MSMEs in the Industry 4.0 era (Sari & Nugroho, 2020).

2.4 Regulation

Regulation is a government instrument for creating a conducive business climate. Clear, simple, and MSME-friendly regulations will improve the ease of doing business. Institutional economics theory emphasises that formal (regulatory) and informal (social norms) rules play a significant role in shaping economic behaviour (North, 1990). Empirical studies show that supportive regulations, such as simplified business permits, tax incentives, and legal protection, significantly influence MSME development in urban areas (Widodo & Susanti, 2019).

A marketing strategy is a comprehensive, integrated, and unified marketing plan that provides guidance on the activities to be undertaken to achieve a company's marketing objectives. Environmental factors analysed in developing a marketing strategy include market conditions or competition, technological developments, economic conditions, government regulations and policies, socio-cultural conditions, and political conditions. Each of these factors can create opportunities, threats, or obstacles to marketing a company's products (Maulida & Septiani, 2023).

2.5 Business Motivation

Business motivation is the internal and external drive that drives individuals to start and grow a business. McClelland's (1961) Motivation Theory explains that the need for achievement is a crucial factor in entrepreneurship. In the context of MSMEs, business motivation includes the drive to seek profit, independence, self-actualisation, and social contribution. Recent research shows that business motivation positively influences the sustainability of MSMEs, mainly when supported by social networks, entrepreneurship training, and digital ecosystems (Rohmah&Hidayat, 2022).

2.6 Development of MSMEs

MSME development is an effort to increase business capacity to make them more productive, competitive, and sustainable. This includes increasing capital, mastering technology, strengthening management, and integrating into global value chains. Entrepreneurial Growth Theory emphasises that MSME growth is influenced by a combination of internal (capital, motivation, skills) and external (regulation, market opportunities) factors (Penrose, 1959). In Batam City, MSME development is crucial given its position as an international trade area. Capital, production opportunities, regulations, and business motivation are believed to be key determinants in increasing MSMEs' contribution to the local economy (Hidayat&Siregar, 2021).

2.7 Framework of thinking

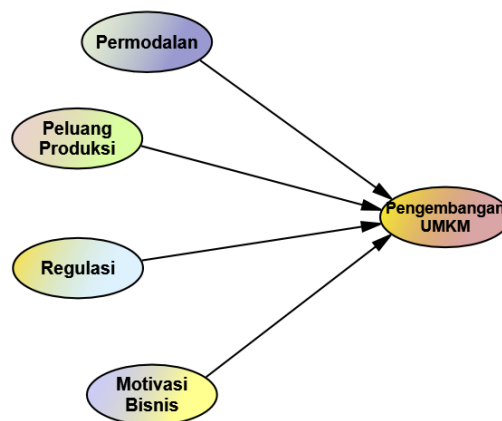


Figure 1. Framework of Thinking

Independent Variable:

- 1) Capital
- 2) Production Opportunities
- 3) Regulation
- 4) Business Motivation

Dependent variable:

- 1) MSME Development

2.8 Hypothesis

- 1) The influence of capital on the development of MSMEs
- 2) The influence of production opportunities on the development of MSMEs
- 3) The influence of regulations on the development of MSMEs

- 4) The influence of business motivation on the development of MSMEs
- 5) The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs

3.0 RESEARCH METHODOLOGY

3.1 Research stages

This research uses a mixed-methods (research and quantitative) which has a series of steps that serve as a guide for researchers (Nana, 2013). These stages are as follows:

3.2 Research Location

This research is carried out in Batam City by referring to data on MSMEs under the guidance of the Cooperatives and SMEs Service of Batam City, Riau Islands

3.3 Operational Definition of Variables

The dependent variable is a variable that is measured to determine the extent of the influence or effect of another variable.. The dependent variable in this study is the development of MSMEs. The independent variable is a variable whose variation influences the dependent variable. The independent variable in this study is

3.4 Population and Sample

A population is a generalised area consisting of objects or subjects that have certain qualities and characteristics to be studied and then conclusions drawn (Sugiyono, 2013). The population of this study was the MSMEs fostered by the Batam City Cooperative and SME Service. The number of MSMEs registered under the guidance of the Batam City Cooperatives and Micro Enterprises Office as of December 31, 2024, was 910. In addition, there were 248 active cooperatives. (Cooperatives Office: 2025)The sample is part of the number and characteristics of the population (Sugiyono, 2013). The sample is focused on cooperatives because they are legal entities, and the ease of filling out the questionnaire and Interviews. The sampling method in this study was carried out using a simple random sampling technique. The sample was calculated using the Slovin Formula from 248 active cooperatives (Cooperatives Service: 2025), as follows:

$$n = \frac{N}{1 + N(e)^2}$$

$n = 248 / (1 + (248 \times 0.05^2)) = 153,086$ rounded up to 154 respondents

3.5. S Analysis structural Equation Model (SEM)

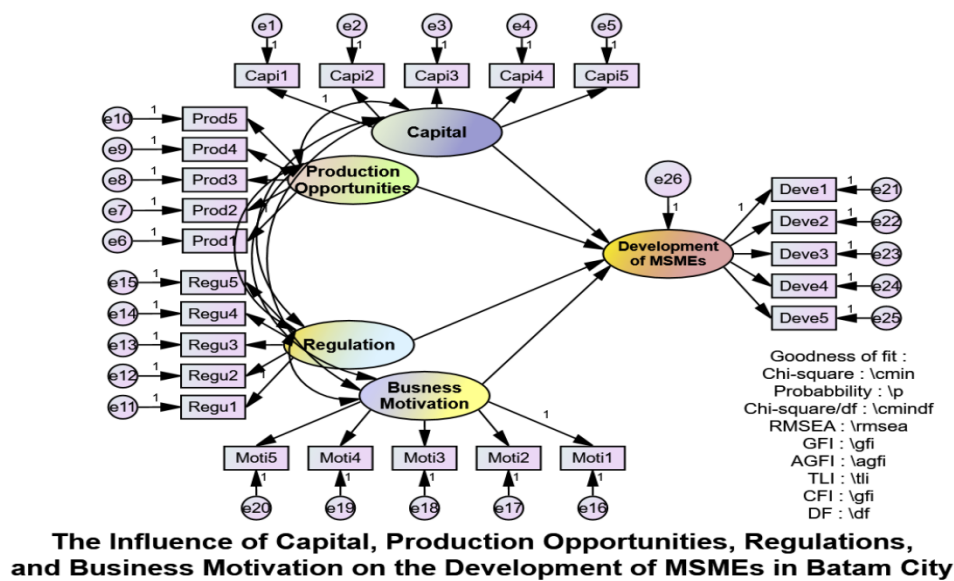


Figure 2. Research Model

Data analysis was carried out using the Structural Equation Model (SEM) method version 25. The software used for structural analysis was AMOS from Arbuckle, and for descriptive analysis, SPSS version 25 was used. Seven steps must be carried out in SEM modelling, namely:

- Theory-based model development
- Creating a flowchart (path diagram)
- Converting a flowchart into a series of structural equations
- Selection of input matrices and estimation techniques for the model built
- Assess the likelihood of identification problems arising
- Evaluation of goodness of fit criteria
- Interpretation and modification of the model

3.6. Evaluation of Goodness of Fit Criteria.

In SEM analysis, there is no single statistical test to measure or test hypotheses regarding a model. Generally, various fit indices are used to measure the degree of agreement between the hypothesised model and the presented data. The criteria for accepting a model (data fit) are shown in Table 3.4.

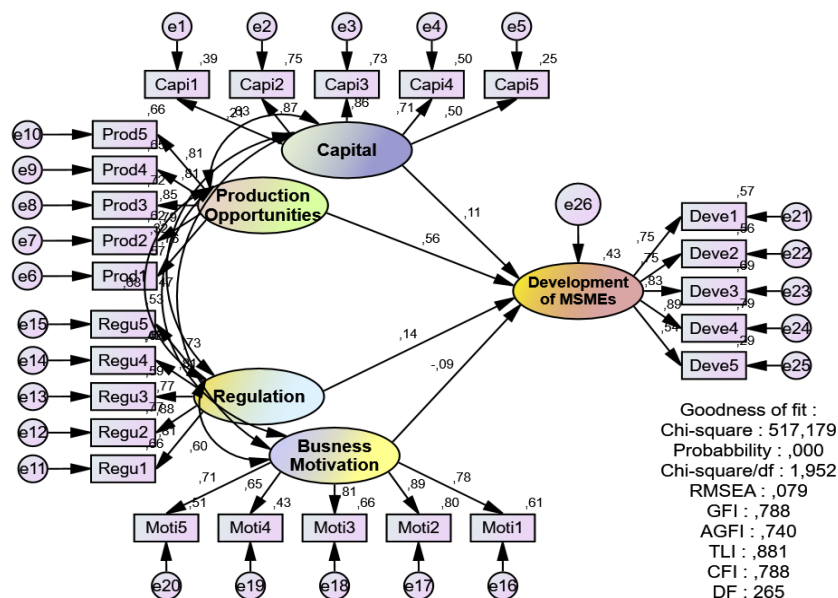
Table.1. Acceptance Criteria for a Model

Goodness of Fit Index	Cut-off Value
X ² – Chi-Square	Expected to be small
Significance Probability	≥ 0.05
RMSEA	≤ 0.08
GFI	≥ 0.90
AGFI	≥ 0.90

CMIN/DF	≤ 2.00
TLI	≥ 0.95
CFI	≥ 0.95

Source: Ferdinand (2000)

4.0 DISCUSSION



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Figure.3. Full Model

Table.2. Regression Weights: (Group number 1 - Default model)

	Estimate	SE	CR	P	Label
DEVE <--- CAPI	,099	,075	1,319	,187	par_1
DEVE <--- PROD	,536	,114	4,685	***	par_2
DEVE <--- TEAM	,147	,134	1,096	,273	par_3
DEVE <--- MOTI	,101	,115	,875	,381	par_4

Table.3. Standardised Regression Weights: (Group number 1 - Default model)

	Estimate
DEVE <--- CAPI	,114
DEVE <--- PROD	,563
DEVE <--- TEAM	,137
DEVE <--- MOTI	,092

1) The influence of capital on the development of MSMEs

Own *standardized estimate (regression weight)* of .114 with Cr (Critical ratio = identical to the t-count value) of 1.319 at Probability = .187. The CR value of 1.319 < 2.00 and Probability = .187 > 0.05 indicate that the influence of capital on the development of MSMEs is positive and

insignificant. According to the Resource-Based View theory (Barney, 1991; Estensoro, 2022), capital is a primary resource for MSMEs. However, not all additional capital directly improves performance if not accompanied by effective management.

Many MSMEs in Batam receive capital assistance through KUR or cooperatives. However, these funds are sometimes diverted for consumptive rather than productive needs, resulting in an insignificant impact on business development. Suharti&Sugiarto (2020) found that access to capital alone is insufficient to increase MSME competitiveness without managerial capacity. Sari et al. (2021) also stated that capital needs to be supported by financial literacy to impact MSME growth significantly.

2) The influence of production opportunities on the development of MSMEs

Having a standardised estimate (regression weight) of .563 with a Cr (Critical ratio = identical to the t-count value) of 4.685 at probability = *** CR value $4.685 \geq 2.00$ and Probability = *** ≤ 0.05 indicates that the influence of production opportunities on the development of MSMEs is significantly positive. Productivity theory and the production possibility frontier theory explain that increasing production capacity provides significant opportunities for growth. Odei et al. (2024) show that proper production utilisation has a significant impact on product innovation.

MSMEs in Batam that can take advantage of production opportunities (for example, processed food, craft, and garment industries) have succeeded in entering the Singapore and Malaysian markets, enabling their businesses to develop a more significant impact. Rahman& Aziz (2019) found that production capacity significantly influences the growth of MSMEs in Malaysia. Jessy (2022) emphasised that Batam's MSMEs with optimal production opportunities can increase their contribution to the city's GRDP.

3) The influence of regulations on the development of MSMEs

Has a standardised estimate (regression weight) of .137 with a Cr (Critical ratio = identical to the t-count value) of 1.096 at Probability = .273. The CR value of $1.096 < 2.00$ and Probability = .273 > 0.05 indicate that the influence of regulations on the development of MSMEs is positive and insignificant. Institutional theory emphasises the importance of regulation in creating a conducive business climate (Balzano, 2025). However, overly complex regulations can reduce policy effectiveness.

In Batam, despite numerous regulations supporting MSMEs (e.g., OSS, micro-business permits), their implementation is often slow or poorly publicised, resulting in an insignificant impact on MSMEs. Tambunan (2019) stated that regulations in Indonesia are often ineffective in supporting MSMEs due to lengthy bureaucracy. Chang (2023) shows that institutional quality is closely related to firm performance, but its impact varies across regions.

4) The influence of business motivation on the development of MSMEs

Has a standardised estimate (regression weight) of .092 with a Cr (Critical ratio = identical to the t-count value) of .875 at Probability = .381. The CR value of $.875 < 2.00$ and Probability = *** ≤ 0.05 indicates that the influence of business motivation on the development of MSMEs is positive

and insignificant. According to Self-Determination Theory (Deci& Ryan, 2000; Liu, 2025), intrinsic motivation is a driving force for entrepreneurship. However, motivation alone, without capital and regulatory support, is often insufficient to generate real growth.

Many MSMEs in Batam are highly motivated, but are constrained by access to technology, markets, and capital, so their motivation has not contributed significantly to business growth. Duan (2025) found that prosocial motivation influences business resilience but requires a supportive business environment. Suryana&Bayu (2019) emphasised that motivation is important, but not the only factor influencing MSME development.

5) The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs.F Test Formula (Simultaneous):

$F = (R^2 / k) / ((1 - R^2) / (n - k - 1)) = (0.431/4)/(1-0.431)/(154-4-1) = 0.0013 < 0.05$ means F Test (Simultaneous) The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs is Significant Information:

- R^2 = Coefficient of determination (R Square) is 0.431
- k = The number of independent variables is 4
- n = The number of samples is 154
- F = F test statistic

The systems approach model explains that business development is the result of the synergy of many factors. When capital, production opportunities, regulations, and motivation are combined, the impact is significant. Batam's MSMEs are proliferating when capital, production capacity, simple regulations, and business motivation go hand in hand. For example, food industry MSMEs in Batam that received KUR capital, production training, and halal certification were able to penetrate the export market. An empirical study in Indonesia and Malaysia (2022) showed that the combination of financial, production, and regulatory factors significantly impacted MSME growth. Widiyanto et al. (2021) found that capital, production opportunities, regulations, and motivation collectively had a significant positive effect on MSME performance.

6) Squared Multiple Correlations

Table.4. Squared Multiple Correlations

	Estimate
DEVE	,431

The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs is 0.431or 43.10% of food The development of MSMEs is influenced by the independent variables of capital, production opportunities, regulations, business motivation by 43.10%, the remainder is $100\% - 43.10\% = 36.90\%$ influenced by other variables that have not been included in this study.

5.0 CONCLUSION AND SUGGESTIONS

5.1 Conclusion

- 1) The influence of capital on the development of MSMEs is positive but not significant.
- 2) The influence of production opportunities on the development of MSMEs is significantly positive.
- 3) The influence of regulations on the development of MSMEs is positive but not significant.
- 4) The influence of business motivation on the development of MSMEs is positive but not significant.
- 5) The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs is Significant.
- 6) Squared Multiple Correlations

The simultaneous influence of capital, production opportunities, regulations, and business motivation on the development of MSMEs is 0.431 or 43.10%. Several independent variables, including capital, production opportunities, regulations, and business motivation, influence MSME development. Of 43.10%, the remainder, 100% - 43.10%, is 56.90% influenced by other variables not included in this study.

5.2 Research Suggestions

1) Capitalization (Positive, Not Significant)

The government needs to ensure that capital assistance, such as the People's Business Credit (KUR), is truly directed towards productive activities, not consumption. Islamic banks and financial institutions can provide financial literacy support to enable MSMEs to manage capital appropriately.

MSMEs need to improve financial planning and cash management so that existing capital can contribute to business growth.

2) Production Opportunities (Positive, Significant)

Local governments should facilitate access to raw materials, production technology, and modern equipment for MSMEs. MSMEs need to innovate. Products meet regional market needs (Batam–Singapore–Malaysia). MSME associations are advised to strengthen production and distribution networks to maximise production opportunities.

3) Regulation (Positive, Not Significant)

There is a need to simplify micro-business licensing regulations to make them faster, cheaper, and more transparent.

The Batam City Government is advised to expand its dissemination of regulations (OSS, halal certification, distribution permits, etc.) to MSMEs. Regulatory evaluation is needed to ensure they truly address MSME needs, not just formal administration.

4) Business Motivation (Positive, Not Significant)

Motivation-based entrepreneurship training programs combined with technical skills and market access are needed. MSMEs are advised to build entrepreneurial communities to maintain business motivation through collaboration and experience sharing. The government can provide performance-based incentives (for example, awards for high-performing MSMEs) to maintain business motivation.

5) Simultaneous Effect (Significant, $R^2 = 0.431$)

Due to the joint influence equally significant, the MSME development strategy must be integrative: capital, production capacity, regulation, and motivation must move together.

The Batam City Government can build an integrated MSME ecosystem, encompassing access to capital, production technology, regulatory certainty, and increased motivation through training programs. Academics can further research by adding other variables (e.g., digital technology, online marketing, international networks) to explain the remaining 56.9% of the variation in MSME development.

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