

Developing an Enabling Environment Framework to Analyze the Impact of Business Infrastructure on MSME Growth through Market Connectivity in Balikpapan City

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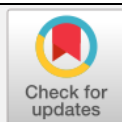
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ARTICLE INFO

Publication Info:

Research Article



How to cite:

Abdulloh, A., Soetjipto, B. E., & Wardana, L. W. (2025).

Developing an Enabling Environment Framework to Analyze the Impact of Business Infrastructure on MSME Growth through Market Connectivity in Balikpapan City. *Society*, 13(2), 999–1017.

DOI: [10.33019/society.v13i2.923](https://doi.org/10.33019/society.v13i2.923)

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Received: February 10, 2025;

Accepted: April 27, 2025;

Published: July 7, 2025;

ABSTRACT

This study aims to examine the influence of market connectivity on the growth of micro, small, and medium enterprises (MSMEs) in Balikpapan City and to develop an Enabling Environment Framework that supports MSME growth. Using a quantitative approach with Structural Equation Modeling (SEM), data were collected through questionnaires distributed to MSMEs across various sectors. The results of the analysis indicate that market connectivity positively influences MSME innovation. However, its direct effect on MSME growth is insignificant, suggesting that innovation is a mediating variable in this relationship. The study concludes that while market connectivity does not directly promote growth, the innovation it stimulates is crucial for enhancing MSME performance. The recommendations include strengthening digital infrastructure, providing targeted training programs, and facilitating business networks to create a more conducive environment for MSME development. The proposed Enabling Environment Framework is expected to serve as a practical guide for stakeholders to enhance the contribution of MSMEs to the local economy.

Keywords: Business Infrastructure; Enabling Environment Framework; Innovation; Market Connectivity; MSMEs; Structural Equation Modeling (SEM)

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of Indonesia's economy, contributing significantly to the Gross Domestic Product (GDP) and job creation (Lombogia et al., 2022). In Balikpapan City, MSMEs are crucial in improving the community's well-being and strengthening the local economic structure. However, the growth of MSMEs is not always smooth, and they are often hindered by various challenges, particularly in terms of infrastructure and market access. MSMEs are one of the key sectors in Indonesia's economy, contributing significantly to the GDP and employment. Amidst globalization and digital transformation challenges, strengthening the enabling environment has become crucial to ensuring sustainable SME growth (Tambunan, 2019). One of the critical aspects of the enabling environment is the availability and quality of business infrastructure that can strengthen market connectivity and support SME operational efficiency.

Adequate infrastructure is one of the key factors in supporting SME growth. MSMEs will find it difficult to operate efficiently without good infrastructure, such as decent roads, access to electricity, and information technology. This can result in low productivity and competitiveness of MSMEs in the market. On the other hand, limited market connectivity is also a barrier, as MSMEs often find it difficult to reach a broader customer base and gain access to important market information. In this context, developing the Enabling Environment Framework model becomes highly relevant. This model aims to create a supportive environment for SME growth by analyzing various influencing factors, including regulations, resource access, and relationships among business actors. Using this framework, this study will analyze the impact of business infrastructure on SME growth in Balikpapan and how market connectivity can serve as a bridge to enhance SME competitiveness.

In Balikpapan City, MSMEs exhibit substantial potential owing to the city's strategic role in logistics and trade networks. However, many SMEs face significant barriers due to weak infrastructure, such as limited road access, inadequate logistics facilities, and poor digital connectivity, which restrict their ability to expand markets. National-level evidence supports this assertion: firms with inadequate infrastructure experience considerable obstacles in accessing finance and scaling operations (International Monetary Fund, 2024). Moreover, the OECD highlights that poor infrastructure in transportation and electricity is widely recognized as a key impediment to investment and development in Indonesia (Organisation for Economic Co-operation and Development, 2024).

Furthermore, it is important to understand that the success of SMEs is not only determined by internal factors but also by external factors, including government policies, financial institution support, and the presence of business networks. Therefore, this study aims to provide in-depth insights into the relationship between infrastructure, market connectivity, and SME growth, as well as formulate policy recommendations that stakeholders can implement to support the development of this sector. To achieve these objectives, this study aims to develop a conceptual model that can identify and measure the role of business infrastructure in creating an enabling environment for MSMEs in Balikpapan City. By integrating a market connectivity approach, this study is expected to contribute theoretically and practically to formulating policies to strengthen the MSME ecosystem based on region and infrastructure.

2. Literature Review

2.1. The Concept of MSMEs and Their Role in the Economy

MSMEs are important in the Indonesian economy (Sumarlinah et al., 2022). MSMEs play a pivotal role in Indonesia's economy as the backbone of employment and output. Official figures

report that MSMEs contribute about 61% of Indonesia's GDP and absorb roughly 97% of the workforce ([Antara News, 2023](#); [Direktorat Jenderal Perbendaharaan, 2024](#)). Beyond aggregate contributions, international evidence shows that infrastructure gaps (transport, electricity, and digital connectivity) remain a structural impediment to firm performance and investment, affecting SMEs' ability to scale and access finance ([International Monetary Fund, 2024](#); [Organisation for Economic Co-operation and Development, 2024](#)).

2.2. Infrastructure and MSME Growth

Good infrastructure supports MSME growth, including transportation, electricity, and information technology. For instance, a study in India finds that home-country infrastructure significantly drives SME export intensity, indicating that infrastructure quality enhances firms' ability to access and expand markets ([Edeh et al., 2025](#)). Similarly, in Nigeria, empirical analysis reveals that infrastructure investment has a positive and significant effect on MSME performance, manifesting in growth in sales, profitability, and employment ([Agu et al., 2018](#)).

2.3. Market Connectivity

Market connectivity, encompassing access to information, distribution networks, and business relationships, is a crucial driver of MSME performance. Empirical evidence indicates that small and medium enterprises with stronger network capabilities are likelier to expand market reach and sustain growth ([Mitreġa, 2023](#)). In parallel, studies on logistics integration show that adopting logistics-information technologies enhances SMEs' distribution network efficiency and improves firm performance ([Omoruyi et al., 2025](#)).

2.4. Enabling Environment Framework

The Enabling Environment Framework provides a structured way to examine how external conditions, such as regulation, resource access, institutional support, and market conditions, influence MSME growth. The World Bank's notion of a business-enabling environment emphasizes that, beyond formal laws, the effectiveness of public services and their implementation is essential in shaping a conducive environment for business growth ([World Bank, 2022](#)). Moreover, development practice literature notes that an enabling environment includes not only regulation but also capacities of institutions, access to finance, infrastructure, and ecosystem support to help firms scale ([DCED, 2022](#)).

2.5. The Relationship between Infrastructure, Market Connectivity, and MSME Growth

Empirical studies have documented significant linkages among infrastructure, market connectivity, and SME growth. Stronger home-country infrastructure is associated with higher SME export intensity, indicating that firms in economies with better infrastructure can leverage openness and connectivity more effectively ([Edeh et al., 2025](#)). Moreover, in a study of digital infrastructure in lagging regions, digital infrastructure investment improves MSMEs' market access, operational efficiency, and competitiveness ([Kumalasari, 2025](#)). These findings support the notion that infrastructure facilitates market connectivity, promoting MSME growth.

In the case of Balikpapan City, while several local studies have explored factors influencing MSME growth, there remains a gap in integrated analysis combining infrastructure and market connectivity. This study addresses that gap by developing an Enabling Environment Framework tailored to Balikpapan's context.

2.6. Research Hypotheses

This study examines infrastructure, market connectivity, and MSME growth relationships. It focuses on how infrastructure influences market connectivity and how this connectivity, in turn, contributes to the growth of MSMEs. By testing these hypotheses, the study aims to provide a deeper understanding of the factors that affect MSME performance in Balikpapan City.

The findings of this research are expected to be highly relevant for policymakers and stakeholders. If the hypotheses are confirmed, investments in infrastructure and the enhancement of market connectivity should become key priorities to promote MSME growth. Hence, this academic and practical study offers evidence-based policy recommendations.

Furthermore, the study contributes to the body of knowledge by advancing the Enabling Environment Framework in the context of MSME development. Understanding how infrastructure and market connectivity interact can help strengthen both theoretical perspectives and practical strategies for local economic development.

Overall, this research aims to test the relationships between infrastructure, market connectivity, and MSME growth, thereby providing valuable insights that can guide policies to foster MSME development in Balikpapan City.

H1: Good infrastructure has a positive effect on innovation.

H2: Innovation has a positive effect on market connectivity.

H3: Market connectivity has a positive effect on MSME growth.

H4: Good infrastructure positively affects MSME growth through innovation and market connectivity.

2.7. Conceptual Framework

The research framework model is depicted in Figure 1.

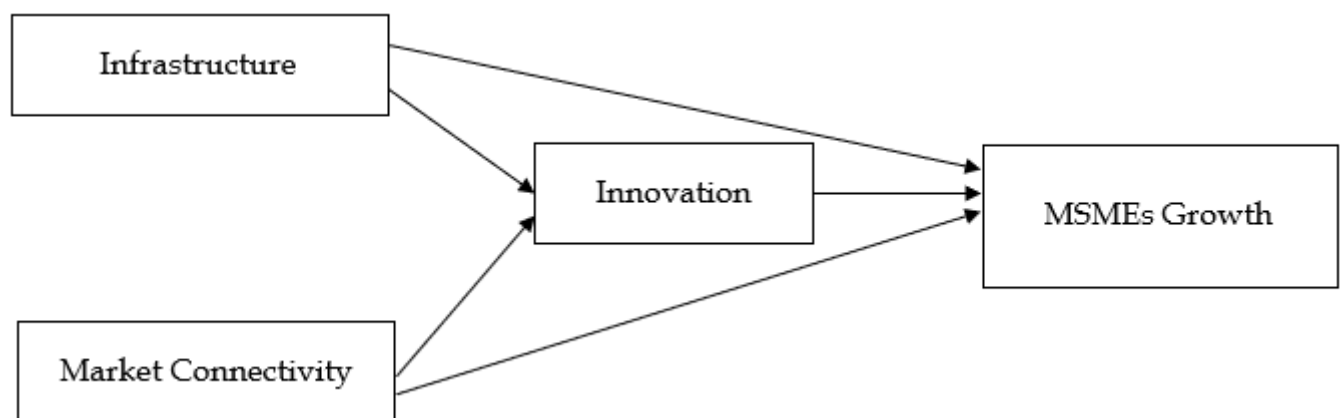


Figure 1. Conceptual Framework

3. Research Methodology

This study employs a quantitative research design using the Structural Equation Modeling (SEM) approach to analyze the relationships among the variables. This design allows the researchers to test hypotheses and examine the interactions between infrastructure, market connectivity, innovation, and MSME growth.

The independent variable in this study, Infrastructure (X1), represents the quality of infrastructure that supports MSME operations. Market Connectivity (X2) refers to MSMEs' access to markets and distribution networks. Innovation (Z) denotes the ability of MSMEs to

innovate in products and services and functions as a mediating variable. At the same time, MSME Growth (Y) serves as the dependent variable, measured through indicators such as increased income, customer base, and business expansion. The study is conducted in Balikpapan City, which has a substantial population of MSMEs operating across various sectors.

The sample is selected using random or purposive sampling techniques to ensure representativeness. Data are collected through a structured questionnaire to measure infrastructure quality, innovation levels, market connectivity, and MSME growth. The questionnaire is pre-tested for validity and reliability before full deployment. After data collection, the analysis is carried out using SmartPLS software. The analytical process includes assumption testing (normality, multicollinearity, and homoscedasticity), model estimation, and hypothesis testing through SEM procedures.

Given that this research focuses on developing an Enabling Environment Framework to analyze the impact of business infrastructure on MSME growth through market connectivity in Balikpapan City, the use of SEM is particularly appropriate. SEM is a multivariate statistical technique designed to explore and test complex relationships among variables. It allows researchers to gain a more comprehensive understanding of the interactions between factors influencing MSME growth.

The SEM process begins with developing a theoretical model, which includes the main constructs, infrastructure, market connectivity, innovation, and MSME growth. Infrastructure encompasses the physical elements and services that support business operations, whereas market connectivity reflects the extent to which MSMEs can engage with customers and distribution networks. MSME growth is treated as the dependent variable influenced by these key factors.

Following the establishment of the theoretical model, the next stage involves data collection through surveys specifically designed to measure the relevant constructs. The collected data provide empirical insights into the actual conditions experienced by MSMEs in Balikpapan City. Using SmartPLS, researchers estimate the parameters linking the variables within the model. One of the strengths of SEM lies in its ability to assess both direct and indirect effects among variables, for instance, determining how infrastructure influences market connectivity and how connectivity, in turn, affects MSME growth.

After completing the analysis, the results clearly depict the relationships among variables. SEM provides statistical evidence and a narrative explanation of how infrastructure and market connectivity interact to shape MSME growth. Ultimately, the findings from SEM can be used to develop evidence-based policy recommendations. By understanding these complex interrelationships, policymakers and business stakeholders can design more effective strategies to create a supportive environment for MSME development in Balikpapan City.

Thus, SEM is a powerful analytical tool for addressing the research questions and providing theoretical and practical contributions to MSME growth and local economic development.

4. Results and Discussion

4.1. Path Analysis Results

The results of the SEM analysis are summarized in [Table 1](#). The table presents the standardized beta coefficients, standard errors, *t*-values, and *p*-values for each hypothesized relationship between variables.

Table 1. Path Analysis Output

Path	Std. Beta	Std. Error	t-value	p-value	Decision
Infrastructure → Innovation	-0.034	0.034	0.214	0.830	Rejected
Infrastructure → Market Connectivity	0.896	0.899	39.196	0.000	Accepted
Infrastructure → MSME Growth	0.113	0.104	0.757	0.449	Rejected
Innovation → MSME Growth	0.611	0.620	6.682	0.000	Accepted
Market Connectivity → Innovation	0.796	0.802	5.629	0.000	Accepted
Market Connectivity → MSME Growth	0.218	0.220	1.258	0.208	Rejected

Source: Data processed using SmartPLS 4 (2025)

The results indicate that infrastructure significantly influences market connectivity but does not directly influence innovation or MSME growth. Meanwhile, innovation is positively affected by market connectivity and, in turn, significantly contributes to MSME growth. These findings highlight the mediating role of innovation in linking infrastructure and market connectivity to MSME performance.

4.2. The Influence of Infrastructure on Innovation

Good infrastructure can be a major driver of innovation among micro, small, and medium enterprises (MSMEs). In Balikpapan City, adequate infrastructure includes various elements, such as good roads, access to electricity, internet networks, and transportation facilities. All of these play a significant role in supporting the innovative activities of MSMEs. Good infrastructure improves MSMEs' access to various resources. For example, fast internet access enables business owners to seek the latest market trends and technology information. They must innovate in terms of products and services. With supportive infrastructure, MSMEs can access the knowledge needed to develop new ideas more easily.

Adequate infrastructure also creates an environment conducive to collaboration. SMEs can collaborate with universities, research institutions, and other companies to share knowledge and resources. This collaboration often results in innovative ideas that can increase the competitiveness of their products in the market. When infrastructure functions properly, MSME operating costs can be reduced. For example, good roads reduce transportation costs, while stable access to electricity reduces production disruptions. With lower costs, MSMEs have more funds to invest in innovation, such as research and development of new products.

Good infrastructure enables MSMEs to operate more efficiently and offer higher-quality products. When MSMEs can innovate and better meet market needs, they can increase their competitiveness. This is important in an era of globalization, where competition is increasingly fierce. Strong infrastructure helps SMEs adapt to changes in the market. With access to the latest technology and information, SMEs can respond more quickly to changes in consumer needs. This not only supports innovation but also ensures the long-term sustainability of businesses.

The impact of infrastructure on innovation in the context of SME growth in Balikpapan City is significant. Good infrastructure supports the daily operations of SMEs and encourages them to innovate and adapt to market changes. Therefore, developing an Enabling Environment Framework model that integrates infrastructure, innovation, and market connectivity is crucial for supporting SME growth in this region. Success in creating a supportive environment will positively impact the competitiveness and sustainability of SMEs in Balikpapan City. The Structural Equation Modeling (SEM) analysis results show no significant influence between infrastructure and MSME innovation in Balikpapan City, with a significance value exceeding

the threshold of 0.05. This finding indicates that although infrastructure is an important element in the business environment, its existence alone does not automatically encourage Innovation among MSMEs.”

Factors that May Affect Outcomes, Internal Factors of MSMEs, Human Resource Quality (HR), and Innovation are highly dependent on the capabilities and creativity of HR in MSMEs (Maria et al., 2024). If HR lacks adequate skills or knowledge, infrastructure investment may not yield the expected innovation. Innovation Orientation, the internal attitude and willingness of SMEs to innovate also play an important role. If SMEs lack a strong innovation culture, infrastructure improvements may not stimulate innovation. Availability of financial resources and innovation often requires additional investment. If SMEs face financial resource constraints, they may be unable to leverage existing infrastructure for innovation.

External Factors, Government Support: Besides physical infrastructure, government support in training, mentoring, and access to information is also important to encourage Innovation (Perdana et al., 2023; Putri & Widadi, 2024). Access to markets is a key driver of innovation: SMEs’ incentive to innovate is reduced when they lack adequate market access. A supportive business environment, which includes competition, dynamic markets, and institutional backing, fosters innovation among SMEs (Hidayat & Pok, 2025).

This study’s findings indicate that infrastructure development alone cannot stimulate SME innovation in Balikpapan City. Factors such as human resource quality, innovation culture, government support, and market access may significantly drive innovation. Based on these results, further research is recommended to identify other factors influencing SME innovation in Balikpapan City. Additionally, the government and other stakeholders should consider a more comprehensive approach to supporting SMEs, including investment in infrastructure, human resource training, financial support, and promoting an innovation culture.

4.3. The Impact of Infrastructure on Market Connectivity

Good infrastructure is crucial in improving market connectivity for Micro, Small, and Medium Enterprises (MSMEs). In Balikpapan City, adequate accessibility and facilities can encourage MSMEs to connect with broader markets. Physical accessibility, such as good transportation infrastructure, including well-maintained roads and efficient public transportation systems, enables MSMEs to deliver their products to markets more quickly and at lower costs. This physical accessibility is essential for expanding market reach. Digital Connectivity, the availability of fast and stable internet networks, encourages MSMEs to utilize online platforms to market their products. With strong digital connectivity, MSMEs can reach customers beyond their local areas, increasing sales potential and growth. Support for business networks and good infrastructure also create opportunities for SMEs to form business networks. For example, business centers or incubators can facilitate collaboration between SMEs, research institutions, and other industry players, enhancing access to new markets. Information and knowledge, infrastructure support, and disseminating relevant information about market trends, new technologies, and best practices. SMEs accessing this information can better adapt and meet market needs, enhancing their connectivity. Government Support and Policies, infrastructure built with the support of pro-SME government policies can strengthen market connectivity. For example, training programs provided by the government to enhance SMEs’ digital skills can help them leverage existing infrastructure to connect with markets.

The impact of infrastructure on market connectivity in Balikpapan City is significant for the growth of MSMEs. The availability of good infrastructure helps MSMEs reach wider markets and supports them in innovating and adapting to changing consumer needs. Therefore,

developing an Enabling Environment Framework model that considers infrastructure and market connectivity aspects is important to encourage MSME growth in this region. Collaborative efforts between the government, the private sector, and MSMEs are needed to create an environment that supports sustainable growth.

The Structural Equation Modeling (SEM) analysis results indicate no significant influence between infrastructure and market connectivity for MSMEs in Balikpapan City, with a significance value exceeding the 0.05 threshold. This finding indicates that although infrastructure is an important element in the business environment, its presence alone does not automatically improve SME market connectivity. SME Utilization of Infrastructure in Technological Adaptation Capacity, SMEs may lack the ability or resources to adopt technologies supported by existing infrastructure (Afini & Rahayu, 2022). The availability of high-speed internet will not improve market connectivity if SMEs lack the digital skills to market their products online. Lack of Information: SMEs may not know how existing infrastructure can help improve their market connectivity. Training and mentoring programs can assist SMEs in utilizing available infrastructure (Judijanto et al., 2024).

Local Market Characteristics, Consumer Preferences, local consumer preferences may lean more toward traditional markets than online platforms, so good digital infrastructure does not automatically improve market connectivity (M. Arif et al., 2023; Wasik et al., 2023). Existing Business Networks: SMEs may rely more on existing local business networks than seeking new market connections through available infrastructure. External factors, such as government support, market promotion, marketing training, and market access facilities, can enhance SME market connectivity (Judijanto et al., 2024). Regulations and policies that are not supportive or lack clear policies can hinder SMEs from leveraging infrastructure to enhance market connectivity.

These findings indicate that infrastructure development alone is insufficient to improve the market connectivity of MSMEs in Balikpapan City. Other factors, such as the ability of MSMEs to utilize technology, local market preferences, and government support, may play a more important role in promoting market connectivity. Based on these results, further research is recommended to identify other factors influencing SME market connectivity in Balikpapan City. Additionally, the government and other stakeholders should consider a more comprehensive approach in supporting SMEs, including investments in infrastructure, training, financial support, and market promotion.

4.4. The Impact of Infrastructure on MSME Growth

The Structural Equation Modeling (SEM) analysis results indicate no significant influence between infrastructure and the growth of MSMEs in Balikpapan City, with a significance value exceeding the threshold of 0.05. This finding indicates that although infrastructure is an important element in the business environment, its mere existence does not automatically drive SME growth. The efficiency of SMEs' infrastructure utilization depends on their managerial capabilities. SME growth depends not only on the availability of infrastructure but also on how SMEs manage existing resources. Infrastructure investment may not yield significant impacts if SMEs lack good managerial capabilities. Furthermore, regarding technological adaptation, SMEs may lack the ability or resources to adopt technologies supported by existing infrastructure. For example, the availability of high-speed internet will not boost growth if SMEs lack the digital skills to market their products online.

Characteristics of MSMEs: MSMEs with a smaller scale of operations may not feel the direct impact of infrastructure improvements compared to larger MSMEs. Small MSMEs may be more

dependent on local and personal factors. Business Sector: Some MSME sectors may be more sensitive to infrastructure changes than others. For example, the manufacturing sector may benefit more from improvements in transportation infrastructure than the service sector. Macro and microeconomic conditions greatly influence external factors, economic conditions, and SME growth. If the economy is sluggish, infrastructure improvements may not be sufficient to drive SME growth. In addition to physical infrastructure, government support in training, mentoring, and access to information is also important to drive SME growth.

These findings indicate that infrastructure development alone cannot stimulate MSME growth in Balikpapan City. Other factors, such as MSME managerial capabilities, technological adaptation, economic conditions, and government support, may be more important in promoting MSME growth. Based on these results, further research is recommended to identify other factors influencing SME growth in Balikpapan City. Additionally, the government and other stakeholders should consider a more comprehensive approach in supporting SMEs, including investments in infrastructure, training, financial support, and market promotion.

The Structural Equation Modeling (SEM) analysis results indicate no significant influence between infrastructure and the growth of MSMEs in Balikpapan City, with a significance value exceeding the threshold of 0.05. This finding indicates that while infrastructure is an important element in the business environment, its presence alone does not automatically drive SME growth (Ningrum, 2023). SMEs may lack the ability or resources to adopt technologies supported by existing infrastructure. For example, the availability of high-speed internet will not increase growth if SMEs lack the digital skills to market their products online (Chotimah et al., 2025). Due to a lack of information, SMEs may not know how existing infrastructure can help enhance their growth. Training and mentoring programs can help SMEs leverage available infrastructure. Smaller-scale SMEs may not feel the direct impact of infrastructure improvements compared to larger SMEs. Smaller SMEs may be more dependent on local and personal factors. Some SME sectors may be more sensitive to infrastructure changes than others. For example, the manufacturing sector may benefit more from transportation infrastructure improvements than the services sector. MSME growth is greatly influenced by macro and microeconomic conditions. If the economy is sluggish, infrastructure improvements may not be sufficient to drive MSME growth (Delfira et al., 2025). In addition to physical infrastructure, government support in training, mentoring, and access to information is also important to drive MSME growth.

This study shows that infrastructure development alone is insufficient to stimulate the growth of MSMEs in Balikpapan City. Other factors, such as MSMEs' ability to utilize technology, the quality of human resources, and institutional support, play a more decisive role in driving growth. Innovation capability, capital readiness, and digital adaptation significantly determine MSME competitiveness and sustainability (Susanti et al., 2023). Empowering human resources and enhancing technological literacy are crucial for MSMEs to thrive amid the challenges of Industry 4.0 (Rosmadi et al., 2019). These findings suggest that infrastructure development must be complemented by capacity-building initiatives, digital training, and policy support to foster more inclusive MSME growth. Based on these findings, it is necessary to identify other factors influencing SME growth in Balikpapan City. The government and other stakeholders should also consider a more comprehensive approach in supporting SMEs, including infrastructure investments, training, financial support, and market promotion (Nugraha et al., 2024).

Good infrastructure is one of the key pillars supporting the growth of micro, small, and medium enterprises (MSMEs). In Balikpapan, infrastructure encompasses various elements,

such as roads, transportation, electricity, and internet access. Adequate infrastructure, such as well-maintained roads and an efficient transportation system, enables MSMEs to access markets more easily. With good accessibility, MSMEs can deliver their products to consumers quickly and efficiently, increasing sales opportunities. The availability of fast and stable internet connectivity is crucial for MSMEs in marketing their products online. Digital connectivity enables SMEs to reach a wider customer base, including international markets, and leverage e-commerce platforms to boost sales. Good infrastructure also creates an environment that supports collaboration between SMEs and various stakeholders, including research institutions, universities, and other companies. This collaboration can lead to innovation and strengthen SMEs' business networks, which drives growth.

Efficient infrastructure can reduce MSME operating costs. For example, good transportation infrastructure reduces shipping costs, while stable access to electricity ensures smooth production processes. With lower costs, MSMEs can increase profit margins and reinvest for further growth. Infrastructure that supports access to information enables MSMEs to gain insights into market trends, new technologies, and best practices. This knowledge is crucial for SMEs to adapt and innovate, driving business growth. The impact of infrastructure on SME growth in Balikpapan City is significant. The availability of good infrastructure not only supports the daily operations of SMEs but also encourages them to innovate and access broader markets. In developing the Enabling Environment Framework model, it is important to consider how SMEs can strengthen and utilize infrastructure to achieve sustainable growth.

4.5. The Impact of Innovation on MSME Growth

The results of Structural Equation Modeling (SEM) analysis show that innovation significantly affects the growth of MSMEs in Balikpapan City, with a significance value of less than 0.05. This finding indicates that innovation plays a crucial role in driving MSME growth. Innovation enables MSMEs to create unique products and services that differentiate them from their competitors. This increases the competitiveness of MSMEs in the market. By innovating, SMEs can attract new customers and retain existing ones, increasing market share and growth (Fatkhan & Chasanah, 2024). Innovation is not limited to products and services but also encompasses business processes. By adopting new technologies and methods, SMEs can improve their operational efficiency. Business process automation, for example, can reduce production costs and increase productivity, contributing to SME growth. Digital Innovation, such as e-commerce and social media, enables SMEs to reach a wider market, even at the global level. By leveraging online platforms, SMEs can market their products to customers in various geographical areas, increasing sales potential and growth (Putri & Widadi, 2024).

Innovation enables MSMEs to adapt quickly to changing market trends and customer needs. Innovative MSMEs can better respond to changes in demand and develop appropriate products (Fatkhan & Chasanah, 2024). This ability to adapt is crucial in a dynamic and competitive business environment, where MSMEs must continue to innovate to remain relevant and grow (Fatkhan & Chasanah, 2024). These findings confirm that innovation is a key factor driving the growth of SMEs in Balikpapan City. SMEs that invest in innovation tend to be more successful in improving competitiveness, operational efficiency, market access, and adaptability to change. Based on these results, it is recommended that the government and other stakeholders continue to support Innovation among SMEs through various programs and policies. Providing incentives to SMEs that engage in innovation, such as tax reductions or subsidies. Offering training and mentoring to SMEs to enhance their ability to innovate and

adopt new technologies (Putri & Widadi, 2024). Facilitating SMEs' access to the resources needed for innovation, such as capital, technology, and information.

Innovation is a key factor in driving the growth of Micro, Small, and Medium Enterprises (MSMEs). In Balikpapan City, Innovation can take various forms, including products, processes, and marketing. Innovation enables MSMEs to offer unique products and services, distinguishing them from competitors. With innovative products, MSMEs can attract more customers and increase their market share. Through innovation in business processes, MSMEs can improve operational efficiency. For example, adopting new technologies can reduce production costs and the time required to bring products to market. This enables MSMEs to increase profitability. Innovation in marketing and the use of digital platforms allows MSMEs to reach a wider customer base. By leveraging e-commerce and social media, MSMEs can expand their market reach locally, nationally, and internationally. Innovation allows SMEs to adapt quickly to changes in customer needs and preferences. By continuously innovating, SMEs can develop products that align with market trends and enhance customer satisfaction.

Innovation often encourages SMEs to collaborate with other parties, such as research institutions, universities, and companies. Such collaborations expand business networks and open opportunities for knowledge and resource sharing, which can accelerate growth. The impact of Innovation on SME growth in Balikpapan City is significant. Innovation helps SMEs improve competitiveness and operational efficiency and facilitates access to broader markets and the ability to adapt to changes. In the context of developing the Enabling Environment Framework model, it is important to create an environment that supports innovation, including providing training, access to technology, and support for pro-SME policy.

4.6. The Influence of Market Connectivity on Innovation

The Structural Equation Modeling (SEM) analysis results show that market connectivity significantly influences MSME innovation in Balikpapan City, with a significance value of less than 0.05. This finding indicates that market connectivity is important in driving Innovation among MSMEs. Market connectivity enables SMEs to access broader information and knowledge about market trends, new technologies, and customer needs (Nurwidia et al., 2025). This access is crucial for identifying innovation opportunities. By connecting to a broader market, SMEs can learn from other businesses' experiences and best practices, which can spark innovative ideas (Nurwidia et al., 2025). Market connectivity facilitates collaboration and networking between SMEs, suppliers, customers, and research institutions (Hakim et al., 2025; Nurwidia et al., 2025). This collaboration can result in exchanging ideas and resources that support innovation. Through networks, SMEs can access external resources such as technology, capital, and expertise needed to develop innovations (Nurwidia et al., 2025). Market connectivity increases competition among SMEs, encouraging them to continue innovating to remain competitive (Rahayu & Hidayah, 2023). Competition forces MSMEs to find new ways to improve their products, services, and business processes.

With competition, MSMEs are motivated to create competitive advantages through innovation, improving their performance and growth (Rahayu & Hidayah, 2023). Market connectivity allows MSMEs to receive direct feedback from customers about their products and services. This feedback is invaluable for identifying areas where innovation is needed. By understanding customer needs and preferences, SMEs can develop more relevant and satisfying products and services, enhancing customer loyalty and business growth (Ibrahim & Hendayana, 2024). This study shows that market connectivity is a key factor driving Innovation among SMEs in Balikpapan City. SMEs that are well-connected to the market have better access

to the information, networks, and resources needed for innovation. Ensuring the availability of adequate digital infrastructure, such as fast and affordable internet access, to support SME market connectivity. Encouraging SMEs to utilize e-commerce platforms and social media to expand their market reach (Chaidir et al., 2024; Ibrahim & Hendayana, 2024). Facilitating the formation of business networks and collaborations between SMEs, suppliers, customers, and research institutions (Hakim et al., 2025; Nurwidia et al., 2025). Training SMEs on utilizing market information and new technologies for Innovation (Chaidir et al., 2024).

Market connectivity refers to the ability of MSMEs to connect with various stakeholders in the market, including customers, suppliers, and business partners. Market connectivity allows MSMEs to access the latest information on market trends, consumer demand, and new technologies. Access to this information is essential for driving innovative ideas and developing products relevant to market needs. Market connectivity facilitates collaboration between MSMEs and various stakeholders, such as research institutions, universities, and other companies. This collaboration can result in exchanging ideas and knowledge that supports innovation. With a strong network, MSMEs can obtain the support needed to develop new products. Market connectivity allows MSMEs to obtain direct feedback from customers. This feedback helps SMEs understand customer needs and preferences, which can trigger innovation in products and services. By responding to this feedback, SMEs can improve customer satisfaction and loyalty. Market connectivity increases the level of competition among SMEs. This competition encourages SMEs to continue innovating to remain relevant and competitive. In a competitive environment, MSMEs that do not innovate risk losing market share, so they are driven to find new ways to improve their products and services. Through market connectivity, MSMEs can access various resources that support innovation, including technology, capital, and expertise. With better resources, MSMEs can conduct more effective research and development (R&D), increasing their chances of innovating. Market connectivity is important in driving Innovation among MSMEs in Balikpapan City. By improving market connectivity, MSMEs can increase access to the information, networks, and resources needed to innovate. In developing the Enabling Environment Framework model, creating an environment that supports market connectivity is important so that MSMEs can grow and innovate sustainably.

4.7. The Impact of Market Connectivity on MSME Growth

Market connectivity refers to the ability of MSMEs to connect with markets through networks, information, or technology. This includes access to customers, suppliers, and business partners that enable MSMEs to operate more effectively. In the research context, market connectivity serves as a driver of innovation. Good connectivity with the market allows MSMEs to obtain information about trends and customer needs, encouraging them to innovate in their products and services. This innovation is important for maintaining competitiveness and meeting market demand. Developing the Enabling Environment Framework model aims to create conditions supporting MSME growth. Market connectivity is one of the key aspects of this model because with good market connectivity, MSMEs can access the resources needed for development, such as technology, training, and market information. Connectivity encourages collaboration between MSMEs and other stakeholders, including the government and financial institutions, which can support and assist in business development. Although SEM analysis shows that the direct effect of market connectivity on MSME growth is insignificant, the indirect effect through innovation is very important. Innovation resulting from market connectivity can enhance the appeal of SME products, expand market share, and ultimately boost growth. To maximize the impact of market connectivity on SME growth in Balikpapan City, several steps

can be taken, including improving internet access and digital platforms for SMEs, providing training programs to enhance digital skills and innovation, and encouraging collaboration between SMEs and other institutions to strengthen market connectivity. Within the Enabling Environment Framework context, market connectivity is vital in supporting SME growth through innovation. Although its direct impact on growth is insignificant, its positive influence in fostering innovation makes it a key element in SME development strategies in Balikpapan City. By enhancing market connectivity, it is hoped that SMEs can adapt and thrive in a competitive environment, thereby contributing to local economic growth.

Market connectivity may not directly influence SME growth, but other variables mediate its influence. For example, market connectivity can increase innovation, and it is this innovation that then drives SME growth. In the SEM model, if the direct effect is not significant but the indirect effect through the mediating variable is significant, then market connectivity remains relevant. However, its role is more complex (Baron & Kenny, 1986). The results showing that the market connectivity variable does not significantly affect SME growth (with a significance value > 0.05) can be explained by several factors. Market connectivity may not directly influence SME growth, but its effect may be mediated by other variables such as innovation, technology adoption, or marketing capabilities (Andari et al., 2025; N. F. Arif et al., 2025). In your case, the study found that innovation mediates market connectivity and SME growth. This means that market connectivity drives innovation, contributing to SME growth. The influence of market connectivity on SME growth may vary depending on certain conditions or characteristics that act as moderators. For example, the influence of market connectivity may be stronger in SMEs with high levels of technology adoption or operating in specific sectors (Pujiyanto et al., 2025) shows that network capability (related to market connectivity) can influence knowledge creation and business performance, and other variables, such as agile capability, can act as moderators.

The way market connectivity variables could also cause this insignificance is measured, or because important variables were not included in the model. It is possible that the indicators used to measure market connectivity do not fully reflect the intended concept, or that the model tested does not cover all relevant factors affecting MSME growth. As models become more complex, these fundamental components can interact in non-intuitive ways, such as explaining how there can be no correlation (zero covariance) between two variables despite the variables being connected by a direct, non-zero causal effect. The statistical insignificance of an effect estimate indicates that the estimate could easily arise as a random sampling variation around a null/zero effect, so interpreting the estimate as a real effect becomes equivocal (N. F. Arif et al., 2025). Insignificant results may also be due to the characteristics of the sample used or the specific research context. For example, if most SMEs in the sample share similar characteristics (e.g., all operate in the same sector or have the same size), variations in SME growth may not be large enough to demonstrate a significant effect of market connectivity.

Implications in the Enabling Environment Framework Context: Although market connectivity does not directly influence MSME growth, its importance in the Enabling Environment Framework remains significant due to its role in driving Innovation (Utomo & Setiyono, 2024). The government and other stakeholders must focus on improving digital infrastructure, ensuring that MSMEs have adequate access to digital infrastructure that enables them to connect to markets (Utomo & Setiyono, 2024). Training and Mentoring Programs provide training and mentoring to help MSMEs leverage market connectivity to innovate and improve their marketing capabilities. Business Network Facilitation encourages collaboration and business networks between MSMEs and other stakeholders. Thus, although the direct

influence of market connectivity on MSME growth is not significant, its role in creating an environment that supports innovation remains crucial.

Table 2. Coefficient of Determination

	R-square	R-square adjusted
Innovation (Z)	0.587	0.578
MSMEs Growth (X2)	0.776	0.769
Market Connectivity (Y)	0.803	0.801

Source: Data processed by SMARTPLS4, 2024

Structural model testing was carried out to examine the relationship between various constructs, focusing on the significance value and R-square of the research model. The R-square value indicates how the independent variables in this study, specifically, the impact of driver participation and competency development, along with the control variable of economic factors, affect the welfare of Gojek drivers. The R-squared value is presented in the table below. Based on **Table 2**, the R-square value for the Competency Development variable is 0.587, indicating that 58.7% of the influence on innovation can be attributed to Competency Development. In comparison, the remaining 41.3% is caused by other variables not included in this study. The R-square value for the Market Connectivity variable is 0.803, indicating that 80.3% of its influence stems from the customer experience variable.

In comparison, variables outside the scope of this study explain the remaining 19.7%. Additionally, the R-square value for the MSMEs Growth variable is 0.776, meaning that 77.6% of its variance is explained. The remaining 22.4% is influenced by external factors not explored in this study. The Coefficient of Determination (R^2) serves as a measure to assess how well the regression model explains the variation in the dependent variable (Sugiyono 2019: 43). This coefficient can have a value between 0.

5. Conclusion

MSMEs play an important role in the Indonesian economy, including in Balikpapan. However, many MSMEs face limited market access, a lack of innovation, and inadequate infrastructure support. This study aims to explore how market connectivity can influence MSME growth and develop an Enabling Environment Framework model to help MSMEs develop better. This study has several main objectives: (1) to analyze the influence of market connectivity on SME innovation, (2) to identify factors that can mediate (influence the direct relationship) or moderate (change the strength of the relationship) between market connectivity and SME growth, and (3) to develop an Enabling Environment Framework model that can be applied to support SME growth in Balikpapan City. This study employs a quantitative approach, enabling statistical measurement of relationships between variables.

The analysis method used is Structural Equation Modeling (SEM), which is highly suitable for analyzing complex models. The study population comprises SMEs operating in Balikpapan City, spanning various business sectors. The sample was selected randomly to ensure that all types of SMEs are well represented. Data was collected through a questionnaire designed to measure variables such as market connectivity, innovation, and SME growth. The questionnaire was tested for validity and reliability before being distributed to respondents. After the data were collected, analysis was conducted using SEM. This analysis aimed to test the hypotheses

proposed in the study, including the direct effect of market connectivity on SME growth and the indirect effect through innovation.

The analysis showed that market connectivity positively affects SMEs' innovation. This means that the better the market connectivity, the greater the opportunity for SMEs to innovate. SME Growth, although market connectivity has a positive effect on innovation, its direct effect on SME growth is not significant. This suggests that innovation resulting from market connectivity requires time to impact growth. Mediating Variable, the study found that innovation acts as a mediator. In other words, market connectivity drives innovation, contributing to SME growth. This study concludes that market connectivity is crucial in enhancing SME innovation, the primary growth driver. Although it does not show a significant direct impact, innovation triggered by market connectivity significantly contributes to SME growth. Recommendations for SME Development include improving internet access and digital platforms to support SMEs, providing training to enhance innovation and marketing capabilities, and encouraging collaboration between SMEs and other institutions, including government and universities. Overall, this study provides valuable insights into the importance of market connectivity in supporting SME growth. The proposed Enabling Environment Framework model can guide stakeholders in creating a conducive environment for SME development in Balikpapan City, thereby enhancing their contribution to the local economy through appropriate approaches and adequate support. It is hoped that SME growth in Balikpapan City can be more optimal and sustainable.

6. Acknowledgment

The authors gratefully acknowledge the contributions of all individuals and institutions whose advice, feedback, and encouragement have enriched this research and strengthened its final outcomes.

7. Declaration of Conflicting Interests

The authors declare no potential conflicts of interest concerning this article's research, authorship, or publication.

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