



# THE ROLE OF MSMEs AND THE CHALLENGES OF THEIR DEVELOPMENT: A QUALITATIVE STUDY THROUGH MSME OWNER INTERVIEWS

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## ABSTRACT

This study aims to explore the challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in Indonesia and to identify the strategies they employ to overcome these challenges. The research adopts a qualitative design, using in-depth interviews as the primary data collection technique. The study was conducted in Bandung, with participants consisting of MSME owners, from various sectors such as culinary, trade, services, and crafts. Data were analyzed using thematic analysis, focusing on key themes such as internal constraints, digital transformation, and government support. The findings highlight that MSME owners perceive their businesses as crucial for local economic growth and employment. However, they face significant internal challenges, including limited financial literacy, human resource capacity, and innovation. Externally, MSMEs also struggle with inadequate infrastructure and policy support. Digital marketing and cashless payment systems offer growth opportunities, but many MSMEs still face technical and knowledge barriers. The study also identifies that government programs are seen as helpful but need stronger follow-up and broader outreach to achieve more widespread benefits. The study's limitations include the small sample size and the focus on a single geographic area, which may limit the generalizability of the findings. Future research should explore broader regional contexts and examine the long-term impact of government interventions on MSME performance.

## 1. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) represent a strategic economic sector that absorbs a large share of the workforce and functions as a backbone of Indonesia's economy, including during periods of economic crisis [Hartika et al., 2023]. Beyond serving as a livelihood source for millions of households, MSMEs contribute to the formation of GDP/GRDP, employment generation, exports, investment activity, and broader entrepreneurial development [Hartika et al., 2023]. In many regions, MSMEs also support local supply chains by creating demand for raw materials, transport services, packaging, and informal labor, which strengthens community-level economic resilience.

Despite their critical role in the economy, MSMEs face several challenges that hinder their growth and sustainability. While previous research has identified factors influencing MSME performance, there remains a gap in understanding the lived experiences of MSME owners, especially in terms of how they adapt to changing market conditions, utilize digital technologies, and cope with internal and external constraints. Interviews with MSME owners are essential in this context, as they offer a direct insight into the practical challenges these entrepreneurs face, beyond what can be captured through quantitative

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surveys or secondary data. Specifically, little is known about how these business owners perceive their roles in local economies, how they navigate financial and operational hurdles, and how they respond to the increasing need for digital transformation. This research aims to address these gaps by focusing on three central questions: What are the internal challenges faced by MSME owners in terms of human resources, financial literacy, and innovation, How do MSME owners adopt digital marketing strategies and non-cash payment systems in their operations, What role do government policies and institutional support play in enhancing the sustainability and growth of MSMEs?, The conceptual framework for this study groups the challenges faced by MSME owners into three main categories: (a) Internal Capabilities (human resources, financial literacy, and innovation), (b) Digital Adoption (digital marketing, e-commerce, non-cash payment systems), and (c) Ecosystem Support (government policies, university programs, market access). This framework will guide the analysis and help structure the discussion of the findings in relation to these interconnected themes.

Despite their considerable role, MSME performance continues to face multiple constraints, both internal and external. Internally, prominent barriers include limited human resource capacity, weak financial literacy, constrained innovation capability, and underdeveloped marketing strategy [Sari et al., 2023; Putra & Holisoh, 2023]. These internal limitations often translate into operational inefficiencies, difficulty scaling production, inconsistent service quality, and a reliance on short-term survival strategies rather than long-term planning. Externally, policy support, government coaching programs, and infrastructure quality strongly shape business continuity and growth potential [Pardede & Trimurni, 2023; Siregar et al., 2020]. These external factors are especially critical for smaller businesses that depend heavily on local ecosystems, regulatory clarity, and the availability of enabling facilities such as roads, logistics services, and digital connectivity.

The shift in the business environment toward a digital economy compels MSMEs to adopt digital marketing, cashless payment systems, and information technology to remain competitive and sustain customer relevance [Wati & Widodo, 2024; Wijaya et al., 2025]. Digital transformation is not simply a matter of moving sales online; it also requires new capabilities related to customer engagement, content creation, service responsiveness, and the ability to interpret basic performance indicators from digital platforms. At the same time, financial literacy and understanding of accounting standards such as SAK EMKM remain challenging for many MSME owners [Maulana et al., 2021; Rahmadiani et al., 2024]. Without adequate bookkeeping and reporting practices, MSMEs may struggle to monitor profitability, plan cash flow, and meet requirements for formal financing or government programs.

While many quantitative studies have examined factors influencing MSME performance, qualitative approaches that explore MSME owners' lived experiences through interviews are still needed. Such approaches can provide deeper insight into day-to-day dynamics, the real nature of constraints faced at the owner level, and practical adaptation strategies shaped by context, resources, and local market conditions. A qualitative perspective is also useful for capturing informal decision-making processes, household-business boundaries, and coping mechanisms that are often difficult to measure through surveys alone.

### **MSME Contributions to the Economy**

MSMEs have been shown to function as economic buffers during crises and as drivers of post-crisis economic growth [Hartika et al., 2023]. Their contribution to economic development is reflected in several key dimensions:

- a. The Formation Of GDP/GRDP,
- b. Job Creation And Poverty Reduction,
- c. Export Contributions,
- d. Roles In Investment And The Emergence Of New Entrepreneurs [Hartika Et Al., 2023].

In practical terms, these contributions often appear in the form of neighborhood-level employment opportunities, flexible work arrangements for informal labor, and the circulation of income within local markets. MSMEs also frequently serve as entry points for first-time entrepreneurs, helping to build entrepreneurial culture and business learning through experience.

### **Factors Influencing MSME Performance**

A systematic literature review indicates that dominant internal factors shaping MSME performance include human resource competence, financial literacy and financial understanding, financial behavior, entrepreneurial orientation, financial inclusion, fintech utilization, innovation, infrastructure, marketing

strategy, social media use, market orientation, and e-commerce engagement [Sari et al., 2023]. These factors are interconnected: for instance, the ability to innovate often depends on financial capacity and market knowledge, while digital marketing effectiveness depends on both skills and access to reliable infrastructure.

Other empirical studies also find that knowledge, business capital, information systems, e-commerce, and environmental uncertainty influence MSME performance [Putra & Holisoh, 2023]. This suggests that MSME success is shaped not only by what owners do internally, but also by how well they interpret and respond to external changes such as shifting consumer preferences, competitive intensity, and fluctuating input prices. Financial literacy research in the MSME sector has shown a rapidly increasing publication trend since 2017, highlighting how crucial this topic has become for MSME strengthening and sustainability [Maulana et al., 2021].

### **Digital Marketing and MSME Digital Transformation**

A bibliometric review indicates that digital marketing themes in MSMEs have grown rapidly over the last decade and have become a major focus for improving competitiveness [Wati & Widodo, 2024]. The use of digital marketing, social media, and e-commerce platforms is now widely recognized as a key aspect of MSME market and marketing capability [Sari et al., 2023]. However, digital adoption often varies widely: some MSMEs use platforms strategically, while others use them only as basic promotional channels without clear targeting, content planning, or customer relationship management.

Digital transformation also affects payment systems. A study on QRIS implementation among MSME actors indicates that transaction digitalization policies face technical barriers (network issues, system speed, delayed fund disbursement), yet MSMEs respond through adaptation and negotiation [Wijaya et al., 2025]. This implies that digitalization is not purely technological; it is also behavioral and organizational, requiring willingness to learn, adjust workflows, and manage customer expectations.

### **Government Coaching and Institutional Capacity**

Local governments and related institutions play an important role in MSME development through training, socialization programs, equipment assistance, and market access facilitation. A study in Medan finds that coaching through training, guidance, and facilitation has been effective, although it remains uneven and still weak in follow-up mentoring and budget efficiency [Pardede & Trimurni, 2023]. In many cases, MSME owners may attend training but struggle to implement lessons due to limited time, capital, or the absence of ongoing support.

Development strategies in Pematangsiantar also emphasize the need for government support through mentoring, outreach, and training, while MSME owners are expected to be more creative and innovative in producing goods [Siregar et al., 2020; Edelia & Nawawi, 2021]. These insights reinforce the idea that MSME development requires both supply-side support (capability building and infrastructure) and demand-side strengthening (market access, branding, and product differentiation).

### **Accounting Knowledge**

The implementation of the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) is influenced by standard socialization, the owner's education level, and the age of the business [Rahmadiani et al., 2024]. Limited understanding of accounting and financial recording remains a major barrier to professional MSME management and access to formal financing [Sari et al., 2023; Maulana et al., 2021]. Beyond compliance, bookkeeping is also essential for managerial decision-making, since owners need reliable information to set prices, control costs, and evaluate whether the business is truly profitable.

### **MSME Resource Capacity and Management**

A systematic review on capacity building and resource management in MSMEs linked to village-owned enterprises (BUMDes) highlights the need for synergy among government, universities, media, and the business sector to create an ecosystem that supports rural MSME development [Hanafia et al., 2023]. Sustained mentoring and human resource development are identified as core components of MSME capacity strengthening. In practice, this ecosystem approach may include continuous training cycles, peer learning communities, access to business clinics, and partnerships that help MSMEs overcome scale limitations.

## **2. METHODS**

This study adopts a qualitative approach with a field-study design, focusing on obtaining a deep understanding of MSME owners' experiences, constraints, and development strategies. This approach aligns with previous qualitative research examining MSME development strategies and contributions to economic development [Hartika et al., 2023; Siregar et al., 2020; Edelia & Nawawi, 2021]. The field-study design allows the researchers to capture nuanced data on how MSME owners interpret "success," prioritize competing needs, and navigate uncertainty in real business settings. The research was conducted in Kelurahan Cibeunying, located in Bandung City. This area was selected due to its relatively high concentration of MSMEs, making it a suitable representation of the MSME ecosystem in the region. The MSME ecosystem in Cibeunying includes a diverse range of businesses, including culinary, retail, service, and craft sectors, all of which face a combination of operational and external challenges that reflect broader trends in the city and country.

Participants in this study were 10 MSME owners from diverse sectors, with the following criteria:

- a. The business has been operating for at least one year.
- b. The business falls under the micro or small enterprise category based on annual turnover.
- c. Participants were willing to engage in in-depth interviews.

The sample includes a mix of business types, ages, and owner demographics, such as gender and age. The data collection continued until data saturation was reached, meaning no new information emerged from the interviews. This approach ensures that the study captures a comprehensive range of experiences from MSME owners.

The interview guide was developed based on core themes identified in the literature, including:

- a. Owners' perceptions of the MSME role in local economies.
- b. Internal constraints such as human resources, financial management, innovation, and marketing challenges.
- c. Digital technology utilization, including online marketing, e-commerce, and cashless payment systems (e.g., QRIS).
- d. Experiences with government and institutional training and coaching programs.

Key questions were designed to explore these themes, including:

- a. What challenges do you face in managing your business?
- b. How do you approach financial management, and what barriers exist in this area?
- c. What digital tools do you use, and how have they impacted your business?
- d. How have government or institutional programs influenced your business operations?
- e. How do you perceive the role of your business in the local economy?

The interviews lasted approximately [duration], depending on the complexity of the responses. Each interview was conducted in person or virtually, recorded with the participants' consent, and transcribed for analysis. Primary data were collected through: In-depth interviews with MSME owners, using the interview guide outlined above.

Observation of business activities, technology usage, and customer interactions, in line with field research practices used in previous MSME studies [Siregar et al., 2020; Pardede & Trimurni, 2023]. This observation was aimed at validating the interview data and revealing practical aspects of daily business operations.

Simple documentation including photos of business activities, brochures, social media accounts, and financial records when available. This documentation helped to triangulate the interview and observation data, offering concrete examples of marketing practices and financial record-keeping. Qualitative data analysis followed a structured process, with coding and thematic analysis conducted in multiple stages:

1. Open Coding: Initial codes were generated from interview transcripts, focusing on recurring words, phrases, and concepts related to the research questions.
2. Category Development: Codes were grouped into categories, representing major themes such as internal constraints, digital adaptation, and external support.
3. Theme Development: Categories were then synthesized into broader themes, which were used to interpret the key findings.

### **3. RESULTS AND DISCUSSIONS**

#### **MSME Owners' Perceptions of Their Business Role**

In general, MSME owners perceive their businesses not only as a source of household income but also as a mechanism for creating local employment and meeting community needs. Many owners described their businesses as "family anchors," with business continuity closely tied to household stability and educational expenses. One participant, a restaurant owner, stated:

"My business is everything to me; it supports my family and helps send my children to school. Without this, I wouldn't have the stability I have now."

Another owner in the retail sector highlighted how his shop creates jobs for local residents:

"I provide work for my neighbors. It's not just a job; it's a chance for them to feed their families too."

Several owners also acknowledged that their businesses stimulate the local economy through linkages with raw material suppliers, casual workers, packaging services, and logistics providers. One MSME owner in the crafts sector said:

"By working with local suppliers, we reduce costs and keep everything within the community. This helps the local economy grow, and we all benefit."

The findings confirm that MSMEs play a significant role in local economic development, contributing to job creation, poverty reduction, and fostering entrepreneurship. This aligns with previous research indicating that MSMEs function as engines of local economic resilience [Hartika et al., 2023]. The personal connections and local market engagement demonstrate the broader ecosystem effects that extend beyond the business owners themselves. However, while these businesses generate economic activity, their role remains largely informal, with limited capacity for scaling up.

#### **Internal Constraints – Human Resources, Finance, and Innovation**

Interviews revealed that limited human resource competence, particularly in financial management, marketing, and technology use, is a key barrier for MSMEs. A fashion retailer shared:

"I didn't study business, so everything is self-taught. Managing money is difficult, and I often confuse business finances with my personal ones."

Many owners admitted they do not maintain regular financial records, and some expressed limited knowledge of accounting standards such as SAK EMKM. One food stall owner shared:

"I've heard about SAK EMKM but don't fully understand it. I just do what I can with the money I have."

When discussing product innovation, owners recognized the need to refresh their product offerings. However, barriers like capital limitations and uncertainty about market demand were recurring themes. An owner of a small tech repair business stated:

"I know my products need a refresh, but I don't have the budget for new designs or packaging. I worry that people might not buy the new products, and I'll lose customers."

These findings underscore the importance of financial literacy, human resources, and innovation as internal factors affecting MSME performance. The inability to separate personal and business finances is a recurring issue, and as suggested by [Sari et al., 2023], this severely hampers the ability to assess business sustainability and secure financing. Similarly, innovation is often stifled by capital constraints, a pattern that aligns with [Sari et al., 2023] and [Rahmadiani et al., 2024], which identified infrastructure and capital as primary barriers to growth.

#### **Marketing and Digital Transformation**

Some MSME owners have adopted social media (WhatsApp, Instagram) and marketplace platforms to market products. However, the intensity and quality of use varied significantly. A participant running a local bakery shared:

"I post on Instagram when I can, but I don't have a content plan. I just share pictures of the products and hope people see them."

Another business owner explained:

"I focus mostly on word-of-mouth. I use Instagram sometimes, but only if I have the time."

Regarding payment systems, several owners have adopted QRIS, though some still rely heavily on cash transactions. One participant in the retail sector mentioned:

"I've been using QRIS for a few months, but there are always issues with internet connectivity. It's frustrating, but I know younger customers prefer cashless transactions, so I try to keep using it." The findings indicate that while digital marketing adoption is growing among MSMEs, its implementation remains inconsistent. Some MSME owners struggle with content strategy and social media engagement, suggesting a gap in digital marketing skills and planning. This resonates with [Wati & Widodo, 2024], where the discourse on MSME digital marketing has grown rapidly, but practical implementation remains suboptimal. Furthermore, while cashless payments like QRIS are recognized for their convenience, technical barriers, such as internet instability, still hinder full adoption, a finding corroborated by [Wijaya et al., 2025].

### **The Role of Government and Institutional Support**

Some MSME owners have participated in training programs organized by government agencies, universities, or other institutions. A participant in the food sector shared: "I learned a lot from the training on product packaging. However, there was no follow-up, and I'm not sure how to apply everything I learned."

Another owner emphasized:

"I've taken several government workshops, but after the session, there is no mentoring, and I often feel lost when it comes to implementation."

The findings suggest that while MSME owners find initial training beneficial, the lack of follow-up support is a major limitation. This is consistent with [Pardede & Trimurni, 2023], which highlights the need for continuous mentoring and practical guidance post-training. MSME owners expressed a desire for longer-term coaching and assistance, particularly in implementing the skills they learned and accessing markets. This further supports the idea that MSME development requires multi-stakeholder collaboration involving government, universities, and the private sector [Siregar et al., 2020; Hanafia et al., 2023].

### **Knowledge, Capital, and Access to Information**

Interviews revealed that MSME owners who actively seek information about training programs, government assistance, and market trends are more adaptable. One business owner in the manufacturing sector mentioned:

"I regularly attend workshops and read up on market trends. I try to apply what I learn to improve my business." However, there is an information gap between owners with broader networks and those without. An owner of a small craft business shared:

"I don't have many connections, so I miss out on a lot of opportunities. I hear about programs from friends but never know where to apply." The findings highlight the importance of business knowledge and access to information in shaping MSME performance. The information gap between well-connected and isolated MSME owners reflects broader issues in access to resources and opportunities. This resonates with [Maulana et al., 2021], where a lack of collaboration among MSME actors limits knowledge sharing and business growth. These findings point to the need for improved information dissemination and networking opportunities for MSMEs to foster more equitable development.

## **4. CONCLUSION**

MSME owners view their businesses as essential for household economies and local employment, playing a strategic role in community development and national economic growth. Internal constraints, such as limited financial literacy, managerial competence, and innovation capacity, hinder MSME performance. Digital transformation opportunities through digital marketing, e-commerce, and cashless payments are underutilized, primarily due to technical barriers and knowledge limitations. Government and institutional support programs are beneficial but need stronger follow-up mentoring and broader outreach to maximize impact. Business knowledge and access to information are crucial for MSME adaptability and performance.

### **Practical Implications:**

Government and universities should design capacity-building programs tailored to MSME needs in financial literacy, management, and digital skills. Strengthening multi-stakeholder collaboration (government, universities, media, and the private sector) is key to creating a supportive ecosystem for

MSME growth. Policies and infrastructure should focus on facilitating technology adoption, while safeguarding small business owners from emerging risks and digital barriers.

**Study Limitations:**

The geographical scope of this study is limited to one sub-district in Bandung, which may not fully represent broader regional dynamics. The sample size of 10 informants limits the generalizability of findings. Potential bias exists in the self-reporting of participants, which may affect the reliability of the data.

**Further Research Agenda:**

Future studies should explore cross-city or cross-sector comparisons to determine whether these findings hold in other regions or industries. A mixed-methods approach could provide deeper insights by integrating qualitative data with quantitative performance metrics. A qualitative approach based on direct interviews with MSME owners is shown to provide rich contextual understanding that complements prior quantitative findings. This approach can inform more responsive programs and policies grounded in the real needs, constraints, and adaptation strategies of MSME actors in everyday business practice.

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