



Assessing the Business Feasibility of Handicraft MSMEs in the Industrial Ecosystem of Nganjuk Regency

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ABSTRACT:

Handicraft Micro, Small, and Medium Enterprises (MSMEs) play a significant role in driving regional economic development, particularly in Nganjuk Regency, which possesses diverse local handicraft potential. However, many handicraft MSMEs have not been able to achieve sustainable growth due to various challenges, including limited access to capital, constrained marketing capabilities, and insufficient business ecosystem support. This study aims to analyze the business feasibility of handicraft MSMEs within the industrial ecosystem of Nganjuk Regency. A qualitative descriptive approach was employed, with data collected through interviews, observations, and documentation involving handicraft MSME owners and relevant stakeholders. The business feasibility analysis focused on market potential, production and technical aspects, business management, financial performance, and the business environment. The findings indicate that handicraft MSMEs in Nganjuk Regency are generally feasible for further development, particularly in terms of market opportunities and the availability of local raw materials. Nevertheless, improvements are needed in business management practices, access to financing, and the adoption of technology and marketing networks. Furthermore, a supportive industrial ecosystem involving local government, financial institutions, and business communities plays a crucial role in enhancing the competitiveness and long-term sustainability of handicraft MSMEs. The findings are expected to provide valuable insights for policymakers and stakeholders in formulating strategies and policies to strengthen the development of handicraft MSMEs in Nganjuk Regency

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in supporting Indonesia's economy, particularly at the regional level. MSMEs make a substantial contribution to employment generation and serve as a primary source of income for a large proportion of the population. Their relatively strong resilience to economic shocks has positioned MSMEs as a key sector in promoting inclusive and sustainable economic growth. Consequently, strengthening MSMEs has remained a government policy priority, particularly in the post-pandemic period, through various programs aimed at enhancing business capacity and competitiveness (Ministry of Cooperatives and SMEs, 2021). At the regional level, MSMEs function as drivers of local economic development by utilizing locally available resources and regional potential. Their presence contributes not only to economic growth but also to social stability through job creation and unemployment reduction.

One of the MSME sectors with significant strategic value is the handicraft industry. This sector has developed from the creativity and craftsmanship of local communities while utilizing locally available raw materials. Handicraft products possess not only commercial value but also reflect regional culture and identity. Within the framework of regional economic development, handicraft MSMEs have considerable potential to become an integral part of the creative economy and locally based industrial development (Ministry of Industry, 2022). Nganjuk Regency possesses diverse handicraft MSMEs distributed across various areas. This potential is supported by the availability of local raw materials and traditional skills that have been passed down through generations. The existence of handicraft MSMEs in Nganjuk Regency creates opportunities to increase community income while strengthening the regional economic structure (Statistics Indonesia of Nganjuk Regency, 2023).

Despite their significant potential, handicraft MSMEs continue to face numerous challenges. Business owners frequently encounter limited access to capital, weak managerial capabilities, low levels of product innovation, and restricted market access. Furthermore, the adoption of technology and digital marketing remains suboptimal, making it difficult for handicraft products to compete in broader markets. These conditions indicate that the considerable potential of handicraft MSMEs has not yet been accompanied by adequate business readiness. Without effective management and a supportive business environment, handicraft MSMEs are at risk of experiencing stagnation or even declining business performance (World Bank, 2021).

Business feasibility analysis is an essential approach for assessing whether a business is viable and capable of sustainable development. Such analysis encompasses the evaluation of market potential, production and technical aspects, business management, financial performance, and the business environment. It provides entrepreneurs and policymakers with a comprehensive and objective understanding of business conditions, thereby supporting informed decision-making (OECD, 2020). In addition to internal business factors, the success of MSMEs is strongly influenced by the surrounding industrial ecosystem. This ecosystem includes the roles of local governments, financial institutions, markets, business support organizations, and supporting infrastructure. A well-developed industrial ecosystem creates a conducive business environment and enhances the long-term sustainability and competitiveness of handicraft MSMEs (Ministry of Industry, 2022).

Previous studies have extensively discussed MSME development, entrepreneurial empowerment, and the role of government policies in supporting MSMEs. However, research specifically examining the business feasibility of handicraft MSMEs in relation to the regional industrial ecosystem remains limited, particularly at the regency level. Existing studies also tend to assess business feasibility independently without considering the interaction between the internal conditions of MSMEs and the external support provided by the industrial ecosystem. This represents a significant research gap that warrants further investigation. Therefore, this study focuses on analyzing the business feasibility of handicraft MSMEs within the industrial ecosystem of Nganjuk Regency. The findings are expected to provide a more comprehensive

understanding of business sustainability and development opportunities for local handicraft MSMEs while contributing to policy formulation and regional economic development strategies.

RESEARCH METHODOLOGY

This study employed a descriptive qualitative approach to obtain an in-depth understanding of the business feasibility of handicraft Micro, Small, and Medium Enterprises (MSMEs) and the role of the business environment within the industrial ecosystem of Nganjuk Regency. This approach was selected because it enables a comprehensive exploration of business conditions based on the experiences and perspectives of MSME owners without manipulating the research variables.

The participants were selected using purposive sampling and consisted of handicraft MSME owners who were actively operating their businesses and had substantial experience in business management. In addition, supporting participants, including MSME facilitators and local government officials, were involved to provide more comprehensive insights into the factors influencing business sustainability. Data were collected through in-depth interviews, direct observation, and document analysis to obtain comprehensive and triangulated information.

The data were analyzed qualitatively using the interactive model developed by Miles, Huberman, and Saldaña, which consists of three stages: data reduction, data display, and conclusion drawing and verification. The analysis was conducted continuously throughout the data collection and research process, allowing for an in-depth understanding of the business feasibility of handicraft MSMEs and the influence of the industrial ecosystem in Nganjuk Regency on their long-term sustainability.

RESULT AND DISCUSSIONS

General Conditions of Handicraft MSMEs in Nganjuk Regency

Based on the interviews and field observations, handicraft Micro, Small, and Medium Enterprises

(MSMEs) in Nganjuk Regency are predominantly home-based businesses independently managed by owners with the support of family labor. The handicraft products produced are highly diverse, including bamboo crafts, wooden products, textile-based handicrafts, recycled-material products, and decorative items utilizing locally available resources. For most business owners, handicraft production serves as their primary source of income, while for others it functions as an additional source of household income. These characteristics demonstrate that handicraft MSMEs perform both economic and social functions by generating local employment opportunities while preserving traditional craftsmanship passed down through generations.

From a managerial perspective, most MSMEs continue to implement relatively simple business management practices. Business planning is generally based on practical experience rather than measurable business objectives. Financial records are rarely separated between business and household finances, while evaluations of production costs, profits, and sales performance are conducted informally. Consequently, entrepreneurs experience difficulties in assessing business efficiency and formulating long-term development strategies.

The observations further revealed that most entrepreneurs demonstrate strong motivation to sustain their businesses despite facing numerous challenges, including rising raw material prices, competition from products originating outside the region, and changing consumer preferences. Business continuity is primarily supported by accumulated experience, long-term customer relationships, and the entrepreneurs' commitment to maintaining product quality. These findings indicate that the sustainability of handicraft MSMEs is influenced not only by economic factors but also by social capital, particularly the entrepreneurs' ability to establish consumer trust.

These findings are consistent with the World Bank (2021), which reported that the primary challenges faced by Indonesian MSMEs include limited managerial capacity, low productivity, and insufficient business innovation. Similarly, Tambunan (2020) emphasized that many MSMEs in developing regions continue to experience managerial limitations, highlighting the need for continuous business assistance and capacity-building programs.

Business Feasibility from the Market Perspective

The findings indicate that, from a market perspective, handicraft MSMEs in Nganjuk Regency possess promising business prospects. Handicraft products continue to attract local consumers because they offer both functional value and cultural significance that distinguish them from mass-produced industrial products. Market demand remains relatively stable, particularly during government events, traditional ceremonies, MSME exhibitions, and souvenir-related occasions. These conditions suggest that market opportunities remain favorable, provided that entrepreneurs maintain product quality while continuously adapting product designs to changing consumer preferences.

Nevertheless, interviews revealed that most entrepreneurs continue to rely on conventional marketing channels, including direct sales, loyal customer networks, and word-of-mouth promotion. The

utilization of digital platforms, online marketplaces, and social media for marketing purposes remains limited. Low levels of digital literacy, limited human resources, and inadequate skills in developing digital marketing content constitute the primary obstacles to market expansion.

Competition from mass-produced products offered at lower prices also presents a significant challenge. Business owners acknowledged that consumers frequently prioritize affordability over the uniqueness and artistic value of handicraft products. Therefore, product differentiation through improvements in product quality, design innovation, packaging, and branding has become increasingly important for enhancing competitiveness.

These findings support the Ministry of Industry (2022), which identified digital transformation as one of the principal drivers of MSME competitiveness in Indonesia. Likewise, Kotler and Keller (2022) argued that contemporary marketing strategies require businesses to integrate digital marketing with conventional marketing approaches to expand market reach and strengthen customer loyalty.

Business Feasibility from the Production and Management Perspectives

From the production perspective, handicraft MSMEs in Nganjuk Regency demonstrate considerable business feasibility due to the availability of local raw materials and the well-established craftsmanship developed over many years. Most production processes continue to rely on manual techniques, resulting in products characterized by uniqueness and high artistic value. These distinctive characteristics provide an important competitive advantage compared with mass-produced industrial goods.

However, limitations in production technology remain one of the principal constraints. Most entrepreneurs continue to utilize simple production equipment, limiting production capacity and reducing their ability to meet large-scale market demand. Furthermore, product innovation remains relatively limited, resulting in insufficient product diversification. Consequently, handicraft MSMEs encounter difficulties competing with businesses from other regions that have adopted more advanced production technologies.

From a managerial perspective, most entrepreneurs have not systematically implemented essential management functions, including planning, organizing, implementation, and supervision. Business operations are generally organized informally among family members without a clearly defined organizational structure. As a result, decision-making remains highly dependent on business owners, making business continuity vulnerable to changes in internal conditions.

These findings highlight the urgent need to strengthen managerial capacity among MSME entrepreneurs. Business management training, human resource development, product innovation, and business planning are expected to improve operational efficiency and business competitiveness. These findings are consistent with the OECD (2020), which identifies managerial capability as one of the critical determinants of MSME success in responding to increasingly dynamic business competition.

Business Feasibility from the Financial Perspective

The findings demonstrate that most handicraft MSMEs continue to sustain their business operations primarily through self-financing. Business revenues are generally sufficient to cover operational expenses while generating profits, although profit levels fluctuate depending on the volume of customer orders received. Variations in market demand create unstable business income, encouraging entrepreneurs to adopt a cautious approach toward investment and business expansion.

Financial record-keeping remains one of the major weaknesses among handicraft MSMEs. Most entrepreneurs do not prepare systematic financial statements, making it difficult to accurately assess profitability, cash flow, and business assets. Consequently, business owners encounter challenges in evaluating business performance and preparing long-term financial plans.

Access to formal financing institutions also remains limited. Several entrepreneurs reported that they had never applied for bank loans or formal financing due to limited understanding of administrative procedures, collateral requirements, and credit application mechanisms. Consequently, business development continues to depend primarily on personal capital, which restricts opportunities for expansion.

These findings support the Ministry of Cooperatives and SMEs (2021), which identified limited financial literacy as one of the principal factors constraining MSME growth in Indonesia. Therefore, improving financial literacy, encouraging the preparation of simple financial statements, and expanding access to financing are strategic measures for strengthening the business feasibility of handicraft MSMEs.

The Role of the Industrial Ecosystem in Supporting Handicraft MSMEs

The study demonstrates that the industrial ecosystem plays a crucial role in supporting the development of handicraft MSMEs in Nganjuk Regency. Various local government initiatives—including entrepreneurship training, business mentoring, assistance in obtaining business legality, and participation in product exhibitions—have contributed positively to improving entrepreneurial capacity. These programs enable entrepreneurs to acquire new knowledge regarding business management and market development opportunities.

However, interview findings indicate that the benefits of these programs have not been experienced equally by all MSME owners. Several participants reported limited access to training and continuous mentoring. Furthermore, coordination among stakeholders—including local governments, financial institutions, universities, business communities, and the private sector—has not yet been fully integrated, thereby reducing the effectiveness of support provided to MSMEs.

The industrial ecosystem also contributes to expanding business networks through partnerships with various stakeholders. Entrepreneurs with broader marketing networks generally experience faster business growth than those operating independently. Therefore, strengthening collaboration among stakeholders within the industrial ecosystem represents a strategic priority for improving the competitiveness of handicraft MSMEs.

These findings reinforce the Ministry of Industry (2022), which emphasizes that MSME

development depends not only on entrepreneurs' internal capabilities but also on the quality of an industrial ecosystem capable of creating a supportive, innovative, and sustainable business environment.

Implications of the Findings for the Business Feasibility of Handicraft MSMEs

Overall, the findings indicate that handicraft MSMEs in Nganjuk Regency possess considerable potential for sustainable business development. This potential is supported by abundant local resources, skilled entrepreneurs, and continuous market demand for handicraft products. Nevertheless, business feasibility remains strongly influenced by the interaction of internal and external factors.

Internally, the primary challenges involve managerial capability, financial record-keeping, product innovation, and digital marketing competencies. Externally, the quality of the industrial ecosystem, access to financial services, business partnerships, and supportive government policies significantly influence long-term business sustainability. Accordingly, improving business feasibility requires not only financial assistance but also investments in human resource development, institutional strengthening, and digital transformation.

These findings reinforce the theoretical perspective that business feasibility results from the interaction between an enterprise's internal capabilities and the external support provided by its surrounding business environment. Therefore, strategies for developing handicraft MSMEs in Nganjuk Regency should prioritize strengthening entrepreneurial competencies, accelerating digital transformation, expanding access to financing, encouraging product innovation, and fostering collaboration among government agencies, universities, business organizations, financial institutions, and MSME communities. Such collaborative efforts are expected to enhance competitiveness while ensuring the long-term sustainability of handicraft MSMEs as one of the key drivers of local economic development.

CONCLUSION

Based on the findings of this study, it can be concluded that handicraft Micro, Small, and Medium Enterprises (MSMEs) in Nganjuk Regency possess considerable potential to serve as a driving force for regional economic development. This potential is supported by the availability of local raw materials, the skills and craftsmanship of entrepreneurs, and sustained market demand for handicraft products. Overall, handicraft MSMEs are considered economically feasible; however, their level of business feasibility remains constrained by several challenges, particularly in the areas of marketing, production, management, and finance.

From the market perspective, opportunities for business expansion remain promising, although they are not yet supported by effective marketing strategies or the optimal utilization of digital technologies. In terms of production, the availability of local raw materials and the entrepreneurs' technical expertise provide

important competitive advantages, despite limitations in production equipment and product innovation. Furthermore, from the managerial and financial perspectives, the continued reliance on informal business management practices, inadequate financial record-keeping, and limited managerial capabilities restrict the long-term growth and sustainability of these enterprises.

The study also demonstrates that the industrial ecosystem plays a significant role in enhancing the business feasibility and sustainability of handicraft MSMEs through entrepreneurship training, business mentoring, and marketing facilitation, although such support has not yet been distributed evenly among business owners. Therefore, improving the business feasibility of handicraft MSMEs requires a comprehensive approach that includes strengthening entrepreneurial capacity, adopting more professional management practices, optimizing digital marketing strategies, and fostering stronger collaboration among local governments, business support institutions, financial organizations, universities, and other relevant stakeholders. Such integrated efforts are expected to enhance the competitiveness and long-term sustainability of handicraft MSMEs in Nganjuk Regency.

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