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Export Strategy Development in Micro and Small Enterprises of The Craft Sector in Central Java

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Abstract

This study examines which factors most strongly drive export participation among craft-sector micro and small enterprises (MSEs) in Central Java. Focusing on batik, furniture, and leather products, we highlight a capability-first perspective that has been underexplored in this context. Using a survey of craft MSEs analyzed with logistic regression, we compare the effects of human capital (export knowledge and skills) with commonly cited enablers such as capital and government assistance. The results show that export knowledge and skills consistently predict export participation, whereas financial inputs and generic assistance are not decisive once capabilities are considered. These findings suggest that policies and firm strategies should prioritize practical export know-how, skills development, and market-readiness over undifferentiated financing. The study contributes evidence from Indonesia's craft sector that human capital is the primary lever for scaling MSEs to international markets. The skills possessed in the Craft sector in Central Java regarding exports have a positive influence on their performance with a coefficient value of 5.76; this indicates that if the skills of MSEs in the Craft sector in Central Java increase by 1%, it will increase MSEs performance by 5.76%.

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INTRODUCTION

Micro and Small Enterprises (MSEs) are a vital pillar of Indonesia's economy, contributing the bulk of business units and employment, including in Central Java's manufacturing and craft ecosystems (BPS, 2020; ADB, 2023, 2024; OECD, 2024). In Central Java, manufacturing has long been a key driver of regional growth and MSE formation through supplier linkages and demand spillovers in craft subsectors such as batik, furniture, and leather (Ardiyanti & Kahfi, 2023; Astuningsih & Sari, 2017; Azzahra & Wibawa, 2021). While the strategic role of MSEs is well recognized, their export participation remains relatively limited compared to their domestic footprint—indicating untapped potential that depends not only on finance and programs, but also on capability readiness (ADB, 2024; IMF, 2024; OECD, 2024).

At the national level, Micro, Small, and Medium Enterprises (MSMEs) accounted for 99.99% of total business units in 2018, contributed 57% of GDP, and absorbed 97% of the workforce (BPS, 2020). Their role as the backbone of the economy underscores the importance of strong institutional support from government, industry, cooperatives, and financial institutions. The largest subsectors include culinary, fashion, and agribusiness, with culinary enterprises dominating. Figure 1. below is the contribution of MSMEs to GDP from 2010 - 2019.

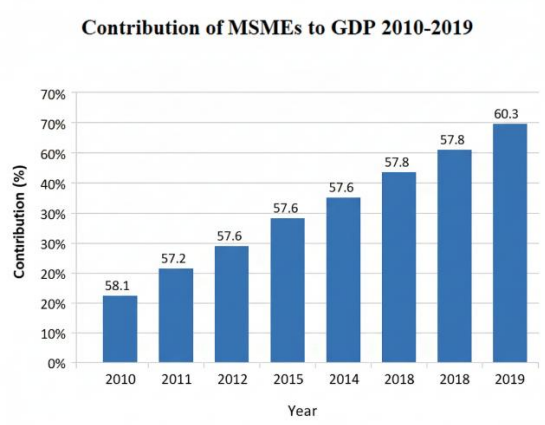

Figure 1. Contribution of MSMEs to GDP 2010-2019
Source: Ministry of Cooperatives and Small and Medium Enterprises, 2021

Figure 1 explains in detail the contribution of MSEs from 2010 to 2019 to GDP in Central Java. From 2010 to 2018, MSEs' contribution to GDP was still below 60%. However, in 2019, its contribution to GDP also increased significantly, with a contribution of 60.3%. Micro and small businesses aim to grow and develop their businesses to build a national economy based on a just economic democracy (Safii, 2021). Therefore, the principle and empowerment of micro and small businesses is to foster independence, togetherness, and entrepreneurship of micro and small businesses to work on their initiative and realize transparent, accountable, and just public policies, according to the Financial Services Authority (2016). Based on National labor force survey (*Sakernas-Survey Angkatan Nasional Kerja*) 2018-2022 data, Central Java is the province that exports the most significant contribution of craft products in Indonesia. Craft businesses are widely run by people in Central Java and are spread across several areas in Central Java (Saputro and Meivira, 2020). However, only medium and large business actors have been able to penetrate the export market. Meanwhile, most micro and small business actors have not been able to penetrate the export market (Sari et al., 2022).

Many MSE actors in the craft sector in Central Java still do not know where the products they produce will be marketed (Rahman and Perdana, 2018). The observations and initial interviews with several SME managers show that there are still many MSEs in the craft sector in Central Java who do not understand how to market their products, especially abroad. Many of the products produced by MSEs are worthy of being marketed abroad, but due to the lack of knowledge of the procedures and methods for marketing these products, MSEs products can only compete in the domestic market (Okoro, 2021).

In addition, the information asymmetry that occurs in crafting business actors in Central Java also causes many business actors to be unable to penetrate the export market. Information asymmetry can severely challenge craft business actors who want to export their products (Sriyono, 2018). This condition occurs because craft business actors have less accurate information than those involved in international transactions. As a result, many craft business actors have difficulty gaining trust from the international market regarding the quality and reliability of their products. Without an adequate

understanding of foreign market requirements, product standards, or consumer needs in the destination country, they can face difficulties meeting market expectations and competing with local producers. In addition, additional costs arising from risk mitigation efforts, such as product adjustments or ensuring compliance with international trade regulations, can make craft products from business actors less competitive in price (Sugioyono, 2018)..

RESEARCH METHODS

The research is a mixed method research, combining qualitative and quantitative research to explore and understand the meaning of individuals or groups with social, individual, and human problems (Creswell, 2013). The population in this study were MSME owners in the craft sector in Central Java Province, divided into 35 districts/cities with a total of 9,798 MSME actors. Non-probability sampling was used with the convenience sampling method, conducted by a field survey. The sample was determined based on the respondents' requirements by reviewing their business activities. The respondents are business actors who own and lead businesses with independent business management in each business activity. The Slovin formula is applied to calculate the number of samples:

$$n = \frac{N}{1+Ne^2} \quad \text{.....(1)}$$

where, n is the number of samples in the research area; N is the number of populations in the research area; and e is the error tolerance limit used in this study (10 percent). Based on this formula, the number of samples in this study can be calculated as follows:

$$n = \frac{9.798}{1+9.798\ (0,05)2}$$

$$= \frac{9.798}{24,495} = 400 \quad \text{.....(2)}$$

Based on these calculations, the number of samples in this study was 400 MSEs actors in the craft sector in Central Java. In order to support the completeness of the mixed methods research, this study also determined that key persons/informants complete the research data needs. The key persons selected used a Penta helix approach consisting of academics, business actors, government, society, and media.

Table 1. Operational Definition of Variables

No	Variable	Definition	Indicator	Scale	Source
1	Capital	Resources owned and used for business purposes	Capital as a requirement for business Utilization of additional capital large capital	Ordinal	Modification of Sholahuddin et al., (2020)
2	Knowledge	The understanding possessed by micro and small business actors in managing and running the export process	Knowledge of: Export Process Understanding of the Export Market Understanding of Products Owned Knowledge of Export Policies and Regulations	Ordinal	Modification of Safari & Saleh (2020)
3	Skills	Skills are the abilities or expertise that a person has in carrying out a task.	Managerial Skills International Communication and Negotiation Skills Logistics and Distribution Skills	Ordinal	Modification of Safari & Saleh (2020)
4	Export Intentions	The desire of Micro and Small Enterprises to export reflects the aspirations and motivations of micro and small business actors to develop their businesses	Participation in Export Training Request for Export Information Market Research Activities Participation in Export Events and Trade Fairs	Ordinal	Modification of Safari & Saleh (2020)

No	Variable	Definition	Indicator	Scale	Source
		into international markets.			
5	Attitudes	The views, feelings and behavioral tendencies held by SME entrepreneurs related to the activity of selling products or services to international markets.	1. Readiness for Export 2. Perception of International Market Opportunities 3. Perceptions of Export Barriers 4. Commitment to Quality	Ordinal	Modification of Safari & Saleh (2020)
6	Risk-taking	the courage and readiness of micro and small business actors to face the uncertainty and potential losses associated with exporting their products to international markets.	Expansion into New Markets Investment in Product or Service Development Participation in International Trade Fairs Adjustment to Foreign Market Requirements Competitive Pricing	Ordinal	Modification of Safari & Saleh (2020)
7	Market Access	The capabilities and opportunities possessed by small and medium enterprises (SMEs) to enter and operate in international markets.	Market Information Logistics infrastructure Legal Support and Consulting	Ordinal	Modification of Safari & Saleh (2020)
8	Government Assistance	Efforts made by the government to provide support, guidance and resources to MSMEs wishing to enter or increase their export activities.	Training and Education Programs Access to Financial Resources Support for Export Document Preparation Access to Market Information Export Licensing and Permitting	Ordinal	Modification of Safari & Saleh (2020)
9	Networks	A series of relationships and connections built by micro and small enterprises (MSEs) with related parties in the export value chain.	Number and Quality of International Business Partners Participation in International Business Events and Activities Relations with Trade Institutions and Export Organizations Cooperation with Related Parties in the Supply Chain	Ordinal	Modification of Safari & Saleh (2020)
10	MSE performance	The results that have been achieved in a certain period for the business that has been managed	Have export experience/have not export experience	Nominal	Modification of Safari & Saleh (2020)

The second data analysis used in this study is logistic regression analysis. According to (Ghozali, 2018), logistic regression analysis is a regression that tests whether there is a probability that the independent variable can predict the dependent variable. The logistic regression analysis equation is as follows:

$$Logit\ (Y) = \alpha + \beta_1 Md + \beta_2 Peng + \beta_3 Ktr + \beta_4 Niat + \beta_5 Skp + \beta_6 RT + \beta_7 AP + \beta_8 PP + \beta_9 Ntw + \varepsilon \ldots (3)$$

Where, logit Y is Dummy variable of MSE Performance (category 1 for the export market MSE category, and 0 for the domestic/non-export market MSE category); α is Constants; Md represents Capital; Peng is Knowledge; Ktr represent Skill; Niat represent Export Intentions; Skp represent Attitude; RT represent Risk-Taking; AP represent Market Access ; PP represent Government Assistance ; Ntw represent Networking; β1..B8 are Variable Coefficient in this model; and ε is error term.

RESULTS AND DISCUSSION

Descriptive statistical analysis provides a general overview of the research data. The data analyzed from the 400 samples show that the MSE performance variable has an average (mean) value of 0.5, with a minimum value of 0 and a maximum of 1. The average value of the knowledge variable is 0.5, while skills have an average value of 0.8, indicating that overall, MSEs have a higher skill level compared to their export knowledge. As shown in table 2 of this below.

Table 2. Descriptive Statistics of the Research

Variables	Minimum	Maximum	Mean	Std. Deviation	Variance
MSE	0,0	1,0	0,5	0,5	0,3
Capital	0,0	1,0	0,7	0,3	0,1
Knowledge	0,0	1,0	0,5	0,4	0,1
Skill	0,3	1,0	0,8	0,3	0,1
Export intention	0,0	1,0	0,6	0,4	0,1
Attitude	0,0	1,0	0,7	0,2	0,0
Risk-taking	0,4	1,0	0,9	0,2	0,0
Market access	0,0	1,0	0,5	0,3	0,1
Government Assistance	0,0	1,0	0,5	0,4	0,2
Network	0,0	1,0	0,6	0,4	0,2

Source : Processed Data,

The variables' maximum and minimum statistical values range from 0 to 1; therefore, the MSEs performance variable has a minimum value of 0 and a maximum of 1 with an average (mean) of 0.5. The capital variable has a standard deviation of 3 and a variance of 0.1. The knowledge variable has a minimum value of 0 and a maximum of 1 with an average of 0.5. The skill variable has a minimum value of 0.3 and a maximum of 1, with an average of 0.8. Export intention/desire has a deviation value of 0.4 and a variance of 0.1. The attitude variable has a standard deviation value of 0.3 and variance of 0.

The model testing results show that the hypothesized regression model is in accordance with the data. The initial 2Log likelihood value (block = 0) was 54.04, which then decreased to 21.85 after all independent variables were included (block = 1). This decrease indicates that the addition of independent variables makes the regression model better. This is shown in the following table 3.

Table 3. Overall Model Fit

Indicator	Value
2Log likelihood - the initial (block number = 0)	54.04
-2Log likelihood – the final (block number = 1)	21.85

Source: Processed Data, 2025

The feasibility test of the regression model is assessed using Hosmer and Lemeshow's Goodness of Fit Test, which is measured by the chi-square value. Hosmer and Lemeshow's Goodness of Fit Test tests the null hypothesis that the empirical data fits or is following the model (there is no significant difference between the model and the data, so the model can be said to be fit) (Ghozali, 2018). If the Hosmer and Lemeshow test shows a probability value (P-value) ≤ 0.05 (significant value), it means that there is a significant difference between the model and its observation value, so the model cannot be used to predict its observation value. If the Hosmer and Lemeshow test shows a probability value (P-value) ≥ 0.05 (significant value), it means that there is no significant difference between the model and the data, or it

can be said that the model can be used to predict its observation value.

Table 4. Hosmer and Lemeshow test

Chi-square	df	Sig.
25,710048	8	0,177

Source: Processed Data, 2025

Table 4 shows that the Hosmer and Lemeshow Goodness of Fit Test results obtained a chi-square value of 25.710 with a significance level of 0.177. The test results show that the probability value (P-value) ≥ 0.05 (significant value) is 0.177 ≥ 0.05. It indicates no significant difference between the model and the data, so the regression model in this study is feasible and can predict its observation values.

The variability of the independent variable in explaining the dependent variable is measured using the coefficient of determination, which can be seen from the Nagelkerke R Square value. The value of the Nagelkerke R Square is a decimal that can be converted into a percentage for easy understanding and interpretation (Ghozali, 2018).

Table 5. Nagelkerke's R-Square

-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
21.852	0.562	0.749

Source: Processed Data, 2025

Table 5 shows that the coefficient of determination value seen from the Nagelkerke R Square value is 0.749. It indicates that the independent variables, namely Capital, Knowledge, Skills, Export Intentions, Attitudes, Risk-taking, Market Access, Government Assistance, and Networks, are 74.9% able to explain the dependent variable, namely MSE Performance. The rest, 25.1%, is explained by other variables outside this research model.

The classification matrix shows the logistic regression model's predictive power to predict the model and strategy of micro and small business development toward internationa-lization, as in Table 6.

Table 6. Classification Matrix

Variable		Non-Export MSEs Category	Export Market MSEs Category	Percentage Correct
Performance of MSEs	Non-Export MSEs Category	170	50	89.5
	Export Market MSEs Category	50	130	90.0
Overall Percentage				89.7

Source: Processed Data, 2025

Table 6, obtained from the regression analysis results, shows that the model's ability to predict the model and strategy for developing micro and small businesses towards going international is 89.7%. From the table above, the possibility of the MSEs Craft Sector developing into the international market is 90% of the total sample of 400 data, while the MSEs Craft Sector that does not develop into the international market is 89.5%.

The analysis used in this study is logistic regression analysis, namely, looking at the influence of Capital, Knowledge, Skills, Export Intentions/Desires, Attitudes, Risk-Taking, Market Access, Government Assistance, and Networks on the performance of MSEs in the craft sector in Central Java.

Table 7. Results of Logistic Regression Analysis

Variables	B	S.E.	Wald	df	Sig.
Capital	3,972	3,228	1,514	1	0,218
Knowledge	6,060	2,598	5,440	1	0,020
Skill	5,758	3,316	3,015	1	0,082
Export Intentions	3,252	3,209	1,026	1	0,311
Attitudes	4,518	3,106	2,116	1	0,146
Risk-Taking	0,062	3,598	0,000	1	0,986
Market Access	4,403	2,977	2,187	1	0,139
Government Assistance	1,217	1,683	0,523	1	0,470
Networks	1,560	1,745	0,799	1	0,371
Constant	1,933	3,833	0,254	1	0,614
Variable(s) entered on step 1: X1, X2, X3, X4, X5, X6, X7, X8, X9.					

Source: Processed Data, 2025

Table 7 shows that the knowledge of MSEs in the craft sector in Central Java regarding exports positively influences MSE performance, with a coefficient value of 6.06. It indicates that if the knowledge of MSEs in the craft sector in Central Java increases by 1%, MSE performance will increase by 6.06%. The skills that MSEs possess in the Craft sector in Central Java regarding exports positively influence MSE performance with a coefficient value 5.76. It indicates that if the skills of MSEs in the craft sector in Central Java increase by 1%, MSE performance will increase by 5.76%. Hence, the equation in this study is as follows:

Logit (Y) = 1,933 + 3,972Md + 6,060Peng + 5,758Ktr + 3,252Niat + 4,518Skp + 0,062RT + 4,403 AP + β8PP + 1,217Ntw + ε .....(4)

Wald test is used to test whether each independent variable consists of Capital, Knowledge, Skills, Export Intentions, Attitudes, Risk Taking, Market Access, Government Assistance, and Networks of dependent variables, namely the performance of MSMEs in the craft sector in Central Java in this study. To determine whether the hypothesis is accepted or rejected by comparing the t count and the significance level α = 0.05. If the t count <t table and p-value> 0.05, then the hypothesis (H0) is accepted. It indicates that the independent variables individually (partially) do not affect the dependent variable. 2. If the t count> t table and p-value <0.05, then the hypothesis (H0) is rejected. It indicates that the independent variables individually (partially) affect the dependent variable.

With the number of observations as many as (n=400) and the number of independent and dependent variables as many as (k=10), then the degree of freedom (df) = n-k = 400-5 = 395, where the level of significance α = 0.05. The table can be calculated using the Excel formula with the insert function formula as follows:

t_{table} = TINV (Probability,deg_freedom)

t_{table} = TINV (0,05,395)

t_{table} = 1.982815 = 1,97 ..... (5)

Based on the Wald Test, it is known that the variables of capital, export intention/desire, government assistance, and networks have an insignificant effect on the performance of MSEs in the craft sector in Central Java because the Wald coefficient value is smaller than the t table value. Other variables, such as knowledge, skills, attitudes, and market access, have a significant effect.

Table 8. Results of Omnibus Tests of Model Coefficients (f)

	Chi-square	df	Sig.
Step	32.188	9	0.000
Block	32.188	9	0.000
Model	32.188	9	0.000

Source: Processed Data, 2025

With the number of observations as many as (n=400) and the number of independent and

dependent variables as many as (k=10), then the degree of freedom (df1) = k-1 = 399 and (df2) = n-k = 395, where the level of significance α = 0.05. Then, the f_{table} can be calculated using the Excel formula with the insert function formula as follows:

f_{table} = FINV (Probability; deg_freedom1; deg_freedom2)
f_{table} =FINV(0.05; 399; 395)
f_{table} = 1.18.....(6)

Table 8 shows that the f count value is greater than the f table (32.188 > 1.18) with a significance level (0.000 < 0.05). Therefore, it can be concluded that Capital, Knowledge, Skills, Export Intentions, Attitudes, Risk-taking, Market Access, Government Assistance, and Networks are dependent variables, namely the performance of MSEs in the craft sector in Central Java.

The influence of capital on the performance of micro, small, and medium enterprises (MSEs) in the craft sector in Central Java is significant, shaping their operational capabilities and overall growth. In this region, where rich cultural heritage and craft skills thrive, access to financial resources directly influences MSEs' ability to source high-quality raw materials and invest in essential equipment. For example, artisans engaged in traditional crafts such as batik or pottery require expensive specialized materials and equipment. Sufficient capital allows them to maintain quality and produce innovative designs that can attract a more extensive customer base. Conversely, limited access to funding often forces these businesses to sacrifice quality or production capacity, ultimately hampering their competitiveness in local and international markets.

Capital is a significant factor in a marketing effort to reach consumers. MSEs in the craft sector often operate in niche markets where brand recognition significantly influences sales [20]. Adequate financial resources allow companies to invest in effective marketing strategies, from digital advertising to participation in trade shows and exhibitions. By showcasing their products to a broader audience, artisans can increase their visibility and attract new customers [16, 17]. In addition, investment in e-commerce platforms can open up new sales channels, allowing craft businesses to reach global markets. On the other hand, a lack of capital can limit these marketing efforts, leaving many MSEs confined to local markets and reducing their growth potential. Thus, leveraging capital for marketing initiatives is critical for MSEs seeking to expand their market reach and improve performance.

Knowledge's influence on the export performance of small and medium enterprises (SMEs) in the craft sector is an essential factor that can significantly increase their competitiveness in the global market. In the craft sector, having a deep understanding of the product and target market is essential for successful international trade. Knowledge of skills, materials, and design innovations allows craftspeople to create unique products that stand out in a crowded market (Tambunan, 2021). For example, a craftsperson skilled in traditional techniques combined with contemporary design can produce goods that appeal to a wide range of consumers, increasing their chances of attracting international buyers. This blend of cultural heritage and modern appeal improves product quality and builds a strong brand identity that resonates with global consumers seeking authenticity and craftsmanship (Wulandari, 2016).

In addition, market knowledge plays a vital role in determining the export success of craft MSEs. Understanding the dynamics of foreign markets—such as consumer behavior, cultural preferences, and competitive landscapes—allows MSEs to tailor their products and marketing strategies accordingly. For example, knowledge of local trends and preferences can guide artisans in selecting the right colors, materials, and designs that suit market demand. Furthermore, understanding target countries' regulations, trade agreements, and certification requirements can streamline the export process and prevent costly mistakes. This strategic approach to market entry increases the likelihood of export success and helps MSEs build long-term relationships with international buyers and distributors.

Skills influence the export performance of craft micro and small enterprises (MSEs), which is crucial in shaping their ability to compete and

thrive in the international market. Skills encompass a range of competencies, including technical skills, design innovation, marketing, and business management. The key to a thriving craft sector is the mastery of craft skills, which directly impacts the quality and uniqueness of the product. Skilled artisans who are proficient in traditional techniques and contemporary designs can create products that not only meet but also exceed international standards. These skills enable craft MSEs to develop distinctive offerings that suit global consumers seeking authenticity and cultural heritage, increasing their appeal in overseas markets.

In addition to technical skills, the ability to innovate plays a critical role in the export performance of craft MSEs. Markets are constantly evolving, and consumer preferences change over time. MSEs prioritizing skill development in product design and innovation can adapt to these changes, creating new and relevant products that appeal to international buyers. For example, integrating sustainable materials or contemporary aesthetics into traditional crafts can appeal to environmentally conscious consumers. This adaptability is essential to maintaining a competitive edge in the global marketplace, where novelty and creativity are highly valued. Thus, continuous skill enhancement and commitment to innovation are essential for craft MSEs seeking to improve their export performance.

The influence of export intention on the export performance of craft or craft micro and small enterprises (MSEs) is an essential factor that shapes their approach to international markets and ultimately influences their success. Export intention refers to the commitment and readiness of a business to engage in export activities [24]. Craft or craft MSEs have strong export intentions and tend to invest the necessary resources in market research, product development, and marketing strategies aimed at international audiences. This proactive attitude allows them to identify and capitalize on export opportunities, ensuring they are ready to enter and compete in foreign markets [18, 19, 20]. When MSEs approach exporting with clear goals and intentions, they often demonstrate greater resilience and adaptability, enabling them to navigate the complexities of international trade effectively.

In addition, strong export intentions foster a culture of innovation in craft or handicraft MSEs. When businesses are committed to exploring international markets, they are more likely to improve their product offerings to meet global standards and consumer preferences. This may involve upgrading expertise, integrating modern design elements, or adopting sustainable practices that appeal to environmentally conscious consumers abroad. By focusing on export-driven innovation, craft or handicraft MSEs can create distinctive products that differentiate them from competitors, thereby increasing their competitiveness in the global market. This continuous improvement not only improves their export performance but also strengthens their brand identity on an international scale.

CONCLUSION

This study demonstrates that knowledge and skills are the most influential determinants of export performance among Micro and Small Enterprises (MSEs) in the craft sector of Central Java. Logistic regression results indicate strong and significant positive effects for both variables, with knowledge (coefficient B = 6.06) having a slightly greater impact than skills (coefficient B = 5.76). These findings challenge the prevailing notion that financial capital or government assistance are the principal drivers of export success, emphasizing instead the centrality of human capital development in enabling effective resource utilization and global competitiveness.

From a theoretical perspective, this study contributes to the resource-based view (RBV) by confirming that intangible capabilities—particularly export-related knowledge and managerial skills—serve as key strategic resources influencing firm internationalization. The integration of qualitative insights further substantiates the argument that human capital functions both as a direct and mediating factor linking internal resources to export readiness. The practical implications highlight the need for

policymakers to reorient MSME support programs toward strengthening export-specific competencies through targeted training, market intelligence workshops, and facilitation of participation in international trade events. In addition, longitudinal studies can be carried out to measure the long-term impact of interventions focused on human capital development on the export performance of MSEs. However, the study has several limitations, including the use of convenience sampling, focus on a single province, and reliance on logistic regression as the sole analytical method.

Future research should adopt broader sectoral and regional comparisons, employ longitudinal and structural modeling approaches, and further explore the dynamic mechanisms through which human capital shapes export performance over time.

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