

KEY FACTORS FOR THE SUCCESS OF SME STARTUPS IN INDONESIA

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Abstract

This study examines key success factors for MSME startups in Indonesia, along with the challenges encountered during business growth. MSME startups play a strategic role in the national economy; However, many fail due to incorrect strategies, particularly in financing and the adoption of digital technology. The research aims to identify the key factors influencing success at each stage of SMEs development, analyze related challenges and opportunities, and provide recommendations to support sustainable business growth. The growth framework consists of seven stages, from idea to maturity/scaling, where common obstacles include limited access to funding and low digital capability. The study employs a qualitative approach using a literature review and descriptive analysis. The findings indicate that success depends not only on ideas and capital, but also on motivation, networks, resilience, resource management, and the ability to recombine new ideas. The recommendations emphasize implementing digitalization strategies and improving understanding of financing options that match the SMEs growth stage.

Keywords: SMEs Startup, Success Factors, Financing, Digitalization, Growth Stages

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INTRODUCTION

Startups are organizations designed to create products/services under uncertain conditions (Ries, 2011). MSME startups in Indonesia have a strategic role in the national economy. With a contribution of around 61% of Gross Domestic Product (GDP) and providing 97% of jobs, MSMEs are the backbone of the people's economy. Various new ideas created by startup companies control the world's electronic business (Chenoweth, 2008). Many Indonesian startups have succeeded in proving their success at the global level, including GO-Jek, Traveloka, and Tokopedia, they almost achieved Unicorn startup status (Newsletter, 2015). However, many MSME startups fail due to mistakes in choosing strategies, especially when facing funding challenges and digital technology adoption.

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Successful startups do not come from their successful predecessors but can be learned and taught (Blank, 2014). Gojek is one of the successful companies, why can Gojek survive until now while other startups cannot? This article focuses on identifying and analyzing key factors that determine the success of MSME startups, as well as how these factors interact at each stage of business growth, from the idea phase to the maturity or scale-up stage.

Furthermore, this research will examine the role of marketing, financial management, digital technology adoption, and corporate governance as key success factors. The study's approach is based on existing literature, practitioner experience, and recent research on the growth phases of MSMEs in Indonesia. Analyzing these key factors is expected to provide strategic recommendations for both MSMEs and supporting stakeholders such as financial institutions and the government.

The growth of MSMEs is often described through a framework that identifies the various stages of development. This framework generally includes seven stages: Stage 0 – Idea: At this stage, aspiring entrepreneurs are in the process of researching and exploring business ideas. Stage 1 – Development: Focuses on validating the idea through concept testing and prototyping to ensure the product or service has market appeal. Stage 2 – Launch: The business launch stage where the product or service begins to operate and the first markets are acquired. Stage 3 – Survival: At this stage, the business demonstrates a viable model by gradual increase in customers and revenue. Stage 4 – Growth or Success: High demand begins to exceed production capacity, necessitating delegation and restructuring of operations. Stage 5 – Expansion or Take-off: With inefficiencies corrected, the business enters a phase of rapid growth with a strengthened team and additional funding. Stage 6 – Maturity/Scaling: The business has achieved stability, but there are opportunities for further expansion both domestically and internationally.

In the Indonesian context, MSMEs face significant challenges in the form of limited access to funding, low digital capabilities, and a lack of professional management. Although funding facilities such as People's Business Credit (KUR) and government assistance exist, many MSMEs still lack understanding of the various funding options appropriate to their stage of growth. Regulatory complexity and low awareness of the importance of business formalities are also major obstacles to accelerating business growth.

This research has several main objectives as follows: Identifying Key Factors, Determining factors that contribute greatly to the success of MSME startups at every stage of business development, starting from idea phase to scale-up. Analyzing Challenges and Opportunities: Examine the challenges of funding, technology adoption, and business management, and evaluate how these factors can be used as an opportunity to increase the competitiveness of MSMEs in Indonesia. Providing Strategic Recommendations: Proposing appropriate strategies for MSME actors and stakeholders (such as the government and financial institutions) to support growth and sustainability of startup businesses.

LITERATURE REVIEW

The literature review in this study covers theories related to startup business growth and key factors supporting business success. The following are some theoretical foundations and previous research, along with key findings:

Stages of MSME Growth

Various studies indicate that MSMEs develop through several stages, each with its own characteristics and challenges. These stages include: Idea & Development: The initial phase where the business idea is tested through market validation and the creation of an MVP (Minimal Viable Product). Launch & Survival: The stage of launching and proving the business model through increasing sales volume and establishing an efficient operational system. Growth, Expansion, and Maturity: Once proven, the business begins to experience rapid growth, followed by expansion, and finally reaches a phase of strengthening operational stability.

Startup Success Factors

Research on the “Six Rs of the Entrepreneurial Mindset” shows that success is not only determined by ideas and capital, but also by:

Reason: The founder's underlying motivation and purpose in establishing the business.

Relationships: The importance of strong networks and collaborations to gain access to information, capital, and business opportunities. Resilience: The ability to bounce back from failure and continue innovating despite challenges.

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Resources: The ability to acquire and manage resources, both capital and labor. Results and Recombination: The results achieved and the ability to combine ideas and experiences to create new innovations.

Case studies, such as those presented in the book "Unstoppable Entrepreneurs," reveal that teams with broad and deep network access have a greater chance of securing funding and achieving significant growth. Furthermore, disciplined financial management and the appropriate application of digital technology are also crucial.

The context of MSMEs in Indonesia

In Indonesia, data shows that despite the large number of MSMEs (over 65 million business units), the added value they generate remains suboptimal. Challenges such as low awareness of formalities, limited access to financing, and limited digital operational capabilities are key obstacles.

The government is attempting to address these issues through digitalization initiatives, regulatory simplification, and funding schemes like the People's Business Credit (KUR), but implementation still faces numerous structural obstacles. Innovation through digital platforms and e-commerce presents a significant opportunity for MSMEs, with market trends increasingly favoring local and environmentally friendly products.

RESEARCH METHODS

This research uses a qualitative approach with literature review and descriptive analysis. A qualitative research approach involves examining events or experiences from the perspective of individuals experiencing the phenomenon. The main advantage of using qualitative research is that it produces more in-depth and comprehensive information on the topic being studied (Petty, Thomson, & Stew, 2012) (Ilkay, 2013). The data used are sourced from various articles, reports, and writings related to MSME startups in Indonesia, including:

Articles about the challenges of funding and growth of MSMEs .

Literature on startup growth theory and the “Six R's of the Entrepreneurial

Mindset”. Case studies and statistical data on MSMEs in Indonesia showing their contribution to GDP and employment. Data collection was conducted by reviewing

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materials from various available sources, then analyzing the relationship between MSME growth stages and identified success factors. Content analysis techniques were used to identify key patterns and findings relevant to problems and opportunities in the context of Indonesian MSMEs.

RESULTS AND DISCUSSION

Key Factors at Each Stage of Growth

Based on literature review and data analysis, several key factors were found that greatly influence the success of MSME startups at each stage of growth.

Initial Stage (Idea and Development)

Idea and MVP Validation: At this stage, the market testing aspect is very important. Aspiring entrepreneurs must confirm that the idea and product being developed are indeed viable.

properly meet consumer needs. Market and Competitor Research: Conducting market analysis to identify potential and gaps plays a crucial role in determining initial marketing strategies. Networking and Mentoring: Connecting with business networks can help gain constructive feedback and unlock initial funding opportunities.

Launch and Survival Phase

Viable Business Model: Determining a resilient business model that can generate sustainable revenue is key, especially during the survival phase. Disciplined Financial Management: Good financial management, including separating personal and business finances, is the foundation for business growth and operational efficiency. Appropriate Funding: Success at this stage depends heavily on matching funding needs with available funding options. Failure to match funding to the business's stage can lead to bankruptcy.

Growth, Expansion, and Maturity Stages

Delegation and Team Building: The team is a key aspect of a startup. From a venture capitalist's perspective, the team is the most important element when determining whether an investor will invest or not (Uzzaman, 2015). As a business grows, business owners must be able to relinquish control of daily operations and build a competent management team. Technology and Digitalization: Adopting digital tools and automation systems is crucial for

increasing efficiency and reducing operational costs. Governance and Strategic Expansion: In the maturity phase, good governance will ensure business processes run automatically and support expansion into new markets, both domestically and internationally.

Challenge and Opportunity Analysis

Financial Challenges

One of the biggest obstacles for MSMEs is the difficulty in obtaining funding appropriate to their growth stage. Many MSMEs fail because the funding they receive doesn't match their business development needs, particularly during the survival and growth phases.

Illustration of Funding Challenges for MSMEs:

Table 1. Comparison Table of Funding Needs at Each Stage of MSME Growth

Tahap Pertumbuhan	Kebutuhan Pendanaan	Tantangan yang Dihadapi
Idea & Development	Modal untuk riset dan MVP	Pemilik belum memahami opsi pendanaan alternatif
Launch & Survival	Modal untuk operasional dan pengujian pasar	Keterbatasan akses ke pinjaman formal dan dukungan perbankan
Growth & Expansion	Modal untuk ekspansi pasar dan otomasi	Persaingan ketat dan tekanan untuk pertumbuhan cepat

Digital and E-Commerce Opportunities

Digitalization opens up significant opportunities for MSMEs in Indonesia. Digital technology enables even MSMEs from remote areas to access the national market.

or internationally through e-commerce and digital platforms. Innovations through digital point-of-sale (POS) systems and cloud-based inventory management also simplify business management, thereby increasing operational efficiency and transparency.

The Role of Networking and Collaboration

Startup success is inextricably linked to the strength of networks and collaboration between entrepreneurs, investors, and mentors. Studies show that teams with extensive networks, particularly those with a combination of "broad relationships" and "deep relationships," have a competitive advantage in securing capital and relevant market information. A

concrete example is the case of Jessica Pujji at Gateway X, who successfully restructured her business strategy after receiving critical feedback from investors.

Interactive Visualization: Flowchart of MSME Growth Stages

The following is a flowchart that describes the stages of MSME growth along with the key factors that support success at each stage:

This diagram illustrates the step-by-step process from idea initiation to reaching a mature business stage, with an emphasis on validation, funding, financial management, digitalization, and corporate governance.



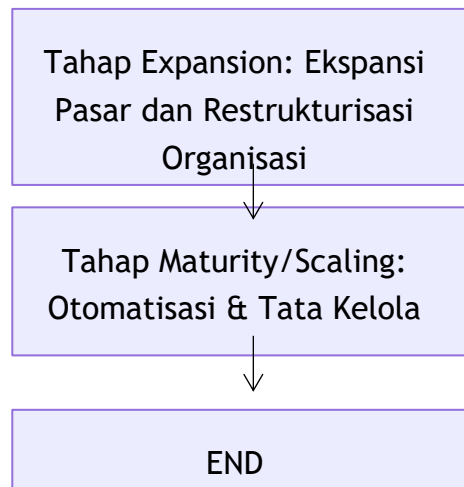


Figure 2: Flowchart of MSME Growth Stages and Key Factors

CONCLUSION

Based on the analysis conducted, it can be concluded that the success of MSME startups in Indonesia is highly dependent on the ability to identify and overcome specific challenges at each growth phase. Some key findings include: Validation and Initial Testing: In the ideation and development phase, success is determined by thorough market research, idea validation, and the creation of the right MVP. Financial Management and Funding: Discipline in financial management and matching funding sources with business needs is critical, especially in the launch and survival phases. Digitalization and Technology: The use of digital technology and automation systems is key to improving operational efficiency and accelerating the scale-up process. Networking and Collaboration: Long-term success supports the importance of collaboration between business actors and support from mentors and investors with extensive networks. Governance and Strategic Expansion: In the growth and maturity phase, good governance and a measured expansion strategy ensure the sustainability and systematic development of the business.

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