

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Micro-businesses are a crucial sector in the economic development of Indonesia, especially in urban areas such as Padang City. This is more true of these enterprises and in particular, the food and beverage sub-sector which has long been a key contributor to employment and income or household resilience. Almost 98% of business are micro enterprises, which indicates the total number of all element that formed in economy sector (Cited from Ministry of Cooperatives and SMEs Indonesia, 2022) The food and beverage sub-sector is notable as one of the most dynamic, fueled by growing interest in locally produced foods and traditional products both for domestic consumption and as tourist consumption. However, they play important roles in the economy but most of all micro businesses have one common immediate problem of inability to optimize production, thus making them grow and sustainable over time.

Optimal production is when a business can produce as much as it can without giving up too much from manufacturing more or doing so inefficiently. Focusing on production, there are several factors that led micro businesses in the food and beverage industry to optimize their production, such as raw material prices, labor availability (both in terms of wages as well as working hours), and workforce gender status. All of these impact businesses ability to operate efficiently and meet market demand. Existing research has studied these variables but remains un conjunto of a comprehensive analysis of its effect on micro business in Padang City.

Among the most important factors influencing production optimization in the food and beverage sub-sector is the price of raw materials. According to (Setiawan, 2021), the price of raw materials in Indonesia is highly volatile due to market factors both globally and locally. Small and micro businesses are the most affected by these price increases as they normally do not purchase materials in bulk. If the prices of raw materials rise, production costs will also rise, which can reduce profits

unless companies raise prices or find ways to optimize production. Consequently, knowledge of the influence prices of raw material in micro businesses production levels results imperative to identify strategies for being competitive in scenarios with market volatility.

Another important influence on production is labor availability. Knowledge regarding the number of workers a micro business employs has direct implications for production, particularly in industries that heavily rely on labor such as food processing. Micro businesses usually hire their own family members or hire people on a part-time hourly basis because they do not have much money (Kuncoro, A & Susanti, 2020). This means it can only ramp production up to a point, particularly at points of high demand. Lastly, since enterprises in this section are said to possess different levels of training and skill of their laborers, worker productivity could be another leading need here. This research seeks to find the operating ratio of labor power and production, which is helpful for maximizing the efficiency of human resources.

Although longer working hours correlate with increased production in many micro businesses, overburdened workers have diminishing returns. Based on research conducted by (Suyanto et al., 2019), excess working hours often lead to worker fatigue, which can reduce productivity and increase the risk of errors in production. Conversely, firms with controlled working schedules have the capacity to continue producing regularly at no cost or losing on personnel quality. This is why it is urged to examine how micro businesses deal with working hours and how this affects the production optimization.

The gender composition of the workforce is one more aspect that has not been fully addressed in literature but that can have important implications for production within micro businesses. In many countries like Indonesia traditional gender roles still have significant influence on the division of labor within the household especially those that engage in small-scale industries like food processing. Nevertheless, in the food and beverage sub-sector ( Wijaya, R., & Ariani, 2022), women are largely active from

food preparation to packaging. On the downside, gender wage gaps and occupational segregation may influence productivity negatively. This will investigate the effects of workers gender on production efficiency of micro business and whether there are productivity differences based on gender composition.

Just like internal factors, the external business environment also has an impact on production optimization. Government policies, access to financing and technology are the key factors that either drive or limit the growth trajectory of micro businesses. As mentioned in the (World Bank, 2020) report, most micro enterprises had insufficient access to credit which limited their scope of investing into new equipment or scaling them more widely. Consequently, this restriction minimizes their ability to maximize production and be competitive. This study is limited to the internal factors such as raw material price, labor, working hours and gender; however it should be noted that external factors also influence production.

In the local context of Padang City, the culture and economy have an impact on how micro businesses operate in the food and beverage sub-sector. This city is well-known for its culinary traditions, such as ketupat sayur and rendang (which even made it on the world map). Having this rich cultural heritage allows micro businesses to exploit niche markets that business can capitalize upon. But, to benefit the most, firms will need to streamline their production process in a way that they meet local demand alongside the external demand, thus ensuring free flow of goods. Finding the way to optimize production is understanding the country's economy and culture having an impact on your business.

Previous studies on micro enterprises have predominantly emphasized financial success, market integration, or profiling of the entrepreneurs. For example, research conducted in (Wahyuni, 2020) investigated the influence of capital accessibility and market demand on home industry sustainability. Yet, there are no extensive studies that specifically address the production dynamics taking place in the food and beverage sub-sector. The limited number of empirical studies on micro

business determinants of production efficiency indicates the need for a knowledge enrichment in this area of concern, particularly to entrepreneurships which comprise food industries in Padang City as one of the biggest contributors among local economic dynamics.

Because of the very important function of micro business in Padang City economy, it is very essential for them to optimize their production so that they are sustainable in the long run. To address the gap in the literature, this study examines the determinants of production optimization among micro businesses in the food and beverage sub-sector. This research investigates the interrelation of raw material price, labor, working hours, and gender to provide a set of practical recommendations that micro businesses can use to enhance their productivity and competitiveness.

Ultimately, this thesis is anticipated to serve as a contribution both academically and practically for business owners and policymakers. This research finding can provide guidance in creating strategies that can make micro businesses run efficiently, and subsequently expected to bring more economic growth and labor productivity in Padang City. This research can also be a basis for other research topics which attempt to expand research on the production system in regions or sub-sectors of the economy.

## **1.2 Research Problem**

The existence of micro businesses in the food and beverage sub business is one part which has an important role towards the local economy in Padang. Nevertheless, these businesses know that optimum production levels are mostly unmet due to a plethora of reasons. There is some research which can be extracted from micro-business, but very few academic articles focused on a field that determines production efficiency. Knowing about these, like the price of raw material, the workforce size, hours worked, and gender. This indicates the necessity to study how various indicators affect micro-business production output operating in that sector.

### 1.3 Research Question

1. Does the price of raw materials affect the micro businesses production quantity in the food and beverage sub-sector during this time in Padang?
2. How much does the number of workers affect the quantity produced in these micro businesses?
3. How do working hours per week affect production quantity in micro businesses?
4. Is gender significant in the production quantity of micro businesses within this sub-sector?

### 1.4 Research Objectives

1. To achieve the objectives of this study, which is to assess how raw material prices affect the amount of production for micro businesses in sub-sector food and beverages.
2. To assess the impact of workers on the produced number in these micro businesses.
3. To assess the effect of working hours on the production output of micro businesses.
4. To assess the impact of gender on production quantity in the food and beverage sub-sector.

### 1.5 Research Advantages

The advantages of this research are:

1. **Potential Contribution to Regional Economic Development:** The results of this research will provide information for micro entrepreneurs in Padang so that they can optimize their production and have an impact on regional economic development.
2. **Policy Implication:** The study may provide useful information for policymakers on the aid and support programs specializing in food businesses that enhance program implementation facilitation process to encourage a more supporting environment for micro business growth in the food and beverage sub-sector.
3. **Boosting Efficiency at the Micro scale–** The identification of these important production characteristics will enable the research to provide

recommendations for implementation by micro-businesses in a practical format designed specifically to increase performance and profitability

4. **Research on Gender:** This study will improve the understanding of how gender influences business production and potentially guide the development of gender-sensitive policies and practices in their value chain.

## 1.6 Systemic Writing

The writing systematics aims to provide a general description of this research, consist of:

### **Chapter I: Introduction**

The contains a literature review that supports and relates to the research topic, supplemented by previous research associated with the study's title and hypothesis.

### **Chapter III: Research Method**

This chapter contains types and sources of data, the definition of variables, sampling techniques, and the research model.

### **Chapter IV: Empirical Results and Analysis**

This chapter outlines the results of the research found from descriptive statistical analysis.

### **Chapter V: Conclusion**

This section is the final part of the research which contains the conclusion and recommendations needed.

