CHAPTER I

INTRODUCTION

1.1 Research Background

Small and Medium Enterprises (SMEs) have been recognized as one of the main drivers of economic growth in many countries, especially in developing countries. SMEs are very important for economic development because they contribute to job creation, increased income, innovation, and technological progress (Mubarak et al, 2019). According to the World Bank, SMEs account for around 90% of all businesses worldwide and employ around 50% of the global workforce. In Indonesia, the existence of SMEs is a business entity that greatly helps economic growth in Indonesia.

Small and Medium Enterprises (SMEs) are described as a form of business that can drive the economy macroeconomically by causing changes in income levels and community welfare (Farhan, 2020). Based on data from the Ministry of Cooperatives, Micro, Small and Medium Enterprises (SMEs), in 2018 there were 64.2 million SMEs actors or 99.99% of the total number of economic actors in Indonesia. The absorption capacity of SME workers is 117 million workers, which is 97% of the absorption capacity of the industrial workforce. At the same time, SMEs contributed 61.1% to the national economy (GDP) and the remaining 38.9% was contributed by large economic actors totaling only 5,550 or 0.01% of the total number of economic actors. SMEs are dominated by micro businesses at 98.68% and labor absorption of around 89%. At the same time, the share of micro businesses in gross domestic product is only 37.8% (Ministry of Cooperatives and SMEs, 2020).

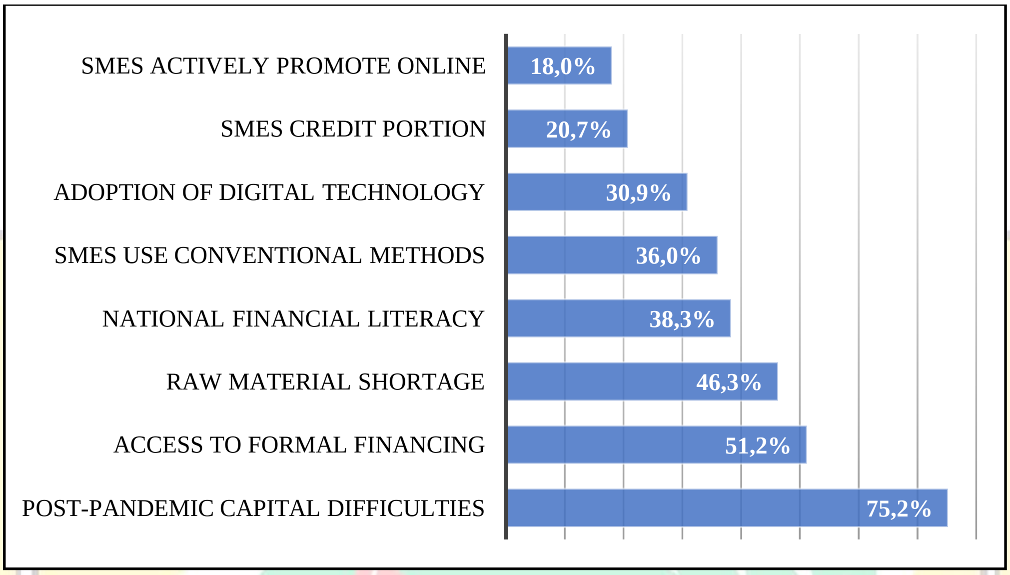

Figure 1 The Biggest Obstacles Faced by SMEs in Indonesia

Source : ekonomi.republika.co.id

Based on figure above, the most obstacle issue faced by SMEs is the post-pandemic capital shortage, experienced by 75.2% of SMEs. This shows that the impact of COVID-19 has left a lasting impact on the financial stability of small businesses, with many still struggling to recover and secure the funding needed to continue operations. Furthermore, 51.2% of SMEs reported limited access to formal financing, indicating that barriers such as collateral requirements, complicated procedures, and lack of financial records remain significant barriers to obtaining bank loans or institutional support.

Another significant issue is the shortage of raw materials, which affects 46.3% of SMEs, possibly due to disrupted supply chains, rising costs, or logistical constraints. Meanwhile, 38.3% of SMEs operate in a context of low national financial literacy, which limits their ability to make informed financial decisions or access the right financial instruments. In terms of operational behavior, 36% still rely on conventional business methods, and only 30.9% have adopted digital technology, reflecting a slow shift towards modernization and innovation.

The data also highlights that only 20.7% of SMEs currently use credit as part of their financing structure, indicating a lack of access or reluctance to engage in debt-based financing. Lastly, only 18% of SMEs actively promote their businesses online, limiting their market exposure and competitiveness in the digital age. Overall, the graph underscores the need for targeted interventions in areas such as financial literacy, access to credit, digital transformation, and post-crisis recovery strategies to ensure the sustainability and growth of SMEs in the long term.

This condition is closely related to the perception of the availability of financial resources. When SMEs find it difficult to access funds from banks or other financial institutions, psychologically the perception is formed that financial resources are not available or limited to them. This has an impact on the low courage to expand, reinvest profits, or adopt technological innovations. In fact, a positive perception of the availability of financial resources is one of the main drivers for business actors to develop more actively.

Supported data survey based SE2016-Continued, information was obtained that the source of initial capital financing for SMEs mostly came from their own wallets, namely 495,601 SMEs or 91.48%. Meanwhile, SMEs that rely on initial capital from formal financial institutions, both banks and non-banks, only reached 3.30% and 1.11% respectively. This small percentage is because access to obtain initial capital from financial institutions is still not easy. Messah and Wangai (2011) also stated that commercial banks and other formal institutions have not been able to meet credit needs, especially due to loan requirements and MSME conditions.

The limitations in credit distribution indicate that the accessibility of SME entrepreneurs to formal financial institutions is still low. This is explained by Kuncoro (2008) and Bank Indonesia (2010) which stated that the low capital limitations of SMEs are due to the low accessibility of small industries to formal banking credit institutions, so that they tend to rely on financing their businesses from their own capital or other sources such as family, relatives, intermediary traders or loan sharks.

Table 1 The Number and Percentage of SMEs

Initial Capital Composition for Establishing a Business	**Number of SMEs**	**Percentage**
Owned Capital > 50%	495.601	91,48%
Individual, family and other loans > 50%	22.292	4,11%
Bank loans > 50%	17.888	3,30%
Non-bank financial institution loans (cooperatives, venture capital) > 50%	5.992	1,11%

Source: The results of SE2016-Continued

The results of SE2016-Continued, MSEs that have received credit from financial institutions are still small, which is around 78,270 SMEs or 13.49%. Meanwhile, SMEs that have never received credit from financial institutions are 502,074 SMEs. There are still many MSEs that have never received loans/credit from financial institutions due to several reasons. The number of SMEs that feel they do not need loans from financial institutions is around 259,126 SMEs or 51.61%. Meanwhile, the main reasons that make SME actors never receive credit from financial institutions are high interest rates as much as 22.05%, no collateral as much as 11.95% do not know the procedure, and difficult procedures as much as 12.24%. There are also SMEs that have applied for credit but were rejected as much as 2.14%.

Figure 2 Graph Total SME In Indonesia 2018-2023

Source : kemenkopukm.go.id

West Sumatra is one of the areas where SMEs have grown significantly. Based on data from the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), West Sumatra is ranked 8th as the province with the largest number of SME actors in Indonesia. Until 2023, West Sumatra was recorded as having 296,052 SME units.

Meanwhile, for Padang City itself, based on data collection conducted by the Padang City Cooperative and SME Service in 2021, there were 11,787 business actors. This shows significant growth, but data for 2024 has not been released. Meanwhile, the final data for 2022, there were 41,787 business actors under the guidance of the Padang City Government.

Although SMEs are the backbone of the national economy, their contribution to GDP and employment absorption has not been matched by easy access to formal financing. Based on data from the Central Statistics Agency (BPS) in 2022, only around 19.4% of SMEs in Indonesia managed to access financing from formal banking institutions. This percentage shows how small the portion of business actors is that are able to meet the administrative and creditworthiness requirements set by the banking sector. On the other hand, more than 80% of SME actors still rely on informal sources of financing, such as personal savings, support from family or relatives, and loans from non-official parties which are generally not sustainable for long-term business growth. This dependency not only reflects limited financial inclusion, but also shows the need for improvements in financial literacy, simplification of credit procedures, and support for inclusive policies that favor the micro and small business sector.

This research is supported by capital structure theories, which help explain how SMEs choose their financing sources. According to the pecking order theory (Myers & Majluf, 1984), businesses prefer to use internal funds first, such as retained profits and personal savings, because they are the easiest to access and involve the least risk or cost. Retained profits are seen as a strong and safe financial source because they come from within the business and don’t create debt or require giving up ownership. When internal funds are not enough, SMEs often use personal savings because it still allows the owner to keep full control over the business without needing approval from others or paying interest. This is important for small businesses that want to stay independent and avoid complex loan requirements.

If more funds are needed, SMEs may turn to informal sources like family and friends. This type of support is often based on trust and personal relationships. While it can help in emergencies or early stages, it is usually limited in amount and may not be reliable for larger or long-term needs. Supplier credit is another option that businesses may use if they have a good relationship with their suppliers. This type of credit allows businesses to delay payments and manage cash flow better. It fits with the trade-off theory (Kraus & Litzenberger, 1973), which suggests that businesses weigh the benefits of financing (like tax savings) against the possible costs (like financial stress or limited flexibility). Lastly, bank loans are often considered only when other options are not available. According to the agency theory (Jensen & Meckling, 1976), getting funding from external sources like banks creates more risks because of monitoring, collateral, and interest costs. Many SMEs find bank loans difficult to access because of complex requirements, high costs, and the risk of losing control.

To strengthen understanding of the reality on the ground, brief interviews were conducted with three SMEs actors in Padang City. Mrs. Novi, the owner of a home-based cake business, admitted that she was more comfortable using business profits (retained profit) and assistance from family because the process was easier and did not incur interest burdens. Mr. Zal, the owner of a mechanic motorcycle, preferred to use supplier credit, facilities from spare part suppliers because they provided payment flexibility. Meanwhile, Ms. Santi, the owner of an online accessories shop, stated that she had used a loan from a fintech platform because the process was fast and without collateral, although she was still careful about interest and maturity.

These three examples show that SMEs have different tendencies and preferences in choosing sources of financing, depending on the nature of the business, convenience of access, and perception of risk. However, it is not yet known for certain which form of financing efforts is the most effective and has a real impact on the availability of business funds, especially at the regional level such as Padang City.

In line with this study, Adomako and Danso (2014) emphasized that easy access to finance, whether from formal or informal sources, plays an important role in improving the financial strength of SMEs. De Clercq et al (2014) added that simply having access to finance is not enough SME owners must also manage and use the funds wisely. This shows that the mindset and attention of business owners are key to turning financial access into actual financial growth. Owusu et al. (2019) reviewed various challenges faced by

SMEs in developing countries and identified financial constraints as a major barrier to innovation and growth. This is also true for many Indonesian SMEs. Moscalu et al. (2020) studied SMEs in Europe and found that access to finance is critical for innovation and competitiveness, a finding that still applies to developing economies like Indonesia. In India, Kumar and Rao (2015) found that many SMEs rely on funding from family and friends, especially when formal financial services are hard to access.

This study adopts three key criteria for respondent selection. Businesses must have been operated for at least one year, belong to the food and beverage (F&B) sector, and be located within the administrative area of Padang City. The criterion of minimum one year operation ensures that businesses have passed the early-stage uncertainty period and gained practical experience in managing operational and financial challenges. According to Raymond et al. (2013), one year is a valid threshold to distinguish between nascent and operationally stabilized SMEs, making respondents' financial perceptions more reliable and grounded in real business practice. Similarly, Barazandeh et al. (2015) argue that financial decision-making and the perception of funding adequacy are more developed in entrepreneurs who have navigated at least one full business cycle.

This research is guided by the Attention-Based View (ABV) theory, which explains that business decisions are shaped by what managers choose to focus their attention on. In small businesses, especially SMEs, owners often cannot process all financial options available to them. Instead, they tend to focus on funding sources they are familiar with or feel comfortable using, such as retained profit, personal savings, or informal support. According to Ocasio (1997), attention is a limited resource, and where decision-makers direct their attention determines how they act.

In this context, the perception of financial resource availability depends not only on whether funding exists, but also on how business owners view and prioritize it. This theory supports the idea that SMEs in the F&B sector—who often face daily financial pressures—will form their perceptions based on practical experience and routine exposure. That is why this study includes businesses that have operated for at least one year, allowing them to develop real-world financial patterns, and focuses on the F&B sector in Padang City, where internal funding and informal support are commonly used. The ABV theory helps explain why certain financial sources are perceived as more available than others, even if objectively they may not be.

Focusing on the food and beverage (F&B) sector is justified due to the sector's dominance in the local SME economy, its sensitivity to cash flow volatility, and its reliance on internal or informal financing. Compared to other sectors such as manufacturing or services, F&B businesses in Indonesia including those in Padang tend to be micro in scale, operate informally, and often lack access to formal financing (Pranata et al., 2022). These characteristics make them particularly dependent on internal funding sources such as retained profit or personal savings, which directly affects their perception of financial resource availability (Kumar & Rao, 2015). In addition, the selection of Padang City as the research site is based on its role as a regional economic hub in West Sumatra, where F&B enterprises play a vital part in employment and household income generation. By narrowing the geographic scope, this research improves contextual relevance and policy applicability, allowing results to inform local government support programs, financial access interventions, and sector-specific development policies.

Overall, this study seeks to fill a critical research gap by providing empirical evidence on how efforts business owner to build financial resources, especially perceived retained profit, perceived personal savings, family and friend support, supplier credit, and bank loans, impact the availability of financial resources among SMEs in Padang City. These findings are expected to make a significant contribution to the academic literature on entrepreneurial finance, financing behavior, and resource accessibility in the SME sector, especially in developing countries.

Additionally, this study aims to offer practical recommendations to help SMEs strengthen their internal financial practices and optimize their access to diverse funding sources, there by supporting sustainable business development and economic growth. Previous studies have produced mixed findings regarding the impact of these factors on financial resource availability, raising important questions about their effectiveness in the Indonesian context. This research is important to understand the preferences and effectiveness of each type of financial resource, as well as how these choices impact their perceptions of financial resource availability. Given the above description, the title of this research is "**The Impact of Financing Efforts on The Perceptions of Financial Resources Availability among Business Owner SMEs Food and Beverage Sector in Padang City**".

1.2 Research Questions

Referring to the background outline presented earlier, this research is guided by the following research questions:

1. How does financing through retained profit impact on the perceptions of financial resources availability among SMEs food and beverage sector in Padang City?
2. How does financing through personal savings impact on the perceptions of financial resources availability among SMEs food and beverage sector in Padang City?
3. How does financing through family and friends support impact on the perceptions of financial resources availability among SMEs food and beverage sector in Padang City?
4. How does financing through supplier credit impact on the perceptions of financial resources availability among SMEs food and beverage sector in Padang City?
5. How does financing through banks loan impact on the perceptions of financial resources availability among SMEs food and beverage sector in Padang City?

1.3 Research Objectives

Based on the research questions above, the objectives of the research are as follow:

1. To analyze the effect of financing through perceived retained profit on the perceptions of financial resources availability among SMEs in Padang City.
2. To analyze the effect of financing through perceived personal savings on the perceptions of financial resources availability among SMEs in Padang City.
3. To analyze the effect of financing through family and friends support on the perceptions of financial resources availability among SMEs in Padang City.
4. To analyze the effect of financing through supplier credit on the perceptions of financial resources availability among SMEs in Padang City.
5. To analyze the effect of financing through bank loans on the perceptions of financial resources availability among SMEs in Padang City.

1.4 Contribution of the Research

The following are the intended contribution of this research:

1. Theoretical Contribution

This study contributes to enrich the literature and knowledge on how various financing methods such as using perceived retained profit, perceived personal savings, support from family and friends, supplier credit, and bank loans can impact the availability of financial resources in SMEs. This topic is still important, especially for small businesses in developing countries such as Indonesia and the results of this study can be used as a reference for further research.

2. Practical Contribution

This study provides insights for SMEs, such as business owners, consultants, financial institutions, and policy makers. For business owners, the results of this study can help them understand which sources of financing are better for their businesses and how to manage money more effectively and efficiently. For business consultants and financial institutions, the findings of this study can help them create services and products that are tailored to the needs of SMEs. For governments and policy makers, this study can support the creation of programs such as financial literacy training, entrepreneurship workshops, and better policies to help SMEs gain access to money. Ultimately, this study hopes to help SMEs become stronger, survive challenges, and grow in the future.

1.5 Scope of The Research

Scope of the study has a contextual limitation on small and medium enterprises (SMEs) especially food and beverage sector in Padang City. The variables used are perceived retained profit, perceived personal savings, family and friend support, supplier credit and bank loan and their influence on the perceptions of financial resource availability among SMEs F&B in Padang City.

1.6 Outline of The Research

This research contains of five chapters and each chapters contains of subsections with the following systematization of writing:

CHAPTER I INTRODUCTION

This section comprises of six subsections namely research background, research question, objective of the research, contribution of the research, scope of the research and outline of the research

CHAPTER II LITERATURE REVIEW

This section comprises of the theory used and the explanation of each variable of this research. Furthermore, the hypothesis development, previous studies, and the research conceptual framework are contained in this chapter as well.

CHAPTER III RESEARCH METHOD

This section comprises the elucidation of the method used in this research, the population and sample, the types and source of data, the measurement and operational definition of the research variables, and the data analysis techniques.

CHAPTER IV RESULT AND DISCUSSION

This section comprises of the result of the data analysis, its discussion, the explanation about the research hypothesis whether they are accepted or rejected, and the comparison with the theory used and previous studies.

CHAPTER V CONCLUSION

This chapter contains the summary of the research, the limitations of the research, and the recommendations for future research.