CHAPTER I. INTRODUCTION

A. Research Background

One of the sectors that makes a significant contribution to livelihoods and to the Gross Regional Domestic Product (GRDP) is the agricultural sector. This sector is recognized as a leading sector with strong resilience to economic fluctuations and plays an important role in regional development. At the national level, agriculture serves as a major pillar of the economy and national development. This role is reflected in its contribution to the formation of the Gross Domestic Product (GDP), foreign exchange earnings, employment absorption, food provision, and the supply of raw materials for industry (Seo & Kaleka, 2024). This role extends to the downstream agricultural sector through the presence of Micro, Small, and Medium Enterprises (MSMEs).

MSMEs are sectors engaged in processing activities ranging from micro to medium scale, such as processed food products, natural-material handicrafts, and beverages, which contribute to absorbing agricultural produce, creating added value, and driving industrialization at both regional and urban levels (Alfarizqi et al., 2022). Through downstream development, MSMEs help address classical issues in the agricultural sector, such as commodity price fluctuations and post-harvest losses, thereby directly improving the welfare of farmers and business actors (Makiso Urugo et al., 2024). MSMEs hold a highly important and strategic position in national development, particularly in promoting economic growth (Raja Kiswandi et al., 2023). As the backbone of the economy, this sector not only makes a significant contribution to the increase of the Gross Domestic Product (GDP) but also absorbs more than 97% of the total workforce across Indonesia (Piliang, 2024). Furthermore, data from the Ministry of Cooperatives and SMEs indicate that MSMEs contribute approximately 61% to the national GDP, amounting to around IDR 9,580 trillion (Kholifah & Andini, 2024).

The number of MSMEs in Indonesia has fluctuated from 2020 to 2024. Based on data from the Indonesian Chamber of Commerce and Industry (Kadin Indonesia), as of 2024 there were more than 64.2 million business units, a decrease compared to 2023, which recorded around 66 million business units (Appendix 1) (Kadin Indonesia, 2025). These fluctuations are caused by several factors, such as declining consumer purchasing power, rising prices of production raw materials, and increasingly intense competition, which make it difficult for MSMEs to survive (Kompas, 2024). Processed food is one of the industries that plays an important role in national economic development, particularly within the MSME sector in Indonesia. In 2023, the number of Small and Medium Industries reached 4.5 million business units, employing 9.84 million workers, with the food processing industry being the most dominant, accounting for 18.64% of the total number of industries in Indonesia (BPS, 2024). Food is a biological resource derived from agriculture, plantations, forestry, livestock, fisheries, and aquatic resources, whether processed or unprocessed. The food industry sector is one of the priority areas for economic development promoted by Indonesia's Ministry of Industry (Syafitri et al., 2022). The food industry plays a crucial role in ensuring food consumption, availability, affordability, as well as the safety, quality, and nutritional value of food products for the public. In the era of rapid information technology development, consumers can access various types of information without limitations, including evaluating products, comparing prices, and assessing the benefits and safety of products through digital media (Ningsih, 2023).

Business performance is an important indicator used to assess a company's success (Kurniawan et al., 2020). According to Kurniawan et al. (2020), business performance can be viewed from two main aspects, namely financial and operational. To achieve better performance, companies need to reduce costs, improve process efficiency, and implement effective strategies to attract consumer interest (Sahrul & Nuringsih, 2023). MSME performance is an essential aspect as it plays a significant role in supporting the growth and progress of a business. Improved performance not only ensures business continuity but also enhances competitiveness, enabling enterprises to survive in the market and minimize the risk of bankruptcy (Wahyuni et al., 2021). According to Dewi et al. (2022), one way to avoid bankruptcy risk is through the MSME actors' ability to manage business finances effectively from planning and allocation to separating personal and business finances as these aspects have been proven to affect MSME performance.

Meanwhile, research by Diana et al. (2022) adds that besides financial factors, MSME performance is also influenced by creativity in marketing strategies, access to capital, and entrepreneurial competence. In line with this, Yuli Hartanto (2022), emphasizes that implementing marketing strategies through social media is one of the factors that can enhance MSME performance, both financially and non-financially, as social media allows business actors to reach a wider market at a relatively low cost.

One of the strategies used by MSME actors to improve business performance is by utilizing digital technology. The Statistics Indonesia (BPS) (2024), reported that around 3.82 million business actors in Indonesia use e-commerce, 99.93% of whom are MSMEs. Additionally, the number of e-commerce users increased by 27.40% in 2023 compared to 2022, with a transaction value reaching IDR 1,100.87 trillion (BPS, 2024). This increase demonstrates that digital platforms have become strategic alternatives for expanding markets and improving operational efficiency for business actors (Wijayanto et al., 2024). This increase is also supported by various factors, such as advancements in information technology, the government's regulatory facilitation related to MSME digitalization, and the improvement of internet network infrastructure across various regions in Indonesia (BPS, 2024). On the other hand, the use of social media has also shown rapid development. As of on 2024, there were approximately 221 million active social media users, representing about 79,5% of the national population underscoring the high popularity of social media as a medium for communication, information, and business promotion (Adimaja, 2025). This fact shows that social media functions not only as a space for social interaction but also as a strategic platform for MSMEs to build relationships with consumers and enhance competitiveness in the digital market (Donoriyanto et al., 2023).

The use of e-commerce and social media has been proven to significantly influence product sales performance among MSME actors. E-commerce provides convenience in conducting business activities more effectively and efficiently, particularly in obtaining and delivering information to consumers (Nurasmi et al., 2023). Research by Memarista et al. (2023) shows that the adoption of e-commerce plays an important role in improving operational efficiency, customer satisfaction, and financial performance, which ultimately drives MSME business performance. The advancement of digital technology increasingly requires MSMEs to adapt through the utilization of e-commerce in order to compete and optimize market opportunities. Meanwhile, the use of social media through creative content such as production process videos and customer testimonials contributes to increased brand awareness and the development of a strong brand identity (Yusnita et al., 2025). Through social media, business owners can build closer relationships with customers, expand market reach, and optimize promotional cost efficiency, which ultimately has a positive impact on sustainable business performance (Sapthiarsyah & Junita, 2024). Thus, the implementation of digital strategies based on e-commerce and social media has become a crucial factor in strengthening competitiveness and enhancing the performance of MSMEs in the digital era.

However, several previous studies have reported different findings Rusdi et al. (2023) and Lestari et al. (2017) show that the use of e-commerce by MSME actors does not have a significant effect on business performance. Similar results are also found in the use of social media as a promotional medium, where Sahrul & Nuringsih (2023) dan Kembang et al. (2021) indicate that social media does not have a significant impact on MSME performance. These findings suggest that the impact of digital technology adoption on MSME performance does not always lead to the same level of improvement across all business actors. Such inconsistencies indicate the presence of other factors that influence the strength of the relationship between digital technology usage and MSME performance.

One factor that may influence the relationship between the use of e-commerce and social media and MSME performance is the level of financial access possessed by business actors. Based on the Resource-Based View (RBV) theory proposed by (Barney, 1991), business performance is largely determined by the ability of entrepreneurs to access and manage strategic resources, including both financial and non-financial resources. Financial service constitutes a strategic resource that enhances the internal capabilities of MSMEs to achieve sustainable competitive advantage. Adequate financial service not only facilitates short-term operational activities but also enables the development of long-term advantages through investments in product innovation, the utilization of digital marketing technologies, and increased production capacity (Margareta & Mandasari, 2025). MSMEs with better s access tend to be more capable of maximizing the use of digital marketing due to enhanced internal capabilities. Therefore, financial service functions as a factor that strengthens the effect of e-commerce and social media usage on MSME performance.

Easy access to funding not only supports the establishment of a business but also acts as a key driver for entrepreneurs to innovate, which ultimately has a significant impact on improving MSME performance (Wismanjaya & Werastuti, 2022). Financial Access is defined as the sufficiency of internal financial resources, encompassing both direct capital and monetary service facilities, which can be utilized by MSMEs to commence operations or finance business development initiatives (Safii & Anom, 2021). MSMEs in Indonesia are generally highly dependent on access to capital, often in the form of interest-bearing loans. While this financial support is vital for market expansion and production increases to boost performance, the resulting debt can quickly become major obstacle threatening the survival of MSMEs during periods of performance decline or business failure (Putra et al., 2021).

Over time, processed food MSMEs need to transform their marketing strategies toward a more digital approach, such as utilizing e-commerce and social media to achieve more optimal business performance. The use of e-commerce, particularly in the form of online marketplaces, enables faster and more cost-effective transactions because it does not require a physical location, thereby creating convenience for consumers when purchasing products. Meanwhile, the use of social media as a promotional platform and a tool for building product image allows business products to reach consumers' minds more quickly through engaging and clear digital content In the use of e-commerce and social media, there are factors that can maximize their effectiveness, such as access to finance, which serves as an important source of capital in running a business. Therefore, research on the influence of e-commerce and social media usage on the performance of processed food businesses, with financial service as a moderating variable, is highly important for the future development of these enterprises.

B. Problem Statement

Padang City is one of the centers of economic and trade activities in West Sumatra Province that plays a crucial role in the development of MSME sector. This is supported by data on the number of MSMEs in West Sumatra in 2023, where Padang City ranks third with a total of 9,973 business units, while Agam Regency and Lima Puluh Kota Regency occupy the first and second positions as the regions with the highest number of MSMEs in West Sumatra Province (BPS, 2024) (Appendix 2). The large number of MSMEs in Padang City plays an important role in regional economic growth, particularly in job creation and household empowerment, which in turn contributes to household income. Therefore, the selection of Padang City as the research location is considered highly relevant and is expected to reflect the condition of MSMEs, especially in the food processing sector, in facing the shift in marketing toward digital technologies.

Based on data from the Padang City Department of Manpower and Industry, the number of food processing MSMEs in 2024 reached 11.025 distributed across 64 types of industries (Appendix 3). The data show that the chip industry, the food and processed food industry, beverage industry, and bakery industry rank among the top categories, each comprising more than 500 business units. In this study, chip businesses, rendang businesses, and bakery businesses were selected as the research objects to examine the effect of e-commerce and social media usage on the performance of food processing enterprises in Padang City.

The selection of research objects, namely chip businesses, rendang businesses, and bakery and cake businesses, is based on the consideration that these businesses can represent the condition of food processing MSMEs in Padang City, have strong economic potential, and can be further developed through the utilization of e-commerce and social media. Based on data from the Department of Manpower and Industry of Padang (2025), it is recorded that there are 914 chip business units, 45 units of processed food businesses specifically engaged in rendang, and 767 bakery and cake business units (Appendix 4). From these figures, it can be seen that chip and bakery businesses dominate in Padang City, while rendang businesses are relatively fewer in number. The selection of rendang businesses is based on their strategic value as a leading product of West Sumatra, which has gained recognition at the international level. In addition, rendang products have high economic value and good durability, making them highly potential for development through the use of e-commerce. (Lindiawatie & Shahreza, 2024).

Chip businesses, rendang businesses, and bakery and cake businesses share a common characteristic in that their products are packaged for distribution and sale to consumers. Packaging is the process of designing and producing a container or wrapper for a product. As part of a marketing strategy, packaging plays an important role in shaping the products image, as it seeks to attract consumers purchase intentions. In addition to attracting consumers attention, packaging functions to convey information regarding the quality and value offered by the producer (Triyadi, 2021). Products with proper packaging and attractive designs are one of the important aspects in leveraging digital marketing. Packaged products have greater opportunities to reach wider market areas, as packaging is designed to protect products from external environmental influences (Nurhayati & Munawaroh, 2025). Therefore, these three types of businesses were chosen to provide a comprehensive representation of food processing MSMEs with different characteristics, both in terms of business scale and strategic product value, which are relevant to the utilization of digital technology and financial service in influencing business performance.

MSMEs that utilize social media platforms and optimize their presence on e-commerce have been proven to gain various benefits, such as increased revenue, job creation, and improved capacity for innovation and competitiveness in an increasingly dynamic market (Sifwah et al., 2024). Based on data from the Department of Cooperatives and MSMEs of Padang City (2024), out of a total of 47,692 MSME units, only around 1,896 businesses have utilized digital marketing as their primary medium for product promotion (Appendix 5). The use of digital media through e-commerce is dominated by platforms such as Shopee and Tokopedia for sales outside the city, while within the local area, GoFood and GrabFood are the preferred platforms among business owners. In terms of social media, WhatsApp and Instagram are predominantly used by business actors to communicate with consumers. The integration of e-commerce and social media usage has become an effective marketing strategy, proven to enhance competitiveness, expand market access, and strengthen the existence of MSMEs in facing changes in consumer behavior in the digital era (Sirait et al., 2025).

Although MSME actors have adopted digital marketing strategies through e-commerce and social media, their business performance has not yet shown fully optimal results. Research by Nurdiana et al. (2024), found that culinary MSME actors still face challenges in increasing sales, capital, and profits despite utilizing the digital economy. Similar findings were revealed by Jalil et al. (2025), who noted that limited budgets, lack of technical understanding, and intense business competition hinder the effectiveness of digital marketing in driving revenue growth. Furthermore, Zahrani et al. (2023), emphasized that weak branding strategies and suboptimal use of digital media have caused many culinary MSMEs to experience insignificant income growth. These findings suggest that digital technology adoption does not automatically guarantee business performance, particularly when it is not accompanied by adequate resource management and effective marketing strategies.

Several previous studies have shown that limited capital is a major constraint to MSME performance, even among those that have adopted digital marketing strategies. Research by Aotama & Mawuntu (2023), found that limited capital is often viewed as the primary cause of MSME failure, particularly for micro enterprises that generally rely solely on personal funds as their main source of financing. Similarly, Surya (2021) discovered that the biggest obstacles faced by MSME actors are the lack of marketing knowledge and poor financial management. Febriani & Harmain (2023), also explained that MSMEs can grow rapidly when technological adoption and effective marketing strategies are supported by adequate business capital.

Considering the phenomenon and challenges faced by MSMEs at the national level, processed food MSMEs in Padang City need to evaluate their use of digital marketing through e-commerce and social media to ensure that these tools contribute effectively to improving business performance. This study aims to describe whether the utilization of e-commerce and social media influences the performance of packaged culinary MSMEs, with financial service as a moderating variable affecting the relationship between digital marketing and MSME performance. The results of this research are expected to provide valuable insights not only for processed food MSME actors but also for the government and related stakeholders involved in MSME financing, thereby contributing to the sustainable performance of processed food MSMEs in particular.

Based on the issues described above, this study formulates the following research questions:

1. Do the utilization of e-commerce and social media usage influence the performance of processed food MSME's in Padang City?
2. Does the financial service moderate the relationship between the utilization of e-commerce and social media usage with the performance of processed food MSME's in Padang City?

In accordance with the background and the formulation of the research problems presented above, this study is entitled **"The Influence of E-Commerce and Social Media Utilization on the Performance of Processed Food MSMEs".**

C. Research Objective

In response to the observed phenomenon, this study aims to achieve several key objectives that contribute to both a deeper understanding and practical insights regarding the issue. The specific objectives are as follows:

1. To determine the significant influence of e-commerce utilization and social media usage on the performance of processed food MSME's in Padang City.
2. To determine the significant moderating effect of financial service on the relationship between e-commerce utilization and social media usage with the performance of processed food MSME's.

D. Research Benefit

The benefits of this research are twofold, encompassing both practical and theoretical contributions, as outlined below:

1. Benefits for the Researcher

   To enhance knowledge, understanding, insight, and broaden the academic perspective, particularly regarding digital marketing through e-commerce and social media.
2. Benefits for Processed Food MSME Actors

To support the growth and development of MSME’s by utilizing digital marketing, supported by adequate business capital availability, in order to enhance business performance and sustainability.

3. Benefits for Readers

   To serve as a means of increasing knowledge and as a reference for future research