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#11318 Summary

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Bio Statement	—

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Competing interests CI POLICY	—
Bio Statement	—

Title and Abstract

Title: Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs

Abstract: Indonesia small and medium enterprises (SMEs) are considered as the backbone of national economy. However, the fact that SMEs still contribute less to the national gross domestic product (GDP) than medium and large businesses in terms of value added, need to be addressed. While previous studies mainly focused on financial (access) constraint as one of the major constraints that faced by small enterprises which affects their growth and performances, this study aims to extends the relationship between capital and financial performance of Indonesia SMEs with the moderating effect of financial constraints and partners. This study is different from others as it uses bigger panel dataset which is about 4.36 million SMEs in Indonesia, and is the first to explore the role of financial partners in the relationship comprehensively. Moreover, panel regression model with geographic analysis unit uses as data analysis method. The results of the study show that financial capital has a positive and significant effect on financial performance of SMEs. Furthermore, while the moderation role of financial partner on the relationship between financial capital and financial performance of Indonesia SMEs was failed to prove, the negative moderation effect of financial constraints were able to prove in this study.

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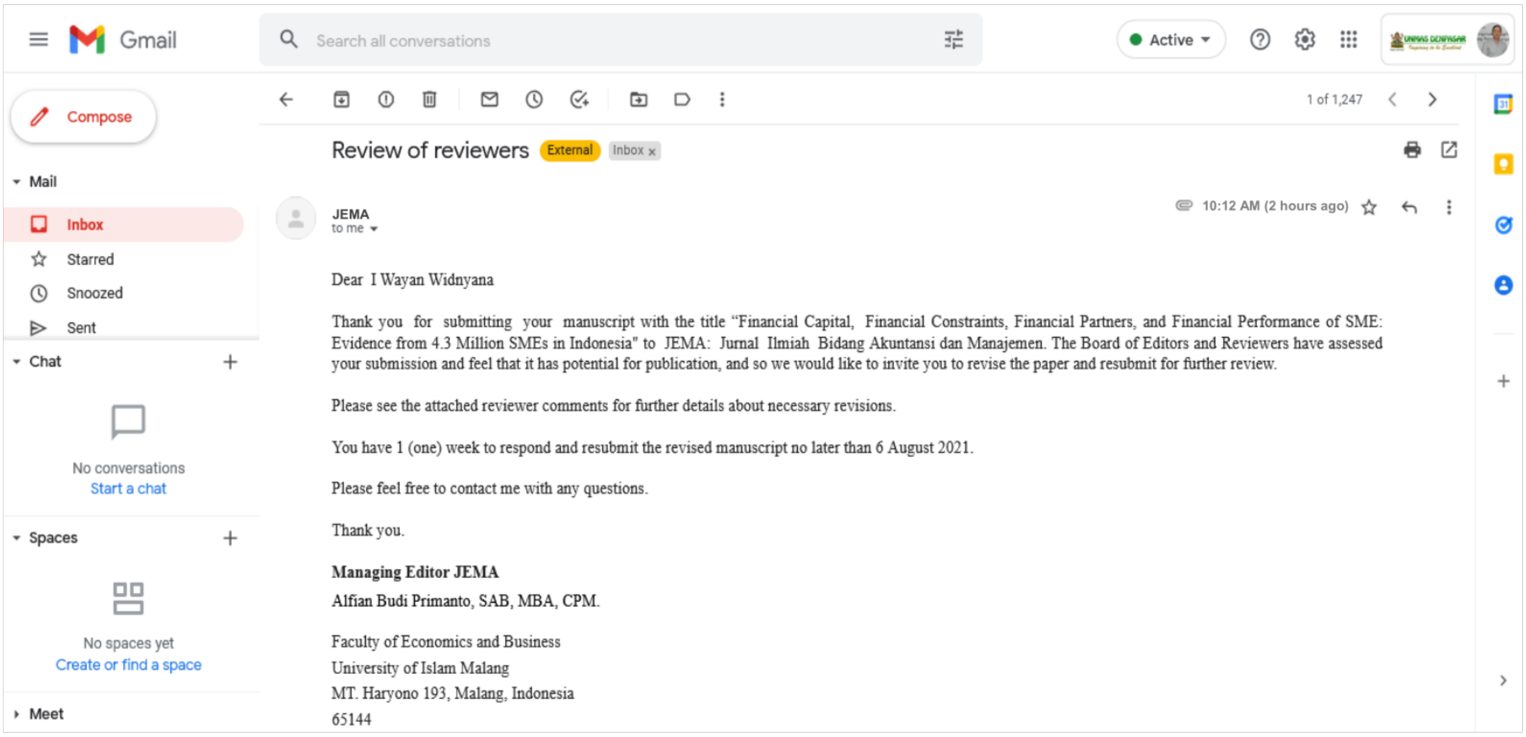

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Dear I Wayan Widnyana

Thank you for submitting your manuscript with the title “Financial Capital, Financial Constraints, Financial Partners, and Financial Performance of SME: Evidence from 4.3 Million SMEs in Indonesia" to JEMA: Jurnal Ilmiah Bidang Akuntansi dan Manajemen. The Board of Editors and Reviewers have assessed your submission and feel that it has potential for publication, and so we would like to invite you to revise the paper and resubmit for further review.

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2a. HASIL REVIEW DARI REVIEWER 1

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Financial Capital, Financial Constraints, Financial Partners, and Financial Performance of SME: Evidence from 4.3 Million SMEs in Indonesia

ABSTRACT

This paper examines the relationship between capital and financial performance of SMEs, taking into account the moderating effect of financial constraints and financial partners. The data covers 4.3 million SMEs in Indonesia during 2017-2019. Data analysis using panel regression model. The results found that in general, capital is positively and significantly related to financial performance, both in the short and long term. Specifically, the relationship varies between types of ownership and sources of capital. In addition, financial constraints and financial partners exert a negative moderating effect on their relationship, but some of them contradict our hypothesis.

Keywords: Small-Medium Entrerprise; Financial Performance; Capital; Financial Constraints; Financial Partners.

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Introduction

Indonesia is one of the countries with the largest number of SMEs in the world. The Central Statistics Agency (Bahasa Indonesia: Badan Pusat Statistik / BPS) noted that in 2019 their number had exceeded 64 million or 99.9% of all businesses operating in Indonesia. Therefore, they have a strategic role in the national economy. In addition to making a significant contribution to Gross National Product (GNP), they are also able to provide large jobs and stabilize the economy from various external shocks, including the world financial crisis in 2008/2009. Their growth also continues to increase from year to year, but their performance tends to decline. The survey results from BPS in 2017 to 2019, showed that their average income decreased by around 3.88% per year, as a result their average operating profit was corrected by 10.29%.

It is undeniable that many factors can affect their performance, including capital issues, raw materials, marketing, competitors, energy, infrastructure, labor, weather, etc. The problem of capital is one of the most significant problems for their development. This is not only about the limited internal capital, but also their difficulty in accessing external capital. Therefore, the government together with other stakeholders always strive to encourage their capital, including capital grants, credit interest subsidies, tax incentives, etc. In addition, the government together with other stakeholders also continue to develop partnership strategies in the field of capital, the aim of which is to encourage increased business capital so as to support their development. However, the fact is that up to now, around 87.68% of them still rely on their own capital (internal capital) which tends to be very limited, and only about 12.32% have been assisted by external capital, including bank loans, venture capital financing, cooperation, pawnshops, etc. Most of them also experienced financial constraints, especially for bank credit. For example, in 2019, around 50.29% of those who made external loans did not borrow from banks. The main reasons are not knowing the procedures, difficult procedures, no collateral, expensive loan interest, and rejected proposals. As a result, this capital problem will affect their financial performance, which in turn will hamper business growth. Meanwhile, the partnership strategy pursued by the government and stakeholders to improve the performance of SMEs has also not yielded significant results. Based on data from the BPS survey (2019), of 4.3 million SMEs, only 8.28% have established partnerships, while 99.92% have no business partners at all. Of the number who have established partnerships, only 7.33% have partnerships in the financial sector, while others are in the fields of raw materials, marketing, capital goods, etc. Therefore, the objectives of financial

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partnerships which are intended to increase capital and reduce their financial constraints have not had a significant impact.

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The relationship between capital and SME performance has been widely studied. In general, the findings show that capital is one of the key factors for their success in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar and Azmi, 2015), and South Africa (Fatoki, 2011). Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Dewi and Utari (2014) in Denpasar. Meanwhile, several studies also confirm that financial constraints are one of the factors that affect the relationship between capital and company performance (for example, Altaf and Ahmad, 2019; Kaushik and Chauhan, 2019; Laghari and Chengang, 2019; Banos; Altaf and Shah, 2017; Kowsari and Shorvarzi, 2017); and Caballero et al., 2014). Specifically, financial constraints have a negative moderating effect on the relationship. The relationship will be stronger when the company has low financial constraints, and vice versa will be weak when the company has high financial constraints.

This paper goes on to examine the effect of capital on the performance of SMEs in Indonesia, taking into account the mediating effect of financial constraints and the moderating effect of financial partners. It differs from the others for two reasons. First, we will examine the relationship on 4.3 million SMEs across all sectors and regions in Indonesia. So far, research on SMEs has only focused on certain sectors or certain regions, both in Indonesia and in other countries, so the results do not reflect the actual conditions. Therefore, a test of 4.3 million across all sectors and regions will reflect more accurate results. Second, we also tested it using panel data for three years, so that it was able to provide more complete information with a high degree of variability, and was able to explain the relationship between time periods, both short-term and long-term. In addition to the two main factors, this paper will also try to explore the role of financial partners in the relationship between capital and financial performance of SMEs. So far, papers on strategic partnerships have been studied in a non-financial context, i.g. marketing, operations, human resources, etc. There is no literature that explores it in the financial sector. Thus, this paper will make a valuable contribution to the development of science and methodologies, including practical policy.

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~~This paper is packaged in five main parts. The first part is an introductory part, which describes the background and objectives of the research. The second part is literature and hypotheses, which contains the theoretical basis and the formulation of hypotheses related to the research variables. The third part is the method, which describes the research~~

~~methodology. The fourth part is the results, which describes the research results and their discussion. The fifth part is the conclusion, which is also the closing part of this research.~~

Literature Review

SME's Capital and Financial Performance

SME capital refers to the total capital used to run the business. In general, SME capital consists of two: (1) internal capital, which is the owner's capital, including the accumulation of set aside profits; and (2) external capital, which can come from various sources, including bank credit, financing from venture capital, financing from cooperatives and other financial institutions, grants or loans from individuals and the government, and others. The important role of capital on the performance of SMEs has been widely studied in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar and Azmi, 2015), and South Africa (Fatoki, 2011). . Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Dewi and Utari (2014) in Denpasar. Capital is positively related to the performance of SMEs, where an increase in capital will encourage better SME performance, and vice versa. Therefore:

H_1: capital is positively related to financial performance.

Moderating Effect of Financial Constraints and Partners

Financial constraints refer to the condition where the company has broad access to profitable investment opportunities, but has limited funds to fund these opportunities. Financial constraints have a strong moderating effect on the relationship between capital and firm performance. Specifically, financial constraints have a negative effect on the relationship between capital and financial performance. Several studies have confirmed this. For example, Altaf and Ahmad (2019), which examines the moderating effect of financial constraints on 437 non-financial firms in India. They found that there is a positive relationship between working capital and firm performance, where the relationship will be stronger in companies with low financial constraints. However, this relationship will weaken in companies with high financial constraints. In line with these findings, Banos-Caballero et al. (2014) also found the same thing in non-financial companies in the UK. They provide strong support for an inverse U-shaped relationship between working capital and firm performance, which implies the existence of an optimal level of investment in working capital that balances costs and benefits and maximizes firm value. Several other studies, also confirmed their findings, i.g. Altaf and Shah (2017), Kowsari and Shorvarzi (2017), Laghari and Chengang (2019), and Kaushik and Chauhan (2019). Therefore:

H_2: financial constraints have a negative moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when financial constraints are low, and vice versa.

In addition to financial constraints, financial partners also have a significant role in the relationship between capital and company performance. So far, papers on strategic partnerships have been studied in a non-financial context, i.g. marketing, operations, human resources, etc. There is no literature that explores it in the financial sector. Partnership in the context of SMEs can refer to business cooperation between small and medium enterprises and/or with large enterprises accompanied by guidance and development by medium and/or large enterprises by taking into account the principles of mutual need, mutual strengthening and mutual benefit (Government Regulation of the Republic of Indonesia Number 44 1997). The concept of partnership is basically a business strategy used for business development. It can be in the form of a nucleus-plasma partnership, sub-contracting, general trading, profit sharing, operational cooperation, joint ventures, etc. In the financial context, the possible partnership patterns are nucleus-plasma, sub-contracts, and profit sharing. Generally, the partnership pattern in the financial sector is not only aimed at increasing capital, but is also accompanied by an increase in capital management. Therefore, companies that have strategic partners in the financial sector are generally able to access greater capital and are able to manage their finances effectively and efficiently, thereby encouraging better company performance. Therefore:

H_3: financial partners have a positive moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when the company has financial partners, and vice versa.

Methods

The data covers more than four million SMEs in Indonesia, which were observed over three years, from 2017 to 2019. Our panel data is not balanced in each observation period. In 2017 the number of SMEs observed was 4.36 million, then in 2018 it decreased by around 4.49% to 4.26 million, and in 2019 it increased again by around 2.27% to 4.38 million. The increase and decrease in their number is based on the resources we have obtained. On average during that period their number was 4.36 million, which were incorporated into 23 industrial sub-sectors based on the Indonesian Standard Classification of Business Fields (KBLI),

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Revise it

Comment [User8]: There is no valid evidence based on your written previous studies n the moderating role of financial partners

Its mandatory for authors to redevelop their argument basid on valid and clear past studies

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Comment [User10]: Author need to explain whats type of SME definition/criteria that they are using in this study

Comment [User11]: Whenever there is number, author should provide attach the source which were spread across 34 provinces in Indonesia. Of the average number and based on industry groups, the majority (37.13%) are engaged in the food industry (KBLI_10), around 14.17% in the wood industry, goods made of wood, cork, woven goods made of rattan, bamboo, and the like (KBLI_16) , and about 13.25% in the apparel industry (KBLI_14). While the minority, i.e. 0.02% are in the computer, electronic and optical goods industry (KBLI_26), about 0.03% in the electrical equipment industry (KBLI_27), and about 0.06% are in the motor vehicle, trailer, and semi-trailer industry (KBLI_29). By region, the majority of them are in Java Island (59.63%), Sumatra Island (16.07%), Bali Island and Nusa Tenggara Islands (9.26%), Sulawesi Island (8.66%), Kalimantan Island (4.41%), and the minority in Maluku Islands and Papua Island (1.96). As for by province, the majority of them are in Central Java Province (20.75%), East Java (19.03%), and West Java (13.27%), while the minorities are in North Kalimantan (0.16%), West Papua (0.19%) , and Papua (0.33%).

Financial performance is proxied by the operating income, while business capital is proxied by internal capital (own capital) and external capital (venture capital, banks, cooperatives, non-bank financial institutions, grants or loans from individuals and the government, and others). The financial constraints and financial partners are measured by dummy variables on the recognition of entrepreneurs.

Comment [User12]: Strengthen with another finding from other studies

Data analysis using panel regression. The general model for econometrics developed is:

$$Perform_{it} = \alpha_{it} + \beta_{Capital} Capital_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 1}$$

$$\begin{aligned} Perform_{it} = \alpha_{it} &+ \beta_{Capital} Capital_{it} \\ &+ \beta_{Financial\_Constraints} Financial\_Constraints_{it} \\ &+ \beta_{Capital*Financial\_Constraints} Capital \\ &* Financial\_Constraints_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 2} \end{aligned}$$

$$\begin{aligned} Perform_{it} = \alpha_{it} &+ \beta_{Capital} Capital_{it} \\ &+ \beta_{Financial\_Partners} Financial\_Partners_{it} \\ &+ \beta_{Capital*Financial\_Partners} Capital * Financial\_Partners_{it} \\ &+ \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 3} \end{aligned}$$

$$\begin{aligned} Perform_{it} = \alpha_{it} &+ \beta_{Capital} Capital_{it} \\ &+ \beta_{Financial\_Constraints} Financial\_Constraints_{it} \\ &+ \beta_{Financial\_Partners} Financial\_Partners_{it} \\ &+ \beta_{Capital*Financial\_Constraints} Capital \\ &* Financial\_Constrains_{it} \\ &+ \beta_{Capital*Financial\_Partners} Capital * Financial\_Partners_{it} \\ &+ \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 4} \end{aligned}$$

where: $Perform_{it}$ is the financial performance of SMEs i in t; α_{it} is a constant; $Capital_{it}$ is the capital of SMEs i in i; $Financial\_Constraints_{it}$ are financial constraints of SMEs i in t;

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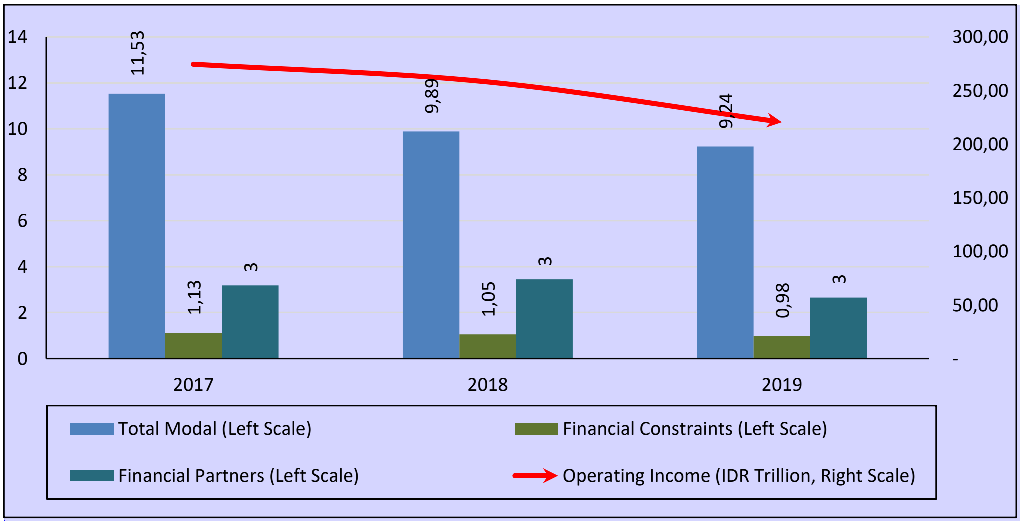
$Financial\_Partners_{it}$ are financial partners of SMEs i in t; $Capital * Financial\_Constraints_{it}$ is the interaction of capital with financial constraints of SMEsi in t; $Capital * Financial\_Constraints_{it}$ is the interaction of capital with financial constraints of SMEs i in t; β is slope; and ε_{it} is the residual error.

Result and Discussion

The results of data analysis show that SME finance underperforms throughout the observation period (see Figure 1). Their average operating profit reaches IDR251.15 trillion per year. Although throughout that period they posted positive operating profit, it continued to decline year-on-year. The average decline reached 10.29% per year. Meanwhile, their total capital also decreased throughout the period. In 2017 the number of SMEs experiencing financial constraints reached 20.46%, then in 2018 it increased to 40.84%, and in 2019 it fell to 25.78%. The average during the observation period, the number of SMEs experiencing financial constraints reached 29.69%. Meanwhile, the number of SMEs that established financial partners in 2017 reached 70.54%, but in 2018 it fell to 12.49%, and in 2019 it increased significantly again to 76.84%. On average, during the observation period, the number of SMEs that established financial partners reached 53.29%.

Figure 1. Capital Statistics, Financial Constraints, Financial Partners, and Financial Performance

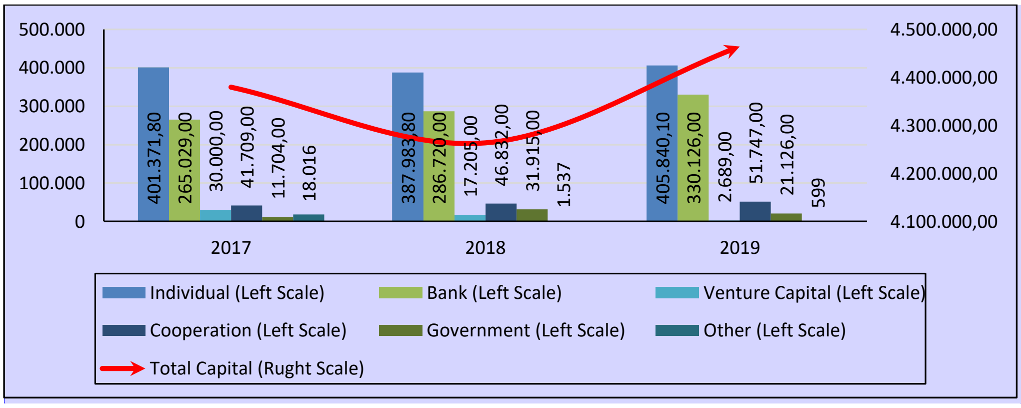


Based on the type of ownership, their capital can be divided into three types. First, own capital, which refers to capital that is fully controlled by the owner who doubles as management. Second, external capital, which is the opposite of own capital. In external

Comment [User13]: Authors need to show the raw data highlight before process it into Figure 1, They can write it directly into result and discussion or appendix

Comment [User14]: Jema tend to used balck and white format, so redraw it and change your color graphic and line with shape or symbol format capital there is a separation between owners and management of SMEs. Third, mixed capital, which is a combination of own capital and external capital. Around 84.87% of them operate fully on their own capital, only 2.91% rely entirely on external capital, and 12.22% rely on mixed capital. The decrease in mixed capital throughout the observation period was the main trigger for the decrease in total capital. If viewed from the source of income, their capital can be divided into seven types, i.e. capital from individuals, banks, venture capital, cooperations, other financial institutions, governments, and others. The majority of their capital is obtained from individuals, which can be owners or individual investors, followed by bank loans, cooperatives, and venture capital. As for capital from the government and others, they are a minority of the total (see Figure 2).

Figure 2. SME Capital by Source



In general, capital is positively and significantly related to the financial performance of SMEs, both in the short and long term (see Table 1, Panel A). It shows that an increase in capital will lead to better financial performance, and conversely a decrease in capital will trigger a decrease in performance. The correlation between capital and performance is also very high (R = 0.879 – 0.971), so the variance of capital to explain the variance of performance is very high (R square = 0.773 – 0.944). In the short term, the largest impact of capital on performance occurred in 2018. A decrease in capital of around 14.22% in that period triggered a decrease in operating profit of up to 6.01% (cateris paribus). In the long run, the positive relationship between capital and performance tends to form an inverted U. The relationship is very strong in the short term, but then gradually diminishes.

Based on the type of ownership, the relationship between own capital and external capital with performance tends to vary from time to time, but in the long run the relationship is positive and significant. In the long term, the positive impact of external capital on performance is superior to that of own capital, even though own capital is more dominant

Comment [User15]: Jema tend to used balck and white format, so redraw it and change your color graphic and line with shape or symbol format than external capital. This is because the amount of own capital is generally relatively small and tends to be limited, while external capital is relatively large, especially if the capital is obtained from financial institutions, i.e. venture capital. Therefore, this external capital will make a greater contribution to performance. In contrast to the two capitals, mixed capital consistently has a negative impact on performance, both in the short and long term (see Table 1, Panel B). In the long run, the negative effect of mixed capital is also greater than the effect of own capital, but still smaller than that of external capital. This can be caused by various factors, among others due to high capital costs or management failure or may be due to a conflict of interest between management and owners.

Table 1. Regression

	Short-Term						Long-Term	
	2017		2018		2019		2017-2019	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Panel A. General								
Capital	0.880	10.478***	0.955	18.299***	0.928	14.086***	0.908	21.730***
Memo Items								
R	0.880		0.955		0.928		0.908	
R square	0.774		0.913		0.861		0.825	
F-satistic	109.792***		334.854***		198.413***		472.199***	
Panel B. By Tipe Kepemilikan								
Owner's	0.114	0.235	-0.870	-4.655***	1.309	2.200**	0.267	2.118**
External	0.468	2.456**	-0.793	-2.023**	0.226	0.637	0.942	6.833***
Mixed	-0.739	-2.978***	-0.087	-0.223	-0.625	-1.998*	-0.302	-3.353***
Memo Items								
R	0.911		0.879		0.946		0.934	
R square	0.831		0.772		0.895		0.873	
F-satistic	49.035***		52.610***		85.231***		224.933***	
Panel C. By Sumber								
Individual	0.214	0.418	0.470	3.662***	0.369	1.629	0.152	1.011
Bank	0.921	1.600	0.212	1.395	0.815	4.337***	0.045	0.659
Venture Capital	0.164	0.767	-0.665	-2.135**	0.111	1.289	0.798	4.749***
Cooperation	-0.170	-0.817	-0.888	-1.518	0.021	0.169	-0.211	-2.491**
Other Financial Institutions	0.014	0.050	0.055	0.324	0.184	2.433**	0.118	1.248
Government	0.113	0.300	0.010	-0.550	-0.527	-3.754***	0.106	1.184
Others	-0.372	-0.550	0.086	0.272	0.050	0.441	-0.049	-0.482
Memo Items								
R	0.879		0.951		0.971		0.928	
R square	0.773		0.904		0.944		0.861	
F-satistic	12.669***		34.903***		62.031***		82.895***	

**significant at 10% **significant at 5% ***significant at 1%*

Based on the source of capital, capital originating from individuals, banks, other financial institutions, and the government tends to vary in the short term, but is not significant in the long term (see Table 1, Panel C). Only venture capital and cooperation appear to have a significant impact on long-term financial performance. Specifically, venture capital has a

Comment [User16]: Use English term

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Based on the findings presented in Table 1, it can be seen that the relationship between capital and performance is inconsistent over time. However, in general the relationship is positive and significant, both in the short and long term. Thus, the first hypothesis (H1) is supported, and therefore this finding also supports the findings of Chittithaworn et al. (2011), Philip (2011), Omar and Azmi (2015), Fatoki (2011), Abbas (2018), Sombolayuk et al. (2019), and Dewi and Utari (2014).

???

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Table 2 below presents the results of testing the moderating effect of financial constraints and financial partners on the relationship between SME capital and performance. From the table it can be seen that financial constraints have a negative moderating effect on the relationship (see Table 2, Model 2). The partial moderating effect of financial constraints is proven to weaken the relationship between capital and financial performance. This can be seen from the beta coefficient of the capital variable which weakens when the interaction between capital and financial constraints is entered into the model. However, this partial moderating effect did not have a significant impact on the relationship, because only 29.69% of them experienced financial constraints, while the majority (70.31%) did not. Thus, the second hypothesis (H2) is fully supported.

Comment [User20]: Lack of theoretical or even logical explanation

Table 2. The Moderation Effects

	Model 1		Model 2		Model 3		Model 4	
	β	*t*	*β*	*t*	*β*	*t*	*β*	*t*
Capital	0.908	21.730***	0.540	2.628***	0.649	7.303***	0.262	1.405
Financial Constraints	----------	----------	0.502	3.932***	----------	----------	0.286	2.250**
Capital*Financial Constrains	----------	----------	-0.111	-0.563	----------	----------	0.093	0.504
Financial Partnerts	----------	----------	----------	----------	-0.579	-5.406***	-0.475	-3.723***
Capital*Financial Partners	----------	----------	----------	----------	0.243	1.626	0.122	0.703
Memo Items								
R	0.908		0.922		0.942		0.946	
R square	0.825		0.849		0.887		0.895	
F-satistic	472.199***		184.000***		255.311***		163.336***	

**significant at 10% **significant at 5% ***significant at 1%*

Comment [User21]: Be Consistent by only using type of font and size that Jema recommend

The partial moderating effect of financial partners is expected to improve the relationship between capital and financial performance, but the results of data analysis are contradictory. Financial partners actually have a negative moderating effect on the relationship. This can be seen from the beta coefficient of the capital variable which weakens when the interaction between capital and financial partners is included in the model (see Table 2, Model 3). Therefore, the third hypothesis (H3) is not supported. This negative moderating effect can be

http://dx.doi.org/10.31106/jema.v17i1, ISSN (Online) 2597-4017

caused by three possibilities. First, the number of SMEs that established financial partners decreased drastically in 2018, leaving only 12.49%. Second, the existing financial partners have not provided significant benefits. Third, the high cost of economic transactions on the financial partners. Model 4 in Table 2 presents the full interaction effect of financial constraints and financial partners. The full interaction of the two has a greater negative moderating effect on the relationship between capital and financial performance. This shows that so far financial constraints are very high in Indonesian SMEs, while financial partners are still very low. In fact, financial partners are intended to be able to reduce high financial constraints. Therefore, the two have not had a negative correlation effect. As a result, the full moderating effect of the two on the relationship between capital and performance is also not as expected.

???

Comment [User22]: Lack of theoretical or even logical explanation

Comment [User23]: Write your logfical explanation in scientific approach not only just based statistic approach

Comment [User24]: Enrich your quality of finding by regressing your model 1-4 on each type of panel

Conclusion and Suggestion

Based on the results of data analysis and the previous discussion, it can be concluded that in general, capital is positively and significantly related to the financial performance of SMEs, both in the short and long term. However, the specifics vary. Based on the type of ownership, equity and external capital have varying effects on performance in the short term, but in the long term both have positive and significant effects. Meanwhile, mixed capital consistently has negative effects, both in the short and long term. If viewed from the source, capital originating from individuals, banks, other financial institutions, and the government tends to vary in the short term, but in the long term it is not significant. Only venture capital and cooperatives appear to have a significant impact on long-term financial performance. Specifically, capital from venture capital has a positive impact on performance, while capital from cooperatives actually has a negative impact. In addition, financial constraints and significant financial partners have a negative moderating effect on the relationship between performance capital. The partial moderating effect of financial constraints is in line with expectations, but the partial moderating effect of financial partners is beyond expectations.

Future research is expected to explain how the explicit role of the moderating effect of financial constraints and financial partners on the relationship between capital and financial performance. In addition, this study measures financial constraints and financial partners using dummy variables, which are caused by data limitations. As a result, perhaps the moderating effect of the two is not able to provide a good variance in explaining the relationship between capital and financial performance. Therefore, future research in the future is also expected to overcome this problem.

Reference

Comment [User25]: We highly advise author(s) using current and primary sources from trusted international references (top tier-journals) that published no more than 10 years

Abbas, D. (2018). Pengaruh Modal Usaha, Orientasi Pasar, dan Orientasi Kewirausahaan terhadap Kinerja UKM di Kota Makassar. Jurnal Minds: manajemen Ide dan Inspirasi 5 (1), 95-112.

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Comment [User26]: Write it on APA Style it is better if youre using reference management system like Mendeley or else

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2b. HASIL REVIEW DARI REVIEWER 2

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Financial Capital, Financial Constraints, Financial Partners, and Financial Performance of SME: Evidence from 4.3 Million SMEs in Indonesia

ABSTRACT

This paper examines the relationship between capital and financial performance of SMEs, taking into account the moderating effect of financial constraints and financial partners. The data covers 4.3 million SMEs in Indonesia during 2017-2019. Data analysis using panel regression model. The results found that in general, capital is positively and significantly related to financial performance, both in the short and long term. Specifically, the relationship varies between types of ownership and sources of capital. In addition, financial constraints and financial partners exert a negative moderating effect on their relationship, but some of them contradict our hypothesis.

Keywords: Small-Medium Entrepreise; Financial Performance; Capital; Financial Constraints; Financial Partners.

JEL Code:
L26; C23; P12; E22; L23

DOI:
10.31106/jema.v17i1.xxxx

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Received
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Revised
Accepted

Comment [HP1]: Dear author(s), Ide riset ini baik.

Namun, banyak catatan dari saya.

Mohon izin menyampaikan, mohon penulis memberikan block/highlight berwarna kuning untuk setiap bagian yang sudah direvisi. Ini dilakukan untuk memudahkan editor/saya dalam mereview dan mengecek kembali hasil revisi penulis. Terima kasih.

Comment [HP2]: Judul ini multitafsir, apakah benar sampelnya sebanyak 4.3 juta SME di Indonesia? Atau hanya sekian persen saja dari 4.3 juta SME? Mohon dibuat lebih clear karena ini merupakan karya ilmiah.

Comment [HP3]: Mohon disebutkan berapa jumlah firm-year nya.

Comment [HP4]: Seluruh isi artikel perlu diproofread secara profesional, mohon tidak 100% mengandalkan mesin penerjemah (Google translate dkk).

Introduction

Indonesia is one of the countries with the largest number of SMEs in the world. The Central Statistics Agency (Bahasa Indonesia: Badan Pusat Statistik / BPS) noted that in 2019 their number had exceeded 64 million or 99.9% of all businesses operating in Indonesia. Therefore, they have a strategic role in the national economy. In addition to making a significant contribution to Gross National Product (GNP), they are also able to provide large jobs and stabilize the economy from various external shocks, including the world financial crisis in 2008/2009. Their growth also continues to increase from year to year, but their performance tends to decline. The survey results from BPS in 2017 to 2019, showed that their average income decreased by around 3.88% per year, as a result their average operating profit was corrected by 10.29%.

Comment [HP5]: Mohon tambahkan sumber data dan tahun.

Comment [HP6]: Mohon tambahkan sumber data dan tahun.

It is undeniable that many factors can affect their performance, including capital issues, raw materials, marketing, competitors, energy, infrastructure, labor, weather, etc. The problem of capital is one of the most significant problems for their development. This is not only about the limited internal capital, but also their difficulty in accessing external capital. Therefore, the government together with other stakeholders always strive to encourage their capital, including capital grants, credit interest subsidies, tax incentives, etc. In addition, the government together with other stakeholders also continue to develop partnership strategies in the field of capital, the aim of which is to encourage increased business capital so as to support their development. However, the fact is that up to now, around 87.68% of them still rely on their own capital (internal capital) which tends to be very limited, and only about 12.32% have been assisted by external capital, including bank loans, venture capital financing, cooperation, pawnshops, etc. Most of them also experienced financial constraints, especially for bank credit. For example, in 2019, around 50.29% of those who made external loans did not borrow from banks. The main reasons are not knowing the procedures, difficult procedures, no collateral, expensive loan interest, and rejected proposals. As a result, this capital problem will affect their financial performance, which in turn will hamper business growth. Meanwhile, the partnership strategy pursued by the government and stakeholders to improve the performance of SMEs has also not yielded significant results. Based on data from the BPS survey (2019), of 4.3 million SMEs, only 8.28% have established partnerships, while 99.92% have no business partners at all. Of the number who have established partnerships, only 7.33% have partnerships in the financial sector, while others are in the fields of raw materials, marketing, capital goods, etc. Therefore, the objectives of financial

Comment [HP7]: Mohon tambahkan sitasi
Paper ini karya ilmiah, untuk beberapa fakta seperti ini perlu didukung data maupun referensi lain yang sudah terpublikasi.

Comment [HP8]: Idem.

Mohon tambahkan sumber data dan tahun.

Mohon tambahkan sitasi.
Paper ini karya ilmiah, untuk beberapa fakta seperti ini perlu didukung data maupun referensi lain yang sudah terpublikasi.

Comment [HP9]: Mohon sediakan informasi lebih tepatnya informasi ini bisa diperoleh di link apa (pada sumber referensi bisa menyertakan URL nya) partnerships which are intended to increase capital and reduce their financial constraints have not had a significant impact.

The relationship between capital and SME performance has been widely studied. In general, the findings show that capital is one of the key factors for their success in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar and Azmi, 2015), and South Africa (Fatoki, 2011). Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Dewi and Utari (2014) in Denpasar. Meanwhile, several studies also confirm that financial constraints are one of the factors that affect the relationship between capital and company performance (for example, Altaf and Ahmad, 2019; Kaushik and Chauhan, 2019; Laghari and Chengang, 2019; Banos; Altaf and Shah, 2017; Kowsari and Shorvarzi, 2017); and Caballero et al., 2014). Specifically, financial constraints have a negative moderating effect on the relationship. The relationship will be stronger when the company has low financial constraints, and vice versa will be weak when the company has high financial constraints.

This paper goes on to examine the effect of capital on the performance of SMEs in Indonesia, taking into account the mediating effect of financial constraints and the moderating effect of financial partners. It differs from the others for two reasons. First, we will examine the relationship on 4.3 million SMEs across all sectors and regions in Indonesia. So far, research on SMEs has only focused on certain sectors or certain regions, both in Indonesia and in other countries, so the results do not reflect the actual conditions. Therefore, a test of 4.3 million across all sectors and regions will reflect more accurate results. Second, we also tested it using panel data for three years, so that it was able to provide more complete information with a high degree of variability, and was able to explain the relationship between time periods, both short-term and long-term. In addition to the two main factors, this paper will also try to explore the role of financial partners in the relationship between capital and financial performance of SMEs. So far, papers on strategic partnerships have been studied in a non-financial context, i.e. marketing, operations, human resources, etc. There is no literature that explores it in the financial sector.

Thus, this paper will make a valuable contribution to the development of science and methodologies, including practical policy.

This paper is packaged in five main parts. The first part is an introductory part, which describes the background and objectives of the research. The second part is literature and hypotheses, which contains the theoretical basis and the formulation of hypotheses related to

Comment [HP10]: Mohon pastikan semuanya menggunakan tool reference manager.

Comment [HP11]: Dicek kembali ke aturan jurnal, bila banyak seperti ini disusun dengan abjad atau tahun riset. Penulisan ini masih campur aduk/berantakan.

Comment [HP12]: Mohon mention/sitasi ada di riset siapa? Saya sebagai reviewer meragukan pernyataan ini bila tidak disertai sitasi referensinya.

Comment [HP13]: Apakah ini lazim?

Comment [HP14]: Di hipotesis tidak ada mediating? Mengapa di sini membahas mediating?

Comment [HP15]: Tujuan penelitian dituliskan dengan tidak jelas. Bila ada beberapa, lebih baik gunakan 1.2.3. menjadi clear.

Comment [HP16]: Bila menyebut short term dan long term, maka pengujian selayaknya 2x

Short term saja 1x uji 1 tahun saja

Long term 1x uji juga namun 3 tahun sekaligus

Apakah paper ini mengakomodasi hal tsb?

Atau langsung panel saja?

Comment [HP17]: Apa relevansi kalimat ini dengan tujuan penelitian ini? Dijelaskan dengan baik 3-4 kalimat.

Comment [HP18]: Tambahkan satu paragraf yang berisi jawaban, mengapa riset ini penting???

-Paragraf motivasi/urgensi/pentingnya riset tersebut

Comment [HP19]: Kontribusi yang disampaikan seperti mengambang, terlalu umum, dan kurang sambung. Mohon diperbaiki.

-Perbaiki redaksi dan tambahkan satu paragraf yang menyatakan kontribusi riset (teori dan praktis) the research variables. The third part is the method, which describes the research methodology. The fourth part is the results, which describes the research results and their discussion. The fifth part is the conclusion, which is also the closing part of this research.

Literature Review

SME's Capital and Financial Performance

SME capital refers to the total capital used to run the business. In general, SME capital consists of two: (1) internal capital, which is the owner's capital, including the accumulation of set aside profits; and (2) external capital, which can come from various sources, including bank credit, financing from venture capital, financing from cooperatives and other financial institutions, grants or loans from individuals and the government, and others. The important role of capital on the performance of SMEs has been widely studied in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar and Azmi, 2015), and South Africa (Fatoki, 2011). . Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Dewi and Utari (2014) in Denpasar. Capital is positively related to the performance of SMEs, where an increase in capital will encourage better SME performance, and vice versa. Therefore:

H_1: capital is positively related to financial performance.

Moderating Effect of Financial Constraints and Partners

Financial constraints refer to the condition where the company has broad access to profitable investment opportunities, but has limited funds to fund these opportunities. Financial constraints have a strong moderating effect on the relationship between capital and firm performance. Specifically, financial constraints have a negative effect on the relationship between capital and financial performance. Several studies have confirmed this. For example, Altaf and Ahmad (2019), which examines the moderating effect of financial constraints on 437 non-financial firms in India. They found that there is a positive relationship between working capital and firm performance, where the relationship will be stronger in companies with low financial constraints. However, this relationship will weaken in companies with high financial constraints. In line with these findings, Banos-Caballero et al. (2014) also found the same thing in non-financial companies in the UK. They provide strong support for an inverse U-shaped relationship between working capital and firm performance, which implies the existence of an optimal level of investment in working capital that balances costs

Comment [HP20]: Dari awal hingga bagian ini saya belum melihat apa grand theory yang digunakan untuk merekatkan semua variabel tersebut???

Bila tidak didukung atau ditopang oleh teori yang melandasi, riset yang ada cenderung latihan statistik saja sebatas meregres variabel-variabel keuangan dst.

Mohon tambahkan dan kaitkan dengan teori.

Comment [HP21]: Tidak ada penjelasan detail atas definisi dan cakupan dari masing2 variabel terlebih dahulu serta ulasan hasil rsiet sebelumnya.

Comment [HP22]: Pengambangan hipotesis masih sangat lemah.

Bagian ini hanya copas dari atas.

Yang dituangkan dalam hipotesis adalah esensinya, bukan di negara mana dst.

Yang diangkat adalah intisari mengapa capital berperan pada kinerja, bagaimana ceritanya atau mekanismenya. Itu yang dihighlight pada pengembangan hipotesis

Comment [HP23]: Pengembangan hipotesis tidak memadai. Belum ada teori yang melandasi.

pengembangan hipotesis yang memadai: pelibatan teori, hasil studi sebelumnya, argument yang dibangun, lalu pernyataan hipotesis.

Comment [HP24]: Pengembangan hipotesis tidak memadai. Belum ada teori yang melandasi.

pengembangan hipotesis yang memadai: pelibatan teori, hasil studi sebelumnya, argument yang dibangun, lalu pernyataan hipotesis.

Comment [HP25]: sitasi/referensi?

and benefits and maximizes firm value. Several other studies, also confirmed their findings, i.g. Altaf and Shah (2017), Kowsari and Shorvarzi (2017), Laghari and Chengang (2019), and Kaushik and Chauhan (2019). Therefore:

H_2: financial constraints have a negative moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when financial constraints are low, and vice versa.

In addition to financial constraints, financial partners also have a significant role in the relationship between capital and company performance. So far, papers on strategic partnerships have been studied in a non-financial context, i.g. marketing, operations, human resources, etc. There is no literature that explores it in the financial sector. Partnership in the context of SMEs can refer to business cooperation between small and medium enterprises and/or with large enterprises accompanied by guidance and development by medium and/or large enterprises by taking into account the principles of mutual need, mutual strengthening and mutual benefit (Government Regulation of the Republic of Indonesia Number 44 1997). The concept of partnership is basically a business strategy used for business development. It can be in the form of a nucleus-plasma partnership, sub-contracting, general trading, profit sharing, operational cooperation, joint ventures, etc. In the financial context, the possible partnership patterns are nucleus-plasma, sub-contracts, and profit sharing. Generally, the partnership pattern in the financial sector is not only aimed at increasing capital, but is also accompanied by an increase in capital management. Therefore, companies that have strategic partners in the financial sector are generally able to access greater capital and are able to manage their finances effectively and efficiently, thereby encouraging better company performance. Therefore:

Comment [HP26]: Pengembangan hipotesis tidak memadai. Belum ada teori yang melandasi.

pengembangan hipotesis yang memadai: pelibatan teori, hasil studi sebelumnya, argument yang dibangun, lalu pernyataan hipotesis.

Comment [HP27]: Referensi?

Comment [HP28]: Ini juga copas dari atas.

Apa esensinya, apa kaitannya, apa intisarinya? Apa yang Anda hendak sampaikan sebenarnya? Mohon dijelaskan dengan baik. Logika pengembangan hipotesis dibangun dengan jelas.

Comment [HP29]: Referensi?

H_3: financial partners have a positive moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when the company has financial partners, and vice versa.

Methods

Comment [HP30]: Metode Penelitian belum memadai

Yang memadai:
- -Harus ada pernyataan jenis metodenya, untuk kuantitatif, regresi misalnya:
- -Jelas menyebutkan populasi dan sampel, apa justifikasinya
- -Jelas menyebutkan kriteria purposive sampling, tabel penarikan sampel akhir
- -Jelas menyebutkan periode penelitian, apa justifikasinya
- -Selain variabel utama, wajib ada variabel kontrol
- -Variabel kontrol tidak perlu dihipotesiskan
- -Ada operasionalisasi variabel yang jelas (definisi, rumus, sumber, dalam tabel lebih baik)
- -Jelas menyebutkan software yang digunakan

The data covers more than four million SMEs in Indonesia, which were observed over three years, from 2017 to 2019. Our panel data is not balanced in each observation period. In 2017 the number of SMEs observed was 4.36 million, then in 2018 it decreased by around 4.49% to 4.26 million, and in 2019 it increased again by around 2.27% to 4.38 million. The increase and decrease in their number is based on the resources we have obtained. On average

Comment [HP31]: Sebutkan dengan detail dari mana data diambil? Database apa misalnya.

during that period their number was 4.36 million, which were incorporated into 23 industrial sub-sectors based on the Indonesian Standard Classification of Business Fields (KBLI), which were spread across 34 provinces in Indonesia. Of the average number and based on industry groups, the majority (37.13%) are engaged in the food industry (KBLI_10), around 14.17% in the wood industry, goods made of wood, cork, woven goods made of rattan, bamboo, and the like (KBLI_16) , and about 13.25% in the apparel industry (KBLI_14). While the minority, i.e. 0.02% are in the computer, electronic and optical goods industry (KBLI_26), about 0.03% in the electrical equipment industry (KBLI_27), and about 0.06% are in the motor vehicle, trailer, and semi-trailer industry (KBLI_29). By region, the majority of them are in Java Island (59.63%), Sumatra Island (16.07%), Bali Island and Nusa Tenggara Islands (9.26%), Sulawesi Island (8.66%), Kalimantan Island (4.41%), and the minority in Maluku Islands and Papua Island (1.96). As for by province, the majority of them are in Central Java Province (20.75%), East Java (19.03%), and West Java (13.27%), while the minorities are in North Kalimantan (0.16%), West Papua (0.19%) , and Papua (0.33%).

Financial performance is proxied by the operating income, while business capital is proxied by internal capital (own capital) and external capital (venture capital, banks, cooperatives, non-bank financial institutions, grants or loans from individuals and the government, and others). The financial constraints and financial partners are measured by dummy variables on the recognition of entrepreneurs.

Data analysis using panel regression. The general model for econometrics developed is:

$$Perform_{it} = \alpha_{it} + \beta_{Capital} Capital_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 1}$$

$$\begin{aligned} Perform_{it} = {} & \alpha_{it} + \beta_{Capital} Capital_{it} \\ & + \beta_{Financial\_Constraints} Financial\_Constraints_{it} \\ & + \beta_{Capital*Financial\_Constraints} Capital \\ & * Financial\_Constraints_{it} + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 2} \end{aligned}$$

$$\begin{aligned} Perform_{it} = {} & \alpha_{it} + \beta_{Capital} Capital_{it} \\ & + \beta_{Financial\_Partners} Financial\_Partners_{it} \\ & + \beta_{Capital*Financial\_Partners} Capital * Financial\_Partners_{it} \\ & + \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 3} \end{aligned}$$

Comment [HP32]: Sebutkan sumber data dan tahun informasi ini.

Comment [HP33]: Sitasi peneliti lain yang menggunakan proksi yang sama. Untuk memastikan proksi yang digunakan penulis paling tidak sudah berada di jalur yang tepat.

Sampaikan dengan detail definisi per variabel, cara mengukurnya, dan mengikuti siapa misalnya.

Comment [HP34]: Saya tidak menemukan variabel kontrol.
Mohon tambahkan variabel kontrol untuk kesesuaian dengan teori, praktik, dan substansi.

Comment [HP35]: Penulisan model tidak lazim. Silakan refer ke paper-paper Q1 top tier.

$\beta 1$ $\beta 2$ dst

$$
\begin{aligned}
Perform_{it} = \alpha_{it} &+ \beta_{Capital}Capital_{it} \\
&+ \beta_{Financial\_Constraints}Financial\_Constraints_{it} \\
&+ \beta_{Financial\_Partners}Financial\_Partners_{it} \\
&+ \beta_{Capital*Financial\_Constraints}Capital \\
&* Financial\_Constrains_{it} \\
&+ \beta_{Capital*Financial\_Partners}Capital * Financial\_Partners_{it} \\
&+ \varepsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad \text{Model 4}
\end{aligned}
$$

where: $Perform_{it}$ is the financial performance of SMEs i in t; α_{it} is a constant; $Capital_{it}$ is the capital of SMEs i in i; $Financial\_Constraints_{it}$ are financial constraints of SMEs i in t; $Financial\_Partners_{it}$ are financial partners of SMEs i in t; $Capital * Financial\_Constraints_{it}$ is the interaction of capital with financial constraints of SMEsi in t; $Capital * Financial\_Constraints_{it}$ is the interaction of capital with financial constraints of SMEs i in t; β is slope; and ε_{it} is the residual error.

Metode…

Result and Discussion

The results of data analysis show that SME finance underperforms throughout the observation period (see Figure 1). Their average operating profit reaches IDR251.15 trillion per year. Although throughout that period they posted positive operating profit, it continued to decline year-on-year. The average decline reached 10.29% per year. Meanwhile, their total capital also decreased throughout the period. In 2017 the number of SMEs experiencing financial constraints reached 20.46%, then in 2018 it increased to 40.84%, and in 2019 it fell to 25.78%. The average during the observation period, the number of SMEs experiencing financial constraints reached 29.69%. Meanwhile, the number of SMEs that established financial partners in 2017 reached 70.54%, but in 2018 it fell to 12.49%, and in 2019 it increased significantly again to 76.84%. On average, during the observation period, the number of SMEs that established financial partners reached 53.29%.

Figure 1. Capital Statistics, Financial Constraints, Financial Partners, and Financial Performance

Comment [HP36]: I believe you have a collection of other variables that can be used as control variables.

The models must be accompanied by 2-4 or more control variables. Please add these control variables. Please refer to reputable articles for their choice of control variables. Why? There are at least two main reasons and one additional reason.

Two main reasons:
First, theoretically and logically, this is inadequate because there are many factors that affect the dependent variable, not only 2-3 independent variables. If the author does not take into account the control variables, the results tend to be biased (refer to the theory and substance) even though the results are statistically significant (it is important to note that, statistical tests are media only, the conformity with theory, practice, and substance is prioritized).

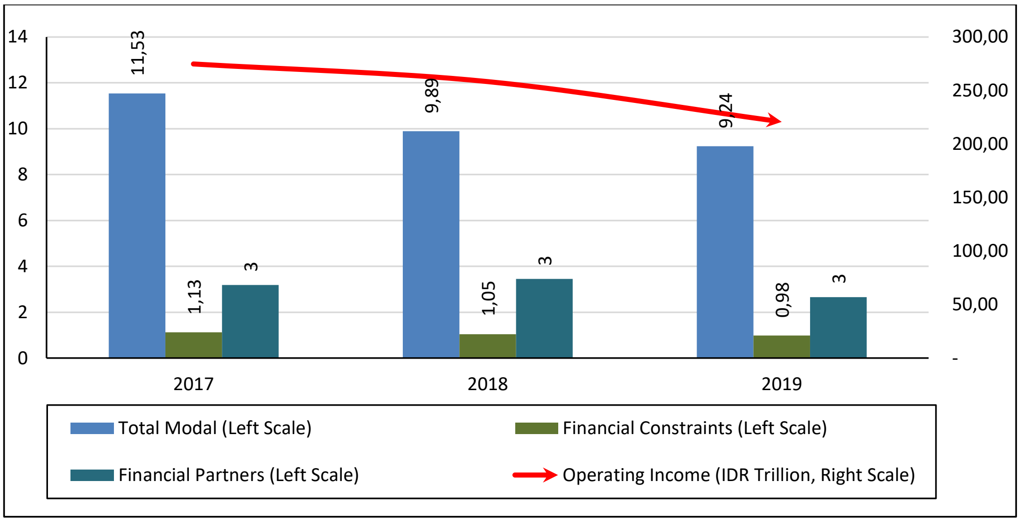
Second, if the author(s) fail to include important variables into the model, it will lead to misspecifications. The results obtained, although statistically significant, are likely to be biased or meaningless. Control variables play a very important role in helping the model to be more in line with the theory and minimizing bias.

Additional reason:
Third, this research uses archival data or secondary data from financial statements so that the presence of control variables is very crucial. The case will be different if this research uses respondents' perception data obtained from questionnaires.

The author(s) can refer to econometric books such as Gujarati, Wooldridge, or related books of Prof. Jogiyanto Hartono, etc. The author can also refer to the articles published in AAA-American Accounting Association as well as Scopus Q1-Q2, to check directly whether there is a regression model that only contains independent variables without control variables (if the research data is archival data).

Comment [HP37]: Tambahkan prosedur lain
Winsorizing
Pemilihan model FE, RE, Common

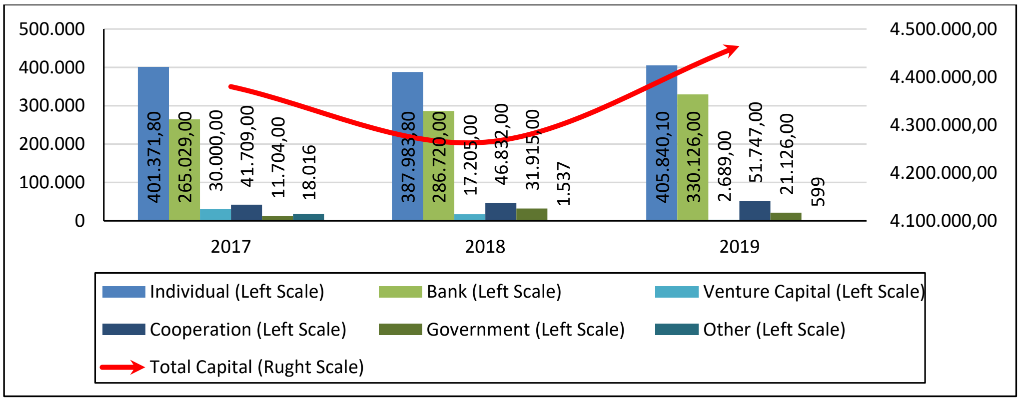
Bagaimana dengan uji asumsi klasik?



Based on the type of ownership, their capital can be divided into three types. First, own capital, which refers to capital that is fully controlled by the owner who doubles as management. Second, external capital, which is the opposite of own capital. In external capital there is a separation between owners and management of SMEs. Third, mixed capital, which is a combination of own capital and external capital. Around 84.87% of them operate fully on their own capital, only 2.91% rely entirely on external capital, and 12.22% rely on mixed capital. The decrease in mixed capital throughout the observation period was the main trigger for the decrease in total capital. If viewed from the source of income, their capital can be divided into seven types, i.e. capital from individuals, banks, venture capital, cooperations, other financial institutions, governments, and others. The majority of their capital is obtained from individuals, which can be owners or individual investors, followed by bank loans, cooperatives, and venture capital. As for capital from the government and others, they are a minority of the total (see Figure 2).

Figure 2. SME Capital by Source

http://dx.doi.org/10.31106/jema.v17i1, ISSN (Online) 2597-4017



In general, capital is positively and significantly related to the financial performance of SMEs, both in the short and long term (see Table 1, Panel A). It shows that an increase in capital will lead to better financial performance, and conversely a decrease in capital will trigger a decrease in performance. The correlation between capital and performance is also very high (R = 0.879 – 0.971), so the variance of capital to explain the variance of performance is very high (R square = 0.773 – 0.944). In the short term, the largest impact of capital on performance occurred in 2018. A decrease in capital of around 14.22% in that period triggered a decrease in operating profit of up to 6.01% (cateris paribus). In the long run, the positive relationship between capital and performance tends to form an inverted U. The relationship is very strong in the short term, but then gradually diminishes.

Based on the type of ownership, the relationship between own capital and external capital with performance tends to vary from time to time, but in the long run the relationship is positive and significant. In the long term, the positive impact of external capital on performance is superior to that of own capital, even though own capital is more dominant than external capital. This is because the amount of own capital is generally relatively small and tends to be limited, while external capital is relatively large, especially if the capital is obtained from financial institutions, i.e. venture capital. Therefore, this external capital will make a greater contribution to performance. In contrast to the two capitals, mixed capital consistently has a negative impact on performance, both in the short and long term (see Table 1, Panel B). In the long run, the negative effect of mixed capital is also greater than the effect of own capital, but still smaller than that of external capital. This can be caused by various factors, among others due to high capital costs or management failure or may be due to a conflict of interest between management and owners.

Table 1. Regression

	Short-Term	Long-Term

Comment [HP38]: Tabel 1 semestinya deskriptif statistik.
Mohon ditambahkan.

Lalu diikuti dengan pembahasan uji asumsi klasik, korelasi dst. Pemilihan model data panel, FE RE dst.

Sertakan jumlah observasi akhir (n)?

Comment [HP39]: Sebutkan jumlah observasi akhir.

	2017		2018		2019		2017-2019	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Panel A. General								
Capital	0.880	10.478***	0.955	18.299***	0.928	14.086***	0.908	21.730***
Memo Items								
R	0.880		0.955		0.928		0.908	
R square	0.774		0.913		0.861		0.825	
F-satistic	109.792***		334.854***		198.413***		472.199***	
Panel B. By Tipe Kepemilikan								
Owner's	0.114	0.235	-0.870	-4.655***	1.309	2.200**	0.267	2.118**
External	0.468	2.456**	-0.793	-2.023**	0.226	0.637	0.942	6.833***
Mixed	-0.739	-2.978***	-0.087	-0.223	-0.625	-1.998*	-0.302	-3.353***
Memo Items								
R	0.911		0.879		0.946		0.934	
R square	0.831		0.772		0.895		0.873	
F-satistic	49.035***		52.610***		85.231***		224.933***	
Panel C. By Sumber								
Individual	0.214	0.418	0.470	3.662***	0.369	1.629	0.152	1.011
Bank	0.921	1.600	0.212	1.395	0.815	4.337***	0.045	0.659
Venture Capital	0.164	0.767	-0.665	-2.135**	0.111	1.289	0.798	4.749***
Cooperation	-0.170	-0.817	-0.888	-1.518	0.021	0.169	-0.211	-2.491**
Other Financial Institutions	0.014	0.050	0.055	0.324	0.184	2.433**	0.118	1.248
Government	0.113	0.300	0.010	-0.550	-0.527	-3.754***	0.106	1.184
Others	-0.372	-0.550	0.086	0.272	0.050	0.441	-0.049	-0.482
Memo Items								
R	0.879		0.951		0.971		0.928	
R square	0.773		0.904		0.944		0.861	
F-satistic	12.669***		34.903***		62.031***		82.895***	

**significant at 10%* ***significant at 5%* ****significant at 1%*

Based on the source of capital, capital originating from individuals, banks, other financial institutions, and the government tends to vary in the short term, but is not significant in the long term (see Table 1, Panel C). Only venture capital and cooperation appear to have a significant impact on long-term financial performance. Specifically, venture capital has a positive impact on performance, while capital from cooperatives actually has a negative impact.

Comment [HP40]: Pembahasan perlu dibuat sistematis,

3 paragraf sesuai hipotesis

Masing2 paragraf tsb:

- -Pembahasan tidak dipusatkan pada cara membaca angka di tabel
- -Pembahasan difokuskan pada analisis substansi hasil, dielaborasi dengan teori, hasil studi sebelumnya, dan argument penulis

Based on the findings presented in Table 1, it can be seen that the relationship between capital and performance is inconsistent over time. However, in general the relationship is positive and significant, both in the short and long term. Thus, the first hypothesis (H1) is supported, and therefore this finding also supports the findings of Chittithaworn et al. (2011), Philip (2011), Omar and Azmi (2015), Fatoki (2011), Abbas (2018), Sombolayuk et al. (2019), and Dewi and Utari (2014).

Table 2 below presents the results of testing the moderating effect of financial constraints and financial partners on the relationship between SME capital and performance. From the table it can be seen that financial constraints have a negative moderating effect on the

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relationship (see Table 2, Model 2). The partial moderating effect of financial constraints is proven to weaken the relationship between capital and financial performance. This can be seen from the beta coefficient of the capital variable which weakens when the interaction between capital and financial constraints is entered into the model. However, this partial moderating effect did not have a significant impact on the relationship, because only 29.69% of them experienced financial constraints, while the majority (70.31%) did not. Thus, the second hypothesis (H2) is fully supported.

Comment [HP41]: Pembahasan perlu diperbaiki sekali,

3 paragraf sesuai hipotesis

Masing2 paragraf tsb:

- -Pembahasan tidak dipusatkan pada cara membaca angka di tabel
- -Pembahasan difokuskan pada analisis substansi hasil, dielaborasi dengan teori, hasil studi sebelumnya, dan argument penulis

Table 2. The Moderation Effects

	Model 1		**Model 2**		**Model 3**		**Model 4**	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Capital	0.908	21.730***	0.540	2.628***	0.649	7.303***	0.262	1.405
Financial Constraints	----------	----------	0.502	3.932***	----------	----------	0.286	2.250**
Capital*Financial Constrains	----------	----------	-0.111	-0.563	----------	----------	0.093	0.504
Financial Partnerts	----------	----------	----------	----------	-0.579	-5.406***	-0.475	-3.723***
Capital*Financial Partners	----------	----------	----------	----------	0.243	1.626	0.122	0.703
Memo Items								
R	0.908		0.922		0.942		0.946	
R square	0.825		0.849		0.887		0.895	
F-satistic	472.199***		184.000***		255.311***		163.336***	

**significant at 10% **significant at 5%   ***significant at 1%*

The partial moderating effect of financial partners is expected to improve the relationship between capital and financial performance, but the results of data analysis are contradictory. Financial partners actually have a negative moderating effect on the relationship. This can be seen from the beta coefficient of the capital variable which weakens when the interaction between capital and financial partners is included in the model (see Table 2, Model 3). Therefore, the third hypothesis (H3) is not supported. This negative moderating effect can be caused by three possibilities. First, the number of SMEs that established financial partners decreased drastically in 2018, leaving only 12.49%. Second, the existing financial partners have not provided significant benefits. Third, the high cost of economic transactions on the financial partners. Model 4 in Table 2 presents the full interaction effect of financial constraints and financial partners. The full interaction of the two has a greater negative moderating effect on the relationship between capital and financial performance. This shows that so far financial constraints are very high in Indonesian SMEs, while financial partners are still very low. In fact, financial partners are intended to be able to reduce high financial constraints. Therefore, the two have not had a negative correlation effect. As a result, the full moderating effect of the two on the relationship between capital and performance is also not as expected.

Comment [HP42]: Pembahasan perlu diperbaiki,

3 paragraf sesuai hipotesis

Masing2 paragraf tsb:

- -Pembahasan tidak dipusatkan pada cara membaca angka di tabel
- -Pembahasan difokuskan pada analisis substansi hasil, dielaborasi dengan teori, hasil studi sebelumnya, dan argument penulis

Conclusion and Suggestion

Based on the results of data analysis and the previous discussion, it can be concluded that in general, capital is positively and significantly related to the financial performance of SMEs, both in the short and long term. However, the specifics vary. Based on the type of ownership, equity and external capital have varying effects on performance in the short term, but in the long term both have positive and significant effects. Meanwhile, mixed capital consistently has negative effects, both in the short and long term. If viewed from the source, capital originating from individuals, banks, other financial institutions, and the government tends to vary in the short term, but in the long term it is not significant. Only venture capital and cooperatives appear to have a significant impact on long-term financial performance. Specifically, capital from venture capital has a positive impact on performance, while capital from cooperatives actually has a negative impact. In addition, financial constraints and significant financial partners have a negative moderating effect on the relationship between performance capital. The partial moderating effect of financial constraints is in line with expectations, but the partial moderating effect of financial partners is beyond expectations.

Comment [HP43]: Tidak jelas. Apa maksud kalimat ini? Mohon tidak menggunakan 100% google translate dan sejenisnya, diedit hingga jelas oleh penulis.

Comment [HP44]: -Sampaikan implikasi studi baik teoretis maupun praktis

Future research is expected to explain how the explicit role of the moderating effect of financial constraints and financial partners on the relationship between capital and financial performance. In addition, this study measures financial constraints and financial partners using dummy variables, which are caused by data limitations. As a result, perhaps the moderating effect of the two is not able to provide a good variance in explaining the relationship between capital and financial performance. Therefore, future research in the future is also expected to overcome this problem.

Comment [HP45]: Ini seharusnya dijelaskan di riset Anda, bukan riset selanjutnya. Ini yang saya minta mesti ada pada setiap section pembahasan hasil H1-3

Reference

Comment [HP46]: Referensi sangat minim,
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3. BUKTI REVISI KE 1

Tanggal 4 Agustus 2021

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Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs

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ABSTRACT

This paper examines the relationship between capital and financial performance of SMEs, and examines the moderating effect of financial constraints and financial partners on this relationship. During 2017-2019, their capital and financial performance fell, and there were indications that they were financially constrained. Meanwhile, the government and other stakeholders continue to seek to raise capital to boost their performance and development, including through financial partnerships. This study is different from others, in that it uses panel data from 4.36 million SMEs in Indonesia, and is the first to explore the role of financial partners in the relationship. The research design used existing statistics, with data obtained from the Central Statistics Agency (Indonesian: Badan Pusat Statistik / BPS). The population is all SMEs surveyed by BPS in 2017, 2018, and 2019. In 2017 the number of SMEs surveyed was 4.46 million, in 2018 it was 4.26 million, and in 2019 it was 4.38 million. The average number of SMEs surveyed by BPS for three years is 4.37 million. The sampling technique uses the total population sampling. Data analysis used panel regression model with geographic analysis unit. The results of the study found that capital was positively and significantly related to the financial performance of SMEs. Financial constraints act as a negative moderator in the relationship, while financial partners do not show a significant role.

Keywords: SMEs; Financial Performance; Capital; Financial Constraints; Financial Partners.

JEL Code:
L26; C23; P12; E22; L23

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Introduction

Financial performance is one indicator of the success of a company, including Small and Medium Enterprises (SMEs). Financial performance is seen as the most relevant measure of company performance, because it summarizes all the activities of various aspects of a company's business, including marketing, human resources, operations, technology, strategy, etc. Therefore, various factors can affect the company's financial performance, where these factors can be in the form of financial factors and non-financial factors, both internal and external. In the context of SMEs, one of the factors that affect their financial performance is capital. Neneh (2016) states that capital is one of the most significant problems for the development of SMEs. Meanwhile, Fatoki (2011) also stated that the average failure of SMEs is always caused by capital problems.

The relationship between capital and SME performance has been widely studied (for example, Abbas, 2018; Chittithaworn et al., 2011; Dewi and Utari, 2014; Fatoki, 2011; Omar and Azmi, 2015; Philip, 2011; Sombolayuk et al., 2019). In general, empirical findings show that capital is positively related to the performance of SMEs, where the greater the capital, the better the performance of SMEs. However, several other researchers have also highlighted that the relationship between capital and SME performance is also highly dependent on financial constraints. Altaf and Ahmad (2019) examined the role of financial constraints on the relationship between working capital financing and SME performance. They found that low financial constraints could lead to greater working capital financing, thus encouraging better company performance. However, when financial constraints are very high, it will be difficult for companies to access working capital, so this can have a negative impact on their performance. This was also found by Altaf and Shah (2017), Banos-Caballero et al. (2014), Laghari and Chengang (2019), Kaushik and Chauhan (2019), Kowsari and Shorvarzi (2017), and Laghari and Chengang (2019). In short, financial constraints negatively moderate the relationship, where the relationship will be stronger when the company experiences low financial constraints, and will be weaker when the company experiences high financial constraints.

Indonesia is one of the countries with the largest number of SMEs in the world. BPS noted that in 2019 the number had exceeded 64 million or 99.9% of all businesses operating in Indonesia. Therefore, they have a very strategic role in the national economy. In addition to making a significant contribution to Gross Domestic Product (GDP), they are also able to provide great job opportunities and are able to deal with the economy from various external shocks, including the Asian financial crisis in 1997/1998 and the global financial crisis

(2008/2009). Statistics from BPS state that in 1998 the number of SMEs did experience a decline of around 7.42%, but their contribution to GDP grew by around 52.24%, and the growth in export value also increased to 76.48%. Meanwhile, in 2008 their number increased by 2.52%, followed by an increase in the number of workers up to 3.90%. Its contribution to GDP also increased by 6.04% and its export value growth also increased by 26.82%. Post-global financial crisis (2008/2009), their growth continues to increase from year to year, but their performance tends to decline. The BPS survey from 2017 to 2019, showed that their average income fell by around 3.88% per year, so that their average operating profit was corrected by 10.29%. Specifically, in 2017 their income reached Rp602.46 trillion, then in 2018 it decreased by around 13.58% to Rp520.64 trillion. In 2019, their income fell by around 3.69% to Rp501.45 trillion. Meanwhile, in 2017 their operating profit was Rp274.69 trillion, down 10.30% from the previous year, then in 2018 it fell again by around 6.01% to Rp258.19 trillion, and in 2019 it fell again to 14.57%. to Rp220.57 trillion.

In the context of capital, most SMEs in Indonesia are still experiencing this problem. The problem of capital in SMEs is not only limited to internal capital, but also the difficulty of accessing external capital. In fact, the government and other stakeholders have tried to overcome their capital problems, among others through capital grants, credit interest subsidies, tax incentives, and others. In addition, the government and other stakeholders also continue to develop strategic partnerships to support their performance. However, in fact these efforts have not provided significant benefits. The 2019 BPS survey shows that out of 4.38 million SMEs, 3.84 million (87.68%) of them still use internal capital. Only 539.6 thousand SMEs (12.32%) used external capital. Of the 539.6 thousand SMEs, 6.05% of them used bank credit, 0.68% used financing from venture capital, 0.95% used credit from cooperatives, 0.09% used financing from pawnshops, and 3.96 % using credit from other external sources. Furthermore, BPS also notes that most SMEs in Indonesia are experiencing financial constraints that adversely affect their performance and development. Meanwhile, the partnership strategy adopted by the government and other stakeholders has not had a broad impact. The 2019 BPS survey showed that of the 4.3 million SMEs surveyed, only 8.28% had a partnership relationship, while 99.92% did not. Of the number of SMEs that have established partnership relationships, 7.33% of them have partnerships in the financial sector, while others are in the fields of raw materials, marketing, human resources, operations, etc. Financial partnerships in SMEs are not only intended to help increase their capital, but also improve capital management, namely how to manage SME capital productively, effectively and efficiently.

The aim of this research is:

1. Examining the relationship between SME capital and financial performance;
2. Assess the role of financial constraints on the relationship between capital and financial performance of SMEs; and
3. Assess the role of financial partners in the relationship between capital and financial performance of SMEs.

This study differs from other studies, for three reasons. First, we will examine the relationship between capital and financial performance of 4.36 million SMEs across all sectors and regions in Indonesia. So far, research on SMEs has focused on certain sectors or regions, so the results may not reflect actual conditions. Therefore, testing on 4.7 million SMEs is expected to reflect more accurate results. Second, we examine the relationship using panel data for three years, so as to be able to provide more complete information with a high degree of variability, and be able to explain the relationship between time periods, both short-term and long-term. Third, we will explore the role of financial partners in the relationship between capital and financial performance of SMEs. The role of financial partners in the relationship between capital and financial performance has never been studied by anyone, and we are the first to explore it. So far, partnership relationships in the context of SMEs are dominantly carried out in supply chain partnerships, as was done by Sukwadi et al. (2013), Mofokeng and Chinomona (2019). Therefore, exploring the role of financial partners in this relationship is expected to make a positive contribution to the development of science and research methodologies, especially in the field of entrepreneurship. In addition, an assessment of the role of this financial partner can also identify the efforts of the government and other stakeholders. In this case, whether the financial partners in SMEs that have been pursued by the government and other stakeholders have provided benefits for increasing the capital and performance of SMEs or not. Thus, the results of this study are also expected to provide practical contributions, which can be used as consideration for formulating related policies.

Literature Review

Small Medium Entrerprise (SME)

Small and Medium Enterprises (SMEs) is a term that denotes a business entity, with certain criteria. SMEs are divided into three groups, namely micro, small and medium enterprises. Definitions and terms of SMEs vary from country to country. The European Commission (2005) defines micro-enterprises as enterprises with an annual number of units of work less than 10 with an annual turnover or total annual balance sheet less than or equal to €2 million. Small businesses have an annual number of work units of less than 50 with an annual turnover or total annual balance sheet less than or equal to €10 million. Meanwhile, medium-sized enterprises have an annual number of work units of less than 250 with an annual turnover or total annual balance sheet less than or equal to €50 million. Meanwhile, the World Bank (2008) defines micro-enterprises as businesses that have less than 10 employees with total assets or total annual sales of less than or equal to $100,000. Small businesses have more than 10 employees less or equal to 50 people, with total assets or total but annual sales of more than $100,000 but less or equal to $3 million. medium-sized businesses have more than 50 employees but less or equal to 300 people, with total assets or total annual sales of more than $3 million but less or equal to $15 million.

In Indonesia, the definition of SMEs can refer to Law no. 20 of 2008. In the law, micro-enterprises are defined as businesses that have a maximum wealth of IDR50 million, with a maximum turnover of IDR300 million. Small businesses are defined as businesses that have assets of more than IDR 50 million to IDR500 million, with a turnover of more than IDR300 million to IDR2.5 billion. Meanwhile, medium-sized businesses are defined as businesses that have assets of more than IDR 500 million to IDR 10 billion, with a turnover of more than IDR2.5 billion to IDR50 billion. Besides being defined by a quantitative approach, SMEs in Indonesia are also defined by a qualitative approach. In this case, BPS uses the number of workers in defining it, where micro-enterprises have a maximum of 4 permanent workers, small businesses 5 to 19 people, and medium-sized businesses 20 to 99 people.

In general, SMEs are business entities that are not legal entities or are often referred to as informal businesses or individual companies. Most are managed directly by the owners, who are assisted by family members. The SME decision-making system is quite flexible, informal, and relies on personal encouragement from its executives (Ayandibu and Houghton, 2017). Decision-making systems are often automated and not based on accurate business analysis. Viewed from the operational aspect, they generally have a narrow reach with a simple organizational structure, rely less on technology, and have low risk (Gronum et al., 2012).

According to the World Bank (2008), SMEs play an important role for the country's economy, because they are the engine of economic growth. They are important for creating competitive and efficient markets, and they are important for alleviating poverty. Therefore, all parties must prioritize it in all respects so that its growth and development is maintained and getting better from time to time. However, the fact is that until now, they are difficult to develop. Fatoki and Garwe (2010) stated that there are two factors that affect their performance, so that it often hinders their growth, namely internal and external factors.

Internal factors include financial and management constraints, while external factors include economic, market, and infrastructure factors. Meanwhile, Ayandibu and Houghton, 2017) have summarized various problems that are often experienced by SMEs, including lack of access to finance, lack of collateral, inadequate government support, high loan interest rates, insufficient demand, inadequate marketing research, the location is not strategic, high competition, poor credit record, high production costs, lack of information technology, high taxes, lack of entrepreneurial experience and knowledge, and lack of business networks.

Financial Capital and Financial Performance of SMEs

One theory that is often used to explain the performance of companies, including SMEs is the resource-based view (RBV). This theory focuses on managerial attention to the company's internal resources, both tangible and intangible. Tangible resources, including physical assets, for example, financial and human resources, including machinery, real estate, raw materials, factories, inventory, brands, patents, trademarks, and cash. Resources should not be embedded in organizational routines or practices, organizational reputation, culture, knowledge, experience, relationships or networks, etc. For SMEs, internal and external capital is used to maintain and increase competitive advantage (Abiodun and Harry, 2014). Lack of financial capital can hinder SMEs (Abiodun and Amos, 2018).

In general, SME capital consists of two, namely internal capital (own capital) and external capital. Internal capital is capital that comes from the founder or owner, and is generally very limited. External capital is other than internal capital. External capital can come from bank loans and financing from other financing, grants, personal loans, etc. External capital, especially from financing, is generally unlimited, but most SME institutions find it difficult to access it. Access the capital needed to acquire resources to take advantage of business opportunities. Lack of physical resources can result in failure for them (Fatoki, 2011). According to Bolingtoft et al. (in Fatoki, 2011), in order to build and maintain SMEs, entrepreneurs need to have access to various types of resources, including human resources, physical capital, and financial capital, each of which plays a different role, but is equally important to them life cycle. Furthermore, they also stated that there are many reasons related to the failure of SMEs, one of the most important is the unavailability of capital, thus impeding their survival and growth.

The important role of capital on the performance of SMEs has been widely studied in various countries, including in Thailand (Chittithaworn et al., 2011), in Bangladesh (Philip, 2011), in Malaysia (Omar and Azmi, 2015), and in South Africa (Fatoki , 2011). Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Dewi and Utari (2014) in Denpasar. Capital is positively related to the performance of SMEs, where an increase in capital will encourage better SME performance, and vice versa. Therefore:

H_1: capital is positively related to financial performance.

The Role of Financial Constraints on the Relationship of Capital and Financial Performance of SMEs

Financial constraints refer to a condition where the company has broad access to profitable investment opportunities, but has limited funds to fund these opportunities. Financial constraints are a topic that is highlighted in the context of SMEs, because SMEs are the main drivers of economic growth, but the majority always experience financial constraints, thus failing to execute profitable investment opportunities (Belas et al., 2017). . Financial constraints for SMEs are generally caused by the limited availability of information and tends to be unclear, so that the prospects for business growth are doubtful. As a result, banks or other funding sources are unwilling to accept their proposals. In addition, business legality and collateral also play an important role in these financial constraints (Menkhoff et al., 2012; Rahman et al., 2016). In general, SMEs are informal or individual businesses, with a limited number of assets. As a sole proprietorship, the assets of SMEs are inseparable from the personal assets of their owners. This is what makes it difficult for them to access external finance, and if it is accessible, the amount of funds is very limited. Therefore, Fatoki and Garwe (2010) stated that financial constraints are one of the factors that greatly affect the performance of SMEs. The same thing was stated by Bodlaj et al. (2018), where financial constraints can hinder innovation and creativity, thereby hindering their performance and development.

Financial constraints have a strong moderate effect on the relationship between capital and firm performance. In particular, financial constraints have a negative effect on the relationship. Several studies have confirmed this. For example, Altaf and Ahmad (2019), who tested the moderating effect of financial constraints on 437 non-financial firms in India. They found that there is a positive relationship between working capital and firm performance, where the relationship will be stronger in companies with low financial constraints. However, this relationship will weaken in companies with high financial constraints. In line with these findings, Banos-Caballero et al. (2014) also found the same thing in non-financial companies in the UK. Financial constraints provide strong support for the relationship between working capital and firm performance. This implies an optimal level of investment in working capital that balances costs and benefits and maximizes firm value. Several other studies, also confirmed their findings, e.g. Altaf and Shah (2017), Kowsari and Shorvarzi (2017), Laghari and Chengang (2019), and Kaushik and Chauhan (2019). Therefore:

H_2: financial constraints have a negative moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when financial constraints are low, and vice versa..

The Role of Financial Partners on the Relationship of Capital and Financial Performance of SMEs

Partnership in general can be interpreted as a form of mutually beneficial cooperation between two or more parties to achieve common goals. There are two theories that can be used to explain partnerships within companies. First, the theory of resource-base view (RBV) (Barney, 1991). RBV theory emphasizes that strategic resources can be utilized by companies to achieve a sustainable competitive advantage. One of the company's strategic resources is the partnership relationship. A good partnership relationship will have a positive impact on the company's performance and sustainable competitive advantage. Therefore, companies should establish as many partnerships as possible. Second, the theory of transaction costs (Williamson, 1979). This theory explains about organizing transactions in order to minimize transaction costs. This theory emphasizes that the optimal organizational structure is one that achieves economic efficiency by minimizing costs of exchange. Partnership is one of the transactions within the organization, which will result in the cost of coordinating monitoring, controlling, and managing transactions. Therefore, according to this theory the partnership will be profitable for the company if the low transaction costs. However, if the high transaction costs, the partnership will actually harm the company.

In the context of SMEs, partnership can be defined as cooperation between small businesses and large businesses and/or large businesses by taking into account the principles of mutual need, mutual strengthening and mutual benefit (RI Government Regulation No. 44 of 1997). Classical literature, such as Astley and Van de Ven (1983), Cyert and March (1992), Nooteboom (2000), and William et al (2009) have stated that sustainable inter-organizational partnerships in SMEs are important. This is to improve their performance. In Indonesia, efforts to increase the role of SMEs through partnership patterns are regulated in the Presidential Decree No. 127 of 2001, concerning MSMEs and Partnerships, which states that it is necessary to have a type of business that is reserved for small businesses and open opportunities for medium or large performance with the conditions of partnership.

The concept of partnership in SMEs is basically a business strategy used for business development. Partnerships in SMEs can be carried out in all aspects, such as finance, raw materials, marketing, capital goods, etc. In accordance with Law no. 20 of 2008, partnerships in SMEs can be in the form of:

1. The nucleus-plasma partnership pattern, namely, the partnership relationship between small or large businesses as the core company fosters and develops small businesses that become plasma by providing technical guidance, technology development, providing production facilities, and providing other assistance needed to increase effectiveness , efficiency, and productivity;
2. Subcontracting partnership pattern, namely a partnership relationship where the partner group produces the components needed by the partner company as part of its production;
3. The pattern of general trade cooperation, namely, a partnership relationship where the partner group provides the needs needed by the partner company and the partner company markets the production of the partner group;
4. The pattern of profit-sharing cooperation, namely, partnership relationships carried out by large and small businesses, the results of which are calculated from the net results of the business and if they experience mutual losses in accordance with the agreement agreement;
5. Operational cooperation patterns, namely partnerships carried out by large or medium-sized businesses with micro-enterprises to carry out a joint business using assets and/or business rights that are jointly owned;
6. The pattern of joint ventures, for example, partnerships carried out by micro and small businesses to carry out joint economic activities, in which each party contributes capital and shares the results and risks together proportionally;
7. Other cooperation patterns, namely partnerships other than those already mentioned.

In the financial context, partnerships are generally for two things. First, increase capital. Second, improve capital management. Therefore, SMEs with financial partners will find it easier to access more capital and be able to manage their finances effectively and efficiently, thereby encouraging better company performance. However, research on financial partnerships in SMEs has not been conducted. Therefore, we will use the general literature as a basis for developing a hypothesis on this issue.

In a general context, partnerships are widely studied in non-financial fields, especially supply chain partnerships. Fernando and Galahitiyawe (2016) examined the role of partnership quality on the relationship between strategic resources and performance. They found that the quality of the partnership moderated the relationship. Where, the resource strategy will have a greater impact on performance when the high quality of the partnership. Meanwhile, Pathmaperuma and Galahitiyawe (2016) found a negative moderating effect of partnership quality on the relationship between supplier switching costs and supply chain performance. When the high quality of the partnership, the cost of switching suppliers can be reduced, without compromising supply chain performance. In addition, Ellita (2017) studied the moderating effect of partnerships on the relationship between resources and performance. His findings suggest that partnerships moderate relationships negatively. The effect of resource materials on profitability and operational performance will be better at low partnership levels. However, the effect of resource material on managerial performance is actually better at high partnerships. Similar to these findings, Lahiri and Kedia (2009) also found a mediating and moderating effect of partnership quality on the relationship between internal resources and firm performance. The quality of the partnership can strengthen that relationship. In addition, internal resources are a determinant of the quality of the partnership, and the quality of the partnership is a determinant of performance. The same thing was also found by several other researchers, such as Kim and Shin (2019), Vanichchinchai (2012), Espino-Rodriguez and Ramirez-Fierro (2018), Gambo and Musonda (2021).

Based on the description above, financial partners can act as moderating variables in the relationship between capital and financial performance. There are two reasons for that. First, financial partners are aimed at increasing SME capital. With this partner, they will easily access external funding. Second, financial partners are also to improve the quality of SMEs in managing their capital, so that it will encourage effectiveness, efficiency, and profit. Therefore:

H_3: financial partners have a positive moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when the company has financial partners, and vice versa..

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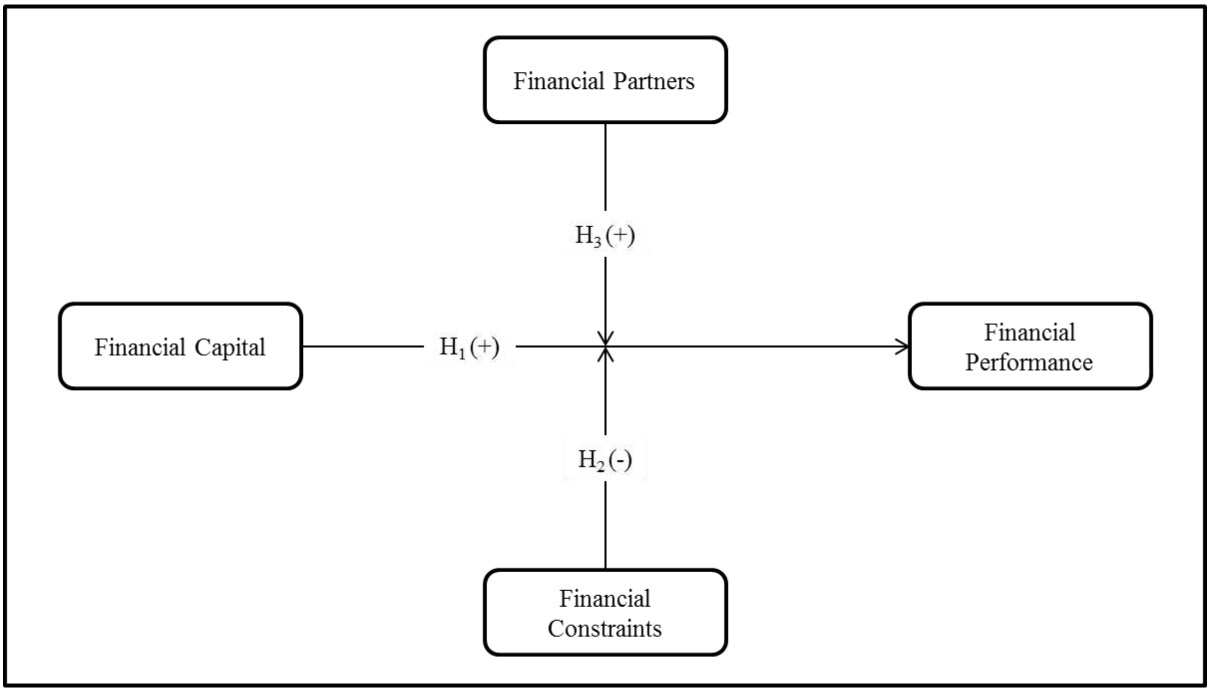
Research Framework

The research framework as depicted in Figure 1, consists of three main variables. First, the dependent variable, namely financial performance. Second, the independent variable is financial capital. Third, the moderating variable, which consists of two, namely financial constraints and financial partners. Financial capital is thought to have a positive relationship with financial performance, as explained in the RBV theory, which is supported by empirical findings from several researchers (eg, Abbas, 2018; Dewi and Utari, 2014; Fatoki, 2011; Chittithaworn et al., 2011; Omar and Azmi, 2015; Philip, 2011; Sombolayuk et al., 2019). Financial constraints are thought to have a negative moderating effect on the relationship between financial capital and financial performance, as has been found by Altaf and Ahmad (2019), Altaf and Shah (2017), Banos-Caballero et al. (2014), Kowsari and Shorvarzi (2017), Kaushik and Chauhan (2019), and Laghari and Chengang (2019). The relationship between financial capital and financial performance will be very strong when the company is not financially constrained. On the other hand, the relationship will be weak when the company is financially constrained.

Figure 1. Research Framework



In contrast to financial constraints, research on financial partnerships in SMEs has not been carried out. However, in a general context, partnerships have a positive moderating effect on various strategic relationships within the firm, as has been found by Ellita (2017), Espino-Rodriguez and Ramirez-Fierro (2018), Fernando and Galahitiyawe (2016), Gambo and Musonda (2021), Kim and Shin (2019), Lahiri and Kedia (2009), Pathmaperuma and

Galahitiyawe (2016), Vanichchinchai (2012). Therefore, financial partners are considered to have a positive moderating effect on the relationship between capital and financial performance. The relationship will be very strong when SMEs have financial partners, but the relationship will be weak when SMEs do not have financial partners. When SMEs have financial partners, it is possible to access external capital more easily and the amount of capital obtained is greater than SMEs without financial partners. Meanwhile, other benefits obtained by SMEs with financial partners are quality in managing finances, so that financial management becomes effective, efficient, and profitable. Substantially, these two benefits will drive better financial performance. Financial partners in this study are exploratory, because there has been no research examining the relationship between capital and performance. This study is the first to attempt to test this relationship.

Methods

Research Design

The research design uses quantitative methods, precisely existing statistics. According to Neuman (2017), existing statistics are research based on statistical data collected by certain parties, such as the government or supervisory agencies, which are carried out by rearranging or providing information in new ways to present more information. He further stated that the existing statistics could be used for descriptive, exploratory or explanatory purposes. The object of study in the existing statistics is the statistical report itself. In this case, the object of this research is the BPS survey report for 2017, 2018, and 2019.

Population and Sample

The population in this study is all SMEs surveyed by BPS in 2017, 2018, and 2019. In 2017, the number of SMEs surveyed was 4.46 million, in 2018 as many as 4.26 million, and in 2019 as many as 4.38 million. The average number of SMEs surveyed by BPS for three years is 4.37 million. The sampling technique uses the total population sampling. Thus, the sample of this study was not balanced in each year of observation, as shown in table 1.

Table 1. Number of Samples

Industry	2017	2018	2019	Average
Aceh	99,277	114,042	106,918	106,746
Sumatera Utara	152,466	140,608	127,152	140,075
Sumatera Barat	116,539	108,588	100,712	108,613
Riau	65,733	77,876	59,837	67,815
Jambi	27,792	34,564	28,159	30,172

Sumber: BPS (2017, 2018, 2019)

Table 1. Number of Samples (Cont.)

Industry	2017	2018	2019	Average
Sumatera Selatan	69,868	73,564	80,307	74,580
Bengkulu	26,780	28,271	21,667	25,573
Lampung	99,271	95,493	95,041	96,602
Bangka Belitung	26,348	25,588	22,799	24,912
Kepulauan Riau	34,394	29,995	17,031	27,140
DKI Jakarta	76,028	37,850	62,929	58,936
Jawa Barat	574,175	536,207	629,597	579,993
Jawa Tengah	892,631	914,850	912,421	906,634
DI Yogyakarta	97,319	113,430	146,658	119,136
Jawa Timur	852,301	779,390	862,450	831,380
Banten	105,710	109,959	113,139	109,603
Bali	149,179	118,509	161,120	142,936
Nusa Tenggara Barat	116,870	96,205	108,481	107,185
Nusa Tenggara Timur	161,257	162,234	140,163	154,551
Kalimantan Barat	55,044	52,835	43,024	50,301
Kalimantan Tengah	34,587	31,640	25,463	30,563
Kalimantan Selatan	88,272	70,362	57,753	72,129
Kalimantan Timur	33,098	33,725	32,042	32,955
Kalimantan Utara	7,338	6,082	7,194	6,871
Sulawesi Utara	67,230	48,451	37,031	50,904
Sulawesi Tengah	87,190	89,424	85,379	87,331
Sulawesi Selatan	123,379	109,179	129,823	120,794
Sulawesi Tenggara	67,883	69,994	49,435	62,437
Gorontalo	36,950	30,022	28,715	31,896
Sulawesi Barat	22,446	26,692	26,295	25,144
Maluku	41,867	45,959	25,004	37,610
Maluku Utara	31,908	29,311	14,213	25,144
Papua Barat	11,077	7,306	6,743	8,375
Papua	12,481	15,842	15,481	14,601
Total	4,464,688	4,267,047	4,380,176	4,370,637

Source: BPS (2017, 2018, 2019)

Data and Variables

The data of this research can be explained into three perspectives. The first perspective, according to its type, this research uses quantitative data, namely data that is expressed in numbers and can be measured. The second perspective, based on the source of data acquisition, this study uses secondary data, namely data obtained from BPS survey reports in 2017, 2018, and 2019. The third perspective, based on the time period, this study uses panel data. Table 2 below presents the research variables along with their operational definitions and measurements.

Table 2. Research Variables, Operational Definitions, and Their Measurements

Variables	Definitions	Measurements
Financial performance (dependent variable)	The ability of SMEs to earn operating profit in the current year.	$OPM = \frac{Operating\ Income}{Total\ Sales} \times 100\%$
Financial capital (independent variable)	Total SME capital, which consists of internal and external capital in the current year.	Logarima natural dari total modal.

Table 2. Research Variables, Operational Definitions, and Their Measurements (Cont.)

Variables	**Definitions**	**Measurements**
Financial constraints (moderating variable)	A condition where an SME has broad access to profitable investment opportunities, but does not have the funds to execute those opportunities.	Dummy variable, where a score of 1 is given to SMEs that experience financial constraints, and a score of 2 is given to SMEs that do not experience financial constraints.
Financial partners (moderating variable)	A condition, where an SME has a partnership relationship in the financial sector.	A dummy variable, where a score of 1 is given to SMEs that have financial partners, and a score of 2 is given to SMEs that do not have financial partners.
Size (control variable)	SME size.	Total sales.
Human capital (control variable)	Human resources or non-financial resources controlled by an SME to achieve its goals.	Interaction of number of employees with education level + entrepreneur education level.
Social capital (control variable)	Social resources or non-financial resources controlled by an SME to achieve its goals. In this case, the source is in the form of cooperation with other parties other than cooperation in the financial sector.	Number of non-financial cooperation.
Regional economic growth (control variable)	Regional economic growth, which reflects the economic conditions and business climate in the area.	$REG = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$

Data Analysis

Data analysis used panel regression model – common effect, with ordinary least squares method. The unit of data analysis is the geographical analysis unit. Data analysis was assisted by STATA software. The econometric models developed for this research are:

$$FP_{it} = \alpha_{1.0} + \beta_{1.1}FC_{it} + \beta_{1.2}Size_{it} + \beta_{1.3}HC_{it} + \beta_{1.4}SC_{it} + \beta_{1.5}REG_{it} + \varepsilon_{it} \ldots.. \quad \text{Model 1}$$

$$\begin{aligned} FP_{it} = \alpha_{2.0} + \beta_{2.1}FC_{it} + \beta_{2.2}Fin\_Cons_{it} + \beta_{2.3}FC * Fin\_Cons_{it} + \beta_{2.4}Size_{it} \\ + \beta_{2.5}HC_{it} + \beta_{2.6}SC_{it} + \beta_{2.7}REG_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \end{aligned} \quad \text{Model 2}$$

$$\begin{aligned} FP_{it} = \alpha_{3.0} + \beta_{3.1}FC_{it} + \beta_{3.2}Fin\_Part_{it} + \beta_{3.2}FC * Fin\_Part_{it} + \beta_{3.4}Size_{it} \\ + \beta_{3.5}HC_{it} + \beta_{3.6}SC_{it} + \beta_{3.7}REG_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \end{aligned} \quad \text{Model 3}$$

$$\begin{aligned} FP_{it} = \alpha_{4.0} + \beta_{4.1}FC_{it} + \beta_{4.2}Fin\_Cons_{it} + \beta_{4.3}Fin\_Part_{it} \\ + \beta_{4.4}FC * Fin\_Part_{it} + \beta_{4.5}FC * Fin\_Part_{it} + \beta_{4.6}Size_{it} \\ + \beta_{4.7}HC_{it} + \beta_{4.8}SC_{it} + \beta_{4.9}REG_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \end{aligned} \quad \text{Model 4}$$

Where:

FP_{it} : financial performance of SME i in year t;

FC_{it} : financial capital of SME i in year t;

Fin_Cons_{it} : financial constraints of SME i in year t;

Fin_Part_{it} : financial partners of SME i in year t;

$FC * Fin\_Cons_{it}$: interaction of financial capital and constraint of SME i in year t;

$FC * Fin\_Part_{it}$: interaction of financial capital and partners of SME i in year t;

$Size_{it}$: size of SME i in year t;

HC_{it} : human capital of UKM i in year t;

SC_{it} : social capital of SME i in year t;

REG_{it} : economic growth of region i in year t;

α : constant;

β : slope;

ε : residual error.

Result and Discussion

Statistics

Table 3 displays the statistics. From the table, it can be seen that the number of SMEs during the year of observation tends to decrease. In 2017 the number of SMEs reached 4.46 million, then in 2018 the number decreased by around 4.49% to 4.26 million, and in 2019 increased again by about 2.27% to 4.38 million. Observations throughout the year average around 4.37 million.

The financial performance of SMEs also tends to decline during the observation year. In 2017 their total operating income was Rp.274.70 billion, then in 2018 it decreased by 6.01% to Rp.258.19 billion, and in 2019 it fell again by 14.57% to Rp.220.57 billion. Their average total operating income during the year of observation was IDR 251,152.25 billion or around IDR 57.48 million per SME. This amount when referring to the criteria in Law no. 2 of 2008 is included in the micro business group. So, the average number of SMEs in Indonesia are micro enterprises, not small and not medium enterprises. The decline in operating income resulted in their operating profit margin (OPM) also tending to fall. In 2017 their OPM was 45.60%, then in 2018 it fell to 44.59%, and in 2019 it fell again to 43.99%. However, their OPM average is still positive, which is 44.73% per year.

Their financial capital also seems to decline from year to year, both internal and external capital. In 2017 their total financial capital was IDR327,767.24 billion, which consisted of internal capital of 81.88% (IDR268,382.99 billion) and external capital of 18.12% (IDR59,384.09 billion). The following year (2018), their total financial capital decreased by 19.93% to IDR262,456.94 billion, consisting of 84.79% internal capital and 15.19% external capital. In 2019, their total financial capital again increased by about 7.02% to IDR280,873.39 billion, consisting of 87.28% internal capital and 12.72% external capital.

During the year of observation, their average total capital was IDR290,365.86 billion, most of which (84.50%) was internal capital and only 15.50% external capital. If averaged per SME, the total financial capital is around IDR66.45 million per SME. SME capital is divided into two types, namely internal capital and external capital. Throughout the observation year (2017-2019), both tend to move downward from year to year. However, the decline in external capital was greater than the decline in internal capital. Specifically for external capital, about 7.05% came from banking, venture capital (0.41%), cooperatives (0.97%), pawnshops (0.21%), government (0.49%), and other sources (7.37%). The data clearly explains that the development of SMEs in Indonesia is almost entirely dependent on capital from their owners, while external capital does not contribute to its development, be it capital from banks, venture capital or others.

Table 3. Statistics

	2017	2018	2019	Total	Average
No. of SMEs	4,464,688.00	4,264,047.00	4,380,176.00	13,108,911.00	4,369,637.00
Financial Performance					
OI (IDR Miliar)	274,695.20	258,187.50	220,574.04	753,456.74	251,152.25
OPM (%)	45.60	44.59	43.99	134.18	46.73
Financial Capital (IDR Milliar)	327,767.24	262,456.94	280,873.39	871,097.57	290,365.86
Internal Capital	268,382.99	222,528.88	245,147.37	736,059.24	245,353.08
External Capital	59,384.24	39,877.96	35,725.30	134,987.50	44,995.83
Bank	25,284.09	18,361.82	17,807.40	61,453.31	20,484.44
Venture Capital	231.88	1,241.44	2,123.17	3,596.49	1,198.83
Cooperation	3,442.12	2,546.02	2,433.64	8,421.78	2,807.26
Pawnshop	1,196.09	312.45	278.37	1,786.91	595.64
Government	1,503.19	2,030.80	701.43	4,235.42	1,411.81
Others	27,726.87	15,385.43	12,381.30	55,493.60	18,497.86
Financial Constraints	1,126,480	752,976	983,958	2,863,414	954,471
Financial Partners	31,843	34,452	26,594	92,889	30,963
Size (Rp Milyard)	602,462.44	520,644.44	501,447.43	1,624,554.31	541,518.10
Human Capital	50,397,314.05	52,768,715.56	51,369,690.00	154,535,719.61	51,511,906.54
No. of Employees	9,394,193.00	9,836,228.00	9,575,446.00	28,805,867.00	9,601,955.67
No School	1,562,486.00	1,636,007.00	1,592,633.00	4,791,126.00	1,597,042.00
Elementary School	3,433,645.00	3,595,212.00	3,499,894.00	10,528,751.00	3,509,583.67
Junior High School	2,626,257.00	2,368,705.00	2,305,905.00	7,300,867.00	2,433,622.33
Senior High School	5,695,901.00	5,963,917.00	5,805,799.00	17,465,617.00	5,821,872.33
Diploma	61,456.00	64,348.00	62,642.00	188,446.00	62,815.33
Higher Education	169,565.00	177,544.00	172,837.00	519,946.00	173,315.33
No. of Entrepreneurs	4,464,688.00	4,264,047.00	4,380,176.00	13,108,911.00	4,369,637.00
No School	806,811.00	844,775.00	822,378.00	2,473,964.00	824,654.67
Elementary School	1,524,154.00	1,595,871.00	1,553,561.00	4,673,586.00	1,557,862.00
Junior High School	914,606.00	957,642.00	932,253.00	2,804,501.00	934,833.67
Senior High School	899,807.00	942,147.00	917,168.00	2,759,122.00	919,707.33
Diploma	36,987.00	38,728.00	37,701.00	113,416.00	37,805.33
Higher Education	114,898.00	120,305.00	117,115.00	352,318.00	117,439.33
Social Capital	391,347.00	409,761.00	398,898.00	1,200,006.00	400,002.00
Avg. REG (%)	9.58	9.19	6.70	25.47	8.49

Source: BPS (2017, 2018, 2019)

In contrast to its capital and financial performance, the number of SMEs that are financially constrained tends to decline from year to year. The number of SMEs that were financially constrained in 2017 was 1.13 million or around 25.23%. Furthermore, in 2018 the number of SMEs with financial constraints decreased by around 33.16% to 752.98 thousand, but in 2019 increased again beyond 30.68% to 983.96 thousand. During the year of observation, the average number of SMEs with financial constraints reached 954.47 thousand or about 21.84% of the existing SMEs. Meanwhile, the average number of SMEs that have financial partnership relationships is only 30.96 thousand or 0.71% of the average existing SMEs. This number tends to decrease from year to year. In 2017 the number of SMEs with financial partners was 31.84 thousand, then in 2018 it increased to 34.45 thousand, and in 2019 it fell drastically to 26.59 thousand or decreased by around 22.81%.

The size of SMEs as measured by total sales is an average of IDR541,518.10 billion or around IDR123.93 million per SME per year. If referring to Law no. 20 of 2008, then they are also classified as micro-enterprises, not small businesses and not medium-sized businesses. Their size decreases from year to year. In 2017 their total sales reached IDR602,462.44 billion, then in 2018 it fell by around 13.58% to IDR520,644.44 billion, and in 2019 it fell again by around 3.69% to IDR501,447.43 billion. It also shows that their performance is poor as previously described.

In contrast to financial capital, the human capital of SMEs tends to increase. This can be seen from the number of employees, with the education level of employees with a better level of education, as well as the level of entrepreneurial education. The average number of employees working in the SME sector reaches 9.60 million people per year. Or about 2 people per SME. (60.63%) have high school education, 36.55% have elementary school education, 25.35% have junior high school education, 16.63% don't go to school, 1.81% have higher education, and 0.65% have diploma education. Employees with basic education tend to decline from year to year, while employees with education are increasing. Meanwhile, in terms of entrepreneurship, the largest (35.65%), including elementary, junior high (21.39%), high school (21.05%), not in school (18.87%), higher education (2.69%) . and diploma (0.87%).

The social capital of SMEs as measured by the number of drawn non-financial partnerships tends to increase. In 2017 the number of non-financial partnership relationships owned by SMEs was 391.35 thousand, then in 2018 it increased by 4.71% to 409.76 thousand, but in 2019 it decreased by about 2.65% to 398.90 thousand . The average number of non-financial partnership relationships during the year of observation was 400,000 thousand relationships or about 8.49% of the total existing SMEs. This shows that the social capital of SMEs in Indonesia is very low.

During the year of observation, the economic condition and business climate were not good. This is reflected in the regional economic growth (REG) which has decreased from year to year. In 2017 regional economic growth was 9.58%, but in 2018 it fell to 9.19%, and in 2019 it fell again to 6.70%. The average regional economic growth during the year of observation was 8.49%. This condition can trigger an increase in SME input-output prices and a decrease in consumer purchasing power which can have a negative impact on the performance of SMEs.

Relationship between Financial Capital and SME Financial Performance: Short-Term vs. Long-term

The results show that in general (see Table 4, Panel A), financial capital is positively and significantly related to the financial performance of SMEs, both in the short and long term. This means that an increase/decrease in financial capital will trigger an increase/decrease in the financial performance of SMEs, thus supporting our first hypothesis. This finding is in accordance with the RBV theory which explains that internal resources such as financial capital are very important to increase competitive advantage. In the context of SMEs, financial capital plays an important role in financing working capital and long-term assets. The availability of large capital allows them to increase business productivity effectively and efficiently. An increase in productivity will trigger an increase in sales or revenue and reduce operating costs, thereby driving higher operating profits. In addition, the availability of large financial capital also enables them to execute profitable business opportunities in the future, either through product differentiation or business diversification. On the other hand, limited financial capital will have a negative impact on working capital financing and long-term asset investment. This will affect or even hinder productivity and run profitable business opportunities in the future. This finding also supports findings from Abbas (2018), Chittithaworn et al. (2011), Dewi and Utari (2014), Fatoki (2011), Omar and Azmi (2015), Philip (2011), and Sombolayuk et al. (2019). They also find that financial capital is positively related to the performance of SMEs.

The financial capital of SMEs is divided into two types, namely internal capital and external capital. Panel B shows that both types of capital are positively and significantly related to financial performance, both in the short and long term. When compared between the two, the contribution of internal capital to the performance of SMEs is greater than the contribution of external capital. This is due to the high use of internal capital from the SMEs studied. During this observation year (2017-2019), around 84.50% of the total SME capital was internal capital and only 15.50% was external capital. Therefore, internal capital has a more dominant role than external capital.

Table 4. Relationship between Financial Capital and SME Financial Performance

	Short-Term						Long-Term	
	2017		2018		2019		2017-2019	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Panel A. General								
Financial Capital	0.949	42.897***	0.802	22.434***	0.948	14.633***	0.889	37.348***
Control Variables								
Size	0.941	89.009***	0.979	43.434***	0.989	27.316***	0.987	71.950***
Human Capital	0.082	2.043**	0.059	0.743	0.089	0.544	0.078	1.198
Social Capital	0.001	0.423	-0.003	-0.416	0.005	0.404	0.005	0.045
Regional Economic Growth	0.081	2.119**	-0.054	-0.718	-0.051	-0.325	-0.066	-1.064
Memo Items								
R	0.999		0.988		0.999		0.999	
R square	0.998		0.976		0.999		0.999	
F-satistic	906.302***		292.561***		397.866***		244.263***	
Panel B. By Tipe of Capital								
Internal Capital	0.842	29.758***	0.741	21.219***	0.857	11.289***	0.798	32.533***
External Capital	0.131	13.828***	0.073	5.489***	0.095	4..160***	0.099	10.851***
Control Variables								
Size	0.960	66.923***	0.980	41.529***	0.989	25.226***	0.987	69.413***
Human Capital	0.074	1.429	0.107	1.210	0.080	0.460	0.072	1.056
Social Capital	0.004	-0.006	-0.005	-0.694	0.007	0.522	0.005	-0.055
Regional Economic Growth	-0.068	-1.372	-0.098	-1.171	-0.046	-0.275	-0.060	-0.925
Memo Items								
R	0.989		0.988		0.999		0.999	
R square	0.978		0.977		0.999		0.999	
F-satistic	248.281***		233.985***		304.209***		191.513***	
Panel C. By Source of Capital								
Individu	0.895	13.371***	0.688	8.497***	1.089	7.109***	0.841	21.679***
Venture Capital	0.001	-0.268	-0.005	-0.565	0.002	0.083	0.001	0.123
Bank	0.047	3.671***	0.055	2.430**	0.004	0.065	0.057	4.799***
Cooperation	-0.005	-0.529	0.025	2.182*	-0.037	-1.569	0.012	1.917*
Pegadaian	-0.007	-1.548	0.011	1.702	-0.003	-0.272	-0.001	-0.363
Government	0.001	0.052	-0.002	-0.318	-0.013	-1.024	-0.007	-1.066
Others	-0.017	-0.925	0.003	0.640	0.012	0.634	-0.002	-0.691
Control Variables								
Size	0.998	26.759***	0.972	19.173***	0.917	17.554***	0.989	44.300***
Human Capital	0.062	0.603	0.077	0.487	0.588	1.759	0.222	2.150**
Social Capital	-0.004	-0.429	0.006	0.374	-0.026	-0.797	-0.009	-1.067***
Regional Economic Growth	-0.064	-0.678	-0.074	-0.488	-0.458	-1.671	-0.190	-1.954*
Memo Items								
R	0.996		0.994		0.999		0.999	
R square	0.991		0.989		0.999		0.999	
F-satistic	190.853***		87.089***		641.817***		493.462***	

Notes: *significant at 10% **significant at 5% ***significant at 1%

Based on the source of capital (see Panel C), individual capital (internal capital) is positively and significantly related to the financial performance of SMEs, both in the short and long term. Meanwhile, capital originating from banks (credit) varies in the short term. In 2017, bank capital was positively related to the financial performance of SMEs, as well as in 2018. However, in 2019, bank capital did not have a significant relationship with the financial performance of SMEs. However, in the long term, capital from banks is positively and significantly related to the financial performance of SMEs.

The capital that comes from cooperation, in the short term, varies. In 2017 and 2019, this capital did not show a significant relationship with financial performance. In 2018 this capital is positively related to financial performance, but its contribution to performance is very low. In the long term, this capital is positively related to the financial performance of SMEs, but with a very low contribution, especially when compared to contributions from banks. Meanwhile, capital from venture capital, pawnshops, government, and other sources has not shown a significant relationship with the financial performance of SMEs, both in the long and long term.

Moderation Effect

Table 5, Model 1, shows the results of testing the relationship between financial capital and the financial performance of SMEs. The values in Table 5, Model 1, are the same as those in Table 4, Long-Term column, Panel A. We return to Table 5 for comparison with Model 2, Model 3, and Model 4. As previously explained, financial capital is related positive and significant with the financial performance of SMEs. increase/decrease in financial capital will trigger an increase/decrease in financial performance. This finding is in accordance with the explanation of the RBV theory and the findings of other researchers, thus supporting our first hypothesis.

Model 2 presents the results of testing the moderating effect of financial constraints on the relationship between financial capital and the financial performance of SMEs. The results show that financial constraints are proven to weaken the relationship between financial capital and the financial performance of SMEs, thus supporting our second hypothesis. SMEs experiencing financial constraints will find it difficult to increase their financial capital, especially external capital, such as bank credit or other external sources. Lenders will find it difficult to approve loans from financially constrained SMEs, because they are worried about the risk of default. Therefore, lenders may require higher return requirements for financially constrained companies. For SMEs, if they agree to high return terms, it will increase the cost of capital, which will increase their financial costs. So, instead of improving financial performance, they will experience inefficiency. On the other hand, SMEs that experience low financial constraints will find it easier to increase their finances. Lenders are not worried about the risk of default, so they impose moderate repayment requirements on SMEs. For SMEs with low financial constraints, the increased financial capital will be used to finance profitable business opportunities. This is done by increasing creativity and innovation effectively and efficiently, thereby encouraging higher financial performance. This finding supports the findings of Altaf and Ahmad (2018), where they also find that companies experiencing financial constraints will find it easier to increase their financial capital, because they will more easily access external credit with low loan interest. This also supports the findings of Banos-Caballero et al. (2014), where companies that are financially constrained will have a lower optimal working capital point. This means that companies that are financially constrained will find it difficult to increase working capital. When available working capital is limited, this will have a negative impact on financial performance, due to lost sales and discounted payments in the purchase of raw materials.

Table 5. Moderation Effects

	Model 1		Model 2		Model 3		Model 4	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Financial Capital	0.889	37.348***	0.855	28.017***	0.884	34.976***	0.816	22.356***
Financial Constraints	---------	---------	0.067	1.771*	---------	---------	0.225	2.522**
Financial Capital X Financial Constraints	---------	---------	-0.003	-1.805*	---------	---------	-0.011	-2.544**
Financial Partners	---------	---------	---------	---------	0.023	0.842	-0.008	-0.213
Financial Capital X Financial Partners	---------	---------	---------	---------	-0.001	-0.751	0.007	1.040
Control Variables								
Size	0.987	71.950***	0.987	71.695***	0.987	71.683***	0.987	72.372***
Human Capital	0.078	1.198	0.072	1.005	0.066	0.999	0.091	1.270
Social Capital	0.005	0.045	0.005	0.005	0.005	0.054	-0.003	-0.500
Regional Economic Growth	-0.066	-1.064	-0.059	-0.886	-0.056	-0.890	-0.076	-1.151
Memo Items								
R	0.999		0.999		0.999		0.999	
R square	0.999		0.999		0.999		0.999	
F-satistic	244.263***		176.771***		173.173***		141.112***	

Notes: *significant at 10% **significant at 5% ***significant at 1%

Model 3 presents the results of testing the moderating effect of financial partners on the relationship between financial capital and financial performance of SMEs. As has been explained in the literature, financial partners in SMEs are intended for two things. First, to make it easier for them to access external resources. Second, improve capital management effectively and efficiently so as to encourage better financial performance. Therefore, the proposed hypothesis is that financial partners have a positive moderating effect on the relationship between financial capital and financial performance of SMEs, where the relationship will be stronger when SMEs have financial partners. The results of the data analysis presented in Model 3, show that the positive moderation of financial partners on the relationship between financial capital and financial performance of SMEs is not supported. This can be seen from the coefficient of interaction of financial partners and financial performance which is not significant. This shows that the financial partners that have been established by SMEs have not provided significant benefits for SMEs. On the capital side, existing financial partners have not been able to increase financial capital for SMEs. Meanwhile, in terms of capital management, they have not been able to encourage effective and efficient capital management for SMEs.

Model 4 displays the results of the full moderating effect of financial constraints and financial partners. In this case, financial constraints and financial partners together moderate the relationship between financial capital and the financial performance of SMEs. The results are consistent with Model 2 and Model 3, where only significant financial constraints weaken the relationship, while financial partners are not significant. This means that the financial constraints on SMEs are still very high, while the existing financial partners have not been able to reduce financial constraints. As a result, it is still difficult for SMEs to increase their financial capital, thus hampering performance improvement.

Conclusion and Suggestion

Based on the results of data analysis, it can be obtained that financial capital is positively and significantly related to the financial performance of SMEs. increase/decrease in financial capital will trigger an increase/decrease in their financial performance. In addition, financial constraints act as a moderator on their relationship. In this case, financial constraints have a negative moderating effect on the relationship, where the relationship is weak because SMEs experience high constraints. Financial partners do not have a significant impact on the relationship. This implies that the existing financial partners have not provided any benefits to SMEs. In terms of capital, financial partners have not been able to increase the financial capital of SMEs. Meanwhile, in terms of capital management, financial partners have also not been able to improve the quality of effective, efficient and profitable capital management for SMEs.

Based on these findings, regulators should re-evaluate existing policies to address the current problems of SMEs and to assist their development in the future. In general, we find that SME's capital still mostly relies on internal capital, and this is very limited. Meanwhile, external capital, whether from bank credit, cooperatives, venture capital, pawnshops, capital assistance from the government, or capital from other sources, hardly helps them. Therefore, most of them are experiencing financial constraints, which has a negative impact on their performance and development. In addition, the government's efforts with other stakeholders to build financial partnership relationships with SMEs have also not provided significant benefits. Existing financial partners have not been able to increase the capital and performance of SMEs, and have not been able to overcome their financial problems. In particular, we suggest that the government can facilitate them to be able to access free external capital with a simple procedure. This can be done by increasing credit interest subsidies and increasing capital grants to them. In addition, the government can also integrate CSR programs from large companies to improve strategic partnerships for SMEs, especially in the financial sector.

This study measures financial constraints using a dummy variable, which is caused by data limitations. However, the measurement of financial constraints using dummy variables was also carried out by several previous researchers, for example Altaf and Ahmad (2019), Altaf and Shah (2017), Banos-Caballero et al. (2014), and Belas et al. (2017). However, we acknowledge that the dummy variable is a weak predictor, so it may not fully explain the role of financial constraints on the relationship between financial capital and the financial performance of SMEs. Therefore, future researchers are expected to be able to measure financial constraints using ratios or measurement scales other than dummy, so that they can explain explicitly. In addition, this study also explores the role of financial partners in the relationship, but the findings show that financial partners do not have a significant role in the relationship. Therefore, future researchers are expected to re-test or develop other test models to further explore the role of financial partners in the relationship.

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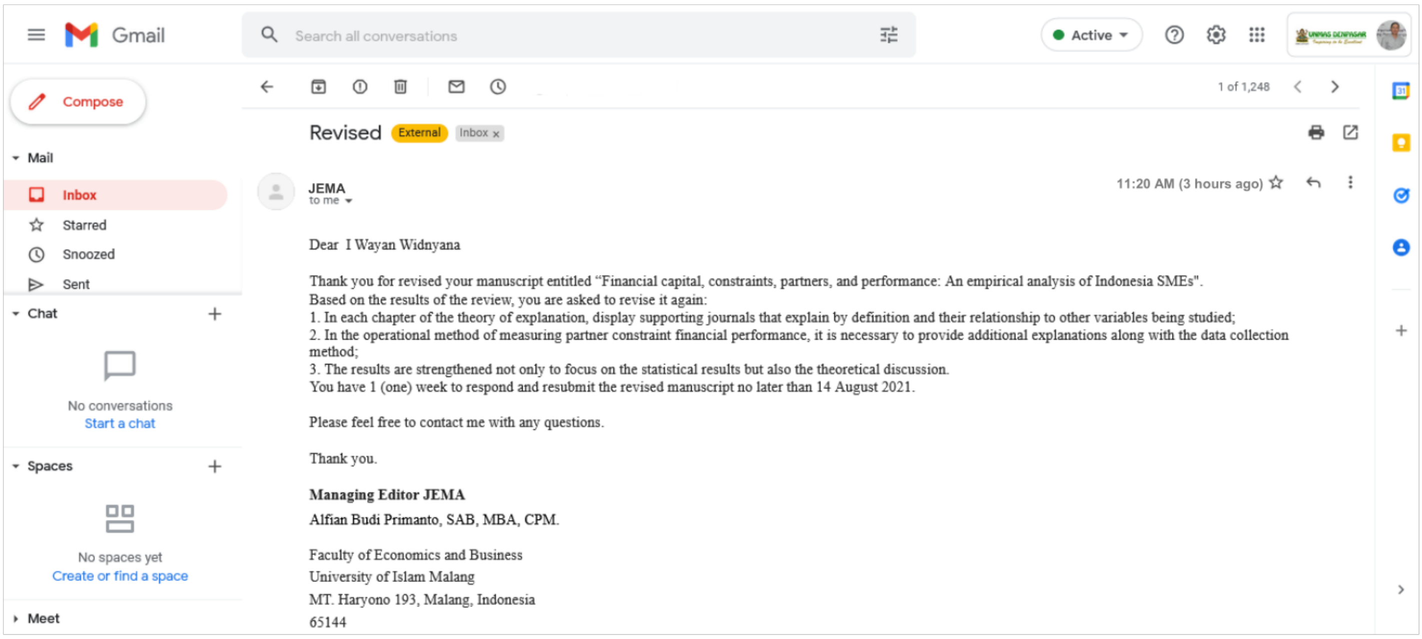
4. SURAT PERMINTAAN REVISI KE 2 TANGGAL 7 AGUSTUS 2021



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JEMA
to me

11:20 AM (3 hours ago)

Dear I Wayan Widnyana

Thank you for revised your manuscript entitled "Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs".
Based on the results of the review, you are asked to revise it again:
1. In each chapter of the theory of explanation, display supporting journals that explain by definition and their relationship to other variables being studied;
2. In the operational method of measuring partner constraint financial performance, it is necessary to provide additional explanations along with the data collection method;
3. The results are strengthened not only to focus on the statistical results but also the theoretical discussion.
You have 1 (one) week to respond and resubmit the revised manuscript no later than 14 August 2021.

Please feel free to contact me with any questions.

Thank you.

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5. BUKTI REVISI KE 2

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Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs

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ABSTRACT

Indonesia's small and medium enterprises (SMEs) are considered the backbone of the national economy. However, the fact that SMEs still contribute less to the national gross domestic product (GDP) in terms of value- added, need to be addressed. While previous studies mainly focused on financial (access) constraints as one of the major constraints faced by small enterprises which affect their growth and performances, this study aims to extend the relationship between capital and financial performance of Indonesia SMEs with the moderating effect of financial constraints and partners. This study is different from others as it uses a bigger panel dataset which is about 4.36 million SMEs in Indonesia and is the first to explore the role of financial partners comprehensively. Moreover, the panel regression model with geographic analysis unit uses as a data analysis method. The results of the study show that financial capital has a positive and significant effect on the financial performance of SMEs. Furthermore, while the moderation role of financial partners on the relationship between financial capital and financial performance of Indonesia SMEs was failed to prove, the negative moderation effect of financial constraints was able to prove in this study.

Keywords: SMEs; Financial Performance; Capital; Financial Constraints; Financial Partners.

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Introduction

Indonesia is one of the countries with the largest number of small-medium enterprises (SMEs) around the world. As of 2018, there are more than 62 million SMEs active (which represent 99.98 percent of all enterprises) in the country (Dinutistomo & Lubis, 2021). In terms of economic impact, SMEs accounted for almost 60% of Indonesia's total Gross Domestic Product (GDP) in 2018. SMEs also play a significant role to enhance Indonesia's total employment rate with a contribution of 97.02 percent in 2018. However, despite these major contributions, the survey result from the National Agency of Statistics shows that their average operating profit tended to be corrected by 10.29% which is resulted in the downward of their average income by 3.88% annually from 2017 to 2019. Even worse, the pandemic of COVID-19 in early 2020 caused 48.6% of the total of 62 million units of SMEs to close their business due to a drastic decline in sales number (Sadjiarto et al., 2020; Tambunan, 2011).

Numerous factors could affect SME's performances, including capital issues, raw materials, marketing, competitors, energy, infrastructure, labor, weather, and others (Prasetya et al., 2021; Zamrudi & Wicaksono, 2018). Rosengard & Prasetyantoko (2011) highlighted the perplexing paradox of Indonesia's financial sector related to SMEs which is although over the last decade most of Indonesia's commercial banks are liquid and profitable, and has positive performance of the national economics, SMEs are increasingly experiencing a credit crunch. According to the National Agency of Statistics (2019), there were more than 85% of Indonesian SMEs are relying on their capital (internal capital) and have no support from external capital, including banks, venture capital, cooperation, and others. Even worse, MSMEs in Indonesia have a financial inclusion rate of roughly 30%, with 76.1 percent of them receiving finance from banks and 23.9% of them getting funding from a non-bank financial institution (Bank of Indonesia, 2015). Dinutistomo & Lubis (2021) argues that these conditions occur because of the low credit market information quality exchanges between creditors and lenders. Thus, SMEs are often being subjected to tighter loan restrictions due to their high credit risk profiles. However, several studies found the opposite as there is a negative relationship between the proportion of SMEs lending and bank risk level and there was a positive influence between SMEs credit and banks profitability (Boadi et al., 2017; Shihadeh et al., 2019).

Furthermore, the relationship between capital and SME performance has been widely discussed globally covering various aspects of capital including intellectual capital, social capital, human capital, intellectual capital, and financial capital. Studies from Beretta et al. (2019), Dabić et al. (2019), Paoloni et al. (2021), and Sardo et al. (2018) confirms that intellectual capital has positive associations with SMEs business performances of high-tech, non-high-tech companies, small and medium-sized hotel, agri-food firms, and other sectors. Xu & Li (2019) even added that intellectual capital is positively associated with firm earnings, operation efficiency, and profitability. Along with that finding, social capital and financial capital also have shown that it has positive and significant influences on business (financial) performances among SMEs around the word (Abbas, 2018; Adlešič & Slavec, 2012; Boohene et al., 2019; Chittithaworn et al., 2011; Fatoki, 2011; Philip, 2011; Omar & Azmi, 2020; Sombolayuk et al., 2019; Utari & Dewi, 2014). Nakku et al. (2020) added that the effect of financial capital on SME's performance will be stronger when government support existed. Meanwhile, several studies also confirm that financial constraints are one of the factors that affect the relationship between SMEs capital and performance. They concluded that financial constraints have a negative moderating effect on SMEs performance, the relationship will be stronger when the company has low financial constraints, and vice versa (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Kaushik & Chauhan, 2019; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019).

This study differs from other studies, for three reasons. First, we will examine the relationship between capital and financial performance of 4.36 million SMEs across all sectors and regions in Indonesia. So far, research on SMEs has focused on certain sectors or regions, so the results may not reflect actual conditions. Therefore, testing on 4.7 million SMEs is expected to reflect more accurate results. Second, we examine the relationship using panel data for three years, to be able to provide more complete information with a high degree of variability and be able to explain the relationship between periods, both short-term and long-term. Third, we will explore the role of financial partners in the relationship between capital and the financial performance of SMEs. The role of financial partners in the relationship between capital and financial performance has never been studied by anyone, and we are the first to explore it. So far, partnership relationships in the context of SMEs are dominantly carried out in supply chain partnerships, as was done by Sukwadi et al. (2013) and Mofokeng

& Chinomona (2019). Therefore, exploring the role of financial partners in this relationship is expected to make a positive contribution to the development of science and research methodologies, especially in the field of entrepreneurship. In addition, an assessment of the role of this financial partner can also identify the efforts of the government and other stakeholders. Thus, the results of this study are also expected to provide practical contributions, which can be used as a consideration for formulating related policies.

Literature Review

Small Medium Entrerprise (SME)

Small and Medium Enterprises (SMEs) is a term that denotes a business entity, with certain criteria. SMEs are divided into three groups, namely micro, small and medium enterprises. Definitions and terms of SMEs vary from country to country. The European Commission (2015) defines micro-enterprises as enterprises with an annual number of units of work less than 10 with an annual turnover or total annual balance sheet less than or equal to €2 million. Small businesses have an annual number of work units of less than 50 with an annual turnover or total annual balance sheet less than or equal to €10 million. Meanwhile, medium-sized enterprises have an annual number of work units of less than 250 with an annual turnover or total annual balance sheet less than or equal to €50 million. Meanwhile, they define micro-enterprises as businesses that have less than 10 employees with total assets or total annual sales of less than or equal to $100,000. Moreover, while small businesses have more than 10 employees less or equal to 50 people, with total assets or total but annual sales of more than $100,000 but less or equal to $3 million, medium-sized is classified as businesses that have more than 50 employees but less or equal to 300 people, with total assets or total annual sales of more than $3 million but less or equal to $15 million.

In Indonesia, the definition of SMEs can refer to Law no. 20 of 2008. In the law, micro- enterprises are defined as businesses that have a maximum wealth of IDR 50 million, with a maximum turnover of IDR 300 million. Small businesses are defined as businesses that have assets of more than IDR 50 million to IDR 500 million, with a turnover of more than IDR
300 million to IDR 2.5 billion. Meanwhile, medium-sized businesses are defined as businesses that have assets of more than IDR 500 million to IDR 10 billion, with a turnover of more than IDR 2.5 billion to IDR 50 billion. Besides being defined by a quantitative approach, SMEs in Indonesia is also defined by a qualitative approach. In this

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case, the National Agency Statistics uses the number of workers in defining it, where micro-enterprises have a maximum of 4 permanent workers, small businesses 5 to 19 people, and medium-sized businesses 20 to 99 people.

In general, SMEs are business entities that are not legal entities or are often referred to as informal businesses or individual companies. Most are managed directly by the owners, who are assisted by family members. The SME decision-making system is quite flexible, informal, and relies on personal encouragement from its executives (Ayandibu & Houghton, 2017). Decision-making systems are often automated and not based on accurate business analysis. Viewed from the operational aspect, they generally have a narrow reach with a simple organizational structure, rely less on technology, and have low risk (Gronum et al., 2012).

According to the World Bank (2008) reports, SMEs play an important role in the country's economy, because they are the engine of economic growth. They are important for creating competitive and efficient markets, and they are important for alleviating poverty. Therefore, all parties must prioritize it in all respects so that its growth and development are maintained and getting better from time to time. However, the fact is that until now, they are difficult to develop. Olawale & Garwe (2010) stated that two factors affect their performance so that it often hinders their growth, namely internal and external factors. Internal factors include financial and management constraints, while external factors include economic, market, and infrastructure factors. Meanwhile, Ayandibu & Houghton (2017) have summarized various problems that are often experienced by SMEs, including lack of access to finance, lack of collateral, inadequate government support, high loan interest rates, insufficient demand, inadequate marketing research, the location is not strategic, high competition, poor credit record, high production costs, lack of information technology, high taxes, lack of entrepreneurial experience and knowledge, and lack of business networks.

Financial Capital and Financial Performance of SMEs

One theory that is often used to explain the performance of companies, including SMEs is the resource-based view (RBV). This theory focuses on managerial attention to the company's internal resources, both tangible and intangible. Resources should not be embedded in organizational routines or practices, organizational reputation, culture, knowledge, experience, relationships or networks, etc. For SMEs, internal and external capital is used to maintain and increase their competitive advantage (Eniola &

Ektebang, 2014). Lack of financial capital can hinder SMEs (Abiodun & Amos, 2018; Eniola & Entebang, 2017).

In general, SME capital consists of two, namely internal capital (own capital) and external capital. Internal capital is capital that comes from the founder or owner and is generally very limited. External capital is other than internal capital. External capital can come from bank loans and financing from other financing, grants, personal loans, etc. External capital, especially from financing, is generally unlimited, but most SME institutions find it difficult to access it. Access the capital needed to acquire resources to take advantage of business opportunities. Lack of physical resources can fail them (Fatoki, 2011). According to Bolingtoft et al. (Fatoki, 2011), to build and maintain SMEs, entrepreneurs need to have access to various types of resources, including human resources, physical capital, and financial capital, each of which plays a different role but is equally important to the life cycle. Furthermore, they also stated that there are many reasons related to the failure of SMEs, one of the most important is the unavailability of capital, thus impeding their survival and growth.

The important role of capital on the performance of SMEs has been widely studied in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar & Azmi, 2020), and South Africa (Fatoki, 2011). Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example, Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Utari & Dewi (2014) in Denpasar. Capital is positively related to the performance of SMEs, where a capital increase will encourage better SME performance, and vice versa.

H_1: Financial capital is positively related to financial performance.

The Role of Financial Constraints on the Relationship of Capital and Financial Performance of SMEs

Financial constraints refer to a condition where the company has broad access to profitable investment opportunities but has limited funds to fund these opportunities. Financial constraints are a topic that is highlighted in the context of SMEs because SMEs are the main drivers of economic growth, but the majority always experience financial constraints, thus failing to execute profitable investment opportunities (Belas et

al., 2017). Financial constraints for SMEs are generally caused by the limited availability and unclear information so that the prospects for business growth are doubtful. As a result, banks or other funding sources are unwilling to accept their proposals. In addition, business legality and collateral also play an important role in these financial constraints (Lukas Menkhoff et al.,
2012; Rahman et al., 2016). In general, SMEs are informal or individual businesses, with a limited number of assets. As a sole proprietorship, the assets of SMEs are inseparable from the personal assets of their owners. This is what makes it difficult for them to access external finance, and if it is accessible, the amount of funds is very limited. Therefore, Olawale & Garwe (2010) stated that financial constraints are one of the factors that greatly affect the performance of SMEs. The same thing was stated by (Bodlaj et al., 2020), where financial constraints can hinder innovation and creativity, thereby hindering their performance and development.

Financial constraints have a strong moderate effect on the relationship between capital and firm performance. In particular, financial constraints harm the relationship. Several studies have confirmed this. For example, Altaf & Ahmad (2019)(Altaf & Ahmad, 2019), who tested the moderating effect of financial constraints on 437 non-financial firms in India. They found that there is a positive relationship between working capital and firm performance, where the relationship will be stronger in companies with low financial constraints. However, this relationship will weaken in companies with high financial constraints. In line with these findings, Baños-caballero et al. (2014) also found the same thing in non-financial companies in the UK. Financial constraints provide strong support for the relationship between working capital and firm performance. This implies an optimal level of investment in working capital that balances costs and benefits and maximizes firm value (Altaf & Ahmad, 2019; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019; Setianto & Hayuningdyah, 2020).

H_2: Financial constraints have a negative moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when financial constraints are low, and vice versa.

The Role of Financial Partners on the Relationship of Capital and Financial Performance of SMEs

Partnership, in general, can be interpreted as a form of mutually beneficial cooperation between two or more parties to achieve common goals. In the context of SMEs, a partnership can be defined as cooperation between small businesses and large businesses and/or large businesses by taking into account the principles of mutual need, mutual strengthening, and mutual benefit. Classical literature, such as Astley & Ven (1983), Mcdowell & Harris (2009), and Nooteboom (2000) has stated that sustainable inter-organizational partnerships in SMEs are important. This is to improve their performance. In Indonesia, efforts to increase the role of SMEs through partnership patterns are regulated in the Presidential Decree No. 127 of 2001, concerning MSMEs and Partnerships, which states that it is necessary to have a type of business that is reserved for small businesses and open opportunities for medium or large performance with the conditions of the partnership.

The concept of partnership in SMEs is a business strategy used for business development. Partnerships in SMEs can be carried out in all aspects, such as finance, raw materials, marketing, capital goods, etc. Following Law No. 20 of 2008, partnerships in SMEs can be in the form of:

1. The nucleus-plasma partnership pattern, namely, the partnership relationship between small or large businesses as the core company fosters and develops small businesses that become plasma by providing technical guidance, technology development, providing production facilities, and providing other assistance needed to increase effectiveness, efficiency, and productivity;
2. Subcontracting partnership pattern, namely a partnership relationship where the partner group produces the components needed by the partner company as part of its production;
3. The pattern of general trade cooperation, namely, a partnership relationship where the partner group provides the needs needed by the partner company and the partner company markets the production of the partner group;
4. The pattern of profit-sharing cooperation, namely, partnership relationships carried out by large and small businesses, the results of which are calculated from the net results of the business and if they experience mutual losses by the agreement;
5. Operational cooperation patterns, namely partnerships carried out by large or medium-sized businesses with micro-enterprises to carry out a joint business using assets and/or business rights that are jointly owned;

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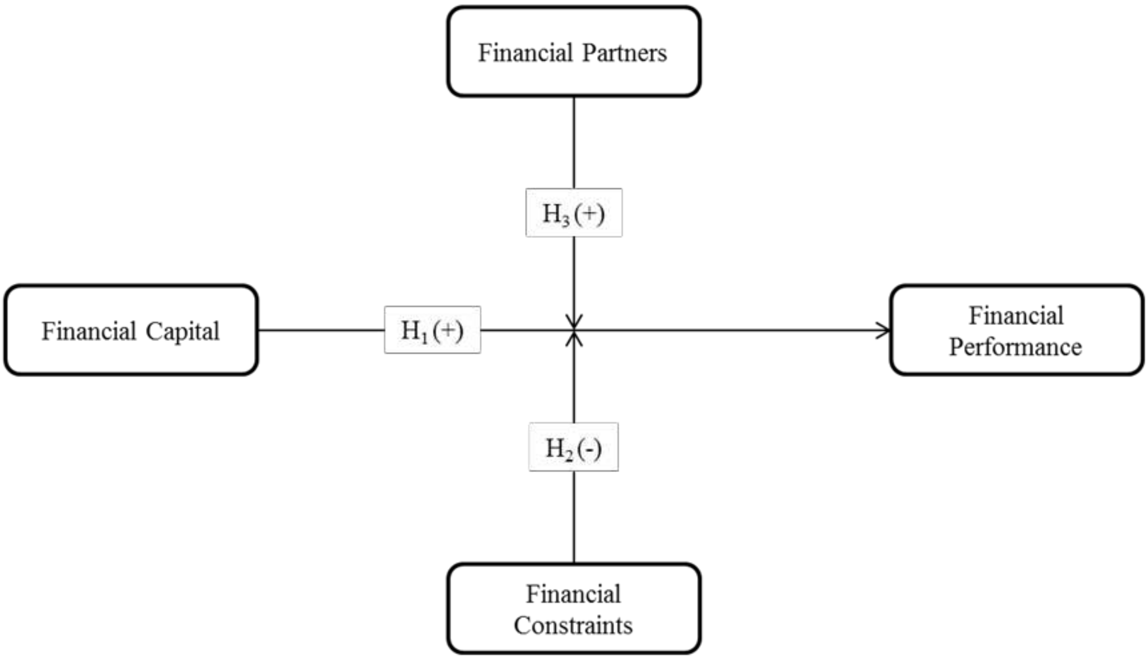
6. The pattern of joint ventures, for example, partnerships carried out by micro and small businesses to carry out joint economic activities, in which each party contributes capital and shares the results and risks proportionally;
7. Other cooperation patterns, namely partnerships other than those already mentioned.

In the financial context, partnerships are generally for two things. First, increase capital. Second, improve capital management. Therefore, SMEs with financial partners will find it easier to access more capital and be able to manage their finances effectively and efficiently, thereby encouraging better company performance. Thus, financial partners can act as a moderating variable in the relationship between capital and financial performance. This is because on the one hand financial partners can facilitate access to funds for SMEs so that their capital will increase, while on the other hand, they can improve the quality of SMEs in managing their capital so that it will encourage effectiveness, efficiency, and profits.

H3: Financial partners have a positive moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when the company has financial partners, and vice versa.

The research framework as depicted in Figure 1, consists of three main variables which are financial performance (dependent variables), financial capital (independent variable), financial constraints, and financial partners (moderating variable). Financial capital is thought al., 2019; Utari & Dewi, 2014). Financial constraints are thought to have a negative moderating effect on the relationship between financial capital and financial performance (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019; Setianto & Hayuningdyah, 2020). The relationship between financial capital and financial performance will be very strong when the company is not financially constrained. On the other hand, the relationship will be weak when the company is financially constrained.

Figure 1. Research Framework



In opposite to financial constraints, financial partners are considered to have a positive moderating effect on the relationship between financial capital and financial performance. The relationship will be very strong when SMEs have financial partners, but the relationship will be weak when SMEs do not have financial partners. When SMEs have financial partners, it is possible to access external capital more easily and the amount of capital obtained is greater than SMEs without financial partners. Meanwhile, other benefits obtained by SMEs with financial partners are quality in managing finances, so that financial management becomes effective, efficient, and profitable. Substantially, these two benefits will drive better financial performance. Financial partners in this study are exploratory because there has been no research examining the relationship between capital and performance. This study is the first to attempt to test this relationship.

Methods

The research design uses quantitative methods, precisely existing statistics. According to Lawrence Neuman (2017), existing statistics are research based on statistical data collected by certain parties, such as the government or supervisory agencies, which are carried out by rearranging or providing information in new ways to present more information. He further stated that the existing statistics could be used for descriptive, exploratory, or explanatory purposes. The object of study in the existing statistics is the statistical report itself. In this case, the object of this research is the

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National Agency of Statistics (2017, 2018, 2019) survey report for 2017, 2018, and 2019 with coverage of more than 4 million Indonesian SMEs annually. Furthermore, the majority of the type of industry in the study is food and beverages (37.13%), wood industry, goods made of wood, cork, woven goods made of rattan, bamboo, etc. (14.17%), and apparel (13.25%). While the minority is the computer, electronic, and optical goods industry (0.02%), the electrical equipment industry (0.03%), and the motor vehicle, trailer, and semi-trailer industry (0.06%). By region, the majority of them are localized in Java (59.63%), Sumatra (16.07%), Bali and Nusa Tenggara (9.26%), Sulawesi (8.66%), and Kalimantan (4.41%).

The data of this research can be explained in three perspectives. The first perspective, according to its type, this research uses quantitative data, namely data that is expressed in numbers and can be measured. The second perspective, based on the source of data acquisition, this study uses secondary data, namely, data obtained from the National Agency of Statistics (2017, 2018, 2019) survey reports in 2017, 2018, and 2019. The third perspective, based on the period, this study uses panel data. Data analysis used panel regression model – common effect, with ordinary least squares method and the geographical as the unit data analysis. Data analysis was assisted by STATA software. Table 1 below presents the research variables along with their operational definitions and measurements.

Table 1. Variables, Operational Definitions, and Measurements

Variables	Definition	Measurements
Financial Performance (Fin_Perf)	The ability of SMEs to earn operating profit in the current year.	$OPM = \frac{Operating\ Income}{Total\ Sales} \times 100\%$
Financial Capital (Fin_Cap)	Total SME capital, which consists of internal and external capital in the current year.	Natural logarithm of total capital.

Financial Constraints (Fin_Const)	A condition where an SME has broad access to profitable investment opportunities but does not have the funds to execute those opportunities.	A dummy variable, where a score of 0 is given to SMEs that are experiencing financial constraints, and a score of 1 is given to SMEs that are not experiencing financial constraints.
Financial Partners (Fin_Part)	A condition, where an SME has a partnership relationship in the financial sector.	A dummy variable, where a score of 0 is given to SMEs that are having partners, and a score of 1 is given to SMEs that are not having partners.
Size (SIZE)	The size of SME.	Total sales.
Human Capital (HC)	Human resources or non-financial resources are controlled by an SME to achieve its goals.	The additional amount of the interaction number of employees with education level and entrepreneur education level.
Social Capital (SC)	Social resources or non-financial resources are controlled by an SME to achieve its goals. In this case, the source is in the form of cooperation with other parties other than cooperation in the financial sector.	Number of non-financial cooperation.
Regional Economic Growth (REG)	Regional economic growth, which reflects the economic conditions and business climate in the area.	$REG = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$

The econometric models developed for the study can be described as below:

$$FP_{it} = \alpha_{1.0} + \beta_{1.1} FC_{it} + \beta_{1.2} Size_{it} + \beta_{1.3} HC_{it} + \beta_{1.4} SC_{it} + \beta_{1.5} REG_{it} + \varepsilon_{it} \quad (1)$$

$$FP_{it} = \alpha_{2.0} + \beta_{2.1} FC_{it} + \beta_{2.2} Fin\_Cons_{it} + \beta_{2.3} FC * Fin\_Cons_{it} + \beta_{2.4} Size_{it} + \beta_{2.5} HC_{it} + \beta_{2.6} SC_{it} + \beta_{2.7} REG_{it} + \varepsilon_{it} \quad (2)$$

$$FP_{it} = \alpha_{3.0} + \beta_{3.1} FC_{it} + \beta_{3.2} Fin\_Part_{it} + \beta_{3.2} FC * Fin\_Part_{it} + \beta_{3.4} Size_{it} + \beta_{3.5} HC_{it} + \beta_{3.6} SC_{it} + \beta_{3.7} REG_{it} + \varepsilon_{it} \quad (3)$$

$$FP_{it} = \alpha_{4.0} + \beta_{4.1} FC_{it} + \beta_{4.2} Fin\_Cons_{it} + \beta_{4.3} Fin\_Part_{it} + \beta_{4.4} FC * Fin\_Part_{it} + \beta_{4.5} FC * Fin\_Part_{it} + \beta_{4.6} Size_{it} + \beta_{4.7} HC_{it} + \beta_{4.8} SC_{it} + \beta_{4.9} REG_{it} + \varepsilon_{it} \quad (4)$$

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Where:

FP_{it} : financial performance of SME i in year t;
FC_{it} : financial capital of SME i in year t;
Fin_Cons_{it} : financial constraints of SME i in year t;
Fin_Part_{it} : financial partners of SME i in year t;
$FC * Fin\_Cons_{it}$: interaction of financial capital and constraint of SME i in year t;
$FC * Fin\_Part_{it}$: interaction of financial capital and partners of SME i in year t;
$Size_{it}$: size of SME i in year t;
HC_{it} : human capital of UKM i in year t;
SC_{it} : social capital of SME i in year t;
REG_{it} : economic growth of region i in year t;
α : constant;
β : slope;
ε : residual error.

Result and Discussion

Table 2 displays the descriptive statistics of the National Agency of Statistics (2017, 2018, 2019) survey reports. From the table, it can be seen that the number of SMEs during the year of observation tends to fluctuate. At the beginning (2017), the number of SMEs reached 4.46 million, thus, in 2018 the number decreased by around 4.49% to 4.26 million, and lastly in 2019 increased again by about 2.27% to 4.38 million. To summarize, the average number of SMEs surveyed for the last three years has amounted to 4.37 million.

Table 2. Descriptive Statistics

	2017	2018	2019	Total	Average
No. of SMEs	4,464,688.00	4,264,047.00	4,380,176.00	13,108,911.00	4,369,637.00
Financial Performance					
OI (IDR Miliar)	274,695.20	258,187.50	220,574.04	753,456.74	251,152.25
OPM (%)	45.60	44.59	43.99	134.18	46.73
Financial Capital (IDR Milliar)	327,767.24	262,456.94	280,873.39	871,097.57	290,365.86
Internal Capital	268,382.99	222,528.88	245,147.37	736,059.24	245,353.08
External Capital	59,384.24	39,877.96	35,725.30	134,987.50	44,995.83
Bank	25,284.09	18,361.82	17,807.40	61,453.31	20,484.44
Venture Capital	231.88	1,241.44	2,123.17	3,596.49	1,198.83
Cooperation	3,442.12	2,546.02	2,433.64	8,421.78	2,807.26
Pawnshop	1,196.09	312.45	278.37	1,786.91	595.64
Government	1,503.19	2,030.80	701.43	4,235.42	1,411.81
Others	27,726.87	15,385.43	12,381.30	55,493.60	18,497.86

Financial Constraints	1,126,480	752,976	983,958	2,863,414	954,471
Financial Partners	31,843	34,452	26,594	92,889	30,963
Size (Rp Milyard)	602,462.44	520,644.44	501,447.43	1,624,554.31	541,518.10
Human Capital	50,397,314.05	52,768,715.56	51,369,690.00	154,535,719.61	51,511,906.54
No. of Employees	9,394,193.00	9,836,228.00	9,575,446.00	28,805,867.00	9,601,955.67
No School	1,562,486.00	1,636,007.00	1,592,633.00	4,791,126.00	1,597,042.00
Elementary School	3,433,645.00	3,595,212.00	3,499,894.00	10,528,751.00	3,509,583.67
Junior High School	2,626,257.00	2,368,705.00	2,305,905.00	7,300,867.00	2,433,622.33
Senior High School	5,695,901.00	5,963,917.00	5,805,799.00	17,465,617.00	5,821,872.33
Diploma	61,456.00	64,348.00	62,642.00	188,446.00	62,815.33
Higher Education	169,565.00	177,544.00	172,837.00	519,946.00	173,315.33
No. of Entrepreneurs	4,464,688.00	4,264,047.00	4,380,176.00	13,108,911.00	4,369,637.00
No School	806,811.00	844,775.00	822,378.00	2,473,964.00	824,654.67
Elementary School	1,524,154.00	1,595,871.00	1,553,561.00	4,673,586.00	1,557,862.00
Junior High School	914,606.00	957,642.00	932,253.00	2,804,501.00	934,833.67
Senior High School	899,807.00	942,147.00	917,168.00	2,759,122.00	919,707.33
Diploma	36,987.00	38,728.00	37,701.00	113,416.00	37,805.33
Higher Education	114,898.00	120,305.00	117,115.00	352,318.00	117,439.33
Social Capital	391,347.00	409,761.00	398,898.00	1,200,006.00	400,002.00
Avg. REG (%)	9.58	9.19	6.70	25.47	8.49

The financial performance of SMEs also tends to decline during the observation year. In

2017 their total operating income was IDR 274.70 billion, then in 2018 it decreased by 6.01% to IDR 258.19 billion, and in 2019 it fell again by 14.57% to IDR 220.57 billion. Their average total operating income during the year of observation was IDR 251,152.25 billion or around IDR 57.48 million per SME. This amount when referring to the criteria in Law no. 2 of 2008 is included in the micro-business group. So, the average number of SMEs in Indonesia are micro-enterprises, not small and not medium enterprises. The decline in operating income resulted in their operating profit margin (OPM) also tends to fall. In 2017 their OPM was 45.60%, then in 2018 it fell to 44.59%, and in 2019 it fell again to 43.99%. However, their OPM average is still positive, which is 44.73% per year. Their financial capital also seems to decline from year to year, both internal and external capital. In 2017 their total financial capital was IDR 327,767.24 billion, which consisted of internal capital of

81.88% (IDR 268,382.99 billion) and external capital of 18.12% (IDR 59,384.09 billion). Financial capital decreased in 2018 by 19.93% to IDR 262,456.94 billion, consisting of

84.79% internal capital and 15.19% external capital. In 2019, their total financial capital again increased by about 7.02% to IDR 280,873.39 billion, consisting of 87.28% internal capital and 12.72% external capital. During the year of observation, their average total capital was IDR 290,365.86 billion, most of which (84.50%) was internal capital and only 15.50% external capital. If averaged per SME, the total financial capital is around IDR 66.45 million per SME. SME capital is divided into two types, namely internal capital and external capital. Throughout the observation year (2017-2019), both tend to move downward from year to year. However, the decline in external capital was greater than the decline in internal capital. Specifically for external capital, about 7.05% came from banking, venture capital (0.41%), cooperatives (0.97%), pawnshops (0.21%), government (0.49%), and other sources (7.37%). The data clearly explains that the development of SMEs in Indonesia is almost entirely dependent on capital from their owners, while external capital does not contribute to its development, be it capital from banks, venture capital, or others.

In contrast to its capital and financial performance, the number of SMEs that are financially constrained tends to decline from year to year. The number of SMEs that were financially constrained in 2017 was IDR 1.13 million or around 25.23%. Furthermore, in

2018 the number of SMEs with financial constraints decreased by around 33.16% to IDR

752.98 thousand, but in 2019 increased again beyond 30.68% to IDR 983.96 thousand. During the year of observation, the average number of SMEs with financial constraints reached IDR 954.47 thousand, or about 21.84% of the existing SMEs. Meanwhile, the average number of SMEs that have financial partnership relationships is only 30.96 thousand or 0.71% of the average existing SMEs. This number tends to decrease from year to year. In

2017 the number of SMEs with financial partners was 31.84 thousand, then in 2018 it increased to 34.45 thousand, and in 2019 it fell drastically to 26.59 thousand or decreased by around 22.81%. Besides, the size of SMEs as measured by total sales is an average of IDR

541,518.10 billion or around IDR 123.93 million per SME per year. If referring to Law no.

20 of 2008, then they are also classified as micro-enterprises, not small businesses, and not medium-sized businesses. Their size decreases from year to year. In 2017 their total sales reached IDR 602,462.44 billion, then in 2018 it fell by around 13.58% to IDR 520,644.44 billion, and in 2019 it fell again by around 3.69% to IDR 501,447.43 billion. It also shows that their performance is poor as previously described.

In contrast to financial capital, the human capital of SMEs tends to increase. This can be seen from the number of employees, with the education level of employees with a better level of education, as well as the level of entrepreneurial education. The average number of employees working in the SME sector reaches 9.60 million people per year. Or about 2 people per SME. (60.63%) have a high school education, 36.55% have an elementary school education, 25.35% have a junior high school education, 16.63% don't go to school, 1.81%

have higher education, and 0.65% have diploma education. Employees with basic education tend to decline from year to year, while employees with education are increasing. Meanwhile, in terms of entrepreneurship, the largest (35.65%), including elementary, junior high (21.39%), high school (21.05%), not in school (18.87%), higher education (2.69%), and diploma (0.87%). The social capital of SMEs as measured by the number of drawn non-financial partnerships tends to increase. In 2017 the number of non-financial partnership relationships owned by SMEs was 391.35 thousand, thus, in 2018 it increased by 4.71% to

409.76 thousand, but in 2019 it decreased by about 2.65% to 398.90 thousand. The average number of non-financial partnership relationships during the year of observation was 400,000 thousand relationships or about 8.49% of the total existing SMEs. This shows that the social capital of SMEs in Indonesia is very low. Finally, during the year of observation, the economic condition and business climate were not good. This is reflected in the regional economic growth (Reg) which has decreased from year to year. In 2017 regional economic growth was 9.58%, but in 2018 it fell to 9.19%, and in 2019 it fell again to 6.70%. The average regional economic growth during the year of observation was 8.49%. This condition can trigger an increase in SME input-output prices and a decrease in consumer purchasing power which can harm the performance of SMEs.

Relationship between Financial Capital and Performance: Short-Term vs. Long-term

Table 3. Panel Regression

	Short-Term						Long-Term	
	2017		2018		2019		2017-2019	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Panel A. General								
Financial Capital	0.949	42.897***	0.802	22.434***	0.948	14.633***	0.889	37.348***
Control Variables								
Size	0.941	89.009***	0.979	43.434***	0.989	27.316***	0.987	71.950***
Human Capital	0.082	2.043**	0.059	0.743	0.089	0.544	0.078	1.198
Social Capital	0.001	0.423	-0.003	-0.416	0.005	0.404	0.005	0.045
Regional Economic Growth	0.081	2.119**	-0.054	-0.718	-0.051	-0.325	-0.066	-1.064
Memo Items								
R	0.999		0.988		0.999		0.999	
R square	0.998		0.976		0.999		0.999	
F-satistic	906.302***		292.561***		397.866***		244.263***	
Panel B. By Tipe of Capital								
Internal Capital	0.842	29.758***	0.741	21.219***	0.857	11.289***	0.798	32.533***
External Capital	0.131	13.828***	0.073	5.489***	0.095	4..160***	0.099	10.851***
Control Variables								
Size	0.960	66.923***	0.980	41.529***	0.989	25.226***	0.987	69.413***
Human Capital	0.074	1.429	0.107	1.210	0.080	0.460	0.072	1.056
Social Capital	0.004	-0.006	-0.005	-0.694	0.007	0.522	0.005	-0.055

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Regional Economic Growth	-0.068	-1.372	-0.098	-1.171	-0.046	-0.275	-0.060	-0.925
Memo Items								
R	0.989		0.988		0.999		0.999	
R square	0.978		0.977		0.999		0.999	
F-satistic	248.281***		233.985***		304.209***		191.513***	
Panel C. By Source of Capital								
Individu	0.895	13.371***	0.688	8.497***	1.089	7.109***	0.841	21.679***
Venture Capital	0.001	-0.268	-0.005	-0.565	0.002	0.083	0.001	0.123
Bank	0.047	3.671***	0.055	2.430**	0.004	0.065	0.057	4.799***
Cooperation	-0.005	-0.529	0.025	2.182*	-0.037	-1.569	0.012	1.917*
Pegadaian	-0.007	-1.548	0.011	1.702	-0.003	-0.272	-0.001	-0.363
Government	0.001	0.052	-0.002	-0.318	-0.013	-1.024	-0.007	-1.066
Others	-0.017	-0.925	0.003	0.640	0.012	0.634	-0.002	-0.691
Control Variables								
Size	0.998	26.759***	0.972	19.173***	0.917	17.554***	0.989	44.300***
Human Capital	0.062	0.603	0.077	0.487	0.588	1.759	0.222	2.150**
Social Capital	-0.004	-0.429	0.006	0.374	-0.026	-0.797	-0.009	-1.067***
Regional Economic Growth	-0.064	-0.678	-0.074	-0.488	-0.458	-1.671	-0.190	-1.954*
Memo Items								
R	0.996		0.994		0.999		0.999	
R square	0.991		0.989		0.999		0.999	
F-satistic	190.853***		87.089***		641.817***		493.462***	

Notes: *significant at 10% **significant at 5% ***significant at 1%

The results show that in general (see Table 3, Panel A), financial capital is positively and significantly related to the financial performance of SMEs, both in the short and long term. This means that an increase/decrease in financial capital will trigger an increase/decrease in the financial performance of SMEs, thus supporting our first hypothesis. This finding is in accordance with the RBV theory which explains that internal resources such as financial capital are very important to increase competitive advantage. In the context of SMEs, financial capital plays an important role in financing working capital and long-term assets. The availability of large capital allows them to increase the business productivity effectively and efficiently. An increase in productivity will trigger an increase in sales or revenue and reduce operating costs, thereby driving higher operating profits. In addition, the availability of large financial capital also enables them to execute profitable business opportunities in the future, either through product differentiation or business diversification. On the other hand, limited financial capital will have a negative impact on working capital financing and long-term asset investment. This will affect or even hinder productivity and run profitable business opportunities in the future. This finding also supports findings from (Abbas, 2018; Chittithaworn et al., 2011; Fatoki, 2011; Omar & Azmi, 2020; Sombolayuk et al., 2019; Utari & Dewi, 2014). They also find that financial capital is positively related to the performance of SMEs.

The financial capital of SMEs is divided into two types, namely internal capital and external capital. Based on Table 3, Panel B, shows that both types of capital are positively and significantly related to financial performance, both in the short and long term. When compared between the two, the contribution of internal capital to the performance of SMEs is greater than the contribution of external capital. This is due to the high use of internal capital from the SMEs studied. During this observation year (2017-2019), around 84.50% of the total SME capital was internal capital and only 15.50% was external capital. Therefore, internal capital has a more dominant role than external capital.

Based on the source of capital (see Table 3, Panel C), individual capital (internal capital) is positively and significantly related to the financial performance of SMEs, both in the short and long term. Meanwhile, capital originating from banks (credit) varies in the short term. In 2017, bank capital was positively related to the financial performance of SMEs, as well as in 2018. However, in 2019, bank capital did not have a significant relationship with the financial performance of SMEs. However, in the long term, capital from banks is positively and significantly related to the financial performance of SMEs.

The capital that comes from cooperation, in the short term, varies. In 2017 and 2019, this capital did not show a significant relationship with financial performance. In 2018 this capital is positively related to financial performance, but its contribution to performance is very low. In the long term, this capital is positively related to the financial performance of SMEs, but with a very low contribution, especially when compared to contributions from banks. Meanwhile, capital from venture capital, pawnshops, government, and other sources has not shown a significant relationship with the financial performance of SMEs, both in the long and long term.

Moderation Effects

Table 4. Moderation Effects

	Model 1		Model 2		Model 3		Model 4	
	β	***t***	***β***	***t***	***β***	***t***	***β***	***t***
Financial Capital	0.889	37.348***	0.855	28.017***	0.884	34.976***	0.816	22.356***
Financial Constraints	---------	---------	0.067	1.771*	---------	---------	0.225	2.522**
Financial Capital X Financial Constraints	---------	---------	-0.003	-1.805*	---------	---------	-0.011	-2.544**
Financial Partners	---------	---------	---------	---------	0.023	0.842	-0.008	-0.213
Financial Capital X Financial Partners	---------	---------	---------	---------	-0.001	-0.751	0.007	1.040
Control Variables								
Size	0.987	71.950***	0.987	71.695***	0.987	71.683***	0.987	72.372***
Human Capital	0.078	1.198	0.072	1.005	0.066	0.999	0.091	1.270
Social Capital	0.005	0.045	0.005	0.005	0.005	0.054	-0.003	-0.500
Regional Economic Growth	-0.066	-1.064	-0.059	-0.886	-0.056	-0.890	-0.076	-1.151

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Memo Items				
R	0.999	0.999	0.999	0.999
R square	0.999	0.999	0.999	0.999
F-satistic	244.263***	176.771***	173.173***	141.112***

Notes: *significant at 10% **significant at 5% ***significant at 1%

Table 4, Model 1, shows the results of testing the relationship between financial capital and the financial performance of SMEs. The values in Table 4, Model 1, are the same as those in Table 3, Long-Term column, Panel A. We return to Table 4 for comparison with Model 2, Model 3, and Model 4. As previously explained, financial capital is related positive and significant with the financial performance of SMEs. This finding is in accordance with the explanation of the RBV theory and the findings of other researchers, thus supporting our first hypothesis.

Model 2 presents the results of testing the moderating effect of financial constraints on the relationship between financial capital and the financial performance of SMEs. The results show that financial constraints are proven to weaken the relationship between financial capital and the financial performance of SMEs, thus supporting our second hypothesis. SMEs experiencing financial constraints will find it difficult to increase their financial capital, especially external capital, such as bank credit or other external sources. Lenders will find it difficult to approve loans from financially constrained SMEs because they are worried about the risk of default. Therefore, lenders may require higher return requirements for financially constrained companies. For SMEs, if they agree to high return terms, it will increase the cost of capital, which will increase their financial costs. So, instead of improving financial performance, they will experience inefficiency. On the other hand, SMEs that experience low financial constraints will find it easier to increase their finances. Lenders are not worried about the risk of default, so they impose moderate repayment requirements on SMEs. For SMEs with low financial constraints, the increased financial capital will be used to finance profitable business opportunities. This is done by increasing creativity and innovation effectively and efficiently, thereby encouraging higher financial performance. This finding supports the findings of Altaf & Ahmad (2019), where they also find that companies experiencing financial constraints will find it easier to increase their financial capital because they will more easily access external credit with low loan interest. This also supports the findings of Baños-caballero et al. (2014), where companies that are financially constrained will have a lower optimal working capital point. This means that companies that are financially constrained will find it difficult to increase working capital. When available working capital is limited, this will have a negative impact on financial performance, due to lost sales and discounted payments in the purchase of raw materials.

Model 3 presents the results of testing the moderating effect of financial partners on the relationship between financial capital and the financial performance of SMEs. As has been explained in the literature, financial partners in SMEs are intended for two things. First, to make it easier for them to access external resources. Second, improve capital management effectively and efficiently to encourage better financial performance. Therefore, the proposed hypothesis is that financial partners have a positive moderating effect on the relationship between financial capital and financial performance of SMEs, where the relationship will be stronger when SMEs have financial partners. The results of the data analysis presented in Model 3, show that the positive moderation of financial partners on the relationship between financial capital and financial performance of SMEs is not supported. This can be seen from the coefficient of the interaction of financial partners and financial performance which is not significant. This shows that the financial partners that have been established by SMEs have not provided significant benefits for SMEs. On the capital side, existing financial partners have not been able to increase financial capital for SMEs. Meanwhile, in terms of capital management, they have not been able to encourage effective and efficient capital management for SMEs.

Model 4 displays the results of the full moderating effect of financial constraints and financial partners. In this case, financial constraints and financial partners together moderate the relationship between financial capital and the financial performance of SMEs. The results are consistent with Model 2 and Model 3, where only significant financial constraints weaken the relationship, while financial partners are not significant. This means that the financial constraints on SMEs are still very high, while the existing financial partners have not been able to reduce financial constraints. As a result, it is still difficult for SMEs to increase their financial capital, thus hampering performance improvement.

Conclusion and Suggestion

Based on the results of data analysis, it can be obtained that financial capital is positively and significantly related to the financial performance of SMEs. increase/decrease in financial capital will trigger an increase/decrease in their financial performance. In addition, financial constraints act as a moderator on their relationship. In this case, financial constraints have a negative moderating effect on the relationship, where the relationship is weak because SMEs experience high constraints. Financial partners do not have a significant impact on the relationship. This implies that the existing financial partners have not provided any benefits to SMEs. In terms of capital, financial partners have not been able to increase the financial capital of SMEs. Meanwhile, in terms of capital management, financial partners have also not been able to improve the quality of effective, efficient, and profitable capital management for SMEs.

Based on these findings, regulators should re-evaluate existing policies to address the current problems of SMEs and to assist their development in the future. In general, we find that SME's capital mostly relies on internal capital, and this is very limited. Meanwhile, external capital, whether from bank credit, cooperatives, venture capital, pawnshops, capital assistance from the government, or capital from other sources, hardly helps them. Therefore, most of them are experiencing financial constraints which have a negative impact on their performance and development. In addition, the government's efforts with other stakeholders to build financial partnership relationships with SMEs have also not provided significant benefits. Existing financial partners have not been able to increase the capital and performance of SMEs, and have not been able to overcome their financial problems. In particular, we suggest that the government can facilitate them to be able to access free external capital with a simple procedure. This can be done by increasing credit interest subsidies and increasing capital grants to them. In addition, the government can also integrate CSR programs from large companies to improve strategic partnerships for SMEs, especially in the financial sector.

This study measures financial constraints using a dummy variable, which is caused by data limitations. However, the measurement of financial constraints using dummy variables was also carried out by several previous researchers, for example (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Belas et al., 2017). However, we acknowledge that the dummy variable is a weak predictor, so it may not fully explain the role of financial constraints on the relationship between financial capital and the financial performance of SMEs. Therefore, future researchers are expected to be able to measure financial constraints using ratios or measurement scales other than a dummy, so that they can explain explicitly. In addition, this study also explores the role of financial partners in the relationship, but the findings show that financial partners do not have a significant role in the relationship. Therefore, future researchers are expected to re-test or develop other test models to further explore the role of financial partners in the relationship.

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6. HASIL FINAL REVIEW

Tanggal 21 Agustus 2021

Article Number: 11318-30833-2-RV

Title & Abstract Reviews
In this section, reviewer should evaluate whether manuscript title is clearly illustrating the article or not, whether the abstract is well writen and having ability to making good impression (stand-alone). Reviewer required to choose one of five grade options (Poor to Excellent) and have an obligation to write suggestion notes for author improvements.
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Comments & Suggestions Overall your introductory description is good. If you agree, I hope you can start your introduction by focusing on the main variables. Next, you can describe the development of SMEs in Indonesia accompanied by the latest statistical data.
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In this section, reviewer should answer these questions about author manuscript: • If the study had been previously done by other authors, it is still eligible for publication? • Is the article is fairly new, fairly deep, and interesting to be published? Reviewer required to choose one of five grade options (Poor to Excellent) and have an obligation to write suggestion notes for author improvements.
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Comments & Suggestions See the attachment. Please see the reviewed file for the other inputs/notes. I highly recommend you add control variables to your analysis. This is very important because otherwise it can bias your results/findings. In addition, you need to test classical assumptions, such as tests for normality, heteroscedasticity, multicollinearity, and autocorrelation. Those are all important in the regression process.
Author(s) Revision We have revised this section according to reviewers' feedback. But for classical assumption testing, it is not necessary because we are using panel data. Theoretically, panel data does not require classical assumption testing.

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In this section, reviewer should ensure that authors already discuss conclusions in order of most to least important, compare results with those from other studies (Are they consistent? If not, discuss possible reasons for the difference), mention and explain any inconclusive results, discuss what results may mean and state how extend the findings of previous studies, describe the limitations and suggest future studies that need to be carried out. Reviewer required to choose one of five grade options (Poor to Excellent) and have an obligation to write suggestion notes for author improvements.
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7. ACCEPTED (LOA)

Tanggal 29 Agustus 2021

LOA External Inbox

JEMA
to me

10:27 AM (4 hours ago)

Dear I Wayan Widnyana

Thank you for your consideration in publishing your manuscript under the title: "Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs".

On behalf of the editor, I'm pleased to inform you that your article is suitable for publication. Again, congratulations. Reviewers generally feel that your article is good enough. The evidence of the final review results is attached.

We will publish your article in the journal JEMA Edition Volume 18 Number 2, 2021

Publication Fee IDR 1,500,000. Payments can be made through a BRI account on behalf of the FE UNISMA institution No. 1259-01-001807-50-2.

Thank you.

Managing Editor JEMA
Alfian Budi Primanto, SAB, MBA, CPM.

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Final review.pdf

8. ONLINE PUBLISH

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Financial capital, constraints, partners, and performance: An empirical analysis of Indonesia SMEs

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ABSTRACT

Indonesia's small and medium enterprises (SMEs) are considered the backbone of the national economy. However, the fact that SMEs still contribute less to the national gross domestic product (GDP) in terms of value-added, need to be addressed. While previous studies mainly focused on financial (access) constraints as one of the major constraints faced by small enterprises which affect their growth and performances, this study aims to extend the relationship between capital and financial performance of Indonesia SMEs with the moderating effect of financial constraints and partners. This study is different from others as it uses a bigger panel dataset which is about 4.36 million SMEs in Indonesia and is the first to explore the role of financial partners comprehensively. Moreover, the panel regression model with geographic analysis unit uses as a data analysis method. The results of the study show that financial capital has a positive and significant effect on the financial performance of SMEs. Furthermore, while the moderation role of financial partners on the relationship between financial capital and financial performance of Indonesia SMEs was failed to prove, the negative moderation effect of financial constraints was able to prove in this study.

Keywords: Small and Medium Enterprises (SMEs); Financial Performance; Capital; Financial Constraints; Financial Partners

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Introduction

Indonesia is one of the countries with the largest number of small-medium enterprises (SMEs) around the world. As of 2018, there are more than 62 million SMEs active (which represent 99.98 percent of all enterprises) in the country (Dinutistomo & Lubis, 2021). In terms of economic impact, SMEs accounted for almost 60% of Indonesia's total Gross Domestic Product (GDP) in 2018. SMEs also play a significant role to enhance Indonesia's total employment rate with a contribution of 97.02 percent in 2018. However, despite these major contributions, the survey result from the National Agency of Statistics shows that their average operating profit tended to be corrected by 10.29% which is resulted in the downward of their average income by 3.88% annually from 2017 to 2019. Even worse, the pandemic of COVID-19 in early 2020 caused 48.6% of the total of 62 million units of SMEs to close their business due to a drastic decline in sales number (Sadjiarto et al., 2020; Tambunan, 2011).

Numerous factors could affect SME's performances, including capital issues, raw materials, marketing, competitors, energy, infrastructure, labor, weather, and others (Prasetya et al., 2021; Zamrudi & Wicaksono, 2018). Rosengard & Prasetyantoko (2011) highlighted the perplexing paradox of Indonesia's financial sector related to SMEs which is although over the last decade most of Indonesia's commercial banks are liquid and profitable, and has positive performance of the national economics, SMEs are increasingly experiencing a credit crunch. According to the National Agency of Statistics (2019), there were more than 85% of Indonesian SMEs are relying on their capital (internal capital) and have no support from external capital, including banks, venture capital, cooperation, and others. Even worse, MSMEs in Indonesia have a financial inclusion rate of roughly 30%, with 76.1 percent of them receiving finance from banks and 23.9% of them getting funding from a non-bank financial institution (Bank of Indonesia, 2015). Dinutistomo & Lubis (2021) argues that these conditions occur because of the low credit market information quality exchanges between creditors and lenders. Thus, SMEs are often being subjected to tighter loan restrictions due to their high credit risk profiles. However, several studies found the opposite as there is a negative relationship between the proportion of SMEs lending and bank risk level and there was a positive influence between SMEs credit and banks profitability (Boadi et al., 2017; Shihadeh et al., 2019).

Furthermore, the relationship between capital and SME performance has been widely discussed globally covering various aspects of capital including intellectual capital, social capital, human capital, intellectual capital, and financial capital. Studies from Beretta et al.

(2019), Dabić et al. (2019), Paoloni et al. (2021), and Sardo et al. (2018) confirms that intellectual capital has positive associations with SMEs business performances of high-tech, non-high-tech companies, small and medium-sized hotel, agri-food firms, and other sectors. Xu & Li (2019) even added that intellectual capital is positively associated with firm earnings, operation efficiency, and profitability. Along with that finding, social capital and financial capital also have shown that it has positive and significant influences on business (financial) performances among SMEs around the word (Abbas, 2018; Adlešič & Slavec, 2012; Boohene et al., 2019; Chittithaworn et al., 2011; Fatoki, 2011; Philip, 2011; Omar & Azmi, 2020; Sombolayuk et al., 2019; Utari & Dewi, 2014). Nakku et al. (2020) added that the effect of financial capital on SME's performance will be stronger when government support existed. Meanwhile, several studies also confirm that financial constraints are one of the factors that affect the relationship between SMEs capital and performance. They concluded that financial constraints have a negative moderating effect on SMEs performance, the relationship will be stronger when the company has low financial constraints, and vice versa (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Kaushik & Chauhan, 2019; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019).

This study differs from other studies, for three reasons. First, we will examine the relationship between capital and financial performance of 4.36 million SMEs across all sectors and regions in Indonesia. So far, research on SMEs has focused on certain sectors or regions, so the results may not reflect actual conditions. Therefore, testing on 4.7 million SMEs is expected to reflect more accurate results. Second, we examine the relationship using panel data for three years, to be able to provide more complete information with a high degree of variability and be able to explain the relationship between periods, both short-term and long-term. Third, we will explore the role of financial partners in the relationship between capital and the financial performance of SMEs. The role of financial partners in the relationship between capital and financial performance has never been studied by anyone, and we are the first to explore it. So far, partnership relationships in the context of SMEs are dominantly carried out in supply chain partnerships, as was done by Sukwadi et al. (2013) and Mofokeng & Chinomona (2019). Therefore, exploring the role of financial partners in this relationship is expected to make a positive contribution to the development of science and research methodologies, especially in the field of entrepreneurship. In addition, an assessment of the role of this financial partner can also identify the efforts of the government and other stakeholders. Thus, the results of this study are also expected to provide practical contributions, which can be used as a consideration for formulating related policies.

Literature Review

Small Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) is a term that denotes a business entity, with certain criteria. SMEs are divided into three groups, namely micro, small and medium enterprises. Definitions and terms of SMEs vary from country to country. The European Commission (2015) defines micro-enterprises as enterprises with an annual number of units of work less than 10 with an annual turnover or total annual balance sheet less than or equal to €2 million. Small businesses have an annual number of work units of less than 50 with an annual turnover or total annual balance sheet less than or equal to €10 million. Meanwhile, medium-sized enterprises have an annual number of work units of less than 250 with an annual turnover or total annual balance sheet less than or equal to €50 million. Meanwhile, they define micro-enterprises as businesses that have less than 10 employees with total assets or total annual sales of less than or equal to $100,000. Moreover, while small businesses have more than 10 employees less or equal to 50 people, with total assets or total but annual sales of more than $100,000 but less or equal to $3 million, medium-sized is classified as businesses that have more than 50 employees but less or equal to 300 people, with total assets or total annual sales of more than $3 million but less or equal to $15 million.

In Indonesia, the definition of SMEs can refer to Law no. 20 of 2008. In the law, micro-enterprises are defined as businesses that have a maximum wealth of IDR 50 million, with a maximum turnover of IDR 300 million. Small businesses are defined as businesses that have assets of more than IDR 50 million to IDR 500 million, with a turnover of more than IDR 300 million to IDR 2.5 billion. Meanwhile, medium-sized businesses are defined as businesses that have assets of more than IDR 500 million to IDR 10 billion, with a turnover of more than IDR 2.5 billion to IDR 50 billion. Besides being defined by a quantitative approach, SMEs in Indonesia is also defined by a qualitative approach. In this case, the National Agency Statistics uses the number of workers in defining it, where micro-enterprises have a maximum of 4 permanent workers, small businesses 5 to 19 people, and medium-sized businesses 20 to 99 people.

In general, SMEs are business entities that are not legal entities or are often referred to as informal businesses or individual companies. Most are managed directly by the owners, who are assisted by family members. The SME decision-making system is quite flexible, informal, and relies on personal encouragement from its executives (Ayandibu & Houghton, 2017). Decision-making systems are often automated and not based on accurate business analysis.

Viewed from the operational aspect, they generally have a narrow reach with a simple organizational structure, rely less on technology, and have low risk (Gronum et al., 2012).

According to the World Bank (2008) reports, SMEs play an important role in the country's economy, because they are the engine of economic growth. They are important for creating competitive and efficient markets, and they are important for alleviating poverty. Therefore, all parties must prioritize it in all respects so that its growth and development are maintained and getting better from time to time. However, the fact is that until now, they are difficult to develop. Olawale & Garwe (2010) stated that two factors affect their performance so that it often hinders their growth, namely internal and external factors. Internal factors include financial and management constraints, while external factors include economic, market, and infrastructure factors. Meanwhile, Ayandibu & Houghton (2017) have summarized various problems that are often experienced by SMEs, including lack of access to finance, lack of collateral, inadequate government support, high loan interest rates, insufficient demand, inadequate marketing research, the location is not strategic, high competition, poor credit record, high production costs, lack of information technology, high taxes, lack of entrepreneurial experience and knowledge, and lack of business networks.

Financial Capital and Financial Performance of SMEs

One theory that is often used to explain the performance of companies, including SMEs is the resource-based view (RBV). This theory focuses on managerial attention to the company's internal resources, both tangible and intangible. Resources should not be embedded in organizational routines or practices, organizational reputation, culture, knowledge, experience, relationships or networks, etc. For SMEs, internal and external capital is used to maintain and increase their competitive advantage (Eniola & Ektebang, 2014). Lack of financial capital can hinder SMEs (Abiodun & Amos, 2018; Eniola & Entebang, 2017).

In general, SME capital consists of two, namely internal capital (own capital) and external capital. Internal capital is capital that comes from the founder or owner and is generally very limited. External capital is other than internal capital. External capital can come from bank loans and financing from other financing, grants, personal loans, etc. External capital, especially from financing, is generally unlimited, but most SME institutions find it difficult to access it. Access the capital needed to acquire resources to take advantage of business opportunities. Lack of physical resources can fail them (Fatoki, 2011). According to Bolingtoft et al. (Fatoki, 2011), to build and maintain SMEs, entrepreneurs need to have access to various types of resources, including human resources, physical capital, and financial capital, each of which plays a different role but is equally important to the life cycle. Furthermore, they also stated that there are many reasons related to the failure of SMEs, one of the most important is the unavailability of capital, thus impeding their survival and growth.

The important role of capital on the performance of SMEs has been widely studied in various countries, including Thailand (Chittithaworn et al., 2011), Bangladesh (Philip, 2011), Malaysia (Omar & Azmi, 2020), and South Africa (Fatoki, 2011). Specifically in Indonesia, research on the relationship between capital and SME performance has also been carried out, for example, Abbas (2018) and Sombolayuk et al. (2019) in Makassar City, Utari & Dewi (2014) in Denpasar. Capital is positively related to the performance of SMEs, where a capital increase will encourage better SME performance, and vice versa.

H_1: Financial capital is positively related to financial performance.

The Role of Financial Constraints on the Relationship of Capital and Financial Performance of SMEs

Financial constraints refer to a condition where the company has broad access to profitable investment opportunities but has limited funds to fund these opportunities. Financial constraints are a topic that is highlighted in the context of SMEs because SMEs are the main drivers of economic growth, but the majority always experience financial constraints, thus failing to execute profitable investment opportunities (Belas et al., 2017). Financial constraints for SMEs are generally caused by the limited availability and unclear information so that the prospects for business growth are doubtful. As a result, banks or other funding sources are unwilling to accept their proposals. In addition, business legality and collateral also play an important role in these financial constraints (Lukas Menkhoff et al., 2012; Rahman et al., 2016). In general, SMEs are informal or individual businesses, with a limited number of assets. As a sole proprietorship, the assets of SMEs are inseparable from the personal assets of their owners. This is what makes it difficult for them to access external finance, and if it is accessible, the amount of funds is very limited. Therefore, Olawale & Garwe (2010) stated that financial constraints are one of the factors that greatly affect the performance of SMEs. The same thing was stated by (Bodlaj et al., 2020), where financial constraints can hinder innovation and creativity, thereby hindering their performance and development.

Financial constraints have a strong moderate effect on the relationship between capital and firm performance. In particular, financial constraints harm the relationship. Several studies have confirmed this. For example, Altaf & Ahmad (2019)(Altaf & Ahmad, 2019), who tested the moderating effect of financial constraints on 437 non-financial firms in India. They found that there is a positive relationship between working capital and firm performance, where the relationship will be stronger in companies with low financial constraints. However, this relationship will weaken in companies with high financial constraints. In line with these findings, Baños-caballero et al. (2014) also found the same thing in non-financial companies in the UK. Financial constraints provide strong support for the relationship between working capital and firm performance. This implies an optimal level of investment in working capital that balances costs and benefits and maximizes firm value (Altaf & Ahmad, 2019; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019; Setianto & Hayuningdyah, 2020).

H_2: Financial constraints have a negative moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when financial constraints are low, and vice versa.

The Role of Financial Partners on the Relationship of Capital and Financial Performance of SMEs

Partnership, in general, can be interpreted as a form of mutually beneficial cooperation between two or more parties to achieve common goals. In the context of SMEs, a partnership can be defined as cooperation between small businesses and large businesses and/or large businesses by taking into account the principles of mutual need, mutual strengthening, and mutual benefit. Classical literature, such as Astley & Ven (1983), Mcdowell & Harris (2009), and Nooteboom (2000) has stated that sustainable inter-organizational partnerships in SMEs are important. This is to improve their performance. In Indonesia, efforts to increase the role of SMEs through partnership patterns are regulated in the Presidential Decree No. 127 of 2001, concerning MSMEs and Partnerships, which states that it is necessary to have a type of business that is reserved for small businesses and open opportunities for medium or large performance with the conditions of the partnership.

The concept of partnership in SMEs is a business strategy used for business development. Partnerships in SMEs can be carried out in all aspects, such as finance, raw materials, marketing, capital goods, etc. Following Law No. 20 of 2008, partnerships in SMEs can be in the form of:

1. The nucleus-plasma partnership pattern, namely, the partnership relationship between small or large businesses as the core company fosters and develops small businesses that

become plasma by providing technical guidance, technology development, providing production facilities, and providing other assistance needed to increase effectiveness, efficiency, and productivity;

2. Subcontracting partnership pattern, namely a partnership relationship where the partner group produces the components needed by the partner company as part of its production;
3. The pattern of general trade cooperation, namely, a partnership relationship where the partner group provides the needs needed by the partner company and the partner company markets the production of the partner group;
4. The pattern of profit-sharing cooperation, namely, partnership relationships carried out by large and small businesses, the results of which are calculated from the net results of the business and if they experience mutual losses by the agreement;
5. Operational cooperation patterns, namely partnerships carried out by large or medium-sized businesses with micro-enterprises to carry out a joint business using assets and/or business rights that are jointly owned;
6. The pattern of joint ventures, for example, partnerships carried out by micro and small businesses to carry out joint economic activities, in which each party contributes capital and shares the results and risks proportionally;
7. Other cooperation patterns, namely partnerships other than those already mentioned.

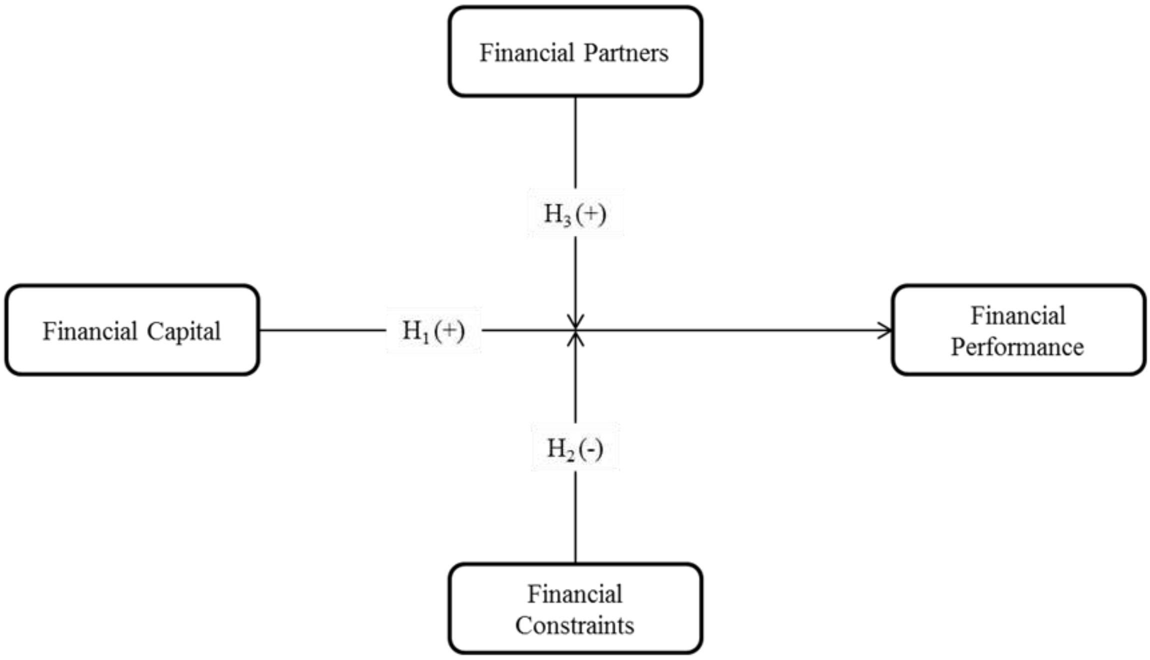
In the financial context, partnerships are generally for two things. First, increase capital. Second, improve capital management. Therefore, SMEs with financial partners will find it easier to access more capital and be able to manage their finances effectively and efficiently, thereby encouraging better company performance. Thus, financial partners can act as a moderating variable in the relationship between capital and financial performance. This is because on the one hand financial partners can facilitate access to funds for SMEs so that their capital will increase, while on the other hand, they can improve the quality of SMEs in managing their capital so that it will encourage effectiveness, efficiency, and profits.

H_3: Financial partners have a positive moderating effect on the relationship between capital and financial performance, where the relationship will be stronger when the company has financial partners, and vice versa.

The research framework as depicted in Figure 1, consists of three main variables which are financial performance (dependent variables), financial capital (independent variable), financial constraints, and financial partners (moderating variable). Financial capital is thought to have a positive relationship with financial performance, as explained in the RBV theory, which is supported by empirical findings from several researchers (Abbas, 2018;

Chittithaworn et al., 2011; Fatoki, 2011; Omar & Azmi, 2020; Philip, 2011; Sombolayuk et al., 2019; Utari & Dewi, 2014). Financial constraints are thought to have a negative moderating effect on the relationship between financial capital and financial performance (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Kowsari & Shorvarzi, 2017; Laghari & Chengang, 2019; Setianto & Hayuningdyah, 2020). The relationship between financial capital and financial performance will be very strong when the company is not financially constrained. On the other hand, the relationship will be weak when the company is financially constrained.

Figure 1. Research Framework



In opposite to financial constraints, financial partners are considered to have a positive moderating effect on the relationship between financial capital and financial performance. The relationship will be very strong when SMEs have financial partners, but the relationship will be weak when SMEs do not have financial partners. When SMEs have financial partners, it is possible to access external capital more easily and the amount of capital obtained is greater than SMEs without financial partners. Meanwhile, other benefits obtained by SMEs with financial partners are quality in managing finances, so that financial management becomes effective, efficient, and profitable. Substantially, these two benefits will drive better financial performance. Financial partners in this study are exploratory because there has been no research examining the relationship between capital and performance. This study is the first to attempt to test this relationship.

Methods

The research design uses quantitative methods, precisely existing statistics. According to Lawrence Neuman (2017), existing statistics are research based on statistical data collected by certain parties, such as the government or supervisory agencies, which are carried out by rearranging or providing information in new ways to present more information. He further stated that the existing statistics could be used for descriptive, exploratory, or explanatory purposes. The object of study in the existing statistics is the statistical report itself. In this case, the object of this research is the National Agency of Statistics (2017, 2018, 2019) survey report for 2017, 2018, and 2019 with coverage of more than 4 million Indonesian SMEs annually. Furthermore, the majority of the type of industry in the study is food and beverages (37.13%), wood industry, goods made of wood, cork, woven goods made of rattan, bamboo, etc. (14.17%), and apparel (13.25%). While the minority is the computer, electronic, and optical goods industry (0.02%), the electrical equipment industry (0.03%), and the motor vehicle, trailer, and semi-trailer industry (0.06%). By region, the majority of them are localized in Java (59.63%), Sumatra (16.07%), Bali and Nusa Tenggara (9.26%), Sulawesi (8.66%), and Kalimantan (4.41%).

The data of this research can be explained in three perspectives. The first perspective, according to its type, this research uses quantitative data, namely data that is expressed in numbers and can be measured. The second perspective, based on the source of data acquisition, this study uses secondary data, namely, data obtained from the National Agency of Statistics (2017, 2018, 2019) survey reports in 2017, 2018, and 2019. The third perspective, based on the period, this study uses panel data. Data analysis used panel regression model – common effect, with ordinary least squares method and the geographical as the unit data analysis. Data analysis was assisted by STATA software. Table 1 below presents the research variables along with their operational definitions and measurements.

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Table 1. Variables, Operational Definitions, and Measurements

Variables	Definition	Measurements
Financial Performance (Fin_Perf)	The ability of SMEs to earn operating profit in the current year.	$OPM = \frac{Operating\ Income}{Total\ Sales} \times 100\%$
Financial Capital (Fin_Cap)	Total SME capital, which consists of internal and external capital in the current year.	Natural logarithm of total capital.
Financial Constraints (Fin_Const)	A condition where an SME has broad access to profitable investment opportunities but does not have the funds to execute those opportunities.	A dummy variable, where a score of 0 is given to SMEs that are experiencing financial constraints, and a score of 1 is given to SMEs that are not experiencing financial constraints.
Financial Partners (Fin_Part)	A condition, where an SME has a partnership relationship in the financial sector.	A dummy variable, where a score of 0 is given to SMEs that are having partners, and a score of 1 is given to SMEs that are not having partners.
Size (SIZE)	The size of SME.	Total sales.
Human Capital (HC)	Human resources or non-financial resources are controlled by an SME to achieve its goals.	The additional amount of the interaction number of employees with education level and entrepreneur education level.
Social Capital (SC)	Social resources or non-financial resources are controlled by an SME to achieve its goals. In this case, the source is in the form of cooperation with other parties other than cooperation in the financial sector.	Number of non-financial cooperation.
Regional Economic Growth (REG)	Regional economic growth, which reflects the economic conditions and business climate in the area.	$REG = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$

The econometric models developed for the study can be described as below:

$$Fin\_Perf_{it} = \alpha + \beta_1 Fin\_Cap_{it} + \beta_2 SIZE_{it} + \beta_3 HC_{it} + \beta_4 SC_{it} + \beta_5 REG_{it} + \varepsilon_{it} \quad (1)$$

$$Fin\_Perf_{it} = \alpha + \beta_1 Fin\_Cap_{it} + \beta_2 Fin\_Const_{it} + \beta_3 Fin\_Cap^{*} Fin\_Const_{it} + \beta_4 SIZE_{it} + \beta_5 HC_{it} + \beta_6 SC_{it} + \beta_7 REG_{it} + \varepsilon_{it} \quad (2)$$

$$Fin\_Perf_{it} = \alpha + \beta_1 Fin\_Cap_{it} + \beta_2 Fin\_Part_{it} + \beta_3 Fin\_Cap^{*} Fin\_Part_{it} + \beta_4 SIZE_{it} + \beta_5 HC_{it} + \beta_6 SC_{it} + \beta_7 REG_{it} + \varepsilon_{it} \quad (3)$$

$$Fin\_Perf_{it} = \alpha + \beta_1 Fin\_Cap_{it} + \beta_2 Fin\_Const_{it} + \beta_3 Fin\_Part_{it} + \beta_4 Fin\_Cap^{*} Fin\_Const_{it} + \beta_5 Fin\_Cap^{*} Fin\_Part_{it} + \beta_6 SIZE_{it} + \beta_7 HC_{it} + \beta_8 SC_{it} + \beta_9 REG_{it} + \varepsilon_{it} \quad (4)$$

Where:

Fin_Perf_{it} : Financial Performance of SMEs i in the year of t;

Fin_Cap_{it} : Financial capital of SMEs i in the year of t;

Fin_Const_{it} : Financial constraints of SMEs i in the year of t;

Fin_Part_{it} : Financial partners of SMEs i in the year of t;

$Fin\_Cap^{*} Fin\_Const_{it}$: The interaction of financial capital and constraint of SMEs i in the year of t;

$Fin\_Cap^{*} Fin\_Part_{it}$: The interaction of financial capital and partners of SMEs i in the year of t;

$SIZE_{it}$: The Size of SMEs i in the year of t;

HC_{it} : Human Capital of SMEs i in the year of t;

SC_{it} : Social Ccapital of SMEs i in the year of t;

REG_{it} : Economic Growth of Region i in the year of t;

α : Constant;

β : Coefficient;

ε : Residual Error.

Result and Discussion

Table 2 displays the descriptive statistics of the National Agency of Statistics (2017, 2018, 2019) survey reports. From the table, it can be seen that the number of SMEs during the year of observation tends to fluctuate. At the beginning (2017), the number of SMEs reached 4.46 million, thus, in 2018 the number decreased by around 4.49% to 4.26 million, and lastly in 2019 increased again by about 2.27% to 4.38 million. To summarize, the average number of SMEs surveyed for the last three years has amounted to 4.37 million.

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Table 2. Descriptive Statistics

	2017	2018	2019	Total	Average
No. of SMEs	4,464,688	4,264,047	4,380,176	13,108,911	4,369,637
Fin_Perf					
OI (IDR Mill.)	274,695	258,187	220,574	753,456	251,152
OPM (%)	46	45	44	134	47
Fin_Cap (IDR Mill.)	327,767	262,457	280,873	871,097	290,366
Internal Capital	268,383	222,529	245,147	736,059	245,353
External Capital	59,384	39,878	35,725	134,987	44,996
Bank	25,284	18,362	17,807	61,453	20,484
Venture Capital	232	1,241	2,123	3,596	1,199
Cooperation	3,442	2,546	2,434	8,422	2,807
Pawnshop	1,196	312	278	1,787	596
Government	1,503	2,031	701	4,235	1,412
Others	27,726	15,385	12,381	55,494	18,498
Fin_Const	1,126,480	752,976	983,958	2,863,414	954,471
Fin_Part	31,843	34,452	26,594	92,889	30,963
SIZE (IDR Mill.)	602,462	520,644	501,447	1,624,554	541,518
HC	50,397,314	52,768,716	51,369,690	154,535,720	51,511,906
No. of Employees	9,394,193	9,836,228	9,575,446	28,805,867	9,601,956
No School	1,562,486	1,636,007	1,592,633	4,791,126	1,597,042
Elementary Sch.	3,433,645	3,595,212	3,499,894	10,528,751	3,509,584
Junior High Sch.	2,626,257	2,368,705	2,305,905	7,300,867	2,433,622
Senior High Sch.	5,695,901	5,963,917	5,805,799	17,465,617	5,821,872
Diploma	61,456	64,348	62,642	188,446	62,815
Higher Education	169,565	177,544	172,837	519,946	173,315
No. of Entrepreneurs	4,464,688	4,264,047	4,380,176	13,108,911	4,369,637
No School	806,811	844,775	822,378	2,473,964	824,655
Elementary Sch.	1,524,154	1,595,871	1,553,561	4,673,586	1,557,862
Junior High Sch.	914,606	957,642	932,253	2,804,501	934,834
Senior High Sch.	899,807	942,147	917,168	2,759,122	919,707
Diploma	36,987	38,728	37,701	113,416	37,805
Higher Education	114,898	120,305	117,115	352,318	117,439
SC	391,347	409,761	398,898	1,200,006	400,002
Avg. REG (%)	9.58	9.19	6.70	25.47	8.49

The financial performance of SMEs also tends to decline during the observation year. In 2017 their total operating income was IDR 274.70 billion, then in 2018 it decreased by 6.01% to IDR 258.19 billion, and in 2019 it fell again by 14.57% to IDR 220.57 billion. Their average total operating income during the year of observation was IDR 251,152.25 billion or around IDR 57.48 million per SME. This amount when referring to the criteria in Law no. 2 of 2008 is included in the micro-business group. So, the average number of SMEs in Indonesia are micro-enterprises, not small and not medium enterprises. The decline in operating income resulted in their operating profit margin (OPM) also tends to fall. In 2017 their OPM was 45.60%, then in 2018 it fell to 44.59%, and in 2019 it fell again to 43.99%. However, their OPM average is still positive, which is 44.73% per year. Their financial capital also seems to decline from year to year, both internal and external capital. In 2017 their total financial capital was IDR 327,767.24 billion, which consisted of internal capital of 81.88% (IDR 268,382.99 billion) and external capital of 18.12% (IDR 59,384.09 billion). Financial capital decreased in 2018 by 19.93% to IDR 262,456.94 billion, consisting of 84.79% internal capital and 15.19% external capital. In 2019, their total financial capital again increased by about 7.02% to IDR 280,873.39 billion, consisting of 87.28% internal capital and 12.72% external capital. During the year of observation, their average total capital was IDR 290,365.86 billion, most of which (84.50%) was internal capital and only 15.50% external capital. If averaged per SME, the total financial capital is around IDR 66.45 million per SME. SME capital is divided into two types, namely internal capital and external capital. Throughout the observation year (2017-2019), both tend to move downward from year to year. However, the decline in external capital was greater than the decline in internal capital. Specifically for external capital, about 7.05% came from banking, venture capital (0.41%), cooperatives (0.97%), pawnshops (0.21%), government (0.49%), and other sources (7.37%). The data clearly explains that the development of SMEs in Indonesia is almost entirely dependent on capital from their owners, while external capital does not contribute to its development, be it capital from banks, venture capital, or others.

In contrast to its capital and financial performance, the number of SMEs that are financially constrained tends to decline from year to year. The number of SMEs that were financially constrained in 2017 was IDR 1.13 million or around 25.23%. Furthermore, in 2018 the number of SMEs with financial constraints decreased by around 33.16% to IDR 752.98 thousand, but in 2019 increased again beyond 30.68% to IDR 983.96 thousand. During the year of observation, the average number of SMEs with financial constraints reached IDR 954.47 thousand, or about 21.84% of the existing SMEs. Meanwhile, the average number of SMEs that have financial partnership relationships is only 30.96 thousand or 0.71% of the average existing SMEs. This number tends to decrease from year to year. In 2017 the number of SMEs with financial partners was 31.84 thousand, then in 2018 it increased to 34.45 thousand, and in 2019 it fell drastically to 26.59 thousand or decreased by around 22.81%. Besides, the size of SMEs as measured by total sales is an average of IDR 541,518.10 billion or around IDR 123.93 million per SME per year. If referring to Law no. 20 of 2008, then they are also classified as micro-enterprises, not small businesses, and not medium-sized businesses. Their size decreases from year to year. In 2017 their total sales reached IDR 602,462.44 billion, then in 2018 it fell by around 13.58% to IDR 520,644.44 billion, and in 2019 it fell again by around 3.69% to IDR 501,447.43 billion. It also shows that their performance is poor as previously described.

In contrast to financial capital, the human capital of SMEs tends to increase. This can be seen from the number of employees, with the education level of employees with a better level of education, as well as the level of entrepreneurial education. The average number of employees working in the SME sector reaches 9.60 million people per year. Or about 2 people per SME. (60.63%) have a high school education, 36.55% have an elementary school education, 25.35% have a junior high school education, 16.63% don't go to school, 1.81% have higher education, and 0.65% have diploma education. Employees with basic education tend to decline from year to year, while employees with education are increasing. Meanwhile, in terms of entrepreneurship, the largest (35.65%), including elementary, junior high (21.39%), high school (21.05%), not in school (18.87%), higher education (2.69%), and diploma (0.87%). The social capital of SMEs as measured by the number of drawn non-financial partnerships tends to increase. In 2017 the number of non-financial partnership relationships owned by SMEs was 391.35 thousand, thus, in 2018 it increased by 4.71% to 409.76 thousand, but in 2019 it decreased by about 2.65% to 398.90 thousand. The average number of non-financial partnership relationships during the year of observation was 400,000 thousand relationships or about 8.49% of the total existing SMEs. This shows that the social capital of SMEs in Indonesia is very low. Finally, during the year of observation, the economic condition and business climate were not good. This is reflected in the regional economic growth (Reg) which has decreased from year to year. In 2017 regional economic growth was 9.58%, but in 2018 it fell to 9.19%, and in 2019 it fell again to 6.70%. The average regional economic growth during the year of observation was 8.49%. This condition can trigger an increase in SME input-output prices and a decrease in consumer purchasing power which can harm the performance of SMEs.

Relationship between Financial Capital and Performance: Short-Term vs. Long-term

Table 3. Panel Regression

	Short-Term						Long-Term	
	2017		2018		2019		2017-2019	
	β	t	β	t	β	t	β	t
Panel A (General)								
Fin_Cap	0.949	42.897***	0.802	22.434***	0.948	14.633***	0.889	37.348***
SIZE	0.941	89.009***	0.979	43.434***	0.989	27.316***	0.987	71.950***
HC	0.082	2.043**	0.059	0.743	0.089	0.544	0.078	1.198
SC	0.001	0.423	-0.003	-0.416	0.005	0.404	0.005	0.045
REG	0.081	2.119**	-0.054	-0.718	-0.051	-0.325	-0.066	-1.064
R^2	0.998		0.976		0.999		0.999	
F-Stat.	906.302***		292.561***		397.866***		244.263***	
Panel B (by Types of Capital)								
Int_Cap	0.842	29.758***	0.741	21.219***	0.857	11.289***	0.798	32.533***
Ext_Cap	0.131	13.828***	0.073	5.489***	0.095	4..160***	0.099	10.851***
SIZE	0.960	66.923***	0.980	41.529***	0.989	25.226***	0.987	69.413***
HC	0.074	1.429	0.107	1.210	0.080	0.460	0.072	1.056
SC	0.004	-0.006	-0.005	-0.694	0.007	0.522	0.005	-0.055
REG	-0.068	-1.372	-0.098	-1.171	-0.046	-0.275	-0.060	-0.925
R^2	0.978		0.977		0.999		0.999	
F-Stat.	248.281***		233.985***		304.209***		191.513***	
Panel C (by Sources of Capital)								
Individual	0.895	13.371***	0.688***	8.497***	1.089	7.109***	0.841	21.679***
Vent. Cap	0.001	-0.268	-0.005***	-0.565	0.002	0.083	0.001	0.123
Bank	0.047	3.671***	0.055***	2.430***	0.004	0.065	0.057	4.799***
Coop.	-0.005	-0.529	0.025***	2.182	-0.037	-1.569	0.012	1.917
Panwshop	-0.007	-1.548	0.011***	1.702	-0.003	-0.272	-0.001	-0.363
Govmnt.	0.001	0.052	-0.002***	-0.318	-0.013	-1.024	-0.007	-1.066
Others	-0.017	-0.925	0.003***	0.640	0.012	0.634	-0.002	-0.691
SIZE	0.998	26.759***	0.972***	19.173***	0.917	17.554***	0.989	44.300***
HC	0.062	0.603	0.077***	0.487	0.588	1.759	0.222	2.150**
SC	-0.004	-0.429	0.006***	0.374	-0.026	-0.797	-0.009	-1.067***
REG	-0.064	-0.678	-0.074***	-0.488	-0.458	-1.671	-0.190	-1.954*
R^2	0.991		0.989		0.999		0.999	
F-Stat.	190.853***		87.089***		641.817***		493.462***	

Notes: *) Significant at 10%, **) Significant at 5%, ***) Significant at 1%

The results show that in general (see Table 3, Panel A), financial capital is positively and significantly related to the financial performance of SMEs, both in the short and long term. This means that an increase/decrease in financial capital will trigger an increase/decrease in the financial performance of SMEs, thus supporting our first hypothesis. This finding is in accordance with the RBV theory which explains that internal resources such as financial capital are very important to increase competitive advantage. In the context of SMEs, financial capital plays an important role in financing working capital and long-term assets. The availability of large capital allows them to increase the business productivity effectively and efficiently. An increase in productivity will trigger an increase in sales or revenue and reduce operating costs, thereby driving higher operating profits. In addition, the availability of large financial capital also enables them to execute profitable business opportunities in the future, either through product differentiation or business diversification. On the other hand, limited financial capital will have a negative impact on working capital financing and long-term asset investment. This will affect or even hinder productivity and run profitable business opportunities in the future. This finding also supports findings from (Abbas, 2018; Chittithaworn et al., 2011; Fatoki, 2011; Omar & Azmi, 2020; Sombolayuk et al., 2019; Utari & Dewi, 2014). They also find that financial capital is positively related to the performance of SMEs.

The financial capital of SMEs is divided into two types, namely internal capital and external capital. Based on Table 3, Panel B, shows that both types of capital are positively and significantly related to financial performance, both in the short and long term. When compared between the two, the contribution of internal capital to the performance of SMEs is greater than the contribution of external capital. This is due to the high use of internal capital from the SMEs studied. During this observation year (2017-2019), around 84.50% of the total SME capital was internal capital and only 15.50% was external capital. Therefore, internal capital has a more dominant role than external capital.

Based on the source of capital (see Table 3, Panel C), individual capital (internal capital) is positively and significantly related to the financial performance of SMEs, both in the short and long term. Meanwhile, capital originating from banks (credit) varies in the short term. In 2017, bank capital was positively related to the financial performance of SMEs, as well as in 2018. However, in 2019, bank capital did not have a significant relationship with the financial performance of SMEs. However, in the long term, capital from banks is positively and significantly related to the financial performance of SMEs.

The capital that comes from cooperation, in the short term, varies. In 2017 and 2019, this capital did not show a significant relationship with financial performance. In 2018 this capital is positively related to financial performance, but its contribution to performance is very low. In the long term, this capital is positively related to the financial performance of SMEs, but with a very low contribution, especially when compared to contributions from banks. Meanwhile, capital from venture capital, pawnshops, government, and other sources has not shown a significant relationship with the financial performance of SMEs, both in the long and long term.

Moderation Effect

Table 4. Moderation Effect

	Model 1		Model 2		Model 3		Model 4	
	β	t	β	t	β	t	β	t
Fin_Cap	0.889	37.348***	0.855	28.017***	0.884	34.976***	0.816	22.356***
Fin_Const	---------	---------	0.067	1.771	---------	---------	0.225	2.522**
Fin_Cap * Fin_Const	---------	---------	-0.003	-1.805	---------	---------	-0.011	-2.544**
Fin_Part	---------	---------	---------	---------	0.023	0.842***	-0.008	-0.213
Fin_Cap * Fin_Part	---------	---------	---------	---------	-0.001	-0.751***	0.007	1.040
SIZE	0.987	71.950***	0.987	71.695***	0.987	71.683***	0.987	72.372***
HC	0.078	1.198	0.072	1.005	0.066	0.999***	0.091	1.270
SC	0.005	0.045	0.005	0.005	0.005	0.054***	-0.003	-0.500
REG	-0.066	-1.064	-0.059	-0.886	-0.056	-0.890***	-0.076	-1.151
R	0.999		0.999		0.999		0.999	
R^2	0.999		0.999		0.999		0.999	
F-Stat.	244.263***		176.771***		173.173***		141.122***	

Notes: *) Significant at 10%, **) Significant at 5%, ***) Significant at 1%

Table 4, Model 1, shows the results of testing the relationship between financial capital and the financial performance of SMEs. The values in Table 4, Model 1, are the same as those in Table 3, Long-Term column, Panel A. We return to Table 4 for comparison with Model 2, Model 3, and Model 4. As previously explained, financial capital is related positive and significant with the financial performance of SMEs. This finding is in accordance with the explanation of the RBV theory and the findings of other researchers, thus supporting our first hypothesis.

Model 2 presents the results of testing the moderating effect of financial constraints on the relationship between financial capital and the financial performance of SMEs. The results show that financial constraints are proven to weaken the relationship between financial capital and the financial performance of SMEs, thus supporting our second hypothesis. SMEs experiencing financial constraints will find it difficult to increase their financial capital, especially external capital, such as bank credit or other external sources. Lenders will find it difficult to approve loans from financially constrained SMEs because they are worried about the risk of default. Therefore, lenders may require higher return requirements for financially constrained companies. For SMEs, if they agree to high return terms, it will increase the cost of capital, which will increase their financial costs. So, instead of improving financial performance, they will experience inefficiency. On the other hand, SMEs that experience low financial constraints will find it easier to increase their finances. Lenders are not worried about the risk of default, so they impose moderate repayment requirements on SMEs. For SMEs with low financial constraints, the increased financial capital will be used to finance profitable business opportunities. This is done by increasing creativity and innovation effectively and efficiently, thereby encouraging higher financial performance. This finding supports the findings of Altaf & Ahmad (2019), where they also find that companies experiencing financial constraints will find it easier to increase their financial capital because they will more easily access external credit with low loan interest. This also supports the findings of Baños-caballero et al. (2014), where companies that are financially constrained will have a lower optimal working capital point. This means that companies that are financially constrained will find it difficult to increase working capital. When available working capital is limited, this will have a negative impact on financial performance, due to lost sales and discounted payments in the purchase of raw materials.

Model 3 presents the results of testing the moderating effect of financial partners on the relationship between financial capital and the financial performance of SMEs. As has been explained in the literature, financial partners in SMEs are intended for two things. First, to make it easier for them to access external resources. Second, improve capital management effectively and efficiently to encourage better financial performance. Therefore, the proposed hypothesis is that financial partners have a positive moderating effect on the relationship between financial capital and financial performance of SMEs, where the relationship will be stronger when SMEs have financial partners. The results of the data analysis presented in Model 3, show that the positive moderation of financial partners on the relationship between financial capital and financial performance of SMEs is not supported. This can be seen from the coefficient of the interaction of financial partners and financial performance which is not significant. This shows that the financial partners that have been established by SMEs have not provided significant benefits for SMEs. On the capital side, existing financial partners have not been able to increase financial capital for SMEs. Meanwhile, in terms of capital management, they have not been able to encourage effective and efficient capital management for SMEs.

Model 4 displays the results of the full moderating effect of financial constraints and financial partners. In this case, financial constraints and financial partners together moderate the relationship between financial capital and the financial performance of SMEs. The results are consistent with Model 2 and Model 3, where only significant financial constraints weaken the relationship, while financial partners are not significant. This means that the financial constraints on SMEs are still very high, while the existing financial partners have not been able to reduce financial constraints. As a result, it is still difficult for SMEs to increase their financial capital, thus hampering performance improvement.

Conclusion and Suggestion

Based on the results of data analysis, it can be obtained that financial capital is positively and significantly related to the financial performance of SMEs. increase/decrease in financial capital will trigger an increase/decrease in their financial performance. In addition, financial constraints act as a moderator on their relationship. In this case, financial constraints have a negative moderating effect on the relationship, where the relationship is weak because SMEs experience high constraints. Financial partners do not have a significant impact on the relationship. This implies that the existing financial partners have not provided any benefits to SMEs. In terms of capital, financial partners have not been able to increase the financial capital of SMEs. Meanwhile, in terms of capital management, financial partners have also not been able to improve the quality of effective, efficient, and profitable capital management for SMEs.

Based on these findings, regulators should re-evaluate existing policies to address the current problems of SMEs and to assist their development in the future. In general, we find that SME's capital mostly relies on internal capital, and this is very limited. Meanwhile, external capital, whether from bank credit, cooperatives, venture capital, pawnshops, capital assistance from the government, or capital from other sources, hardly helps them. Therefore, most of them are experiencing financial constraints which have a negative impact on their performance and development. In addition, the government's efforts with other stakeholders to build financial partnership relationships with SMEs have also not provided significant benefits. Existing financial partners have not been able to increase the capital and performance of SMEs, and have not been able to overcome their financial problems. In particular, we suggest that the government can facilitate them to be able to access free external capital with a simple procedure. This can be done by increasing credit interest subsidies and increasing capital grants to them. In addition, the government can also integrate CSR programs from large companies to improve strategic partnerships for SMEs, especially in the financial sector.

This study measures financial constraints using a dummy variable, which is caused by data limitations. However, the measurement of financial constraints using dummy variables was also carried out by several previous researchers, for example (Altaf & Ahmad, 2019; Baños-caballero et al., 2014; Belas et al., 2017). However, we acknowledge that the dummy variable is a weak predictor, so it may not fully explain the role of financial constraints on the relationship between financial capital and the financial performance of SMEs. Therefore, future researchers are expected to be able to measure financial constraints using ratios or measurement scales other than a dummy, so that they can explain explicitly. In addition, this study also explores the role of financial partners in the relationship, but the findings show that financial partners do not have a significant role in the relationship. Therefore, future researchers are expected to re-test or develop other test models to further explore the role of financial partners in the relationship.

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