

Analysis of Factors Affecting the Risk of Business Failure of Food Sector SMEs in Binjai City

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ABSTRACT

This study aims to determine the factors that influence the risk of business failure for food sector SMEs in Binjai City. This study uses quantitative research methodology to reveal trends and explain the correlation between variables using descriptive, historical, and correlation analyses. Data analysis methods include qualitative descriptive analysis and quantitative descriptive analysis using confirmatory factor analysis (CFA) with Smart PLS software tools. This study has a sample size of 115 food sector SMEs that are considered to have failed or not developed in running a business. We collected data using questionnaires, interviews, references, and documents related to the research problem. The findings indicated that there is a direct and meaningful correlation between financial literacy and the likelihood of company failure among small and medium-sized enterprises (SMEs) in the food sector in Binjai City. Business networking has a beneficial and substantial impact on the risk of business failure for small and medium-sized enterprises (SMEs) in the food industry in Binjai City. Digital marketing has a beneficial and substantial impact on the likelihood of business failure. Product innovation has a favorable and substantial impact on the likelihood of company failure for small and medium-sized enterprises (SMEs) in the food industry in Binjai City. Collaboration has a beneficial and substantial impact on the likelihood of company failure. The implementation of green transformational leadership has a beneficial and substantial impact on the likelihood of business failure for small and medium-sized enterprises (SMEs) in the food industry in Binjai City. Green entrepreneurial approach positively and significantly impacts the likelihood of business failure.

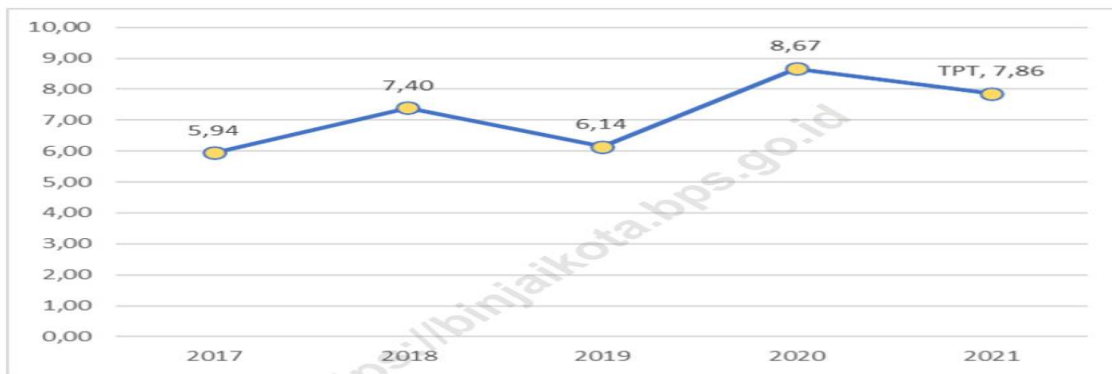
Keywords: Orientation Risk, Failure, SEM, SMEs

INTRODUCTION

SMEs have a significant impact on job creation in Indonesia (Siregar, 2022). Most of the population in Indonesia is employed in the informal sector, with a significant number working in small and medium-sized firms (SMEs) (Nasib, 2023)(Upneja, 2021). Small and medium-sized firms (SMEs) play a role in promoting a fairer distribution of income throughout society (Fadli, 2021). Small and medium-sized enterprises (SMEs) help decrease economic inequalities among different regions and communities by providing business prospects to a wide range of persons, including those residing in rural or peri-urban areas (Fadli, 2023)(Wood, 2021).

The collapse of small and medium-sized enterprises (SMEs) in business might result in joblessness for the employees of those organizations (Brabenec, 2021). The bankruptcy of certain small and medium-sized enterprises (SMEs) can result in a rise in the unemployment rate (Iskamto & Ghazali, 2021). The failure of a small and medium-sized enterprise (SME) can result in monetary setbacks for company proprietors, employees, suppliers, and other individuals involved in the supply chain (Ofori, 2022)(Dhir, 2022). The consequences of this can be detrimental to both local and national economies, leading to a decrease in individuals' income and ability to make purchases (Amankwah-Amoah et al., 2021) (Okonkwo, 2021). Moreover, the economic collapse of small and medium-sized enterprises (SMEs) can lead to social unrest, particularly in the nearby towns where these companies are situated (Rynarzewska, 2022)(Block, 2021). This phenomenon can result in social and economic instability, posing a risk to the maintenance of peace and order within society (Ringle, 2022)(Ishak, 2021)(Amankwah-Amoah et al., 2021).

Binjai City is experiencing ongoing growth in the food sector, particularly in small and medium-sized enterprises (SMEs). The strong consumer demand for processed items manufactured by small and medium-sized enterprises (SMEs) is a driving force behind the growth of SME businesses. Nevertheless, business outcomes do not consistently yield the anticipated level of profit. The occurrence of business failures in Binjai City also leads to fluctuations in the unemployment rate. Below is a compilation of small and medium-sized enterprises (SMEs) in the food industry located in Binjai City.



Source: BPS (2024)

Figure 1
Development of the Open Unemployment Rate (TPT) in Binjai City, 2017-2022

Based on the data presented in Figure 1, the open unemployment rate in Binjai City shows periodic variations. The failure of small and medium-sized enterprises (SMEs) is seen as a critical factor in lowering unemployment. The limited participation of SME players in comprehending

customer knowledge management (CKM) poses challenges for their enterprises to cultivate and encounter setbacks. The failure of small and medium-sized enterprises (SMEs) is a significant issue that can either advance or hinder the success of the business being pursued. In order to mitigate the risk of business failure, it is crucial for SMEs to thoroughly study financial literacy, business networking, digital marketing, product innovation, collaborations, green transformational leadership, and green entrepreneurial orientation. Conducting this research is crucial in order to mitigate the risk of business failure for small and medium-sized enterprises (SMEs) in the food industry, by promoting customer knowledge management (CKM) in Binjai City. The anticipated outcome of this study is to identify the best suitable model, particularly with regards to the risk of business failure.

Conceptual Framework

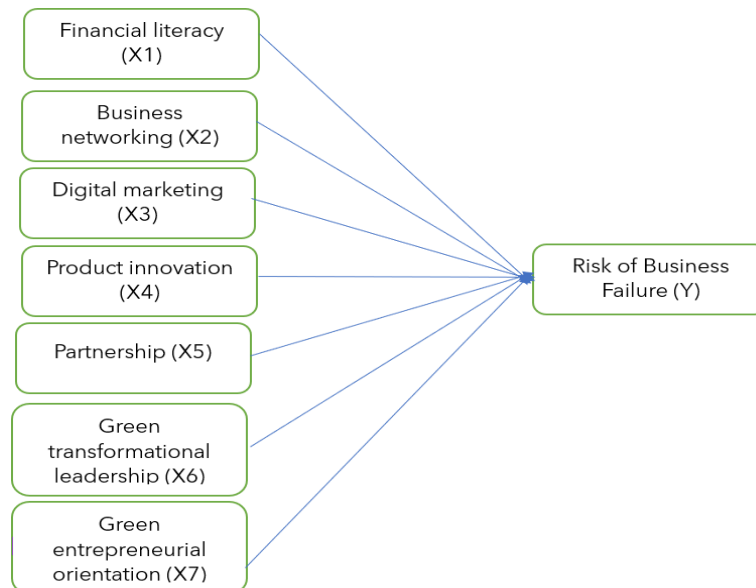


Figure 2
Conceptual Framework

Research hypothesis

The theory proposed in this study is as follows:

1. Financial literacy has a negative effect on the risk of failure for SME businesses in Binjai City's food sector.
2. Business networking has a negative effect on the risk of failure for SME businesses in Binjai City's food sector In Binjai City.
3. Digital marketing has a negative effect on the risk of failure for SME businesses in the food sector.
4. Product innovation has a negative effect on the risk of failure for SME businesses in Binjai City's food sector.
5. Partnership has a negative effect on the risk of failure for SME businesses in Binjai City's food sector in Binjai City

6. Green transformational leadership has a negative effect on the risk of failure for SME businesses in the food sector in Binjai City
7. Green entrepreneurial orientation has a negative effect on the risk of failure for SME businesses in the food sector.

RESEARCH METHODS

This study utilizes a quantitative research methodology to uncover patterns and elucidate relationships between variables through descriptive, historical, and correlation analyses (Rusiadi, Nur Subiantoro, 2014). This study is grounded on positivist philosophy and objectivist perspectives. It use hypothesis-deductive methods to formulate hypotheses, choose variables and measurements, and develop research techniques for testing the proposed ideas (Sanusi, 2020). This study comprises a sample of 115 small and medium-sized enterprises (SMEs) in the food sector that have either failed or not achieved growth in their commercial operations. We gathered data through the utilization of questionnaires, interviews, references, and pertinent papers pertaining to the research issue. The data analysis methods employed consist of qualitative descriptive analysis and quantitative descriptive analysis, utilizing confirmatory factor analysis (CFA) with the aid of Smart PLS software tools.

RESULTS

Measurement Model Analysis (Outer Model)

Table 1
Convergent Validity Test Results

Variable	Statement	Loading Factor	Alpha	Information
Financial Literacy (X1)	FT1	0.976	0.7	Valid
	FT2	0.975	0.7	Valid
	FT3	0.915	0.7	Valid
	FT4	0.962	0.7	Valid
	FT5	0.920	0.7	Valid
	FT6	0.920	0.7	Valid
	FT7	0.761	0.7	Valid
Business networking (X2)	BG1	0.863	0.7	Valid
	BG2	0.871	0.7	Valid
	BG3	0.804	0.7	Valid
	BG4	0.846	0.7	Valid
	BG5	0.919	0.7	Valid
	BG6	0.918	0.7	Valid
	BG7	0.918	0.7	Valid
Digital marketing (X3)	DI1	0.701	0.7	Valid
	DI2	0.821	0.7	Valid
	DI3	0.863	0.7	Valid
	DI4	0.904	0.7	Valid
	DI5	0.854	0.7	Valid
	DI6	0.824	0.7	Valid

	DI7	0.874	0.7	Valid
Product Innovation (X4)	PV1	0.742	0.7	Valid
	PV2	0.783	0.7	Valid
	PV3	0.836	0.7	Valid
	PV4	0.925	0.7	Valid
	PV5	0.771	0.7	Valid
	PV6	0.739	0.7	Valid
Partnership (X5)	PS1	0.909	0.7	Valid
	PS2	0.710	0.7	Valid
	PS3	0.708	0.7	Valid
	PS4	0.776	0.7	Valid
	PS5	0.724	0.7	Valid
	PS6	0.768	0.7	Valid
Green transformational leadership (X6)	TL1	0.796	0.7	Valid
	TL2	0.765	0.7	Valid
	TL3	0.985	0.7	Valid
	TL4	0.955	0.7	Valid
	TL5	0.974	0.7	Valid
Green entrepreneurial orientation (X7)	EO1	0.780	0.7	Valid
	EO2	0.958	0.7	Valid
	EO3	0.911	0.7	Valid
	EO4	0.969	0.7	Valid
	EO5	0.945	0.7	Valid
	EO6	0.928	0.7	Valid
	EO7	0.794	0.7	Valid
Risk of Business Failure (Y)	RB1	0.911	0.7	Valid
	RB2	0.823	0.7	Valid
	RB3	0.753	0.7	Valid
	RB4	0.967	0.7	Valid
	RB5	0.907	0.7	Valid
	RB6	0.815	0.7	Valid
	RB7	0.949	0.7	Valid
	RB8	0.903	0.7	Valid
	RB9	0.969	0.7	Valid

Based on the provided table, the questions' validity values for all study variables are considered valid since the overall validity value exceeds 0.7.

Construct Reliability Test

Table 2
Construct Reliability

Variable	Composite Reliability	Average Variance Extracted (AVE)
Financial Literacy (X1)	0.972	0.848
Business networking (X2)	0.975	0.770
Digital marketing (X3)	0.959	0.700
Product Innovation (X4)	0.811	0.741
Partnership (X5)	0.797	0.522
Green transformational leadership (X6)	0.814	0.569
Green entrepreneurial orientation (X7)	0.963	0.790
Risk of Business Failure (Y)	0.972	0.795

According to the provided table, the average value is more than 0.5. The composite reliability value is more than 0.7. Therefore, it can be inferred that the indicators in the study can be accurately quantified.

Coefficient of Determination (R2)

Table 3
R-Square

Variable	R Square	R Square Adjusted
Risk of Business Failure (Y)	0.962	0.959

According to the data in the table, the adjusted R squared value for the Risk of Business Failure variable is 0.959, which represents 95.9% of the variation. The remaining 0.4% is attributed to other variables that are not included in this study.

Predictive Relevance (Q2)

The Q2 value is equivalent to the coefficient of determination, often known as R-square. A Q-square (Q2) score of 0 indicates that the model possesses predictive relevance. On the other hand, if the Q2 score is below 0, it means that the model has a lower level of predictive significance. Put simply, higher Q2 values indicate a more accurate alignment between the model and the data. Multiple techniques exist for evaluating the Q2 value:

$$Q_2 = 1 - (1 - R_1^2) (1 - R_2^2) \dots (1 - R_n^2)$$

$$Q_2 = 1 - (1 - 0,959)$$

$$Q_2 = 1 - (0,041)$$

$$Q_2 = 0.959$$

Based on these observations, the Q2 value is 0.959. Therefore, it can be inferred that all variables in the investigation contribute 95.9% of the authenticity data to the existing structural model. The remaining 0.041%, excluding the research variables, must be further developed.

Research Hypothesis Test

Table 4
Research Hypothesis Test / Direct Effect

Hypothesis	Original Sample (O)	Average (M)	(STDEV)	t Statistik	P Value	Conclusion
Financial Literacy's Impact on SME Business Failure Risk	1.312	1.291	0.228	5.764	0.000	Significant
The Effect of Business Networks on SME Business Failure Risk	1.181	1.090	0.074	2.108	0.001	Significant
The Effect of Digital marketing on the Risk of Business Failure of SMEs	0.428	0.329	0.131	3.929	0.000	Significant
The Effect of Product Innovation on SME Business Failure Risk	0.536	0.516	0.044	4.825	0.010	Significant
The Effect of Partnerships on the Risk of SME Business Failure	0.610	0.608	0.530	3.334	0.000	Significant
The Effect of Green transformational leadership on SME Business Failure Risk	0.402	0.387	0.093	4.320	0.000	Significant
The Effect of Green Entrepreneurial Orientation on SME Business Failure Risk	0.570	0.590	0.108	5.287	0.000	Significant

The Effect of Financial Literacy's on SME Business Failure Risk

This investigation found that directly Financial literacy significantly reduces the probability of business failure for small and medium-sized companies (SMEs) in the food industry in Binjai City. The statistical significance of this impact is confirmed by a t-value of 5.764, which surpasses the essential t-value of 1.982. In addition, the p-value of 0.006 is below the significance level of 0.05. SMEs with a solid grasp of financial principles are often better at planning and managing their financial resources. By effectively creating accurate budgets, closely monitoring expenses, and implementing prudent financial planning, they can mitigate the danger of inadequate funding and liquidity issues that frequently result in corporate insolvency. Financial literacy empowers small and medium-sized enterprise (SME) owners to gain a comprehensive understanding of debt and effectively handle it. By making more informed choices regarding loans and credit, businesses can avoid accumulating excessive debt or incurring high interest rates, which could further deteriorate their financial condition. Small and medium-sized enterprises (SMEs) in the food industry frequently encounter obstacles such as volatile prices of raw materials, shifting market demands, and elevated operational expenses.

The research findings of this study are supported by the outcomes of previous research conducted by (Reza & Febriani, 2024) and (Chrisna et al., 2023). By possessing sufficient financial literacy, business leaders may effectively oversee these aspects and mitigate financial risks. Small and medium-sized enterprises (SMEs) who possess a strong understanding of financial matters can successfully take advantage of chances to grow their business or diversify their product offerings. Additionally, this financial literacy can enhance their ability to compete in a market that is becoming more and more competitive.

The Effect of Business Networks on SME Business Failure Risk

This analysis revealed that directly Business networking in the food industry in Binjai City has a statistically significant and favorable effect on reducing the probability of business failure for small and medium-sized firms (SMEs). The tcount value of 1.181 is higher than the tbel value of 1.982, suggesting a statistically significant impact. Furthermore, the p-value of 0.001 is below the significance level of 0.05, providing additional evidence for the relevance of the link. To summarize, business networking significantly reduces the risk of business failure for small and medium-sized firms (SMEs) in the food industry in Binjai City. Networking enables small and medium-sized enterprises (SMEs) to obtain the necessary resources, market possibilities, information, and support to effectively handle risk and guarantee economic success. This research has significant implications for establishing policies and initiatives that can help develop efficient business networks for small and medium-sized enterprises (SMEs) in the food sector. Networking enables SMEs to tap into external resources, including cash, technology, and technical expertise, which may not be readily accessible within their own organization. Connections with investors or financial institutions might facilitate SMEs in acquiring the requisite funding for expansion or addressing financial apprehensions. Networking enables small and medium-sized enterprises (SMEs) to identify and explore untapped market prospects and establish valuable strategic alliances.

The research findings of (Wijaya, 2020)(Nohong, 2020)(Tiwasig, 2021) emphasize the importance of establishing and sustaining a robust business network as a key priority for business actors seeking long-term success. In the food industry, establishing strong partnerships with distributors, retailers, and logistics partners helps enhance market penetration and optimize product distribution, consequently mitigating the likelihood of client shortages and declining sales. Providing networking skills training to SME owners is of utmost importance. This education can assist individuals in establishing and sustaining efficient networks, as well as taking advantage of favorable circumstances. Government agencies and commercial groups can facilitate strategic collaborations between small and medium-sized food enterprises (SMEs) and potential partners, such as suppliers, distributors, and major clients.

The Effect of Digital marketing on the Risk of Business Failure of SMEs

This investigation found that directly The influence of digital marketing on the likelihood of company failure for small and medium-sized firms (SMEs) in the food industry in Binjai City is both beneficial and substantial. This is demonstrated by a t-value of 3.929, which exceeds the essential t-value of 1.982, and a p-value of 0.000, which is lower than the significance level of 0.05. Digital marketing significantly reduces the probability of firm failure for small and medium-sized enterprises (SMEs) in Binjai City's food industry. Implementing digital marketing strategies may reduce the likelihood of failure and increase the likelihood of success for small and medium-sized enterprises (SMEs) by boosting their visibility, cost efficiency, agility, and customer engagement. The research findings indicate that offering assistance and guidance in digital marketing is essential for promoting the expansion and sustainable success of small and medium-sized firms (SMEs) in the food industry. Through the use of digital marketing, small and medium-sized enterprises (SMEs) in Binjai City are able to expand their consumer base beyond

their immediate vicinity and tap into national markets. Expanding market reach and growing sales potential are crucial. Small and medium-sized enterprises (SMEs) in the food industry can utilize digital marketing strategies to establish and enhance their brand identity. Implementing consistent and captivating marketing efforts on social media and other digital platforms has the potential to enhance brand recognition and draw in a larger client base. According to the report, it is recommended that local governments and SME support agencies establish programs for digital marketing training and mentorship.

According to research findings by (Dewanti, 2022)(Khairani, 2023)(Amanda et al., 2023) digital marketing is essential in mitigating the likelihood of business failure, particularly in a progressively digital and interconnected society. This training program aims to enhance the comprehension and utilization of digital marketing technologies among SMEs. Government agencies and commercial organizations have the ability to offer financial or technical assistance to aid small and medium-sized enterprises (SMEs) in implementing digital marketing strategies. This encompasses providing support in website development, executing social media marketing initiatives, and utilizing analytics software.

The Effect of Product Innovation on SME Business Failure Risk

The study's findings demonstrate a distinct and substantial correlation between product innovation and the likelihood of company failure among small and medium-sized firms (SMEs) in the food industry in Binjai City. The statistical analysis reveals a t-value of 4.825, surpassing the essential t-value of 1.982, and a p-value of 0.010, falling below the significance level of 0.05. Product innovation significantly reduces the risk of company failure for small and medium-sized firms (SMEs) in the food industry in Binjai City. Product innovation may reduce the likelihood of failure and ensure the success of small and medium-sized firms (SMEs) by improving market attractiveness, creating competitive advantages, diversifying product offers, and adjusting to market changes. The results of this study indicate that offering assistance and knowledge in the field of product innovation is essential for fostering the expansion and sustained sustainability of small and medium-sized companies (SMEs) in the food sector. Novel items have the ability to captivate consumers' interest and generate fresh demand. Aligning product innovation with market trends or consumer preferences can enhance product appeal, enable SMEs to differentiate themselves in a competitive market, and mitigate the risk of sales decline. SMEs can establish a competitive edge by introducing new items or enhancing their current offerings, thereby distinguishing themselves from rivals. Novel items have the potential to enhance the worth for consumers, reinforce client allegiance, and mitigate the risk of market share erosion. The findings of this research suggest that local governments and affiliated organizations have the potential to create initiatives that facilitate and encourage product innovation for small and medium-sized enterprises (SMEs). This encompasses offering incentives for research and development, granting access to laboratory facilities, and fostering partnership with research institutes. Based on the research conducted by (Nofriza, 2022)(Nasib, 2023)(Maulana et al., 2024), product innovation is crucial for businesses to not only survive but also succeed in a rapidly changing and competitive market. This is achieved by adapting to evolving consumer demands, prolonging the lifespan of products, and enhancing competitiveness and business reputation.

The Effect of Partnerships on the Risk of SME Business Failure

This study identified a strong and significant association between partnership and the likelihood of company failure among small and medium-sized firms (SMEs) in the food industry in Binjai City. The calculated correlation value (>3.334) above the threshold value (1.982), showing statistical significance. In addition, the p-value (0.010) is below the significance level of 0.05, providing more evidence of the relevance of the link. Partnerships may reduce the likelihood of failure and increase the likelihood of success for small and medium-sized enterprises (SMEs) by offering them more resources, increased capacity, risk spreading, enhanced innovation, and access to capital. This study emphasizes the need of legislative backing and programs that encourage strategic collaborations for small and medium-sized firms (SMEs) in the food industry. SMEs can establish partnerships to provide consistency in the acquisition of raw materials, distribution procedures, and sales operations. Through establishing partnerships with suppliers or distributors, small and medium-sized companies (SMEs) may ensure a reliable and uninterrupted flow of raw materials at stable prices. Additionally, they can broaden their product market and mitigate the risk of failure caused by disruptions in the supply chain or marketing. Partnerships can enable the growth of small and medium-sized enterprises (SMEs) by facilitating their entry into new markets, both domestically and internationally. For instance, forming alliances with exporters or e-commerce platforms can assist small and medium-sized enterprises (SMEs) in broadening their market beyond Binjai City. This, in turn, enhances their sales prospects and mitigates the likelihood of company failure. This study proposes that small and medium-sized enterprises (SMEs) should undergo training in order to develop and handle successful collaborations. This training can encompass topics such as negotiation, contract administration, and collaboration methods, which are crucial for ensuring lucrative and enduring relationships. The study conducted by (Fadli, 2021)(Nasib, 2023)(Rusli et al., 2024) reveals that partnerships might serve as a crucial technique for mitigating the risk of business failure. Productive collaborations can yield many advantages, ranging from resource pooling to enhanced market competitiveness.

The Effect of Green transformational leadership on SME Business Failure Risk

The study found that green transformational leadership has a significant and direct effect on the risk of business failure in small and medium-sized firms (SMEs) in the food industry in Binjai City. The calculated result, which exceeds the necessary t-value of $4.320 > 1.982$, and the p-value of $0.000 < 0.05$, provide more evidence to support this conclusion. By integrating sustainability concepts into their business strategy and leadership, small and medium-sized firms (SMEs) can improve their capacity to adjust to change, stimulate innovation, increase employee involvement, reduce operating expenses, and enhance the reputation of the business entity. The results of this study indicate that it is essential to establish rules, training programs, and initiatives that encourage environmentally aware leadership in small and medium-sized firms (SMEs). SMEs led by leaders that prioritize green transformation will be better prepared to comply with stringent sustainability regulations. Consequently, this reduces the probability of encountering legal and financial sanctions that might endanger the ongoing operation of their company. SMEs in the food sector in Binjai City can expand their product range to cater to environmentally conscious consumers by implementing eco-friendly product innovation. Diversifying one's product offerings can decrease reliance on conventional goods and mitigate the risk of failure resulting from shifts in consumer

preferences. The study's ramifications may involve enhancing consumer consciousness of the significance of sustainable products, hence leading to an upsurge in the demand for such products. The study conducted by (Khan, 2020)(Safrul, 2022)(Nugroho et al., 2022) demonstrates that small and medium enterprises (SMEs) can mitigate the risk of company failure and enhance sales by adopting green transformational leadership.

The Effect of Green Entrepreneurial Orientation on SME Business Failure Risk

This study identified a clear and significant beneficial influence of adopting a green entrepreneurial strategy on the likelihood of business failure for small and medium-sized firms (SMEs) in the food industry in Binjai City. The calculated t value of 5.287 exceeds the crucial t value of 1.982, demonstrating statistical significance. Furthermore, the p value of 0.000 is below the significance level of 0.05. Small and medium-sized enterprises (SMEs) may improve their ability to compete, reduce costs, and strengthen relationships with customers and business partners by integrating sustainable practices into their approach to innovation, willingness to take risks, and proactive behavior. The results of this study indicate that there is a need for governmental support, training, and financial resources that explicitly focus on improving GEO (global entrepreneurship and innovation) among small and medium-sized firms (SMEs). GEO also promotes the selection of supply chain partners by SMEs based on sustainable practices. This not only improves the standing of small and medium-sized firms (SMEs), but also reduces the risks associated with the uncertainty of acquiring raw materials, which can lead to disruptions in business operations. Small and medium-sized enterprises (SMEs) operating in the food industry have the opportunity to expand their market presence by emphasizing green innovation, which includes the development of organic food products and the adoption of ecologically sustainable packaging. This diversification mitigates the risk of business failure resulting from shifts in consumer preferences or regulatory changes. The conclusions of this study suggest that financial institutions have the potential to support small and medium-sized enterprises (SMEs) in implementing green energy options (GEO) by providing funding in the form of loans or investments that are backed by sustainability requirements. This will facilitate the adoption of environmentally friendly business practices by SMEs, eliminating concerns about financial resources(Liu, 2020)(Shameem et al., 2021)(Arabeche et al., 2022).

CONCLUSION

This study reveals that several key factors significantly influence the risk of failure for SMEs in Binjai City's food sector. Research demonstrates that financial literacy significantly lowers the risk of business failure. SMEs with high financial literacy are able to manage their finances more effectively, which in turn reduces the likelihood of facing business failure. Overall, the study's findings underscore the significance of financial literacy, business networks, product innovation, partnerships, and a sustainable leadership and entrepreneurial orientation in mitigating the risk of failure among SMEs in the food sector in Binjai City. We advise SMEs in this sector to leverage these factors as a strategy to enhance their survival and growth. I would like to extend my appreciation to the members of this research team for their contribution in ensuring the timely completion of this research project as per the set objectives. In addition, the author extends gratitude to the DRTPM Kemendikbudristek for their generous research financial help.

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