

Unlocking the Hidden Causes of Loan Defaults in Small Businesses: A Deep Dive into Financial and Market Challenges

Sindy Ayu Febrianti¹, Nur Suci I. Mei Murni²

^{1,2.} *Universitas Hayam Wuruk Perbanas, Surabaya, Indonesia*

ABSTRACT

Research Objective— This study aimed to identify the internal and external factors that cause problem loans among micro, small, and medium enterprises (MSMEs) in Sidoarjo, particularly those who are customers of the Anusapati Market Savings and Loans Cooperative.

Research Method: This research uses a qualitative method with an interpretive approach and a phenomenological perspective. Data collection was conducted through in-depth interviews, direct observation, and documentation of MSMEs operating in the Deltasari Market area and experiencing problem loans.

Research Results: The results indicate that problem loans arise from the interaction of various factors, particularly the priority of household needs that leads to payment delays, inadequate recording and management of business finances, decreased income due to increasingly intense business competition, and the influence of social and cultural conditions on financial decision-making.

Research Findings: These findings highlight the importance of improving financial literacy and strengthening financial management skills among MSMEs and the role of mentoring financial institutions in minimizing the risk of non-performing loans and supporting business sustainability.

Research Novelty – This study examines how non-performing loans among MSMEs are influenced by a combination of external and internal factors.

ABSTRAK

Tujuan Penelitian—Tujuan dari penelitian ini adalah untuk mengidentifikasi faktor internal dan eksternal yang menyebabkan kredit bermasalah di kalangan Usaha Mikro, Kecil, dan Menengah (UMKM) di Sidoarjo, khususnya bagi mereka yang merupakan nasabah Koperasi Simpan Pinjam Pasar Anusapati.

Metode Penelitian—Penelitian ini menggunakan metode kualitatif, dengan pendekatan interpretatif dan perspektif fenomenologis. Pengumpulan data dilakukan melalui wawancara mendalam, observasi langsung, dan dokumentasi UMKM yang beroperasi di area Pasar Deltasari dan mengalami kredit bermasalah.

Hasil Penelitian—Penelitian menunjukkan bahwa kredit bermasalah muncul dari interaksi berbagai faktor, terutama prioritas kebutuhan rumah tangga yang menyebabkan keterlambatan pembayaran;

pencatatan dan pengelolaan keuangan usaha yang kurang memadai; penurunan pendapatan akibat persaingan usaha yang semakin ketat; and pengaruh kondisi sosial dan budaya terhadap pengambilan keputusan keuangan.

Temuan Penelitian – Temuan ini menunjukkan pentingnya meningkatkan literasi keuangan, memperkuat keterampilan manajemen keuangan di kalangan UMKM, dan peran pendampingan dari lembaga keuangan untuk meminimalkan risiko kredit macet serta mendukung keberlanjutan bisnis.

Kebaruan Penelitian—Studi ini meneliti bagaimana kredit macet di kalangan UMKM dipengaruhi oleh kombinasi faktor eksternal dan internal.

Keywords: MSMEs, problem loans, deliberate and weak financial management, financial management, market competition, socio-cultural factors

A. INTRODUCTION

Although cooperatives play a role in providing access to capital for business actors, in practice, some customers still face difficulties in fulfilling their loan repayment obligations, leading to problems with non-performing loans or defaults (Rusdiyati et al., 2023). This issue can be influenced by various factors, both from within the business actors themselves and the external environment. Internal factors include intentional delays in installment payments, as noted by Ulandari (2024), and weak financial management of the business, such as the lack of proper cash flow recording, insufficient financial planning, and unstructured debt management, as explained by Suryani and Yuliani (2017) in the study by Fitriyah et al. (2024). External factors that influence MSME sustainability include increasingly tight market competition and social and cultural conditions that can affect income patterns and the sustainability of MSMEs, as explained by Wibowo and Mulyani (2019) and Pratama (2017) in the study by Fitriyah et al. (2024).

This study aimed to identify and analyze the internal and external factors that influence the occurrence of non-performing loans among MSME actors who are customers of the Pasar Anusapati Savings and Loan Cooperative in Sidoarjo Regency.

B. LITERATURE REVIEW

Financial management theory explains how an organization or business entity plans, manages, and controls financial resources to achieve economic goals efficiently and sustainably. Hasanudin (2023) states that effective financial management practices, such as selecting appropriate funding sources, preparing accurate budgets, and managing capital structure, can improve the performance

of micro, small, and medium enterprises (MSMEs). In line with this, Nkwinika & Akinola (2023) emphasize that good financial management is an important mechanism for MSMEs to survive and grow, especially in facing various business challenges from both internal and external factors.

Sovana et al. (2021) showed that the application of good financial management functions can help prevent non-performing loans. Internal factors such as weak credit analysis, lack of supervision, and limited human resources can increase the risk of non-performing loans (NPL), thus requiring a financial management system capable of controlling credit risk and monitoring cash flow effectively.

In addition to internal factors, external factors also influence the level of non-performing loans in financial institutions and MSMEs. Nasir et al. (2022) found that macroeconomic conditions, inflation, and interest rates affect the financial stability of firms. When business cash flow is unstable and financial supervision does not function well, the risk of default increases. Therefore, financial management theory emphasizes the importance of cash flow planning, working capital management, and loan supervision as strategies for maintaining financial stability and reducing the risk of non-performing loans.

The purpose of this study is to identify the internal and external factors causing non-performing loans among micro, small, and medium enterprises (MSMEs) in Sidoarjo, particularly those who are customers of the Pasar Anusapati Savings and Loan Cooperative.

B. RESEARCH METHOD

From the research paradigm perspective, this study uses an interpretive qualitative approach, in which the researcher acts as the main instrument for data collection and analysis. This approach does not aim to test hypotheses but to understand and describe phenomena in depth through narratives (John W. Creswell, 2014). Based on its research focus, this study is exploratory, as it focuses on exploring meanings, perceptions, and experiences related to internal and external factors causing non-performing loans among MSME actors in Sidoarjo.

This research was conducted at the Pasar Anusapati Savings and Loan Cooperative (KSP), located in the Pasar Delta Sari complex, Jalan Anusapati No. 63, Sawotratap, Gedangan District, Sidoarjo Regency. The selection of this location was based on the cooperative's role as a microfinance institution actively providing loan and savings services to micro, small, and medium enterprises (MSMEs) in the area. Research data were obtained from MSME customers operating in the Pasar Anusapati environment through interviews and direct data collection.

The technique for determining informants in this study used purposive sampling, which is the selection of informants based on certain considerations so that they are deemed to be the most knowledgeable about the issues being researched. Sugiyono (2015) explains that purposive sampling is a technique for selecting data sources with specific criteria so that researchers obtain relevant

and in-depth information according to their research needs.

The research informants were MSME actors in Pasar Deltasari, Gedangan District, Sidoarjo Regency, who were customers of the Pasar Anusapati Savings and Loan Cooperative and had or had had business loans, particularly those who experienced difficulties in loan repayment. The criteria for informants included active MSME actors who had or were currently taking loans from the cooperative and were willing to provide information through in-depth interviews.

The data collection methods in this study use three main techniques: interviews, observation, and documentation. The use of these three techniques aimed to obtain comprehensive, accurate, and in-depth data in accordance with the characteristics of qualitative research. Sugiyono (2015) stated that data collection is an important stage in research because the main goal of research is to obtain valid and accountable data.

Interviews were conducted in-depth with MSME actors who are customers of the Pasar Anusapati Savings and Loan Cooperative to explore their experiences in managing their businesses and facing difficulties in loan repayment, as well as with the financial institution, namely the cooperative, using a semi-structured interview guide. Additionally, the researcher conducted direct observations of the cooperative's activities and the informants' business conditions and used documentation such as customer data, loan reports, and cooperative archives to complement and validate the information obtained from interviews and observations.

The collected data were then analyzed using thematic analysis, beginning with the process of data reduction to select and focus on information relevant to the research. Next, coding was performed to identify patterns and themes emerging from the data, such as descriptive coding, in vivo coding, process coding, and emotion coding. The analysis process continued with grouping codes, developing themes, and interpreting the relationships between concepts to produce a deeper understanding of the factors causing non-performing loans.

To ensure data validity, this study used source, place, and time triangulation techniques, as well as member checking with informants. This step was taken by comparing interview data with information from the cooperative and field conditions so that the analysis results could accurately reflect the actual conditions and provide a more comprehensive understanding of the loan problems faced by MSMEs in Sidoarjo.

D. DATA ANALYSIS

Intense Market Competition as External Pressure on MSME Performance and Sustainability

Intense market competition has become an external factor affecting the performance and sustainability of MSMEs in fulfilling their loan repayment

obligations. This competition arises due to the increasing number of traders with similar types of businesses, the presence of traders outside the market, and the growth of online-based sales. One informant stated that the current competitive conditions are "very tight, especially with many selling on the roadside and mobile vendors" (I-1). Another informant also mentioned that competition does not only come from traders within the market but also from outside the market, as expressed by I-2: "It's more from those outside the market, like mlijo." This situation gives consumers more choices, thus increasing competition in terms of price and service quality.

Increased competition has led to a decline and instability in the income of MSME actors. Several informants mentioned that customers have started to move to other traders or switch to online purchases. I-1 explained that "customers who initially bought from me have now moved to other traders who are closer to their homes," while I-3 stated that some customers "prefer to buy online." This condition causes business income to become unstable and, in some cases, affects the ability of business actors to meet their installment payment obligations. From a financial management perspective, this income fluctuation impacts business cash flow, thereby increasing the risk of delayed loan payments.

Additionally, the ability of MSME actors to face competition varies. Some business actors make adaptation efforts, such as utilizing online sales, maintaining product quality, or implementing cost-production efficiency. For example, I-2 stated that customers now "ask to have their orders delivered, so they order online," whereas I-3 prioritized product quality to retain customers. However, there are also business actors who do not have specific strategies to face competition, as stated by I-1: "There is no marketing strategy because I can't use social media." This difference in adaptation ability shows that intense market competition not only affects business performance but also impacts financial stability and the ability of MSMEs to meet their credit obligations.

Social and Cultural Conditions in and Around the Market

Social and cultural conditions in the business environment also influence income patterns and the ability of MSME actors to manage loans. Changes in consumer behavior have become one of the factors felt by some business actors, such as reduced purchase frequency, loss of regular customers, and the shift to online shopping. One informant stated that "customers buy less and there are no regular customers" (I-1), while another mentioned that customers who previously bought directly now "many have switched to buying online" (I-3). These changes in consumption patterns cause business income to become unstable, thereby affecting the ability of MSMEs to manage cash flow and meet loan repayment obligations.

In addition to changes in consumer behavior, certain social conditions, such as pandemics, also affect market activities. Several informants mentioned that since the pandemic, the number of buyers has decreased, making trading activities quieter. As stated by I-2, "buyers are few and not many," while I-4

explained that after the pandemic, the market was quiet but is now starting to get busy again. This condition shows that social factors can affect the income stability of MSMEs, which ultimately impacts the ability of business actors to maintain smooth installment payments.

Local cultural factors also influence sales and business income. Some informants mentioned that market busyness usually occurs at certain times, such as weekends, holidays, and harvest seasons. One informant stated that "Saturdays and Sundays are quite busy compared to weekdays" (I-1), while another explained that sales increase during harvest seasons because community activities around the market also increase. This seasonal busyness pattern causes MSME income to fluctuate significantly. This condition affects the stability of business cash flow; therefore, during quiet periods, some MSME actors have difficulty meeting their loan repayment obligations.

The Influence of Intentional Delays and Weak Financial Management of Debtors on Non-Performing Loans

Internal factors, such as intentional delays in payment and weak financial management, are the main internal causes of non-performing loans. Some informants admitted that installment payments are often postponed when income decreases, as stated by one informant that payments are made daily, but "if unable to pay, then payment is postponed" (I-1). Although quiet market conditions affect income, the main factor lies in the business actors' decisions in prioritizing the use of funds, where business and family needs are prioritized over installment payments. This finding aligns with Ulandari (2024), who emphasizes that the conscious decision of debtors in determining payment priorities is the main cause of credit delays.

Additionally, weak financial management further increases the risk of delayed payments. Most MSME actors do not keep financial records, mix business finances with personal finances, and manage cash flow without clear planning. As a result, business funds are often used for other needs, and installment payments are only made if there is remaining money after business needs are met. This condition indicates low financial management capacity, which increases the risk of non-performing loans, as explained by Fitriyah et al. (2024), who state that weak financial recording, lack of fund separation, and low cash flow control are important factors affecting the ability of MSMEs to meet their credit payment obligations.

E. CONCLUSIONS, RECOMMENDATIONS, AND LIMITATIONS

The research concludes that non-performing loans among MSMEs are influenced by a combination of interconnected external and internal factors. External factors include increasingly tight market competition and social and cultural conditions that cause income fluctuations, such as changes in consumer behavior, the impact of pandemics, and seasonal sales patterns. These conditions affect income instability, thereby impacting MSME actors' ability to meet their credit payment obligations.

On the other hand, internal factors also play a significant role, particularly intentional delays in installment payments and weak business financial management. Many MSME actors do not have structured financial records, mix business and personal finances, and prioritize business or family needs over paying off loans. Thus, the occurrence of non-performing loans is influenced by business environmental pressures and the financial behavior and managerial ability of MSME actors in managing their credit obligations.

Based on the research findings, MSME actors are advised to implement more disciplined financial management through simple financial recording, separation of business and personal finances, and periodic cash-flow planning. These steps are important to help business actors understand their financial conditions, determine the priority of fund usage, and improve their ability to meet installment payment obligations on time.

For cooperatives, increased mentoring and financial education for members are needed, as well as the implementation of a more structured payment monitoring system to reduce the risk of nonperforming loans. Additionally, further research is recommended to expand the use of theories, research methods, and the number and characteristics of informants to provide a more comprehensive picture of the factors influencing non-performing loans among MSMEs.

This study has several limitations. From a theoretical perspective, the study focuses only on financial management theory, thus not integrating other perspectives such as financial literacy, financial behavior, or psychological aspects in loan payment decision-making. From a methodological perspective, the interview process faced communication challenges as some informants had difficulty understanding research terms; thus, the researcher had to adjust the language and ask additional questions to obtain clearer information. Additionally, time constraints, a busy market environment, and the limited number of informants and research locations mean that the research results cannot be widely generalized to all MSME actors.

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