

CHAPTER I

INTRODUCTION

1.1 Overview of Research Object

According to Law No. 20 of 2008 concerning Micro, Small and Medium Enterprises Chapter 1 Article 1, Micro Enterprises is a productive business owned by individuals and or individual business entities that meet the criteria for micro enterprises. Small Enterprises is a productive business that stands alone, which is carried out by an individual or business entity that is not a subsidiary of a company that is owned, controlled, or is a part either directly or indirectly of a medium or large business that meets the criteria of a small business. Medium Enterprises is a productive economic business that stands alone, which is carried out by an individual or business entity that is not a subsidiary or branch of a company that is owned, controlled, or becomes a part either directly or indirectly with a small business or large business with a net worth or annual sales results.

The profile and characteristics of micro, small, medium enterprises in Indonesia can be viewed from several aspects, such as capital, employee, business scale, types of business, education level of employers and employees. The following table describes the criteria for Micro, Small, Medium Enterprises (MSMEs) based on numbers of employee, assets, and turnover.

Table 1.1 Criteria of MSMEs based on employee, assets, and turnover

Enterprises Size	Criteria		
	Employee	Asset	Turnover
Micro Enterprises	10	Max IDR 50 million	Max IDR 300 million
Small Enterprises	30	> IDR 50 million – IDR 500 million	> IDR 300 million – IDR 2,5 billion
Medium Enterprises	300	>Rp500 million – IDR 10 billion	> IDR 2,5 billion– IDR 50 billion

Source : (Processed Data,2021)

The official website indonesia.go.id states that Micro, Small, Medium Enterprises (MSMEs) are the leading sector in Indonesian economy. Indonesia's MSMEs contribute greatly to gross domestic product (GDP), employment which reaches 97.1%, and presents 64 million or 99.9% of business units from the total business units in Indonesia. This shows great growth potential in MSME sector.

1.2 Research Background

The report of Bank Indonesia (2015) stated that at macro level, Micro Small Medium Enterprises needs to be developed because economic growth requires investment support. In conditions of limited investment, investment needs to be directed at efforts to develop new entrepreneurs, which have emerged at Micro Small Medium Enterprises level. Micro Small Medium Enterprises need capital to start and develop their businesses. One of the obstacles that are often encountered by Micro Small Medium Enterprises are capital problems (Ishak, 2005).

One of the factors that support the growth of Small and Medium Enterprises is investment in the Small and Medium Enterprises sector. This is based on research which shows that investment in Small and Medium Enterprises can provide significant added value to the GDP of Small and Medium Enterprises. So that attention can be given to Small and Medium Enterprises by increasing investment in Small and Medium Enterprises. These measures can take the form of improving the business climate and facilitating business permits for investment (Raselawati, 2011).

Investment can be defined as the expenditure or expenditure of investment or companies to buy manufactured goods, to increase the ability to produce goods and services available in the economy that come from domestic investment or foreign investment. Increased investment will encourage an increase in production volume which in turn will increase productive employment opportunities so that it will increase per capita income as well as increase the welfare of the community. In essence, investment is the beginning of economic development activities. Investments can be made by the private sector, the government, or a collaboration between the government and the private sector (Sinurat, 2015).

Raselawati (2011) explained that the investment of Small and Medium Enterprises has a significant and positive effect on the economic growth of Small and Medium Enterprises with a significant value of 0.0133. This is in line with Harrod Domar's theory that investment has a significant effect on economic growth. Investments invested in the Small and Medium Enterprises sector can stimulate an increase in output and demand for inputs, thereby influencing an increase in income and expansion of employment opportunities which in turn can stimulate economic growth.

Micro, Small, Medium Enterprises (MSME) sector is one of the potential investment objects. Even though in the midst of a pandemic, MSMEs still show great potential for business growth. This is evident by data at The Center One Stop Service (PTSP) of BKPM in 2020, that the highest number of

applications for Business Identification Numbers (NIB) through Online Single Submission (OSS) system came from MSME actors with a percentage reaching 60%. So that the Investment Coordinating Board (BKPM) strongly supports MSMEs to realize investment realization by encouraging a lot of new MSME capital, including through collaboration with investors.

Micro, Small, Medium Enterprises (MSME) sector makes a significant contribution to the national economy. This can be proven through data published by the Ministry of Cooperatives, Small and Medium Enterprises (KUKM) in 2018 which states that the contribution of MSMEs to the national economy (GDP) is 61.1%, and the remaining 38.9% is donated by big business. MSMEs also have a high labor absorption capacity of 117 million workers or 97.1% of the total labor absorption capacity of the business world in Indonesia, and exports amounting to 14.4% of Indonesia total exports. MSMEs also occupy the largest position of the total business actors in Indonesia with the number of MSME actors as much as 64.2 million or 99.99% of the total business actors in Indonesia (djkn.kemenkeu.go.id, 2020).

The number of investment in the MSME sector from year to year continues to increase. The following graph illustrates the increase in Total Investment in MSME sector from 2015-2019 based on current prices released by Ministry of Cooperatives and Micro, Small, Medium Enterprises.

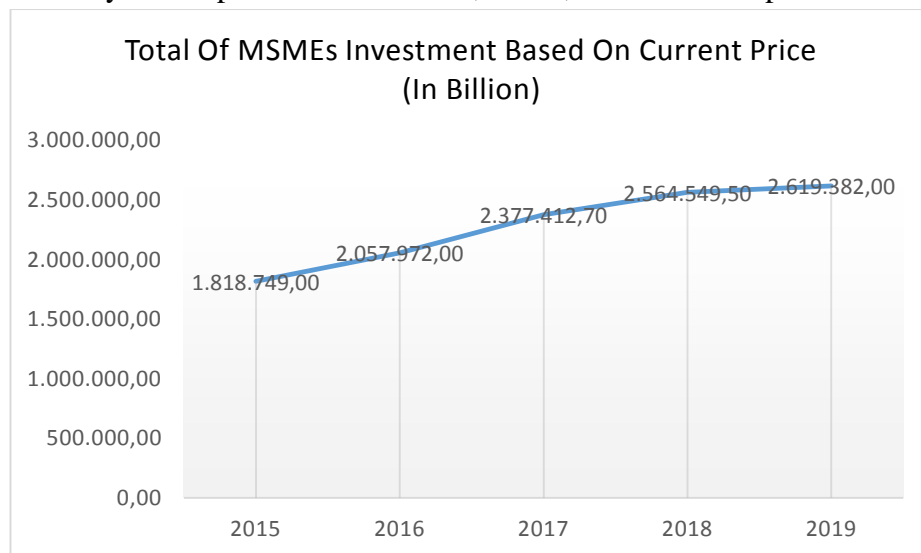


Figure 1.1 Graph of Total Of MSMEs Investment from 2015-2019

Source : Created by Author, 2021

Based on the graph, it can be seen that the amount of investment in the MSME sector continues to increase steadily. In 2019 the total investment reached IDR 2,619,382.00 Billion. However, data from Bank Indonesia states that there are still 12,831 MSMEs that are eligible to be financed in Indonesia. MSMEs in this category are businesses that are not currently receiving credit

or financing, but require financing for business development. MSMEs in this category also have business financial data such as balance sheets, profit and loss, and cash flow.

The development of the potential of SMEs in Indonesia is not followed by good financial conditions. A survey from the Central Statistics Agency (BPS) said that funding is a major problem for SMEs. The majority of them do not meet the requirements to apply for a loan at a conventional bank. While the rest prefer other funding sources. This is what causes them to find it difficult to meet their short-term obligations (BI, 2021).

MSMEs are considered to still need funding to develop their business other than through bank credit. This is evidenced by a statement from the OJK in 2017 which states that the funding capacity that can be provided by financial services has only reached 40.02% of the total funding needs for the MSME sector. This is also supported by the action of the Investment Coordinating Board (BKPM) which provides investment assistance for MSMEs. It is hoped that as many as 37,000 MSMEs registered in OSS can continue to grow and live as one of the economic sectors that supports the state (investindonesia.go.id,2020). MSMEs need other funding sectors besides credit for financial services. One source of funding that can help MSMEs is through investment by investors, either individual investors or institutional investors. Individual investors are considered more flexible than institutional investors. Individual investors are individuals or individuals who make investment on their own behalf.

One of the areas with the highest number of investors is the city of Bandung. This is evident from IDX data. The number of new investors from the city of Bandung throughout April 2016 was the highest nationally, namely 451 SID (pikiran-rakyat.com, 2016). The growth rate of capital market stock investors in West Java occupies the highest position in Indonesia. Within one year, the number of stock investors in West Java increased by approximately 42 thousand investors (economy.okezone.com). In 2019, West Java Province ranked 2nd for the largest number of investors from 34 provinces in Indonesia, reaching 204,994 investors, of which 53,597 investors were domiciled in the city of Bandung (jabarprov.go.id, 2019). This reflects that investors in Bandung already have sufficient knowledge and experience with an investment, so they can evaluate well to choose a new product.

To choose an investment product, a person will consider several factors to be evaluated and decide on his investment choice. This is called investment decision making. Investment decisions are the most important of the two other policies in financial management, namely the funding decision and dividend policy. Capital investment as a major aspect of financial management policies because an investment is a form of capital allocation whose realization must produce benefits or profits in the future (Harmono, 201: 9). Investment decisions can be influenced by several factors. Previous research has

categorized the factors that influence investment decisions. Nagy and Obenberger (1994) classify the factors that influence investment decisions are divided into two points of view, namely economic which consists of Neutral Information, Accounting Information, Classic and behavioral motivation which consists of Self Image/Firm Image Coincidence, Social Relevance, Advocate Recommendation, and Personal Financial Needs.

According to Christanti & Mahastanti (2011) In making investment decisions, investors need information which is an important factor as the basis for making investment choices. From the available information, it will then form a decision-making model in the form of investment appraisal criteria to enable investors to choose the best investment among the available information. There are many factors that influence an investor's decision to invest, one of which is the Economic Factor. Based on the classification of investment factors from Nagy and Oberger (1994), Economic Factors include Neutral Information, Accounting Information, Classic. Utility theory is a theory used to explain a person's attitude towards risk. Where in this study, researchers use Neutral Information and Accounting Information variables as Economic Factors, and measure the extent to which investors can tolerate the risk of an investment product or what is called Risk Tolerance.

When choosing an investment product, an investor will search for information related to the investment product. This information is information that can provide knowledge and reflect the potential of an investment product so that it can assist investors in making investment decisions. This information is obtained through publication media. Publications are usually carried out by business analysts or financial analysts, so the information is considered neutral information. This information is called Neutral Information. Neutral Information is one of the things that is considered in making investment decisions, namely information obtained from neutral sources. This information includes information from the internet, information from trusted media, stock index fluctuations, current financial conditions, and others (Paulus, 2019). The research conduct by Christanti & Mahastanti (2011) it is known that the factors that considered investors' decisions are neutral information and accounting information factors. This is contrary to the research conducted by Paulus (2019) where the results of his research state that accounting information variable does not have a significant effect on making investment decisions.

Financial information is other supporting information that is referred by an investor before making an investment decision. Usually an investor will study the company's financial statements, financial reviews, track records or portfolios of an investment object with the aim that the chosen investment can provide benefits and additional wealth. Information related to finance is called

accounting information. Accounting information is a tool that can be used for decision making and is a record of financial facts which are usually recorded using the double entry method, as well as information that can be communicated (Zuhdi, 2011). Lodhi (2014) in his research results show that financial literacy and accounting information helps investors in lowering information asymmetry and allows investors to invest in risky instruments.

Based on research conduct by Lodhi (2014), the study also proves statistically that accounting information and risk aversion has a direct relationship, that is, along with experience when a person's accounting information increases, he or she prefers to invest in less risky investments, maybe investors accept to go down but are not ready to go down. suffered a huge loss. So that in making investment decisions, an investor not only thinks about the benefits that will be obtained, but also thinks about the risks of an investment product. Investors will expect certain profits at a certain level of risk. The greater the profit received, the greater the risk received, therefore, choosing an investment product or determining how much funds to invest will depend on an investor's tolerance for risk or commonly called risk tolerance. Several previous studies regarding risk tolerance provide several study results, Dewi & Krisnawati (2020) stated that risk tolerance variable has a significant effect on investment decision making at productive age in Bandung, this contradicts to Faidah, Rini, & Asri (2020), which shows the result that risk tolerance factors do not have a significant influence on investment decisions.

Referring to the phenomenon, background, and previous research that has been discussed, this research is entitled **“Factors Affecting Investors’ Decision Behavior to Invest in Micro, Small, Medium Enterprises Sectors (Case Study of Individual Investor at Productive Age in Bandung)”**

1.3 Problem Formulation

Statement from the Financial Services Authority (OJK) in 2017 which stated that the funding capacity that can be provided by financial services only reached 40.02% of the total funding needs for the MSME sector, so MSMEs still need other funding sources to develop their businesses. Based on data released by Bank Indonesia (BI) in 2020 there are still 12,831 MSMEs that are eligible to be financed, whereas in this pandemic season MSME still continues to show its business development. According to data from the BKPM Central One Stop Service (PTSP), the highest number of applications for Business Identification Numbers (NIB) through the Online Single Submission (OSS) system came from MSME actors with a percentage reaching 60%. This proves that there is great potential for MSME growth even in the midst of a pandemic, so Investment Coordinating Board (BKPM) strongly supports MSMEs to realize investment realization, and encourages MSME cooperation with various parties. One source of funding that can help MSMEs is through investors. In making investment decisions, one will consider several factors such as Economic Factors, and also consider the risk of the chosen investment. Therefore, this study was conducted in order to see the effect of neutral information, accounting information, and risk tolerance on investment decisions of individual investors of productive age in Bandung city to invest in Micro, Small, Medium, Enterprises sector.

Based on the research background above, the formulation of the problem can be described as follows :

1. Does neutral information have a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (SMEs) sector ?
2. Does accounting information have a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (MSMEs) sector ?
3. Does risk tolerance have a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (MSMEs) sector ?
4. How is the influence of neutral information, accounting information, and risk tolerance simultaneously on investment decision of individual investor to invest in Micro, Small, and Medium business sector ?

1.4 Research Objective

Based on the research question above, the formulation of research objective can be described as follows :

1. To identify whether neutral information has a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (MSMEs) sector.
2. To identify whether accounting information has a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (MSMEs) sector.
3. To identify whether risk tolerance has a significant influence on investment decision of individual investor to invest in Micro, Small, Medium Enterprises (MSMEs) sector.
4. To find out the influence of neutral information, accounting information, and risk tolerance simultaneously on investment decision of individual investor to invest in the Micro, Small, Medium Enterprises (MSMEs) sector.

1.5 Research Benefits

This research is expected to provide benefits for several parties, namely:

1.5.1 Theoretical Benefits

For researchers and academics it is hoped that this research can be used as a reference for further research and be used as investment knowledge in the academic environment, especially students.

1.5.2 Practical Benefits

a. Benefit for Investors

Investors are expected to be able to know the factors that influence investment decisions and able to evaluate decisions when investing in the Micro, Small, Medium Enterprises (MSME) sector, so they can make good decision on investment.

b. Benefits for Micro, Small, Medium Enterprises

For Micro, Small, Medium Enterprises (MSME), it is expected to be able to improve its performance and apply general provisions that investors consider to invest so that it can be an investment destination for investors in investing, especially, it can be an added value for Micro, Small, and Medium Enterprises themselves, so they can get more additional capital.

c. Benefits for Government

After this research is completed, the results will be useful for government to be the basis for fostering Micro, Small, Medium Enterprises (MSMEs) and knowing the pattern how investors invest in the Micro, Small, Medium Enterprises (MSMEs) sector so that they can attract more investors and build the economy become better to support national economic growth.

1.6 Systematics of Final Project Writing

To facilitate the discussion and provide a more detailed and directed description, this thesis is divided into five chapters, each of which has sub-chapters. The following is a thesis writing systematic:

CHAPTER I : INTRODUCTION

This chapter is a chapter that explains the description of research objects, research background, problem formulation, research questions, research objectives and benefits, and systematic writing of the final project. theories that support research and provide solutions to problems, summaries of previous research, hypotheses used, frameworks of research, and scope of research.

CHAPTER II : LITERATURE REVIEW

The literature review chapter contains the theoretical foundations that support research, similar earlier research, the framework of thought and hypothesis proposed in this study.

CHAPTER III : RESEARCH METHODS

This chapter discusses the types of research used, operational variables, populations and samples, data collection, and analytical and hypothesis testing techniques.

CHAPTER IV : RESEARCH RESULTS

This chapter describes the results of the research that has been done and discussion of the entire research.

CHAPTER V : CONCLUSIONS AND RECOMMENDATIONS

This chapter is the last chapter that contains the conclusions of the previous chapter and suggestions for improvement for the writer and other parties.