

## Chapter 6

# Small Business in Indonesia: Application of E-Commerce and the Role of Financial Technology as a Source of Finance

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### **ABSTRACT**

*It is undeniable that information and communication technology (ICT) has changed many things in business. The existence of ICT has also increasingly influenced the way business activities are financed via online, known as financial technology (fintech)-based peer-to-peer (P2P) lending companies. This chapter is based on a study which aims to explore the use of e-commerce by small businesses, represented by micro and small enterprises (MSEs), and the role of P2P lending companies in financing MSEs in Indonesia. As an exploratory investigation, it adopts a descriptive analysis. It analyses secondary data and primary data collected from interviews with randomly selected P2P lending companies and owners of MSEs that have been granted loans from these companies. The results suggest that the use of e-commerce by MSEs in Indonesia is still very low. Although national data is not available yet because it is a new phenomenon, this chapter suggests that the emergence of fintech, especially the P2P lending category, will expand MSEs access to funding from formal sources.*

### **INTRODUCTION**

It is undeniable that information and communication technology (ICT) has changed many things in the business. It has changed not only the way businesses communicate to each other or deal with their customers, distributors and suppliers but also through digital marketing or e-commerce it has changed the way companies promote and sell products or purchase raw materials. Digital marketing has now become the trend in targeting both current and prospective customers. Most people now have daily access to the Internet; via computers, laptops or smartphones. Social media is one of the best channels of online marketing, and Instagram is one of the fastest growing platforms available today (Balakrishnan

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and Boorstin, 2017). More and more businesses are eager to establish a strong presence on this network and encourage their prospects' engagement.

To be able to compete or to grow or at least to survive in this new business environment all firms including small businesses are pushed to adopt this technology. Sooner or later, small businesses which do not adopt this new technology and business practice will be displaced by their competitors and abandoned by their customers (Ahmada *et al.*, 2015; Azam and Quaddus, 2009a,b; Bakos and Brynjolfsson, 2000; Barry and Milner, 2002). Even, owners of small businesses in rural areas that produce goods or services only for local markets can no longer say that they do not need ICT. Because even now in rural areas challenges and opportunities or the threat of competitors from outside (urban or import) can emerge at any time. Therefore, it is time for all businessmen in rural areas to prepare themselves in the mastery of ICT.

Governments in many countries have given considerable attention to the utilization of ICT, particularly the adoption of e-commerce, by small businesses. Many policies and regulations have been issued to assist them to adopt this technology. In Indonesia, in the past few years the government has taken many measures to encourage or to support small businesses to use ICT in running their business. The measures include providing trainings for owners or managers of small businesses in utilizing such as Facebook, Instagram and other application systems, and to create their own websites to promote and market their goods and services; and creating a special web portal (SMESCO Trade) by the Ministry of Cooperatives and Small Medium Enterprise (SME) that all small businesses can use it for marketing their products. The government has also issued various regulations to provide a sense of security for business actors in utilizing ICT such as e-commerce for marketing and internet banking for financial transactions.

In addition to production, raw material procurement, and marketing and promotion, in recent years, the existence of ICT has also increasingly influenced the way business activities are financed, especially with the emergence of companies that channel funds from lenders or fund owners (individuals, companies or banks) to borrowers including small businesses via online. They are known as financial technology (fintech)-based peer-to-peer (P2P) lending companies.

Given the above background, the main objective of this chapter is to explore the application of e-commerce by small businesses represented by micro and small enterprises (MSEs), and recently the emergence of financial technology-based P2P lending companies in Indonesia. This study on which this chapter is based on has three research questions. First, how many small businesses, represented by MSEs, in Indonesia use e-commerce? Second, what are the main reasons of MSEs that do not use e-commerce or the internet? Third, how is the role of P2P lending companies as an alternative source of finance of MSEs in Indonesia?

The approach used in this research is descriptive analysis using two types of data: 1) secondary data collected from various official/government sources on MSEs, their usage of internet, and their main financial sources, the annual growth of loans granted to these enterprises from commercial banks, and the growth of fintech companies; and 2) primary data collected from direct interviews with randomly selected eight P2P lending companies which have granted loans to MSEs and randomly selected ten MSEs that have ever received loans from them.

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