

# Analysis of the Relationship between Capital Structure and Financial Performance in Indra Karya Sewing Services Business

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## Abstract

This article analyzes the relationship between capital structure and financial performance in the Indra Karya Tailor sewing service business in Sendang Waru Market, Pringapus, Semarang Regency. This study uses a qualitative approach with in-depth interviews with five respondents, consisting of business owners, employees, and regular customers. Data analysis was conducted using thematic techniques to identify relevant patterns and findings. The results of the study indicate that an effective capital structure is managed through a balance between equity and loans, diversification of raw material sources, and control of operational costs to maintain financial stability. The strategy to improve business performance focuses on improving product quality, design innovation, and responsive service to customer needs. High customer satisfaction has a direct impact on loyalty and increased revenue, which supports long-term business sustainability. As a recommendation, business owners are advised to optimize their capital structure by reducing dependence on short-term loans, expanding their supplier network to reduce production costs, and improving customer service through a more flexible and interactive ordering system. With this strategy, business competitiveness can be strengthened in the competitive sewing service industry.

**Keywords:** Capital Structure; Financial Performance; Sewing Service Business.

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## INTRODUCTION

Optimal capital structure management is a crucial factor for the sustainability of MSMEs in Indonesia. Capital that is too dependent on loans can increase financial risk, while excessive use of equity can limit business expansion. Therefore, MSMEs need to adopt a balanced funding strategy, such as a combination of internal capital, bank credit, and access to alternative financing, such as fintech and venture capital.

In addition, financial literacy is an important aspect of making decisions related to capital structure. A low understanding of financial management often hinders MSMEs from accessing appropriate funding. The government and financial institutions play a role in providing financial education and more inclusive access to financing for MSMEs.

With an efficiently managed capital structure, MSMEs can increase competitiveness, expand markets, and survive in a dynamic economic situation. Therefore, support from various parties, including the government, financial institutions, and financial technology, is needed to ensure the growth and sustainability of MSMEs in Indonesia. Ineffective capital structure management can lead to financial problems that hinder business growth (Firdaus, 2020).

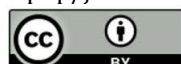
Previous research revealed the importance of capital management for the financial performance of MSMEs. (Firdaus, 2020) shows that good capital management can improve operational efficiency and business competitiveness. Other research by Pancawat, M., Aziza, N., & Coryanata (2021) highlighted that the implementation of Financial Accounting Standards for Micro, Small, and Medium Entities (SAK-EMKM) could increase the transparency of MSME financial reports, thereby supporting more accurate strategic decision-making. On the other hand, research (Jannah, 2015) identified that the failure of MSME businesses is often triggered by weak financial planning and capital management,

In the service sector, research Hapsari, D., & Wijayanti, (2012) revealed that the optimal capital structure has a significant relationship to the profitability of MSMEs, especially in the culinary sector, which requires large working capital. Kusumawati, R., & Wahyudi, (2020), highlights how digitalization contributes to the operational efficiency of MSMEs through better capital management (Santoso, B., & Hartono, 2019). Comparing the use of own capital and foreign capital (debt) in improving the financial performance of MSMEs. Handayani, S., & Prasetyo (2018), emphasizes the importance of managing fixed assets and working capital in the service sector to maintain business sustainability. Further Supriyono, H., & Mulyadi (2020), shows that effective capital structure management can reduce operational costs and increase the competitiveness of MSMEs in the service sector. Rahmawati, F., & Utami (2021), this study identifies a positive relationship between capital structure and the operational efficiency of MSMEs, which is important for reducing fixed costs. Harahap (2017), this study provides insights into how MSMEs can leverage a healthy capital structure to enhance competitiveness, especially in the service sector facing technological change.

Although these studies have provided important insights, studies that specifically analyze the relationship between capital structure and financial performance in service businesses, such as sewing services, are still very limited. Olivia (2022), this research on the feasibility of MSME businesses showed that the service sector often faces greater pressure on working capital due to high operational cost requirements. In addition, the research Wulandari (2019) found that funding and technology policies have a significant influence on the performance of convection businesses, but do not explicitly link this to capital structure management.

Indra Karya Tailor, a sewing service business in Sendang Waru Market, Pringapus District, Semarang Regency, faces challenges in managing its capital structure in order to compete in an increasingly competitive market. As a business based on skills and service quality, effective working capital management is a key factor in maintaining operational continuity and increasing its competitiveness. The inability to balance equity and loans can impact operational efficiency and business profitability.

Therefore, this study aims to analyze the relationship between capital structure and financial performance in sewing service businesses with a case study of Indra Karya Tailor. With a



comprehensive approach, this study is expected to provide practical contributions in the form of recommendations for MSMEs in managing capital structures to support business sustainability. In addition, this study is also expected to enrich the literature on MSME financial management, especially in the service sector.

## RESEARCH METHODS

This study uses a qualitative method with a case study approach to deeply understand the phenomenon of business management, the challenges faced, and the strategies implemented to improve business performance at Indra Karya Tailor (Hardiansyah, 2012). Case studies are chosen because they can explore information holistically by considering the context and dynamics that occur in the business environment.

The research subjects were selected using purposive sampling, where informants were determined based on their relevance to the research objectives and their ability to provide rich and in-depth data. Informants were divided into two main groups:

### 1) Key Informant

Business Owner (1 person) As the party who has full control over strategic decision-making, capital management, and implementation of daily business operations.

### 2) Supporting Informant

Employees (2 people) As parties directly involved in the operational implementation and implementation of business strategies.

Regular Customers (2 people) As parties who receive services directly and have experience and perceptions regarding the quality of services and products provided by the business.

Data Collection Techniques are collected through three main techniques: in-depth interviews, participant observation, and documentation, which are designed to complement each other. In-depth interviews were conducted in a semi-structured manner to allow flexibility in exploring additional relevant information.

**Table 1. Informants**

Type of Informant	Question Guide
Key Informant (Business Owner)	1. How do you manage business capital to meet operational and business development needs?
	2. What are the main challenges you face in running this business?
	3. What strategies do you use to maintain business competitiveness?
	4. How do you evaluate the long-term sustainability of your business?
	5. Are there any particular experiences with customers that have influenced the way you run your business?
Supporting Informant (Employee)	1. How do you assess the daily operational conditions of your business?
	2. Are the available capital and facilities sufficient to support work needs?
	3. How is the working relationship and communication between you and the business owner?
	4. What do you think can be done to improve work efficiency and productivity?
Supporting Informant (Regular Customer)	1. What is the main reason you chose Indra Karya Tailor over other service providers?
	2. How do you rate the quality of services and products provided?
	3. Have you ever experienced any issues with the service? If so, how were they addressed?
	4. What are your expectations regarding future service or product improvements?

Observations were conducted by being directly involved in daily activities at the Indra Karya Tailor business. The activities observed included

- 1) Business operational processes, such as customer service and order fulfillment.
- 2) Patterns of interaction between owners, employees, and customers.
- 3) Management of resources, both material and non-material.

Documentation

Documentation involves collecting secondary data, such as:

- 1) Transaction records.
- 2) Simple financial reports.
- 3) List of regular customers.

Data analysis was conducted using thematic analysis techniques, which involved the following steps:

1. Data Reduction

The collected data, including information related to capital structure (proportion of equity and debt) and financial performance (profitability, liquidity, and operational efficiency), are selected and filtered. The purpose of this stage is to ensure that only data relevant to the relationship between capital structure and financial performance is used so that the analysis is more focused and in-depth.

2. Data Presentation

After the reduction process, the selected data is arranged in the form of tables, narratives, or diagrams to facilitate interpretation. At this stage, the main themes that emerge, such as challenges in managing capital structure, strategies for improving financial performance, and the impact of capital structure on business profitability, are identified and further analyzed.

3. Drawing Conclusions and Verification

Based on the patterns found from the data, conclusions are formulated regarding how capital structure affects the financial performance of Indra Karya Tailor. To increase the validity of the results, these conclusions are then verified through data triangulation, namely by comparing the results of interviews, observations, and financial documentation.

Through these steps, the research can provide a clear and systematic picture of the role of capital structure in determining the sustainability and growth of sewing service businesses, especially in the case of Indra Karya Tailor.

To ensure the validity of the research results aimed at analyzing the relationship between capital structure and financial performance in sewing service businesses, with a case study of Indra Karya Tailor, data validation was carried out through triangulation of sources and methods. This process includes two main steps:

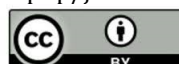
1. **Source Triangulation**

Data obtained from various informants, such as business owners, employees, and customers, are compared to ensure consistency of information related to capital structure and its impact on financial performance. For example, information on the use of borrowed capital will be confirmed by business owners, while the effectiveness of financial strategies can be verified through employee experience in business operations. Consistency between these sources helps reduce subjective bias and increases the validity of the findings.

2. **Triangulation Method**

To gain a richer and deeper understanding, this study uses various data collection techniques, such as interviews, observations, and financial documentation analysis. For example, data on business profitability obtained from owner interviews will be confirmed through financial statement analysis. By combining various methods, the study can identify patterns of relationships between capital structure and financial performance more accurately.

Through this triangulation approach, the research results become more reliable and objective, so that they can provide more comprehensive insights into how capital structure affects the financial performance of Indra Karya Tailor.



## RESULTS AND DISCUSSION

This section presents the research findings that are related to the objectives and research questions and is complemented by a discussion based on relevant literature. The presentation of the results and discussion in one chapter aims to provide a clearer analysis flow and make it easier for readers to understand the relationship between capital structure and financial performance in sewing service businesses, with a case study of Indra Karya Tailor.

Based on the results of interviews with the owner of Indra Karya Tailor, it was found that the management of business capital is influenced by external factors, such as fluctuations in market demand and instability of raw material prices. To maintain financial stability, the business owner implements a capital allocation strategy that includes purchasing raw materials, product development, and improving service quality. Decisions related to capital management are made carefully, and financial risks are considered to ensure long-term business sustainability.

The results of this study are in line with the theory of financial management which states that an optimal capital structure helps businesses deal with market uncertainty. Therefore, a deeper understanding of capital management strategies can provide insight for MSMEs in improving financial performance and business competitiveness in the sewing service industry.

Indra Karya Tailor implements a capital management strategy that combines equity and loan capital to support the sustainability of its business. Equity is used for daily operational needs, such as employee salary payments and rental fees, while loan capital is used for business expansion, including increasing production capacity and diversifying services. Although the use of loan capital can accelerate business growth, the owner realizes that interest and installment costs pose financial risks. Therefore, mature financial planning is crucial in maintaining a balance between income, expenses, and financial obligations.

One of the main challenges in managing Indra Karya Tailor's capital is its dependence on raw material suppliers. Inconsistencies in the quality and price of raw materials often affect production costs, so business owners need to adjust selling prices to stay competitive in the market. In addition, late payments from customers worsen cash flow, causing an imbalance between revenue and operational obligations.

These findings indicate that efficient capital structure and financial management play an important role in facing external challenges. With the right financial strategy, Indra Karya Tailor can minimize risks and increase its competitiveness in the sewing service industry.

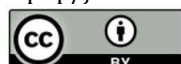
**Table 2. Challenges of Capital Management in Business**

Challenge	Information
Fluctuations in demand	Affects cash flow stability
Dependence on suppliers	Prices and quality of raw materials are inconsistent.
Payments from customers	Some customers are often late in paying.

Table Source: Interview with Business Owner

To face various challenges in capital management, Indra Karya Tailor implements a strategy of supplier diversification and tighter financial planning. By working with more than one supplier, this business can reduce dependence on one source of raw materials, thereby minimizing the risk of price increases and quality fluctuations. In addition, the business owner implements a more flexible payment scheduling strategy, both for suppliers and in managing customer receivables, in order to maintain cash flow stability.

Many small and medium enterprises (SMEs) face similar challenges in terms of demand fluctuations, uncertain production costs, and delays in customer payments. However, SMEs that are able to survive usually implement flexible and adaptive strategies, such as those implemented by Indra Karya Tailor. The ability to adapt to market changes and manage financial risks effectively are key factors in ensuring business sustainability. With this approach, Indra Karya Tailor can not only maintain financial stability but also increase its competitiveness in the sewing service industry.





Indra Karya Tailor focuses on improving product quality and customer service as the main strategy for improving business performance. Based on interviews with business owners and employees, neat sewing quality, innovative designs, and the right choice of materials are the main priorities to increase customer satisfaction and loyalty. Business owners actively innovate in the design and materials used, so that the products offered remain competitive in the market.

In addition, effective communication between owners and employees is an important element in improving business operations. Business owners encourage active employee participation by providing opportunities to provide input regarding work processes. The input is then considered and implemented as part of continuous improvement efforts. This approach not only improves work efficiency but also creates a more positive and collaborative work environment.

By implementing this strategy, Indra Karya Tailor can maintain high-quality standards, build closer relationships with customers, and ensure the continuity and competitiveness of its business in the sewing services industry.



Chart 1. Focus on Business Performance Improvement Strategy  
Graphic Source: Interviews with Business Owners and Employees

From the interview results, it can be seen that the main strategies implemented by Indra Karya Tailor to improve business performance include:

1. **Product quality improvement:** Indra Karya Tailor focuses on maintaining neat sewing standards and attractive product designs. The selection of quality materials and attention to detail in product manufacturing are efforts to ensure customer satisfaction and product competitiveness in the market.
2. **Better customer service:** Improving the quality of service is done by providing a pleasant experience for customers. Business owners ensure that customers feel appreciated and satisfied with friendly, responsive service, and are able to handle complaints or requests quickly and effectively.
3. **Product differentiation:** Product differentiation strategy is done by offering unique and different products from competitors. Through design innovation and exclusive material selection, Indra Karya Tailor can attract more customers, create added value, and strengthen its position in the sewing service industry market.

Customer satisfaction is a key factor in maintaining business sustainability at Indra Karya Tailor. Based on interviews with regular customers, the majority of customers choose Indra Karya Tailor because of consistent product quality and friendly service. In addition, fast processing time

and accurate product size are the main reasons that make customers feel satisfied. This creates loyalty and improves business reputation.

However, some customers expressed their wish for more design variety and more material choices. Although overall customer satisfaction is high, this feedback indicates that there is room for improvement in terms of product diversification. Therefore, Indra Karya Tailor can consider increasing product variety to better meet customer needs and desires, which in turn can increase the attractiveness and competitiveness of the business.

**Table 3. Factors Affecting Customer Satisfaction**

Factor	Percentage of Customers Who Express Satisfaction (%)
Product Quality	90%
Punctuality of workmanship	85%
Customer service	80%
Variations in design and materials	60%

Table Source: Interview with Regular Customers

Customers who are satisfied with the products and services tend to recommend Indra Karya Tailor to others. This shows a positive effect on customer loyalty and wider market appeal. High customer satisfaction is directly related to increased loyalty, which will have an impact on long-term business success. This is also in line with the customer satisfaction theory (Kotler, 2016), which states that customer satisfaction greatly influences loyalty and repeat purchasing decisions.

These results indicate that to maintain business sustainability, Indra Karya Tailor needs to continue to improve the quality of products and services and pay attention to customer input regarding product variations. In addition, strategies to maintain long-term relationships with customers must continue to be developed so that this business can continue to grow and develop.

## CONCLUSION

Based on the research results, capital management, performance improvement strategies, and customer satisfaction play an important role in business sustainability at Indra Karya Tailor. Capital management is carried out by balancing the use of own capital and loans to support business operations and expansion. In addition, diversifying raw material sources and implementing a more transparent financial recording system helps optimize cash flow, which is very important for the sustainability of small and medium enterprises (SMEs).

Product differentiation strategy is implemented through design innovation, selection of quality materials, and improvement of customer service. This increases the competitiveness of the business by providing more attractive products that are in accordance with market tastes. Previous research on SME financial management (Fama & French, 1992) and customer satisfaction theory (Kotler & Keller, 2016) support the importance of product innovation and effective financial management in creating customer loyalty and competitiveness.

Customer satisfaction is driven by product quality, timely delivery, and professional service, although there is room for improvement in design variety and material selection. Business owners can further optimize capital management by adopting more efficient capital management systems, such as using technology to monitor cash flow and expanding partnerships with raw material suppliers.

The limitation of this study is the use of interviews that may not represent all customer and stakeholder views. Further research is recommended to use broader methods, such as surveys or quantitative analysis, to obtain more representative and in-depth data.

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